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Mid-Year Economic Report 2021

Investment Management | Corporate Finance | Investor Services

Contents

LIST OF ACRONYMS

ADF: African Development Fund
AfDB: African Development Bank
BOE: Bank of England
BHL: Blantyre Hotels Plc
BWB: Blantyre Water Board
CPI: Consumer Price Index
DSI: Domestic Share Index
ECB: European Central Bank
ECF: Extended Credit Facility
EIU: Economist Intelligence Unit
ESCOM: Electricity Supply Corporation of Malawi
EU: European Union
EUR: Euro
FEWS NET: Famine Early Warning Systems Network
FAO-GIEWS: Food and Agricultural Organization Global Information and Early Warning System
FISP: Farm Input Subsidy Program
FMBCH: FMB Capital Holdings Plc
FOB: Free On Board
FSI: Foreign Share Index
GBP: British Pound
GDP: Gross Domestic Product
GFS: Government Finance Statistics
IDA: International Development Association
IFAD: International Fund for Agricultural Development
IFPRI: International Food Policy Research Institute
IMF: International Monetary Fund
MASI: Malawi All Share Index
MASL: Meters Above Sea Level
MB/D: Million barrels per day
MERA: Malawi Energy Regulatory Authority
MITC: Malawi Investment and Trade Center
MK: Malawi Kwacha
MPC: Monetary Policy Committee
MSE: Malawi Stock Exchange
MT: Metric Tonnes
MRA: Malawi Revenue Authority
MVAC: Mobile Vulnerability Assessment Committee
MW: Mega Watts
NBM: National Bank of Malawi Plc
NBS: NBS Bank Plc
NGOs: Non-Governmental Organisations
NICO: NICO Holdings Plc
NITL: National Investment Trust Plc
NSO: National Statistical Office
OECD: Organisation for Economic Co-operation and Development
OMO: Open Market Operations
OPEC: Organization of the Petroleum Exporting Countries
PCL: Press Corporation Plc
RBM: Reserve Bank of Malawi
RBZ: Reserve Bank of Zimbabwe
Rmb: Chinese Renminbi
RTGS: Real Time Gross Settlement
SARB: South Africa Reserve Bank
SDF: Southern Dark Fired Tobacco
SSA: Sub Sahara Africa
Sunbird: Sunbird Tourism Plc
TAMA: Tobacco Association of Malawi
TB: Treasury Bills
TCC: Tobacco Commission
TICAD: Tokyo International Conference on African Development
TNM: Telekom Networks Malawi Plc
WEO: World Economic Outlook
WFP: World Food Programme
WTO: World Trade Organisation
TSH: Tanzania Shillings
UBOS: Ugandan Bureau of Statistics
UGX: Ugandan Shillings
UK: United Kingdom
UNOCHA: United Nations Office for the Coordination of Humanitarian Affairs
USA: United States of America
US$: United States Dollar
ZAR: South African Rand
ZimVAC: Zimbabwe Vulnerability Assessment Committee
ZMK: Zambian Kwacha

EXECUTIVE SUMMARY
Economic Outlook — Malawi

The Malawi Kwacha depreciated against the United States Dollar in June 2021 due to continuous demand and supply imbalances. However, according to the Economist Intelligence Unit (EIU), foreign exchange reserves are expected to improve as proceeds from the tobacco selling season continue to enter the market, proceeds from the structured gold market introduced by the Reserve Bank of Malawi, as well as potential earnings from maize exports after the bumper harvest experienced in 2021.

The World Bank has projected that Malawi's economic growth will pick up to 2.8% in 2021. Looking toward 2022 and beyond, the Bank expects that continued fertilizer subsidies will unlikely to lead to another boost to maize production, and they will not help diversify growth. Furthermore, Malawi's sustainable economic recovery remains vulnerable to risk from macroeconomic imbalances and continued Government expenditure. The fiscal deficit may remain elevated in the medium term, which will further increase the domestic debt burden. The current account deficit is also expected to remain elevated into the medium term.

The selling season for Malawi's leading foreign currency earner tobacco is in progress. Tobacco prices are higher in 2021 compared to 2020 prices. The current demand for tobacco is estimated at 132.3 million kgs, higher than the estimated crop output of 124.3 million kgs.

Regarding the impact of the rollout of COVID-19 vaccines, the EIU projects that there will be no immediate return to normal for Malawi in 2021. However, the rollout of effective vaccines means that a path to normality will gradually become clearer over 2022. In the meantime, the EIU expects continued local outbreaks of coronavirus cases and the repeated imposition of strict social measures to remain an important subject for Malawi over much of 2021-22.

Malawi's economic outlook faces considerable downside risks: the impact of the COVID-19 pandemic, weather shocks and fiscal slippages. However, the arrival of COVID-19 vaccines and expected good agricultural season harvest, project a gradually favorable economic outlook.

Key Economic Risks – Malawi

1. Coronavirus pandemic - Affects the operations of all businesses and unplanned government heavy expenditure on medical supplies and enforcement of measures to mitigate its spread and effects.
2. High government debt levels - Create a future obligation for the government to repay the debt plus interest.
3. Persistently weak export base - Affects the Kwacha's stability against the major currencies as import values exceed export values.
4. High population growth rates - May reduce the country's ability to allocate resources to more productive activities.
5. Insufficient power supply - Will lead to lower productivity and dampen economic growth.

Economic Highlights for June 2021 — Malawi

The headline inflation rate for June 2021 increased to 9.10% as compared to 7.60% in December 2020 (June 2020: 8.50%). Food and non-food inflation for June 2021 were 11.10% and 7.20% respectively (Source: NSO)

Treasury bill yields on all tenors increased as at June 2021 compared to that recorded in June 2020. The average yield for all type Treasury bill increased to an average of 12.09% in June 2021 from an average of 10.66% in June 2020.

Liquidity levels in June 2021 decreased to a daily average of K18.95 billion from K27.95 billion in December 2020 (June 2020: K7.36 billion). Access to the Lombard facility (discount window borrowing) during the month under review averaged K47.92 billion a day

During the first half of 2021, the Malawi Kwacha depreciated against all major currencies. The Kwacha closed the period at K805.59/US$ from K770.84/US$ in December 2020, representing a depreciation of 4.51%.

The official forex reserves for June 2021 decreased to US$424.99 million (1.70 months' worth of import cover) from US$574.26 million (2.75 months of import cover) in December 2020 (Source: RBM)

The stock market was bullish in June 2021, with the Malawi All Share Index (MASI) increasing by 8.49% to close at 35,144.56 points from 32,392.84 points in December 2020 (Source: MSE)

The cumulative average price of all the tobacco types went up by 9.00% in the current season compared to the prices that prevailed over the same period in 2020. After 11 weeks since the opening of the tobacco season, the average price picked at US$1.64/kg in 2021 compared to US$1.51/kg recorded over the same period in 2020 (Source: Tobacco commission).

As Malawi's main harvest season concludes, most households across the country are consuming food from their own production, supplemented by market purchases. Harvesting was mostly completed in May in southern and central areas and in June in northern areas, with above-average production of food crops expected in most areas in the 2020/21 season (Source: FEWSNET).

The World Bank approved $30.00 million in additional financing to support Malawi in the acquisition and deployment of safe, affordable and effective COVID-19 vaccines (Source: World Bank)

ECONOMIC OVERVIEW

Inflation (Source: NSO)

The headline inflation for the first half of 2021 averaged 8.77% a decrease from an average of 9.58% recorded in the corresponding period in 2020. Average food inflation for the first half of 2021 was 10.88% a decrease from an average of 15.17% recorded in the corresponding period in 2020. The non-food inflation increased to an average of 6.68% in the first half of 2021 from an average of 4.93% recorded in the corresponding period in 2020.

The headline inflation rate for June 2021 increased to 9.10% as compared to 7.60% in December 2020 (June 2020: 8.50%). Food and non-food inflation for June 2021 were 11.10% and 7.20% respectively.

	Jun-21	May-21	Jun-20	Change 1 Month	Change 12 Months
Headline inflation	9.10%	9.90%	8.50%	-0.80%	0.60%
Food	11.10%	11.00%	13.40%	0.10%	-2.30%
Non-food	7.20%	7.10%	4.50%	0.10%	2.70%

Government Securities (Source: RBM)

Treasury bill yields on all tenors increased as at June 2021 compared to that recorded in June 2020. The average yield for all type Treasury bill increased to an average of 12.09% in June 2021 from an average of 10.66% in June 2020.

Tenor	Jun-21	Dec-20	Jun-20	Change 6 Month	Change 12 Months
91 days	9.59%	9.95%	7.54%	-0.36%	2.05%
182 days	12.81%	12.49%	11.35%	0.32%	1.46%
364days	13.87%	13.53%	13.10%	0.34%	0.77%
All Type	12.09%	11.99%	10.66%	0.10%	1.43%

Total Treasury bill applications for the month of June 2021 stood at K16.08 billion and K15.20 billion was allotted representing a 5.47% rejection rate. In December 2020, total treasury bill applications stood at K40.19 billion and K39.31 billion was allotted representing 2.24% rejection rate. The 364 days paper accounted for the highest subscription rate for the month of June 2021 at 74.40%, followed by the 182 days paper at 19.43% and the 91 days paper at 6.17% (December 2020: 364 days at 70.31% followed by 182 days at 29.62% and 0.070% for 91 days. Two Open Market Operations (OMOs) reverse repo auctions were conducted during the month of June 2021. There were total applications of K213.75 billion but K158.57 billion was allotted resulting in a 34.80% rejection rate. Total maturities for OMO reverse repos for the month amounted to K45.74 billion resulting in an injection rate of K122.83 billion into the market.

During the first half of 2021, the government conducted several treasury notes auctions. They included a 2-year, 3-year, 5-year, 7-year and 10-year treasury notes as presented below:

TENORS (Years)	Applied (K'bn)	Allotted (K'bn)	Average Yield
2	61.70	57.64	16.53%
3	48.89	48.01	18.75%
5	64.99	64.90	13.33%
7	54.91	50.26	20.40%
10	59.79	59.22	22.25%

Foreign Currency Market (Source: RBM)

During the first half of 2021, the Malawi Kwacha depreciated against all major currencies. The Kwacha closed the period at K805.59/US$ from K770.84/US$ in December 2020, representing a depreciation of 4.51%.

CURRENCY	Jun-21	Dec-20	Jun-20	% Movement 6 month	% Movement 12 months
MK/USD	805.59	770.84	737.19	-4.51%	-9.28%
MK/GBP	1,115.50	1,050.57	904.75	-6.18%	-23.29%
MK/ZAR	56.46	52.08	42.55	-8.41%	-32.70%
MK/EUR	959.90	948.17	826.69	-1.24%	-16.11%

The official forex reserves for June 2021 decreased to US$424.99 million (1.70 months' worth of import cover) from US$574.26 million (2.75 months of import cover) in December 2020.

Private sector reserves increased to US$388.78 million (1.56 months of import cover) in June 2021 from US$377.97 million (1.81 months of import cover) in December 2020. From May 2021, the import requirement used to calculate import cover is US$250.00 million, up from US$209.00 million calculated in preceding months.

As at 30 June 2021, total forex reserves stood at US$ 813.77 million (3.26 months of import cover) a decrease from US$952.23 million (4.56 months of import cover) registered at the end of December 2020 (June 2020: US$1009.67, 4.90 months of import cover).

	Jun-21 (US$ million)	Dec-20 (US$ million)	Jun-20 (US$ million)	% 6 month change	% 12 months change
Official Reserves	424.99	574.26	682.66	-25.99%	-37.74%
Private Sector	388.78	377.97	327.01	2.86%	18.89%
Total	813.77	952.23	1,009.67	-14.54%	-19.40%
Import Cover (Months)					
Gross Official	1.7	2.75	3.49	-38.18%	-51.29%
Private Sector	1.56	1.81	1.41	-13.81%	10.64%
Total	3.26	4.56	4.90	-28.51%	-33.47%

Interbank Markets and Interest Rates (Source: RBM, BAM)

Liquidity levels in June 2021 decreased to a daily average of K18.07 billion from K27.95 billion in December 2020 (June 2020: K7.36 billion). Access to the Lombard facility (discount window borrowing) during the month under review averaged K46.80 billion a day. This was at an average rate of 12.20% and an average of K14.47 billion was accessed on the Lombard Facility during the month of December 2020 at an average rate of 12.20% (June 2020: K9.89 billion at 13.49%).

In June 2021, the overnight borrowing between banks decreased to a daily average of K10.47 billion. This was at an average rate of 11.94% and an average of K12.94 billion per day was accessed in December 2020 at an average rate of 11.41% (June 2020: K23.55 billion at 13.70%).

Stock Market (Source: MSE)

The stock market was bullish in June 2021, with the Malawi All Share Index (MASI) increasing by 8.49% to close at 35,144.56 points from 32,392.84 points in December 2020.

The market registered five gainers during the month of May 2021: FMBCH (120.58% increase), Illovo (30.15% increase), Airtel (16.39% increase) NBS Bank (14.78% increase) and NICO Holdings (5.91% increase). There were four losers registered on the market: MPICO (23.41% decrease), TNM (2.38% decrease), FDH Bank (2.97% decrease), ICON Properties (0.41% decrease). During the first six months, the Domestic Share Index (DSI) increased by 3.53% to 28,739.26 points (December 2020: 27,755.46 points). The Foreign Share Index (FSI) increased by 137.15% to 3,234.45 points (December 2020: 1,363.88 points).

The volume of shares traded in June 2021 increased to 672.65 million from 179.32 million traded in the corresponding period in 2020. The traded value on the shares in June 2021 increased to K16.99 billion from K6.76 billion registered in the corresponding period in 2020.

The year on year return for the MASI, DSI and FSI increased by 18.00% 14.41% and 84.01% respectively. The market registered an 8.49% year to date return compared to a return of negative 1.55% recorded during the same period in 2020. The dividend yield for June 2021 increased to 3.59% from 2.71% in December 2020 (June 2020: 2.97%).

Counter	Jun-21	Dec-20	Jun-20	Change (6 month)	Change (12 months)
	MK/Share	MK/Share	MK/Share	%	%
AIRTEL	32.53	27.98	20.00	16.26%	39.90%
BHL	11.00	12.94	12.94	-14.99%	-14.99%
FMBCH	59.82	22.04	29.99	171.42%	99.47%
FDHB	16.00	14.45	N/A	10.73%	N/A
ICON	12.13	12.27	11.40	-1.14%	6.40%
ILLOVO	104.72	80.48	94.50	30.12%	10.81%
MPICO	16.00	21.00	24.98	-23.81%	-35.95%
NBM	650.08	650.00	550.00	0.01%	18.20%
NBS	26.40	21.60	19.50	22.22%	35.38%
NICO	55.00	52.00	48.42	5.77%	13.59%
NITL	94.94	94.95	94.99	-0.01%	-0.05%
OMU	2,190.00	2,199.98	2,199.99	-0.45%	-0.45%
PCL	1,199.94	1,309.47	1,399.76	-8.36%	-14.28%
STANDARD	1,200.15	1046.39	790.00	14.69%	51.92%
SUNBIRD	90.00	105.00	120.00	-14.29%	-25.00%
TNM	16.00	20.07	24.94	-20.28%	-35.85%
MASI	35,144.56	32,392.84	29,784.70	8.49%	18.00%
DSI	28,736.26	27,755.46	25,117.92	3.53%	14.41%
FSI	3,234.45	1,363.88	1,757.76	137.15%	84.01%

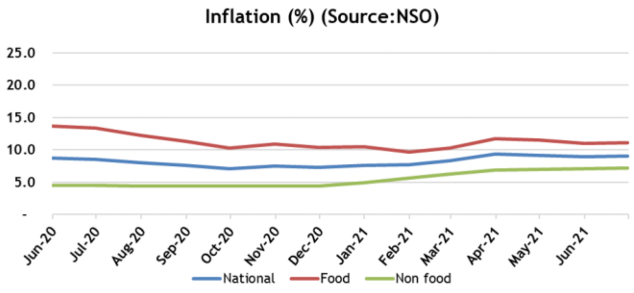
Published Financials for 2020 and 2019

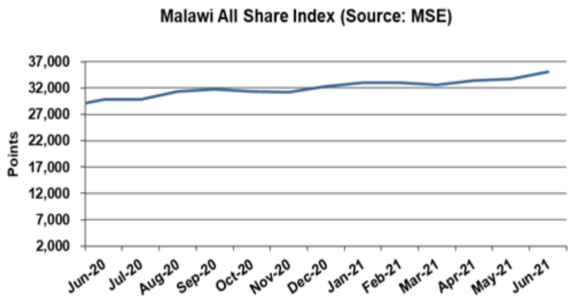
	Net Profit/(Loss) (MK'Billion)			Total Dividend (Per Share) (Kwacha)		
Period	**Aug-20**	**Aug-19**	**% Change**	**Aug-20**	**Aug-19**	**% Change**
ILLOVO	2.74	10.08	-72.84%	2.00	0.50	300.00%
Period	**Sep-20**	**Sep-19**	**% Change**	**Sep-20**	**Sep-19**	**% Change**
BHL	(0.45)	(0.47)	-4.26%	0.00	0.10	-100.00%
Period	**Dec-20**	**Dec-19**	**% Change**	**Dec-20**	**Dec-19**	**% Change**
NBS BANK	7.05	4.46	58.14%	1.15	0.35	228.57%
STANDARD	23.74	15.88	49.52%	44.74	30.26	47.85%
NITL	1.48	1.78	-16.97%	1.30	0.75	73.33%
AIRTEL	22.09	15.91	38.84%	2.10	1.25	68.00%
FDH	14.96	5.19	188.25%	N/A	N/A	N/A
SUNBIRD	(1.18)	2.59	-145.49%	0.00	1.00	-100.00%
OMU	(5.35)	9.66	-155.39%	0.35	1.20	-70.83%
PCL	19.90	22.87	-13.00%	31.00	26.00	19.23%
NBM	22.40	17.15	30.61%	27.84	17.78	56.58%
MPICO	4.34	7.68	-43.49%	0.28	0.25	12.00%
NICO	18.60	14.73	26.27%	2.30	1.90	21.05%
ICON	8.79	7.41	18.62%	0.23	0.21	9.52%
FMBCH	21.30	(18.60)	214.52%	0.08	0.00	100.00%
TNM	7.72	13.17	-41.40%	0.40	0.75	-46.67%

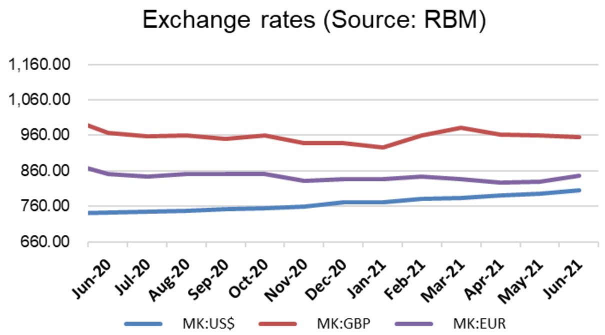
TRADING STATEMENT

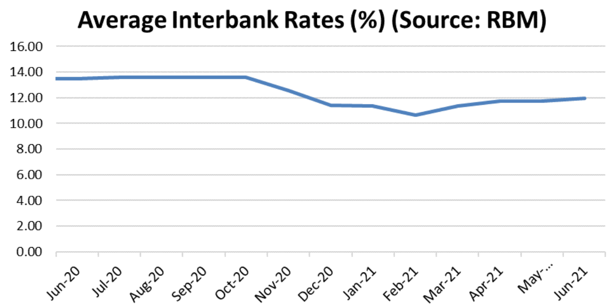
FDH	Expects its half year ending 30 June 2021 profit after tax to be at least 34% higher than the previous corresponding period
NBM	Expects its half year ending 30 June 2021 profit after tax to be at least 20% higher than the previous corresponding period
NBS BANK	Expects its half year ending 30 June 2021 profit after tax to be approximately 40% higher than the previous corresponding period
SUNBIRD	Expects its half year ending 30 June 2021 loss after tax to be approximately 65% lower than the previous corresponding period
NITL	Expects its half year ending 30 June 2021 profit after tax to be at least 140% higher than the previous corresponding period
ICON	Expects its half year ending 30 June 2021 profit after tax to be at least 20% higher than the previous corresponding period

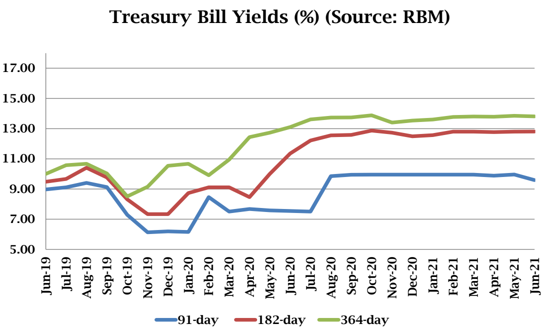
Trend Graphs

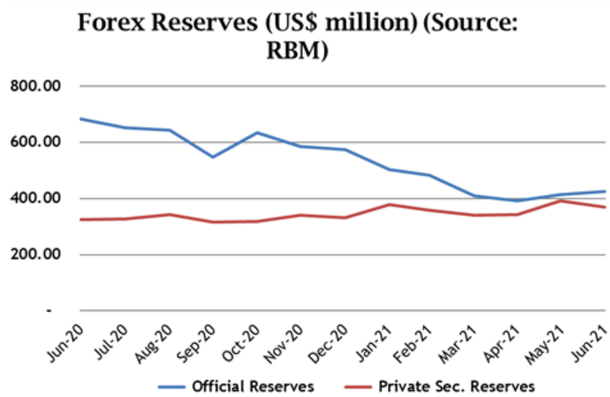








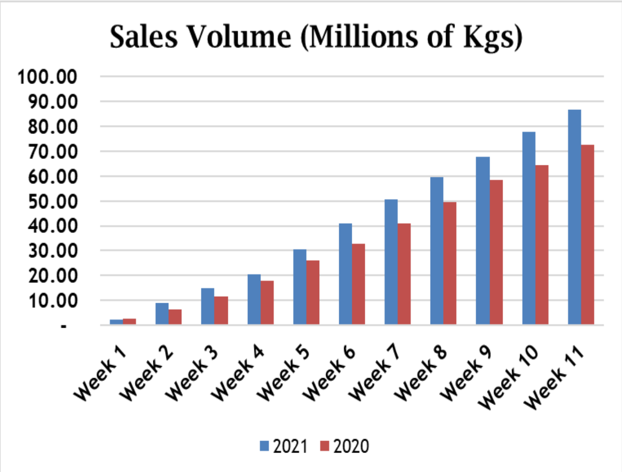




OTHER MARKET DEVELOPMENTS

Tobacco Markets Update (Source: TCC, AHL, MAPAT, NSO, Reuters, 2021 SONA, JTI Leaf Malawi)

The cumulative average price of all the tobacco types went up by 9% in the current season compared to the prices that prevailed over the same period in 2020. After 11 weeks since the opening of the tobacco season, the average price picked at US$1.64/kg in 2021 compared to US$1.51/kg recorded over the same period in 2020. A total volume of 86.94 million kgs of all tobacco types valued at US$143.02 million have been sold by the end of 11 weeks in 2021 compared to 72.75 million kgs sold at a total consideration of US$110.20 million during the same period in 2020.



The tobacco selling season has been described as fair owing to higher prices being offered on the contract markets, as well as a higher minimum set price. This is mainly attributed to low supply against high demand of the cash crop. However, tobacco growers were unsatisfied with the prices being offered and urged the Ministry of Agriculture to engage buyers to improve prices to enable them to realize profits and pay back loans used for inputs.

The rejection rate for tobacco leaf dropped from 95% at the start of the tobacco selling season in April 2021 to 42% at the end of June 2021. The high rejection rates have been attributed to storage issues and mixed grading of the leaf. Auctions Holding Limited (AHL) spokesperson highlighted that despite the fall in rejection rates, 42% is still high and negatively impacts the farmers who must continue servicing farm input loans taken from commercial banks, affecting the farmers ability to reinvest for the next season. However, the Ministry of Agriculture spokesperson noted that there were many improvements on the market and expressed confidence that farmers would be motivated to cultivate the crop in the next season in 2022.

Despite a good start, the tobacco industry faces challenges that may impact the performance of the cash crop in 2021. The industry is faced with pressures of international regulations on traceability of tobacco to prevent forced labour and child labour. This has made it difficult to sell the tobacco that is not compliant to the regulations, causing buyers to become more cautious on buying the leaf from non-contracted growers. The Tobacco Processors Association (TPA) chairperson has thus encouraged industry stakeholders who are not compliant to ensure that they become compliant as quickly as possible so that the tobacco can be accepted in global markets. In May 2021, U.S Customs and Border Protection modified an import ban on tobacco from Malawi over the practice of forced labour. This has allowed imports from Premium Tobacco Malawi Ltd (PTML) using tobacco harvested by small farmers who use little or no outside labour. The move further modifies a 2019 withhold release order that prohibited the import of all tobacco products from Malawi based on information indicating that the tobacco was produced using forced labour and child labour. Furthermore, The U.S Food and Drug Administration (FDA) is contemplating a ban on mint flavoured cigarettes. Menthol is blended with burley and flue-cured tobacco, which Malawi heavily relies on for tobacco exports. This move by the FDA could negatively impact global demand and affect Malawi's export earnings from the crop. The ban is also being considered by other countries like the UK, Brazil, Ethiopia and the EU.

Despite higher tobacco earnings recorded in 2021 than the previous selling season in 2020, President Lazarus Chakwera advised tobacco players to acknowledge that the industry is dying and that there is a need to explore alternative crops. The President highlighted the need to switch to high growth crops, to diversify the country's agricultural export base, thereby reducing reliance on tobacco as the country's main export earner. The National Statistical Office (NSO) reported that since 2009 export earnings from tobacco has declined by 45.00%, from US$450.00 million to US$237.00 million in 2019. The President further challenged stakeholders to search for a basket of 30 alternative crops, to relieve the countries reliance on tobacco by 2030. However, the Malawi Agricultural Policy Advancement and Transformation Agenda (MAPAT) outlined several constraints government would have to address, including investment in infrastructure, government input subsidies, technical knowledge to farmers, research and development, as well as agro-processing instruments.

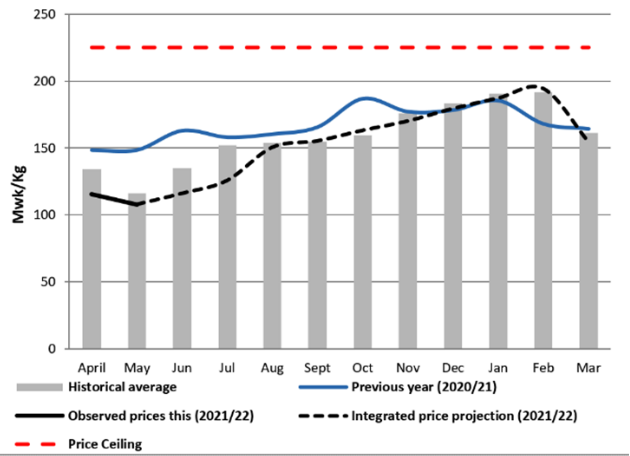
In response, Tobacco buying companies like JTI Leaf Malawi submitted their position on the amendment of the Tobacco Industry Act to the Tobacco commission, which stops them from extending farm input loans to tobacco growers for production of alternative crops and inhibits diversification.

Malawi is expected to realize above-average production of most food crops for a second consecutive season. (Source: IFPRI, FEWSNET, Ministry of Trade)

As Malawi's main harvest season concludes, most households across the country are consuming food from their own production, supplemented by market purchases. Harvesting was mostly completed in May in southern and central areas and in June in northern areas, with above-average production of food crops expected in most areas in the 2020/21 season. According to second round production estimates from the Ministry of Agriculture and Food Security (MoAFS), production of maize and rice are expected to be higher than both last season and the 5-year average. Staple maize production is expected to be 18.00% above last year and 43.00% above the 5-year average. Production of sorghum and millet are also expected to be above average, but lower than last season. However, some households in the Lower Shire livelihood zone districts of Chikwawa and Nsanje recorded reduced crop production in the current season due to prolonged dry spells.

According to latest production estimates by the Tobacco Commission (TC), Malawi will likely produce 124,000 metric tons of tobacco against an estimated buyer demand of 132,000 metric tons. Estimated tobacco production is 9.00% above last year and 21.00% below the 5-year average. Production of cotton is expected to be 54.00% below last year and 25.00% below the 5-year average according to MoAFS second round production estimates. Current average tobacco prices are US$1.64 per kilogram, 6.00% higher than last year and near five-year average levels. Sales of cotton are underway at about K360/kg, higher than the government-set minimum price of K320/kg but still lower than the range of minimum prices set by government over the past five years (K375/kg to K389/kg).

Food prices have generally continued to decrease alongside the progression of harvesting in recent months. In May 2021, maize prices across most monitored markets were 17.00% to 35.00% lower than prices at the same time in 2020, and 7.00% to 20.00% lower than the 5-year average. Retail prices of maize averaged K134/kg at the national level and were lower than the government-set minimum farm-gate price of K150/kg in most markets, though above-average maize production is generally expected to compensate farmers for the lower selling prices. Retail maize prices are also lower than ADMARC's current selling price of K160/kg. Rice prices in May were 6.00% to 26.00% lower than at the same time last year, and 6.00% to 26.00% lower than the 5-year average due to overall increased production. Prices of beans increased in May 2021 to reach levels 22.00% above prices at the same time last year, and 25.00% above the 5-year average, at the national level. Lower supplies due to below-average 2020/21 season are putting upward pressure on bean prices.



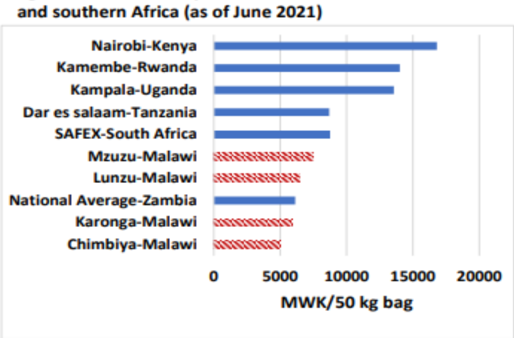
Informal imports of maize grain in April 2021 decreased by 39.00% relative to the previous March 2021, largely due to above-average local production at the start of the new marketing year. However, at 3,131.00 MT, informal maize grain imports in April 2021 were 27.00% above the 5-year average. No significant informal exports were reported, with only 62.00 MT exported to Mozambique. According to the Ministry of Trade formal maize exports reached 20,000MT raking in K3.60 billion by mid-June 2021. However, despite efforts made by the government to have some of the excess maize exported to South Sudan, the commodity continues to fetch low prices. Towards the beginning of the year, Malawi was banking on Mozambique, Zimbabwe and South Sudan to take up excess maize after more than normal rainfall and a successful AIP program, however Zimbabwe imposed a maize import ban in May 2021 and Mozambique like many surrounding countries in the region experienced a bumper harvest, dampening export expectations.

Monthly Maize Market Update (Source: IFPRI)

Average retail maize prices increased by 1.00% in June 2021. However, prices in some markets, especially in the North of Malawi, decreased due to a late harvest compared to the Center and the South. The monthly average retail maize price in June 2021 was K132/kg. This is about 5.00% lower than last month, 24.00% lower than in June 2020, and 12.00% lower than the government-mandated minimum farm gate (MFG) price.

By the end of June 2021, retail maize prices in Malawian markets were lower than in selected regional markets in eastern Africa and on SAFEX (the main grain futures market in South Africa). However, Prices in Mzuzu and Lunzu were higher than Zambia's national average of June 2021.

Figure 3. Retail maize prices in selected markets in eastern and southern Africa (as of June 2021)



Malawi signs MOU's with South Sudan and India to boost exports (Source: Reuters)

India and Malawi signed a Memorandum of Understanding (MoU) on cooperation in the field of trade of Pigeon Peas for a period of 5 years. The MoU was signed by H.E. S. Gopalakrishnan, High Commissioner of India to Malawi and Honorable Sosten Gwengwe, M.P., Minister of Trade, Government of Malawi. The objective of this Memorandum of Understanding is to encourage trade in pigeon peas between Malawi and India. Keeping in view the objective of promoting production of pulses in Malawi and encourage trade of pigeon peas between India and Malawi, the MoU will facilitate export of 50,000.00 MTs annually from Malawi to India. Under the MoU, both countries have agreed to target minimum yearly quantities of imports of pigeon peas from Malawi to India between 2021-2026 through private channels.

South Sudan and Malawi also signed a trade agreement that will see Malawi export its surplus food to Juba to help ease the widening cereals deficit in the East African nation. Kuol Athian, Minister of Trade and Industry, revealed that the deal will allow Malawian businesses to export food to South Sudan which is facing this year's highest cereals deficit estimated at 465,600.00 MT. Honorable Sosten Gwengwe, Malawian minister of Trade, disclosed that his country is looking forward to exporting food to offset this year's cereals surplus estimated at 1.20 million MT. Meanwhile, Malawi said it expects to import refined petroleum products from South Sudan to cut costs of importing from the Arab world.

Reserve Bank of Malawi Economic Forecasts (Source: RBM)

The Reserve Bank of Malawi's Monetary Policy Committee (MPC), at its second meeting of 2021 held in April, maintained the Policy rate at 12.00%. In arriving at this decision, the MPC considered the need to support and sustain economic recovery, while at the same time managing upside risks to the inflation outlook.

In its April 2021 Monetary Policy Report, the Reserve Bank of Malawi projected the domestic real economic growth to strengthen to 3.80% in 2021, from an estimated growth rate of 0.90% in 2020. This is attributed to the heavy weight of the COVID-19 pandemic on economic activity. Nevertheless, the ongoing vaccination campaign, coupled with the above-average agricultural production during the 2020/21 season, as well as recovery of the global economy, provide optimism for economic turnaround.

The Reserve Bank of Malawi revised its 2021 headline inflation projection upwards from an average of 7.80% to 8.40%. In terms of quarterly profile, inflation is projected to decline to 8.10% in the second quarter of 2021, before rising to 8.60% in third quarter and closing at 8.90% in the fourth quarter of 2021. These developments are attributed to increased fuel prices in March 2021, exchange rate depreciation, increase in electricity tariffs, and fiscal slippage. The headline inflation for 2022 has also been revised upwards to average at 7.90% from 7.60%.

Foreign Aid Inflows (Source: European Investment Bank, World Bank & IMF)

The Ministry of Finance (MoF) commenced discussions with the IMF that will lead to negotiations for another program which will anchor the 2021/2022 fiscal framework and budget.

The World Bank approved $30.00 million in additional financing to support Malawi in the acquisition and deployment of safe, affordable, and effective COVID-19 vaccines.

REGIONAL MARKET DEVELOPMENTS

Sub-Saharan Africa (SSA)

Regional activity is expected to expand by a modest 2.80% in 2021 and 3.30% in 2022. Positive spill overs from strengthening global activity, better international control of COVID-19, and strong domestic activity in agricultural commodity exporters are expected to gradually help lift growth. Nonetheless, the recovery is envisioned to remain fragile, given the legacies of the pandemic and the slow pace of vaccinations in the region. In a region where tens of millions more people are estimated to have slipped into extreme poverty because of COVID-19, per capita income growth is set to remain feeble, averaging 0.40% a year between 2021 and 2022, reversing only a small part of the losses incurred in 2020. Risks to the outlook are tilted to the downside, and include lingering procurement and logistical impediments to vaccinations, further increases in food prices that could worsen food insecurity, rising internal tensions and conflicts, and deeper-than expected long-term damage from the pandemic.

Output in Sub-Saharan Africa (SSA) collapsed by an estimated 2.40% in 2020 as a result of the COVID-19 pandemic. This was the region's first economic contraction in a generation and the deepest recession since the 1960s. The recession was, however, milder than previously projected, as the virus spread more slowly than anticipated and agricultural activity was unexpectedly strong in some countries (Benin, Ethiopia, Kenya and Nigeria. Growth in the region has gradually resumed this year, reflecting positive spill overs from strengthening global economic activity, including higher oil and metal prices, and some progress at containing COVID-19 outbreaks, especially in Western and Central Africa. PMI readings for manufacturing and services suggest that activity in these sectors continued to expand in 2021, albeit at still modest rates.

The pandemic has contributed to a widening of budget deficits and a sharp increase in government debt. The debt-to-GDP ratio in the region jumped on average by 8.00% to 70.00% of GDP in 2020, raising the risk of debt distress in some countries.

The adverse effects of the pandemic, fiscal pressures, and the very slow pace of vaccinations have dampened the resumption of growth in the hospitality and tourism sectors. Activity in the three largest economies in the region, Angola, Nigeria, and South Africa has partially recovered after falling by 4.20% in 2020. Agricultural commodity exporting countries like Angola, Cabo Verde, Mali and the Republic of Congo, suffered deep contractions last year from depressed external demand and localized COVID-19 related disruptions. In tourism-reliant countries like Mauritius and Seychelles, international arrivals have been at a near -halt, and are likely to remain lacklustre until widescale vaccinations allow for a safe reopening of borders to international travel.

Although conditions have improved in the region, COVID-19 and related control measures have continued to disrupt schooling, damage health, inhibit investment, and weigh on growth. In countries with policy space, accommodative monetary and fiscal policies, combined with currency depreciations and rising energy and food prices, have fuelled inflationary pressures in some countries in SSA.

Remittances to the region, a lifeline for household consumption have held up better than expected, partly reflecting a shift from informal or traditional non-digital cash payments to cheaper digital transfers and improving job opportunities in Sub-Saharan African migrant workers' destination countries.

New COVID-19 infections in SSA have declined after rising sharply in late 2020 and early 2021. Although PMI readings have remained in expansionary territory this year, the resumption in activity has been tepid. International tourist arrivals have remained close to zero over the past year. As vaccinations proceed, some countries will gradually lift travel restrictions. Inflation has picked up in some countries, reflecting currency depreciations and rising food prices. Capital inflows to the region have lost momentum, owing to heightened uncertainty about the course of the pandemic and weak growth prospects in some recipient countries. Nonetheless, foreign direct investments in 2020 have been more resilient in SSA than the average EMDE excluding

China, recouping about nine-tenths of their pre-pandemic levels (Source: World Banks, IMF & FAO)

Zambia

Annual inflation for June 2021 increased to 24.60% from 23.20% in May 2021. On average, prices of goods and services increased by 24.60% between June 2020 and June 2021. The increase in the annual rate of inflation was mainly attributed to price increases in some food items. The EIU projects that headline inflation will average at 19.80% in 2021, which is well above the Bank of Zambia's (BoZ) target range of 6.00%-8.00%. This forecast was predicated on the continuing depreciation of the Kwacha against the US Dollar, as the sovereign default and its associated risks drive up Dollar demand within Zambia and rising global food and oil prices increase inflationary pressures.

The key sources of inflationary pressures over the forecasted period are elevated fiscal deficits, higher crude oil prices, and rising inflation in some major trading partners. However, these are expected to be partially mitigated by improved supply of food, particularly maize and wheat following a strong crop harvest. In addition, higher than anticipated copper prices, improved external sector support and renewed interest in government securities by non-resident investors.

Fiscal policy will remain tight in 2021, in order to help to meet persistently high debt-service costs. This may diminish inflationary pressures from 2022 onwards, and the headline rate may briefly return to within the BoZ's target range in 2024, averaging 7.90%.

The Bank of Zambia maintained the Monetary Policy Rate at 8.50% in May 2021, in recognition of existing vulnerabilities in the financial sector and fragile growth. The bank remains committed to adjusting the policy rate upwards should the expected drop in inflation not materialize sooner than anticipated. In order to curb inflationary pressure, the EIU projects that the Monetary Policy Committee (MPC) will increase the policy rate to 9.50% in the next MPC meeting set for 30 August 2021.

Government revenue performance improved in the first quarter of 2021. However, fiscal pressures remain, reflecting high expenditures on fuel imports and the Farmer Input Support Program (FISP) as well as the need to clear accumulated domestic arrears. Over the medium-term, gradual fiscal adjustment premised on expenditure rationalization and the significant increase in domestic revenue is envisaged. In this regard, the announcement that substantive understanding has been reached on the macroeconomic framework between the IMF and the Government, the impending one-off allocation of Special Drawing Rights (SDRs) by the IMF to help countries fight the COVID-19 pandemic and improved copper earnings are important developments that can help create the much needed fiscal space.

Zambia’s stock of public debt increased to an unsustainable 119.97% of GDP (US$12.73 billion) in 2020 and is expected to rise slightly in 2021 before decreasing in the medium term because of improved coordination between fiscal and monetary policy, as adopted in the Economic Recovery Programme. To attain debt sustainability, AfDB suggested that Zambia ceases accumulating new external debt, increase domestic revenues, curb runaway public spending, and create a stronger institutional public financial management framework. To avoid a severe liquidity crunch, the government has initiated a creditor engagement strategy aimed at securing immediate debt service relief with its external creditors (Source: AfDB).

Zambia recorded a trade surplus of ZK6.90 billion in May 2021 compared to a surplus of ZK10.20 billion in April 2021 indicating a 31.90% decrease. Exports mainly comprising of domestically produced goods, fell by 8.00% to ZK20.00 billion in May 2021 from ZK21.70 billion in April 2021. This was mainly on account of a 13.20%, 10.60% and 32.70% decrease in export earnings from raw materials, Intermediate goods and Capital goods respectfully. Imports increased by 13.00% to ZK13.1 billion in May 2021 from ZK11.60 billion in April 2021. This was mainly attributed to a 9.70%, 122.60% and 11.30% increase in import bills of consumer goods, raw materials goods and capital goods, respectively.

The World Bank forecasts that the Zambian economy will grow by 1.00% in 2021 and 2.00% in 2022, underpinned by recovery in the mining, tourism, and manufacturing sectors. The recovery in international demand and copper prices are positive developments, while a reduction in COVID–19 cases will boost activity both in manufacturing and tourism. However, the economy faces substantial risks that a third wave of the pandemic will impede global economic recovery and stifle demand for copper. A third wave could also undermine the revival of such critical sectors as tourism and manufacturing. Failure to effectively implement the Economic Recovery Program, which is intended to resolve most of the critical economic constraints, such as debt sustainability and stabilization of the macroeconomic environment could also pose a high risk to Zambia's economy.

Given double-digit inflation, the large-scale departure of foreign investors and a deteriorating business environment , including in the crucial mining sector, despite rising copper prices,may result in the kwacha depreciating sharply against the US Dollar in 2021, ending the year at ZK23.59:US$1, down from ZK21.17:US$1 in end-2020 (Source: Zambia Statistics agency, AfDB, World Bank & EIU).

Zimbabwe

Zimbabwe's year on year inflation rate for June 2021 slightly decreased to 106.64% from 161.91% recorded in May 2021, attributed to the decline in food inflation. Zimbabwe is experiencing a good harvest season, after record rainfall during the harvest season. Zimbabwe's inflation has been on a downward trend since August 2020, following the introduction of a foreign exchange auction trading system that has brought stability to the foreign exchange market. The Reserve Bank of Zimbabwe has forecasted inflation to be below 55.00% by July 2021 and down to 25.00% by the end of 2021. To support economic activity and the current stability in the economy, the central bank maintained its main lending rate at 40% and the interest rate on the medium-term accommodation facility at 30% and further tightening monetary policy by reducing the reserve money growth target from 22.50% per quarter to 20.00% per quarter going forward, while continuing to review the reserve money growth target to achieve and maintain stability of inflation and the exchange rate in line with developments in other macroeconomic fundamentals, as well as, streamlining the foreign currency auction system to reflect macroeconomic fundamentals and ensuring that the country's productive sector is given priority in terms of allotment. Lastly, foreign currency deposits increased in the banking system, which currently stands at US$1.3 billion in June 2021. The Bank, in consultation with the Deposit Protection Board, is exploring mechanisms to protect foreign currency deposits. Consultations are also ongoing to encourage banks to leverage on the foreign currency deposits to enhance financial intermediation for the benefit of the economy.

According to the World Bank, Zimbabwe's economy is projected to grow by 3.90% in 2021 after a two-year recession, significantly lower than the Zambian governments projection of 7.40%. The Bank projected Zimbabwe's economy to have contracted by an estimated 8.10% in 2019 and 8.00% in 2020 owing to a combination of significant macroeconomic challenges, drought, cyclone Idai and the COVID-19 pandemic. According to the World Bank Zimbabwe Economic Update (ZEU), growth in 2021 will be led by a recovery in agriculture after good rains, slowing inflation, and adjustment of businesses to limitations caused by the COVID-19 pandemic. However, disruptions caused by the pandemic will continue to weigh on economic activity in Zimbabwe, limiting employment growth and improvements in living standards.

The IMF has classified Zimbabwe as "in debt distress", with unsustainable public and publicly guaranteed (PPG) external and total debt and large external arrears. External and total public debt has breached the thresholds in both the baseline and shock scenarios. Moreover, Zimbabwe has large and longstanding external arrears to International Financial Institutions (IFI's), official, and commercial creditors. The IMF's virtual mission in June 2021 noted the authorities' efforts to stabilize the local currency and lower inflation. In this regard, contained budget deficits and reserve money growth, as well as the introduction of a foreign exchange auction system, were noted as policy measures headed in the right direction. The mission noted further efforts are needed to solidify the stabilization trends and accelerate reforms. The near-term macroeconomic imperative is to improve the coordination among fiscal, foreign exchange and monetary policies, while addressing COVID-19 related economic and humanitarian challenges, the mission highlighted that structural reforms aimed at improving the business climate and reducing governance vulnerabilities are essential for ensuring sustained and inclusive growth. The Fund will continue to provide extensive technical assistance in the areas of economic governance and financial sector reforms, as well as macroeconomic statistics. However, the IMF is precluded from providing financial support to Zimbabwe due to an unsustainable debt and official external arrears. A Fund financial arrangement would require a clear path to comprehensive restructuring of Zimbabwe's external debt, including the clearance of arrears and obtaining financing assurances from official creditors; a reform plan that is consistent with macroeconomic stability, growth and poverty reduction; a reinforcement of the social safety net; and governance and transparency reforms.

Tanzania

The Annual headline inflation for the month of June 2021 increased to 3.60% from 3.30% recorded in May 2021. Non-food inflation increased to 3.20% in June 2021, 2021 from 2.7% recorded in May 2021. Food and Non-Alcoholic Beverages Inflation Rate for the month of Jun 2021 decreased to 4.70% from 4.90% that was recorded in May 2021. The increase of the overall index is mainly attributed to price increase for some non-food items. The items that contributed to an increase of the index includes mattresses, school bags, pain killers, and wrist watches.

According to the Bank of Tanzania, Tanzania's economy is forecast to grow by 5.60% in 2021 from 4.80% in 2020, helped by improved performance in the construction, agriculture, transport and communications sectors. The Bank of Tanzania also noted, while there was low risk of inflation rising, petrol prices could rise due to sudden jumps in global oil prices.

Tanzania is currently in talks with the IMF to secure a loan to tackle the challenges caused by the COVID-19 pandemic. Tanzania, which has not been publishing data on infections since May 2020, will be required to provide that information before the loan is approved. The East African nation is seeking to borrow its entire entitlement from the IMF, amounting to about $570.00 million. This is a low interest rate loan to tackle the social and economic impact of COVID-19. The government plans to spend TZS36.33 trillion (US$15.71 billion) in the fiscal year starting July 2021, a 4.00% increase from the current financial year. Which will be funded by a mix of local revenue and borrowing. In addition, Tanzania plans to seek a sovereign credit rating to give it access to international capital markets, the minister said.

Domestic pump prices of petroleum products have been experiencing an upward trend since June 2020, owing to gradual increase in oil prices in the world market. Subsequently, petrol, diesel and kerosene registered an increase of 21.70%, 16.20% and 13.30% in May 2021 when compared to the corresponding period in 2020 respectively.

The Government continued to implement prudent debt management strategies aiming at meeting Government financing needs at lowest possible cost, while continuing monitoring closely the private sector external debt. National debt stock stood at USD 32,653.7 million at the end of May 2021, an increase of US$551.30 million and US$3,543.20 million from the preceding month and the corresponding month in 2020, respectively. Public debt (external and domestic) constituted 82.50% of total national debt, while external debt (public and private) accounted for 77.30% of the stock.

The external sector exhibited modest performance amidst challenges associated with COVID-19. During the year ending May 2021, the current account deficit widened to US$1,557.70 million from a deficit of US$1,137.80 million in the same period in 2020, explained by lower services receipts, particularly travel. The overall balance of payments was a deficit of US$98.70 million, compared to a surplus of US$ 1,034.00 million owing to relatively low external financial inflows. The level of foreign reserves remained adequate to support the external sector. As at end of May 2021, the amount of gross official reserves was US$5,154.40 million. The level of reserves was sufficient to cover about 6.1 months of projected imports. Hence, import cover was within the country benchmark of at least 4 months and the EAC and SADC convergence criteria of at least 4.5 months and 6 months, respectively. During the same period, gross foreign assets of banks rose to US$1,196.1 million (Source: IMF, Bank of Tanzania & National Bureau of statistics).

Uganda

Bank of Uganda (BoU) reduced the Central Bank Rate (CBR) to 6.50% percent in June 2021 and maintained the band on the CBR at +/-2 percentage points on the CBR. The margin on the rediscount rate and bank rate were left unchanged at 3.00% and 4.00% on the CBR, respectively. Consequently, the rediscount rate and the bank rate reduced to 9.5 percent and 10.50%, respectively. The annual headline inflation in May 2021 decreased to 1.90% from 2.10% recorded in April 2021. The decrease is mainly attributed to decreases in both food and non-food inflation.

The Ugandan government projects the economy will expand by 4.30% in the financial year (FY) starting July 2021, up from 3.10%, based on the assumption that the negative consequences of the pandemic will subside with COVID-19 vaccinations. A modest recovery in economic activity has been realized in the FY2020/21 supported by the gradual easing of the lockdown amidst accommodative monetary, expansionary fiscal and liquidity-support financial policies. The preliminary economic growth estimates for FY2020/21 by the Uganda Bureau of statistics (UBOS) shows that the economy grew by 3.30% compared to a revised growth of 3.00% in the same period of the previous financial year. The growth was mainly driven by the agriculture and industry sectors which grew by 3.50% percent and 3.40% during FY 2020/21 from respective growth rates of 4.80% and 3.30% in the same period of the previous year. The growth in real GDP was supported by Government expenditure and Household consumption financed by a drawdown on savings. On the other hand, the main drags on real economic growth were weak external demand by a big negative contribution from net exports (-3.90%) and contraction of private investments (-6.70%). Uncertainty about the path of the virus and its effects on economic behavior remains elevated, although less than at the onset of the pandemic when the prospects for effective vaccines were unclear. The outlook continues to be highly conditional on the availability of vaccines, the path of the virus and its new more contagious variants, and trade-off between continued efforts to mitigate spread of the virus and economic recovery. Already, the second wave is evolving and given the limited supply of vaccines, a round of tighter restrictions cannot be ruled out.

Fiscal operations continue to be constrained by revenue shortfalls and slow execution of externally funded government projects. The revenue shortfall was funded by higher-than-target domestic financing. Relative to the Uganda Revenue Authority (URA) target, the cumulative total domestic revenue collections amounted to UGX15,961.40 billion compared to the target of UGX17,709.70 billion for the first 10 months of FY 2020/21.

The medium-term fiscal framework is anchored on reducing nominal debt-to-GDP ratio to below 50.00%. This will be achieved through revenue measures to expand the tax base. In FY 2021/22, although nominal debt to GDP ratio is expected to exceed the 50.00% threshold (at 52.80%) the overall fiscal deficit is expected to reduce to 6.40% of GDP. Moreover, the projected reduction in net domestic financing of the fiscal deficit to 1.90% of GDP (or UGX3.10 trillion) from 3.90% (or UGX6.80 trillion) in FY 2020/21, if it materializes, would free-up loanable funds in the banking sector for lending to the private sector, which would crowd-in private sector credit growth. However, the recent increases in direct monetary financing of fiscal deficits raise additional risks. A surge in debt, would be fueled by borrowing to finance key infrastructure projects, especially in the transport and oil and gas sectors. Uganda's expanding public debt has triggered concern from the political opposition, the central bank and the finance ministry, which says it is worried repayments are consuming an increasingly disproportionate chunk of public resources. Total public debt currently stands at about $18.00 billion, two thirds of which is held by external creditors.

The Ugandan Shilling continued to strengthen supported by a combination of domestic and global developments including: the weakening of the US Dollar, increased inflows from coffee export receipts, personal transfers, portfolio inflows as well as external official development assistance, amidst subdued private sector demand. Going forward, the exchange rate is likely to depreciate on account of on account of a rebound in domestic absorption following a recovery in economic activity. In addition, rising global yields could trigger capital outflow resulting in stronger deprecation pressures. The shilling strengthened in May 2021, appreciating by 2.00% month-on-month and 6.30% year-on-year to an average mid-rate of UGX3,552.8/US$.

South Africa

Annual consumer inflation eased to 4.90% in June 2021 after recording a 30-month high of 5.20% in May

2021. The June 2021 monthly increase in the consumer price index (CPI) was 0.20%, up from 0.10% in May 2021, but lower than the 0.50% rise recorded between May and June 2020, within the South African Reserve Bank's (SARB) inflation target range of 3.00%-6.00%. The main contributors to the 4.90% annual inflation rate were food and non-alcoholic beverages; housing and utilities; transport; and miscellaneous goods and services (Source: Statistics South Africa).

South Africa's monthly manufacturing output contracted in April 2021 and mining production slowed, as electricity outages hit the strong recovery in economic activity seen earlier in 2021. Factory production was down 1.20% month on month in April 2021, with a majority of sectors contracting. Mining activity grew by a meagre 0.30% from March's levels. South Africa's economy shrank by a record 7.00% in 2020 as the COVID-19 pandemic and related lockdowns forced a halt to activity. However, the easing of lockdown restrictions since late last year and an upswing in global commodity prices saw a consensus beating first quarter GDP expansion of 4.60%. Ailing state firm Eskom deepened nationwide electricity outages this week as its ageing coal-fired power stations suffered more breakdowns. The scheduled power cuts, known locally as load shedding, began earlier in the year and are expected to particularly hurt manufacturing and mining, along with the trade and consumer sectors. Furthermore, a worsening of the COVID-19 situation and the associated restrictions on economic activity remains a threat to the pace of recovery.

The Rand Merchant Bank/Bureau of Economic Research (RMB/BER) Business Confidence Index released in June 2021, showed that business confidence increased by 15 points to 50 in South Africa in the second quarter of 2021. The survey covered about 1,300 businesspeople spread across the building, manufacturing, retail, wholesale, and motor trade sectors. The 50 points meant that the number of respondents satisfied with prevailing business conditions now equal those that are unsatisfied. The outcome showed that confidence rebounded especially sharply in the manufacturing, retail trade and motor trade sectors. By contrast, sentiment among building contractors and the wholesale trade sector improved only marginally.

The stronger growth forecast for 2021 reflects better sectoral growth performances and a more robust terms of trade. Despite rising oil prices and a higher total import bill, commodity prices have risen to new highs, strengthening income gains to the economy. Household spending is expected to be healthy this year, in line with the easing of lockdown restrictions and low interest rates. Getting back to pre-pandemic output levels, however, will take time. Supply responses remain muted in some sectors harder hit by the pandemic. Investment, while stabilizing, remains constrained. Slow progress on vaccinations, limited energy supply and policy uncertainty continue to pose downside risks to growth.

According to South Africa's Revenue Service (SARS), South Africa's trade surplus widened to ZAR54.60 billion (US$3.82 billion) in May 2021 from a revised surplus of ZAR51.25 billion in April,2021. Exports were up 1.50% on a month-on-month basis to ZAR163.51 billion, while imports fell 0.90% to ZAR108.91 billion.

The SARB reported that South Africa's foreign direct investment (FDI) inflows narrowed to ZAR6.10 billion (US$426.00 million) in the first quarter of 2021 from ZAR16.00 billion (US$1.11 billion) in the fourth quarter of 2020. The increase in non-resident parent entities equity investment in domestic subsidiaries more than countered domestic subsidiaries' repayment of loans to non-resident parent entities. Portfolio investments, reflecting a record of buying and selling of securities such as bonds and shares, registered outflows of ZAR6.40 billion in the first quarter of 2021, compared to inflows of ZAR24.10 billion in the fourth quarter of 2020.

** Refer to Appendix 2 for more details on historical inflation and currencies for selected countries*

GLOBAL DEVELOPMENTS

Economic growth

The global economy is set to expand 5.60% in 2021, its strongest post-recession pace in 80 years. This recovery is uneven and largely reflects sharp rebounds in some major economies, most notably the United States, owing to substantial fiscal support amid highly unequal vaccine access. In many Emerging Markets and Developing Economies (EMDEs), elevated COVID-19 caseloads, obstacles to vaccination, and a partial withdrawal of macroeconomic support are offsetting some of the benefits of strengthening external demand and elevated commodity prices.

By 2022, global output will remain about 2.00% below pre-pandemic projections, and per capita income losses incurred in 2020 will not be fully unwound in about two-thirds of EMDEs. The global outlook remains subject to significant downside risks, which include the possibility of large COVID-19 waves in the context of new virus variants and financial stress amid high EMDE debt levels. Controlling the pandemic at the global level will require more equitable vaccine distribution, especially for low-income countries. The legacies of the pandemic exacerbate the challenges facing policy makers as they balance the need to support the recovery while safeguarding price stability and fiscal sustainability. As the recovery becomes more entrenched, policy makers also need to continue efforts toward promoting growth-enhancing reforms and steering their economies onto a green, resilient, and inclusive development path.

The projected recovery follows a severe contraction of 3.50% in 2020, that has had particularly adverse employment and earnings impacts on certain groups. Youth, women, workers with relatively lower educational attainment, and the informally employed have generally been hit hardest. As a result, per capita income catchup with advanced economies could slow or even reverse in many poorer countries. Moreover, per capita income losses incurred in 2020 will not be fully unwound by 2022 in about two-thirds of EMDEs, including 75.00% of fragile and conflict-affected Low-Income Countries (LICs). By the end of 2021, it is expected that about 100 million people across EMDEs will have fallen back into extreme poverty. The pandemic's impact on poverty could reverberate for a prolonged period due to its scarring effects on long-term growth prospects. The pandemic has also exacerbated inequality as it has disproportionately affected vulnerable groups including women, children, and unskilled and informal workers.

Global financial conditions have tightened somewhat, partly reflecting a rise in US bond yields amid increased inflation pressures. Nevertheless, they remain generally supportive, reflecting continued extraordinary policy accommodation by major central banks. Commodity prices have increased markedly, owing to the improving global outlook as well as commodity-specific supply factors. The recovery in global activity and in commodity prices is contributing to an increase in inflation, especially in some EMDEs that have experienced currency depreciation.

Furthermore, the global outlook is clouded by uncertainty and subject to various risks. The continued spread of COVID-19 shows that repeated outbreaks are still possible, especially considering the emergence of new variants that are more virulent, deadly, and resistant to vaccines. Elevated debt levels make the financial system vulnerable to a sudden increase in interest rates, which could stem from a rise in risk aversion, inflation, or expectations of faster monetary tightening. A spike in bankruptcies could damage the banking system, restrict the flow of credit, and trigger credit crunches (Source: IMF & World Bank).

Global Oil Prices

Non-OPEC liquids supply in 2021 has been revised up in June 2021 by 0.13mb/d to average 63.73mb/d. This is mainly on the back of a faster than expected recovery of 2.50mb/d in US crude oil and NGLs from the February winter disruption, with growth now forecast at 0.84mb/d year-on-year. The higher oil supply forecast in Norway, China and Indonesia also supported this revision, although on the flip side there were downward revisions for the UK, Brazil and Colombia. The main drivers for 2021 supply growth are expected to be Canada, Brazil, China, and Norway. OPEC crude oil production in May 2021 was up by 0.39mb/d month-on-month to average

25.46mb/d, according to secondary sources. Non-OPEC liquids output including OPEC NGLs in May 2021 were up by 0.24mb/d month-on-month to average 68.21mb/d, a rise of 4.30mb/d, year-on-year. As a result, world oil supply is estimated to have grown month-on-month in May2021 by 0.63mb/d to average 93.67mb/d, up by 5.63mb/d year-on-year.

Total global oil demand is expected to average 90.6 mb/d in 2021. For 2021, world oil demand growth is kept unchanged at 6.00mb/d, with total oil demand standing at 96.58mb/d. OECD demand is revised slightly lower on an annualized basis, mainly reflecting lower than expected data from OECD Americas and Europe in the first quarter of 2021. However, initial data for April in both regions, as well as positive mobility developments given easing restriction measures and border openings, encouraged an upward revision to second quarter data. This offset most of the downward revision of oil demand in the first quarter of 2021. In the non-OECD countries, oil demand was revised slightly higher, mainly due to positive second quarter data from the Middle East.

The OPEC Reference Basket (ORB) increased to US$3.67 in May 2021, from US$1.32 at US$63.24/b in April 2021, to settle to US$63.24/b (December 2020: US$49.17/b). Year-to-date, the ORB was US$62.16/b or 56.80% higher than the first five months of 2020 which stood at US$39.65. (Source: OPEC).

Currency movements

Exchange-rate movements will be less pronounced this year than last as uncertainty abates. Central banks across advanced economies continue to engage in large-scale asset purchases, and market expectations about the direction of monetary policy will play an important role in currency markets. In particular, The Economist Intelligence Unit forecasts that the quantitative easing (QE) program of the Federal Reserve (Fed, the US central bank) will continue to weigh on the US Dollar for the remainder of this year as rising inflation expectations force investors to seek higher yields outside the US.

The Euro depreciated against the US Dollar in the first quarter of 2021, closing at US$1.17:€1 at end-March as the Euro zone faced another economic contraction. The ultra-loose monetary policy of the Federal Reserve has lifted the Euro exchange rate in the second quarter of 2021 and will continue to do so in the third quarter. However, the EIU forecasts that the Euro will depreciate towards the end of 2021 and throughout 2022 owing to a more protracted economic recovery.

The Renminbi has risen steadily against the US Dollar since the start of the year, closing May at Rmb6.40:US$1. China's successful handling of the coronavirus pandemic, coupled with a robust economic recovery and a neutral monetary policy stance, are supporting the value of the renminbi. However, the rebound of export production in the rest of the world and the resurfacing of US-China tensions may weigh on the Chinese currency in the second half of the year and in 2022.

The Japanese yen depreciated considerably in the first quarter of 2021, reaching ¥110.60:US$1 at end-March. This was caused by a worsened economic outlook in Japan (at a time when the US economy was starting to show signs of a rebound amid a fast rollout of coronavirus vaccines) and by a widening spread between US and Japanese government bond yields. The EIU projects that the Yen will appreciate against the US Dollar in the second half of the year, while remaining below its end-2020 level; economic activity is set to pick up, and the Bank of Japan (the central bank) has limited scope for additional monetary easing.

With a large UK current-account deficit, the value of the British Pound remains dependent on sustained inflows of foreign capital. An exceptionally loose fiscal policy will support the value of the British pound in 2021.

Emerging Market currencies have generally remained flat since the start of the year. Nominal effective exchange rates have appreciated modestly in some emerging markets in Asia, owing to a robust economic recovery, whereas currencies in eastern Europe and in Latin America remain slightly below their end-2020 values amid sluggish economic recoveries. For the remainder of 2021, the EIU projects that there will be greater upside potential for emerging currencies. Decreased risk aversion from international investors and continued large-scale liquidity injections in advanced economies make emerging-market assets more palatable in the short term. A reversal of inter-national capital flows will be a risk in the near future, when central banks in advanced economies, particularly the US, begin to normalize monetary policy (Source: EIU).

Global trade

Recovering from the Covid-19-induced trade shocks will be a policy priority for most countries in 2021. The EIU forecasts that total global trade volumes will recover by 8.00% in 2021, from an estimated contraction of 8.10% in 2020. Stronger than anticipated trade performance in recent months suggests that goods trade volumes will recover to pre-pandemic (2019) levels in the second half of 2021. Service trade levels, however, may not recover to 2019 levels until 2022, amid enduring restrictions on international travel and tourism.

Supply-side factors are a significant area of risk. A global shortage in semi-conductors, driven by a sharp rise in electronics demand (fueled by the shift to remote working), has derailed supply chains across a wide range of industries. Current demand trends, benchmarked against production capacity, suggest that this shortage will last until early 2022, even though some sectors (such as home appliances and electronics) can expect the situation to improve more quickly than others (such as autos). Rising prices of raw material and commodities (on the back of the global economic recovery while logistics bottlenecks have kept global freight rates at historic highs) is another area of risk. Raw and intermediate price surges, which will persist throughout 2021, are eroding corporate margins, and will threaten to derail production even as final demand trends recover this year.

We expect Asia to lead the global trade recovery, with China providing much of this support. However, there are risks to this outlook. A recent resurgence of the COVID-19 pandemic across Asia, compounded by slow regional immunization programs, could derail trade flows in the second half of 2021. Outbreaks in Taiwan and South Korea, both of which are important semiconductor producers, highlight worrying vulnerabilities in the global electronics supply chain. This will add momentum to calls for chip manufacturing reshoring in advanced Western markets, resulting in higher prices of electronic goods.

Trade in Western Europe and North America is expected to recover to pre-crisis levels in 2021 lifted by strong economic stimulus packages. Successful vaccination campaigns will minimize production disruptions, while also allowing consumption to recover (Source: EIU).

Interest Rate Movements

US Libor rates deceased during the first half of 2021 compared to the corresponding period in 2021. The 3 months US Libor decreased to close at 0.146% in June 2021 from an average of 0.238% in December 2020 while the US Libor for 6 months decreased to 0.161% in June 2021 from 0.260% in December 2020. The US Treasury yield (10-year) increased to close at 1.450% in June 2021 from 0.926% recorded in December 2020.US Treasury yields have been falling since March as employment rates increase at a rate slower than expected. Treasury yields have been declining to stimulate consumption and investment to curb the impact of the coronavirus pandemic to induce economic recovery. Although the US economy is on a strong path to recovery, low interest rates, large stimulus expenditure, increased consumption and investment spending hiked the inflation rate above the ±2% benchmark to 5.00% in May 2021, raising fears that interest rates may rise. The US Secretary to the Treasury, stated that the rise in inflation is only transitory as the economy begins to recover from the COVID-19 pandemic and expressed her confidence that US employment and the economy will return to normal by the end of 2021 (Sources: Wall Street Journal & Reuters).

	Jun-21	Dec-20	Jun-20	Change 6 month	Change 12 months
US Fed Rate	0.250%	0.250%	0.250%	0.000%	0.00%
US Libor (3 months)	0.146%	0.238%	0.302%	-0.092%	-0.16%
US Libor (6 months)	0.161%	0.260%	0.369%	-0.099%	-0.21%
US Treasury yield (10 years)	1.450%	0.926%	0.660%	0.524%	0.79%
BOE Rate	0.100%	0.100%	0.100%	0.000%	0.00%
ECB Rate	0.000%	0.000%	0.000%	0.000%	0.000%

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Exchange Rates

The Malawi Kwacha depreciated against all the major currencies in June 2021 as the current account deficit continues to widen resulting in lower forex reserves. The Malawi Kwacha depreciated against the US Dollar by 4.60% in the first two quarters of 2021, from K770.84/US$ in December 2020 to K805.59/US$ in June 2020.

A large current-account deficit will continue to exert downward pressure on the Kwacha throughout 2021. However, the pace of currency depreciation will be moderated by increasing foreign investment inflows and export earnings from the agricultural sector. The EIU forecasts the annual average value of the kwacha to be K773.83/US$ at the end of 2021. However, despite the favorable outlook the EIU forecasts the currency will further depreciate from K773.83/US$ in 2021 to MK816.7:US$1 by 2025 (Source: EIU)

POSSIBLE IMPACT: *The depreciation of the Kwacha is expected to moderate in the short run. However, high demand for foreign exchange as the import bill rises, may continue to exert pressure on the kwacha, resulting in further depreciation.*

Inflation

The headline inflation rate (year on year) for June 2021 is 9.10%, an increase from 8.90% recorded in May 2021 (June 2020: 8.50%). The national month-to -month inflation rate for June 2021 is -0.20%. This was mainly attributed to an increase in food inflation from 11.00 to 11.10% and non-food inflation from 7.10% to 7.20% (May 2021: food inflation 11.00% and non-food inflation 7.10%). The average retail prices of maize increased by 1.00% in June 2021, resulting in an increase in food inflation. However, prices in some markets, especially in the North, decreased due to a late harvest compared to the Center and the South of Malawi. Non-food inflation continued to rise mainly due to an increase in the price of transportation.

The Reserve Bank of Malawi expects inflation to remain in the single digit band during the first half of 2021 and beyond, with its monetary policy stance pointing towards economic stability. According to its April Monetary Policy Report, the the Reserve Bank of Malawi revised upwards its 2021 headline inflation projection from 7.80% to 8.40%. In terms of quarterly profile, inflation is projected to close at 8.90% in the fourth quarter of 2021. These developments are attributed to increased fuel prices, exchange rate depreciation, increase in electricity tariffs, and fiscal slippage. The headline inflation for 2022 has also been revised upwards to average 7.90% from 7.60% (Source: RBM).

The EIU forecasts that between 2021 and 2025 inflation will be driven by rising global fuel prices and a recovery in private consumption, which will be supported by higher disposable income stemming from growing agricultural output. An accommodative monetary policy stance in 2021 will also contribute to inflationary pressures. Although the kwacha will continue to depreciate alongside firmer domestic demand in the latter part of the forecast period, monetary tightening should help to contain inflationary pressures. However, risks to this forecast, which could lift inflation above forecast levels, include adverse weather, pest related crop destruction and a sharper than expected depreciation of the kwacha (Source: EIU)

POSSIBLE IMPACT: *High inflation rates raise the cost of investment thereby hampering private sector growth. Alternatively, lower inflation rates may lead to reduced interest rates which could increase private sector investments and disposable income for expenditure.*

External Sector

Merchandise trade for April 2021 resulted in an estimated trade deficit of US$204.70 million (K164.20 billion), worse than a deficit of US$156.90 million (K124.30 billion) recorded in March 2021 (April 2020: US$113.90 or K85.80 billion. The deterioration was attributed to a decrease in export proceeds amid an increase in imports bill. Specifically, exports declined by 44.20% to US$42.20 million (K33.50 billion) in April 2021 from of US$75.60 million (K59.40 billion) in March 2021. During the same period, imports rose by 6.20% to US$246.90 million (K197.70 billion) from

US$232.50 million (K183.60 billion) in March 2021 (Source: RBM).

Prospects for the near-term indicate that the trade balance could improve, mainly due to an increase in exports following the opening of the agricultural marketing season and a seasonal decline in imports of agricultural inputs.

Overall, Malawi's terms of trade are expected to deteriorate in 2021. On average, exports prices are expected to be lower than those of imports. Tobacco prices are higher in 2021 compared to 2020 prices. The current demand for tobacco, at 132.30 million kgs, higher than the estimated crop size of 124.30 million kgs. However, oil prices are projected to rise by an annual average of 42.00% to US$58.50 per barrel in 2021 and to remain above US$50.00 per barrel over the medium-term. Fertilizer prices are also projected to increase in the short to medium term while maize prices fell between 17.00% and 35.00% on average by June 2021. Demand for foreign exchange remains high. Electricity tariffs are expected to remain constant in the third quarter of 2021. Domestic pump prices may rise further in the third quarter of 2021. The merchandise trade balance is expected to worsen in 2021 signaling weak economic recovery. (Source: RBM).

According to the EIU, the current account deficit has traditionally been large (averaging just under 19% of GDP in the past decade) and will remain sizeable between 2021 and 2025. This mainly reflects a large merchandise trade deficit, owing to Malawi's dependence on fuel and capital imports. Although export earnings are forecast to increase in 2021-25, amid a gradual recovery in external demand, import spending will also pick up, especially in the manufacturing and construction sector, where global prices for inputs are on the rise. Increased export volumes of agricultural products, mainly tea and soybeans and tobacco will keep export earnings on an upward trajectory, supported by higher global prices. A more diversified export basket will also shield earnings from global price volatility. As a share of GDP, the EIU expects that trade deficit will narrow gradually throughout the forecast period as export growth outpaces rising import spending from 2021 as economic growth quickens and work commences on capital projects, particularly in the energy sector.

The services account deficit widened in 2020 and is only forecast to moderate from 2022 as service receipts from tourism increase. The deficit on the primary income balance reflects profit repatriation by the mining sector and is also expected to remain flat before widening slightly as coal mining picks up. The secondary income surplus, after widening to an estimated 9.20% in 2020 (reflecting increased current transfers to support the government's efforts to combat the pandemic), is expected to narrow in 2021-25, reflecting a decline in aid inflows.

The current-account deficit is forecast to widen from an estimated 16.90% of GDP in 2020 to 19.60% of GDP in 2021, remaining relatively stable in 2022-23. Thereafter, the current-account deficit will narrowly slightly, to 18.80% in 2025, as oil prices decline. The EIU expects that deficits will be financed primarily by project-related grants (some of which, in line with the IMF's International Financial Statistics, appear in the capital account) and concessional borrowing. The World Bank noted that lifting the maize export ban was an encouraging step that will support exports in 2021; a sustainable increase in exports will require a consistent, transparent and predictable increase in trade openness which can help increase investment in the medium term. On the other hand, the implementation of export mandate regulations for a number of agricultural commodities could increase the cost and administrative burden of exporting, thereby potentially increasing informal exports (Source: World Bank & EIU)

To boost commerce and trade, the government completed the development of the National Export Strategy II (2021-2026) to increase exports as a percentage of GDP from 14.60% to 18.00%. Secondly, Malawi submitted its instrument of ratification of the African Continental Free Trade Area (AfCFTA) treaty in January 2021. To fulfil the commitments made under this Treaty, the country will be reducing duty rates for imports from countries within the AfCTA. The government does not expect a huge revenue impact from this move considering that the country already trades with most countries in the AfCTA on a duty-free basis through the COMESA and SADC treaties. On the upside, Malawi will have access to a wider market for its imports and exports (Source: 2021 SONA, Ministry of Finance)

POSSIBLE IMPACT: *Higher export earnings increase the inflow of foreign exchange. Increased* *foreign reserves can therefore be used by the central bank to stabilize the domestic currency.*

Monetary Policy

The Monetary Policy Committee (MPC), at its second meeting of 2021 held on 28 and 29 April, maintained the Policy rate at 12.00%; 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. In arriving at this decision, the MPC considered the need to support and sustain economic recovery, while at the same time managing upside risks to the inflation outlook. (Source: RBM).

Following a moderation in inflation in 2020, and a significant estimated slowdown in economic activity induced by the coronavirus pandemic, the Reserve Bank of Malawi (RBM, the central bank) in November slashed its benchmark policy rate by 150 basis points to 12.00%. The Economists Intelligence Unit (EIU) expects that the authorities will maintain their accommodative stance throughout 2021 and to hold the rate at 12.00% to support a domestic recovery. Given that inflation remains above the RBM's target (5.00% ±2 percentage points) and that the exchange rate has been depreciating, there is little scope for further easing, even if domestic demand remains weak. The RBM is then expected to adopt a tightening stance from 2022-25 as inflationary pressures build on the back of rising global oil prices and improved consumer sentiment (Source: EIU).

POSSIBLE IMPACT: *Low lending rates reduce the cost of borrowing which stimulate private sector activity, resulting in economic growth. However, low lending rates increase the money supply as people demand more loans, resulting in increased inflation.*

International Relations

Given repeated allegations of corruption and persistent institutional weakness, grants from international donors to Malawi have declined in recent years. Consequently, the government has been seeking external support from non-traditional partners, including China and India, which are expected to increase their economic presence in Malawi. China is providing some of the finance for a coal-fired power plant that is being built by Chinese companies at Kammwamba in southern Malawi (Source: EIU).

The World Bank approved $30.00 million in additional financing to support Malawi in the acquisition and deployment of safe, affordable and effective COVID-19 vaccines. This is an additional financing for the Malawi's COVID-19 Emergency Response and Health Systems Preparedness project bringing the World Bank contributions to the country's health sector COVID-19 response and vaccination efforts to a total of $37.00 million. The additional financing will mostly go towards the procurement and deployment of eligible COVID-19 vaccines to cover an estimated eight percent of the population by December 2023. The additional funds will accelerate the Government of Malawi's ongoing efforts to deploy COVID-19 vaccines and strengthen the national systems for public health preparedness (Source: World Bank).

POSSIBLE IMPACT: *External support is improving infrastructure development and Human capital development to enable the Malawi 2063 vision to come into fruition. Increased support is also increasing the availability of foreign exchange, which is key to stabilize the kwacha as foreign reserves rise.*

Fiscal Policy

The Treasury has released the proposed 2021/2022 budget statement. The Ministry of Finance has stated that the 2021/2022 budget was formulated amidst some uncertainties due to the Covid-19 pandemic. However, unlike the previous budget, which was implemented at the peak of the pandemic, prospects for this budget are brighter, although risks from the third wave remain high as new variants emerge.

The Malawi Revenue Authority (MRA) collected K1.108 trillion against the K1.079 trillion exceeding the 2020/21 budget revenue target by K28.7 billion buoyed by a strong revenue performance in the fourth quarter of 2020.

In the 2021/2022 budget statement, the ministry has outlined that the government will implement fiscal consolidation initiatives, including enhancement of external mobilization, public expenditure efficiency, increasing the tax net to include the informal sector and engage external creditors for debt relief. Government expects revenue performance will remain subdued in the short term but is expected to rebound as the economy gradually recovers. Pressure on expenditure will however continue in the short to medium term on account of continued need for resources to adequately respond to the consequences of the pandemic. Further, resources will be required for investment to recover and build resilience against future shocks to the economy.

The 2021/2022 overall balance is estimated at a deficit of K718.30 billion, which is 7.00% of the rebased GDP (2020/2021 fiscal budget: K811.00 billion, 8.80% of GDP). This deficit will be financed through foreign borrowing amounting to K134.80 billion and domestic borrowing amounting to K583.50 billion, or 5.70% of the rebased GDP. Consequently, high domestic borrowing, results in real sector crowding out effects and higher interest rates. Total expenditure for the 2021/2022 fiscal year is estimated at K1.990 trillion, 19.40% of GDP, representing a drop from 25.50%of GDP during the 2020/2021 fiscal year. Total revenue and grants for the nine months of the 2021/2022 fiscal year are estimated at K1.271 trillion, representing 12.40% of GDP. Domestic revenues are estimated at K1.101 trillion, of which tax revenues are estimated at K1.044 trillion, representing, 10.20% of GDP. Other revenues have been estimated at K56.90 billion. Grants are estimated at K170.30 billion, representing a 1.70% of GDP. This comprises K58.40 billion from foreign Governments and K111.90 billion from international organizations in form of dedicated and project grants. The budget has been developed using the ministries projections of real GDP growth rates of 3.80% in 2021 and 5.40% in 2022; average inflation rate of 7.40% during the fiscal year; a stable exchange rate of about K780.00 per US Dollar; a policy rate of 12.05; and tax refunds at 3.00% of total tax revenue collection. However, the Ministry's projections are slightly more optimistic than the Reserve Bank of Malawi (RBM), which projected a higher average inflation rate of 8.40% in 2021.

The African Development Bank has projected that Malawi's fiscal deficit will widen to 10.20% in 2021, raising the debt-to-GDP ratio to 66.00% in 2021. This projection is based on fiscal overruns due to revenue underperformance. Meanwhile, the IMF projects the debt to GDP ratio to reach 76.78% in 2021, resulting from the ongoing impacts of the COVID-19 pandemic. Despite, a lower deficit in the 2021/2022 budget, compared to the 2020/2021 fiscal budget, the level of debt stock is increasing. Malawi's debt levels are currently rated as moderate risk by the IMF, however if the debt stock continues to rise, the risk rating could be adjusted upwards to high risk. The probability of reaching a risk rating of 'debt distress' like its SADC counterparts Zambia and Zimbabwe, is highly unlikely as the government implements fiscal consolidation initiatives to correct imbalances in the macroeconomy. The outcome of new development projects may service debt interest in the long term, resulting in lower interest rates and higher economic growth. Revenues are being affected by the pandemic's impact on growth as well as personal income tax reductions. Grants from bilateral partners may also be affected as countries refocus their resources to support their own economies. Meanwhile, pressures to continue spending for pandemic response are expected to continue. With continued domestic borrowing combined with exchange rate depreciation increasing external debt in local currency terms. Public debt and interest expenses are likely to increase. The Malawi Revenue Authority (MRA) is upbeat about meeting the budget targets by implementing the block management system to improve compliance and Msonkho online to increase efficiency in tax payments. Despite MRA's ambitious revenue collection projections, the EIU projects that a higher allocation for the AIP (despite criticism from the IMF) and the healthcare sector (with increased expenditure on coronavirus vaccines) will keep spending elevated. Meanwhile, an extension of tax reliefs provided in 2020/2021 and new tax exemptions including the suspension of value added tax (VAT) on healthcare and pharmaceutical imports and certain agricultural inputs, and a 20.00% cut in VAT of beer will continue to constrain revenue growth in 2021/2022.

The Economic Intelligence Unit (EIU) expects the government to implement some subsidy reforms that will be according to its agreement with the International Monetary Fund (IMF), which will reduce expenditure as a percentage of GDP from 2021/22. Assuming that current spending is reined in as the IMF recommends, the EIU expects the fiscal deficit to contract gradually, to 8.00% of GDP in 2024/25 (Source: AfDB, World Bank, EIU, MoF)

Economic Growth

Various institutions have revised their projections for the Malawian economy and based on these revised projections the economy will grow by an estimated average of 2.78% in 2021 and 5.10% in 2022. See table below:

Real GDP Growth Projections				
	2019	2020	2021	2022
EIU	4.10%	-1.00%	2.30%	4.00%
IMF	4.00%	0.60%	2.20%	6.00%
WORLD BANK	4.40%	1.00%	2.80%	5.30%
GOVERNMENT	5.10%	0.90%	3.80%	
Average Real GDP	**4.40%**	**0.38%**	**2.78%**	**5.10%**

The government of Malawi has revised its forecasts for the country's economic growth upwards from 3.50% to 3.80% in 2021. This is slightly higher than the projections made by other institutions on economic growth rate of 2021. The International Monetary Fund (IMF) and EIU stand at 2.20% and 2.30% respectively, while the World Bank stands at 2.90%. The Government's revision was made due to increased agricultural production, after a good harvest season resulting from above normal rainfall and the Agricultural Inputs Program (AIP) and global spillover effects from increased global demand. The AIP reached 3.80 million households, increasing maize production to 4.60 million MT, 42.60% above the five-year average of 3.10 million MT, resulting in a domestic surplus of 1.10 million MT. However, sluggish vaccine availability and uptake will continue to necessitate social distancing policies and perpetuate risks of new waves of infection, which will weigh on growth in the services and industry sectors. As a result, Malawi continues to remain on the red list for most travelers impacting the aviation and tourism industry. Although easing restrictions has improved domestic tourism, there is a possibility that new restrictions will continue to hamper the services sector that saw a loss of 300,000 jobs in 2020 as a result of the impacts of COVID-19.

According to the World Bank's Malawi Economic Monitor (MEM) released in June 2021, looking toward 2022 and beyond, continued universal fertilizer subsidies are unlikely to lead to another boost to maize production and will not help diversify growth. Instead, the risks of the AIP will heighten with time, as it depletes fiscal space and diverts resources from badly needed investment in economic diversification. As maize production is still vulnerable to weather shocks, the risks of losing the considerable expenditure on AIP with a drought will increase by the year. This combines with the main export of tobacco projected to decline in the medium term. While mining could support growth, development of the sector should be informed by realistic expectations in terms of job creation, and resources would need to be carefully managed (Source: World Bank)

In the second quarter of 2021 COVID-19 cases increased as new variants emerge and a shortage of vaccines continues to pose downside risks to economic growth. As at 30 June 2021, Malawi had 1,529 active cases, up from 335 active cases recorded as at 31 May 2021. Regarding the impact of the rollout of COVID-19 vaccines, the Economist Intelligence Unit projects that there will be no immediate return to normalcy for Malawi in 2021. However, the rollout of effective vaccines means that a path to normality will gradually become clearer over 2022. In the meantime, the EIU expects continued local outbreaks of coronavirus cases and the repeated imposition of strict social measures to remain an important subject for Malawi over much of 2021-22 (Source: EIU, IMF, World Bank, Malawi Government).

Despite the recovery in the global economy, Malawi's economic outlook faces considerable downside risks. The impact of the COVID-19 pandemic, weather shocks, low vaccine uptake, vaccine shortages and fiscal slippages. However, the agricultural marketing season projects a gradually favorable economic outlook in the short to medium term.

POSSIBLE IMPACT: *Higher growth rates of the economy will result in increased employment rates, improved government finances, higher incomes, increased development expenditure and reduced poverty.*

ECONOMIC RISKS

ECONOMIC RISK	IMPACT ON ECONOMY	MITIGATING MEASURES
Coronavirus Pandemic	1. Unbudgeted government expenditure putting pressure on fiscal discipline. 2. Increases in commodity and service prices e.g. transportation. 3. Loss of human capital as result of death and illness. 4. Disruptions in supply chains. 5. Rising income inequality. 6. Rising unemployment especially in tourism sector.	1. Sensitising people on the dangers of the virus and practice social distancing and wearing masks.
Increase in government debt	1. Creates a future obligation for government which may keep the budget deficit large. 2. Crowds out the private sector, reducing the expansion of the private sector as funds are not available.	1. Reduce government expenditure by tightening fiscal policy. 2. Increase government revenue base to finance debt. 3. Ensure tax compliance
Global tobacco lobby (anti-smoking)	1. Decline in demand for Malawi tobacco and services from supporting industries resulting in lower commodity prices. 2. Reduction in export earnings (tobacco accounts for 60% of Malawi's export earnings). 3. Reduced employment opportunities in the tobacco and supporting industry. 4. Lower income for farmers- small holder and commercial.	1. Diversify into other sectors such as mining and cotton etc. 2. Engage in aggressive tourism marketing and investment.
Insufficient power supply	1. Commercial productivity remains small scale as large-scale enterprises are difficult to implement with limited power supply. 2. Low industrial productivity in the manufacturing sector resulting in low economic productivity and dampening economic growth. 3. Deferment of development by investors due to lack of infrastructure	1. Encourage use of energy saver bulbs. 2. Rehabilitate and develop new power plants. 3. Public-Private Partnerships to enhance energy production through alternative power sources. 4. The entrance of Independent Power Producers (IPPs) may help boost power generation.
High population growth rates	1. Reduced per capita income. 2. Over-crowding on public resources. Resources which could have been allocated to more productive activities are used to take care of the growing population.	1. Civic education to raise awareness on the need to have less children.

Uncertainty in the external environment Uncertainty in the external environment	1. Dampening export demand for major export commodities i.e. tobacco, tea, cotton and sugar. 2. Declining investor interest in Malawi resulting in fewer investments, hence less foreign currency coming into the country. 3. Declining remittances from abroad, hence contributing to lower forex levels. 4. Reduced access to foreign capital, hence financing not available or difficulties in accessing letters of credit. 5. Impaired growth and Balance of Payments (BOP) due to declining exports and low foreign investments. 6. Decline in tourism levels leading to lower forex revenues.	1. Diversification of export base of products. 2. Diversify away from agricultural production, focus more on value added goods, manufacturing and service sector products where the country has a comparative advantage.

APPENDIX

Appendix 1: Selected economic indicators for Malawi (RBM, MSE, MERA, NSO)

	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	M-O-M movement	Y-O-Y
MK : US$	741.38	743.05	744.74	748.52	751.37	755.33	741.68	770.84	771.20	780.13	784.10	792.08	796.89	-0.61%	-6.88%
MK : GBP	920.44	924.12	994.33	997.92	963.63	974.45	959.02	1,050.57	1,057.32	1,087.27	1,077.67	1,104.32	1,128.49	-2.19%	-16.92%
MK : ZAR	43.14	44.02	46.19	45.07	44.23	49.78	50.49	52.83	50.69	52.08	52.58	55.33	57.80	-4.46%	-17.42%
MK : EUR	833.38	845.25	903.26	891.19	880.90	882.15	817.23	947.90	933.54	948.17	919.20	959.37	970.08	-1.12%	-17.88%
Forex reserves (Source: RBM)															
Gross Official Reserves (US$'mn)	662.98	682.66	651.41	642.86	546.99	635.05	584.89	574.26	502.98	483.38	410.16	392.01	414.40	5.71%	50.08%
Private Sector Reserves	324.96	327.01	342.01	316.74	318.47	340.22	332.52	377.97	358.29	340.50	342.58	392.61	369.64	-5.85%	-22.38%
Total Reserves (US$'mn)	987.94	1,009.67	993.42	959.60	865.46	975.27	917.41	952.23	861.27	823.88	752.74	784.62	784.05	-0.07%	29.06%
Total Import Cover (months)	4.72	4.83	4.76	4.60	4.14	4.67	4.39	4.56	4.12	3.94	3.60	3.76	3.14	-16.49%	28.92%
Inflation (NSO)															
Headline Inflation	9.40	8.70	8.50	8.00	7.60	7.10	7.50	7.30	7.60	7.70	8.30	9.20	9.20	0.00%	-16.36%
Food	14.60	13.70	13.40	12.20	11.30	10.30	10.90	10.40	10.50	9.70	10.30	11.50	11.50	0.00%	-32.35%
Non Food	5.00	4.50	4.50	4.40	4.40	4.40	4.40	4.40	4.90	5.60	6.30	7.00	7.00	0.00%	29.63%
Interbank Rates (Source: RBM)															
Monetary Policy Rate	13.50%	13.50%	13.50%	13.50%	13.50%	13.50%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	0.00%	11.11%
Average Interbank Rate	13.48%	13.49%	13.58%	13.59%	13.61%	13.62%	12.58%	11.41%	11.34%	10.65%	11.38%	11.72%	11.92%	1.68%	11.68%
Average Base Lending Rates	13.30%	13.40%	13.40%	13.60%	13.60%	13.60%	12.30%	12.10%	12.00%	12.00%	12.00%	12.00%	12.00%	0.00%	10.45%
Treasury Bill Yields (Source: RBM)															
91 day Treasury Bill Yield	7.67%	7.58%	7.54%	7.50%	9.85%	9.97%	9.95%	9.95%	6.63%	9.95%	9.95%	9.88%	9.96%	0.08%	2.21%
182 day Treasury Bill yield	8.46%	10.00%	11.35%	12.22%	12.55%	12.59%	12.87%	12.73%	12.49%	12.57%	12.80%	12.77%	12.80%	0.03%	4.31%
364 day Treasury Bill yield	12.44%	12.73%	13.10%	13.61%	13.73%	13.75%	13.88%	13.40%	13.53%	13.60%	13.77%	13.79%	13.85%	-0.02%	2.84%
Stock Market Indices (Point) (Source: MSE)															
MASI	28,501.97	29,784.70	29,851.63	31,328.10	31,743.36	31,303.78	31,232.57	32,392.84	32,988.58	33,009.75	32,562.96	33,380.63	22,676.89	-2.45%	15.63%
DSI	23,780.75	25,117.92	25,360.04	26,732.01	27,101.51	26,787.57	26,723.84	27,755.46	28,090.02	28,108.19	27,710.72	28,257.89	28,376.03	-1.94%	17.21%
FSI	1,993.51	1,757.76	1,535.30	1,460.99	1,460.99	1,362.39	1,362.89	1,363.88	1,613.58	1,614.45	1,614.33	1,844.72	2,030.51	-12.49%	-7.46%
Fuel Prices per Litre (Source: MERA)															
Petrol	690.50	690.50	690.50	690.50	690.50	690.50	690.50	834.60	834.60	834.60	834.60	834.60	834.60	0.00%	-10.26%
Diesel	664.80	664.80	664.80	664.80	664.80	664.80	664.80	826.40	826.40	826.40	826.40	826.40	826.40	0.00%	-10.56%
Paraffin	441.70	441.70	441.70	441.70	441.70	441.70	441.70	613.20	613.20	613.20	613.20	613.20	613.20	0.00%	-13.63%

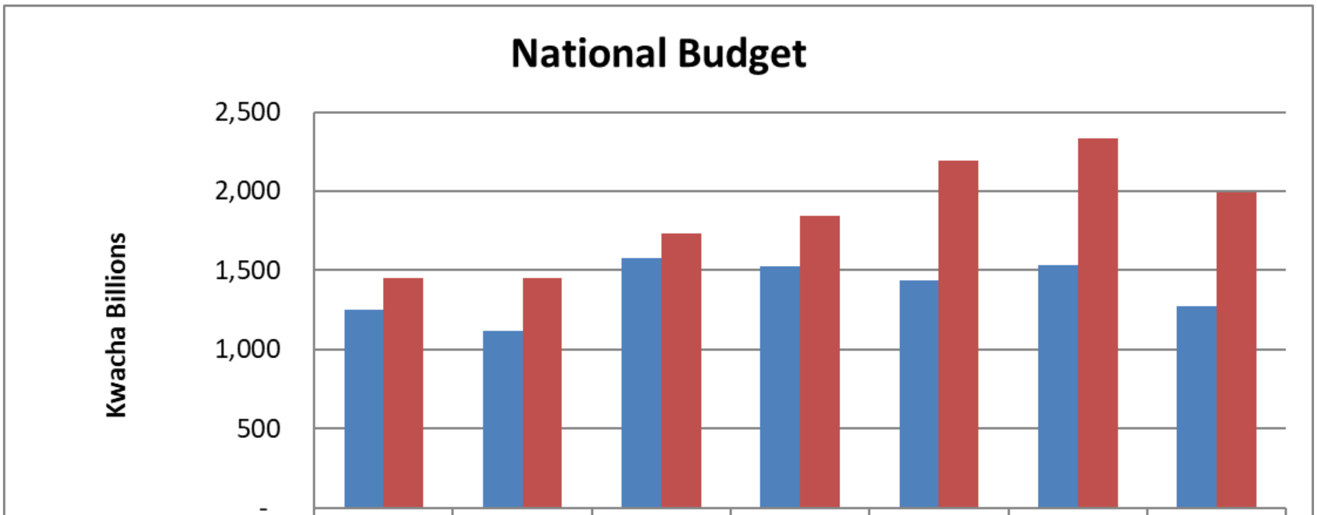
Appendix 2: Selected economic indicators for Tanzania, Uganda, Zambia and Mozambique

	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21
TANZANIA														
Exchange rate														
US$	2,291.28	2,291.90	2,296.51	2,297.84	2,297.62	2,297.63	2,297.68	2,297.67	2,298.45	2,298.46	2,298.53	2,298.52	2,318.48	2,298.59
GBP	2,844.74	2,833.13	2,832.29	2,980.18	3,059.51	2,956.82	2,994.45	3,067.85	3,127.74	3,137.52	3,254.96	3,159.90	3,197.30	3,254.70
ZAR	124.33	131.01	133.15	139.37	137.68	135.67	142.62	150.55	157.25	150.82	156.32	153.84	160.83	166.21
EUR	2,484.78	2,552.60	2,588.75	2,695.60	2,737.62	2,698.95	2,714.71	2,743.19	2,820.90	2,783.21	2,807.20	2,698.01	2,811.64	2,791.87
Inflation %	3.30	3.20	3.20	3.30	3.30	3.30	3.10	3.00	3.20	3.50	3.30	3.20	3.30	3.30
UGANDA														
Exchange rate														
US$	3,811.29	3,784.79	3,730.33	3,686.42	3,677.57	3,715.78	3,740.78	3,699.17	3,679.35	3,689.52	3,665.78	3,662.30	3,543.28	3,543.28
GBP	4,739.82	4,624.06	4,595.70	4,772.98	4,850.40	4,771.77	4,860.68	4,930.91	5,003.86	4,147.39	5,169.62	5,043.80	4,975.68	4,975.68
EUR	4,130.14	4,154.09	4,179.17	4,324.01	4,335.76	4,326.71	4,395.75	4,403.25	4,529.05	4,460.79	4,443.91	4,308.08	4,286.50	4,286.50
Inflation %	3.20	2.80	4.10	4.70	4.60	4.50	4.50	3.70	3.60	3.70	3.80	4.10	2.10	2.10
Central Bank Rate %	8.00	8.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00
ZAMBIA														
Exchange rate														
US$	18.62	18.31	18.14	18.26	19.51	20.02	20.42	21.01	21.17	21.41	21.80	22.09	22.45	22.54
GBP	23.29	22.62	22.32	24.02	26.01	25.72	26.47	28.04	28.92	29.41	30.39	30.40	30.91	31.91
ZAR	1.03	1.05	1.04	1.08	1.16	1.19	1.25	1.38	1.44	1.42	1.46	1.50	1.55	1.64
Inflation %	15.70	16.60	15.90	15.80	15.50	15.50	16.00	17.40	19.20	21.50	22.20	22.80	22.70	23.20
Bank rate %	11.50	9.25	9.25	9.25	9.25	9.25	8.00	8.00	8.00	8.00	8.50	8.50	8.50	8.50
MOZAMBIQUE														
US$	67.78	69.70	70.32	70.82	71.57	72.57	73.44	74.65	74.94	75.15	73.57	55.61	59.18	62.99
ZAR	3.74	4.10	4.20	4.23	4.26	4.37	4.83	4.98	4.85	5.10	4.94	3.90	4.22	4.57
EUR	73.75	78.76	79.72	83.30	85.00	85.28	87.20	90.68	91.10	90.62	87.69	67.10	72.10	76.29
Inflation%	3.30	3.02	3.00	2.70	2.80	3.00	3.20	3.27	3.14	4.09	5.10	5.76	5.19	5.49

(Source: Bank of Zambia, Bank of Tanzania, Bank of Mozambique, Bank of Uganda)

Appendix 3: Budget Framework (Source: Ministry of Finance)

K'Billion	2018/2019 (Approved)	2018/2019 (Revised)	2019/2020 (Proposed)	2019/2020 (Revised)	2020/2021 (Proposed)	2020/2021 (Revised)	2021/2022 (Proposed)
Total Revenues	**1,249**	**1,121**	**1,575**	**1,527**	**1,435**	**1,523**	**1,271**
Domestic revenues	1,052	1,006	1,425	1,352	1,179	1,186	1,101
Grants	197	115	150	175	256	338	170
Budgetary support							
Earmarked grants							
Total Expenditure	**1,455**	**1,452**	**1,737**	**1,842**	**2,190**	**2,335**	**1,990**
Reccurent expenditure	1,120	1,160	1,299	1,371	1,679	1,719	1,419
Wages & Salaries	394	399	443	466	524	542	436
Interest on debt	183	224	244	244	376	376	300
Investment Expenditure	335	292	438	471	511	616	571
Deficit/Surplus	**(206)**	**(331)**	**(162)**	**(315)**	**(755)**	**(811)**	**(718)**
Deficit as a % of Revenue	**-16%**	**-30%**	**-10%**	**-21%**	**-53%**	**-53%**	**-57%**



	2018/2019 (Approved)	2018/2019 (Revised)	2019/2020 (Proposed)	2019/2020 (Revised)	2020/2021 (Proposed)	2020/2021 (Revised)	2021/2022 (Proposed)
Total Revenues	1,249	1,121	1,575	1,527	1,435	1,532	1,271
Total Expenditures	1,455	1,452	1,737	1,842	2,190	2,335	1,990

Appendix 4: Central Government Budgetary Operations in billions of Kwacha (Source: RBM)

Table 3: Central Government Budgetary Operations (MK' billion)

	2020									2021			
	April	**May**	**June**	**July**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**April**
Total Revenues	**112.8**	**78.6**	**106.7**	**107.8**	**103.3**	**102.7**	**127.3**	**93.7**	**149.7**	**103.9**	**100.0**	**130.8**	**149.5**
Domestic Revenues	88.0	76.0	97.8	100.1	80.2	86.5	101.0	83.6	95.4	97.9	79.2	114.4	137.6
Tax Revenue	82.9	73.0	81.4	93.9	77.1	82.4	96.7	78.4	92.3	95.0	74.4	93.4	104.3
Non Tax revenue	5.1	3.1	16.4	6.1	3.0	4.1	4.3	5.2	3.0	2.9	4.8	21.0	33.3
Departmental receipts	3.0	2.8	1.3	4.0	1.3	2.2	2.4	4.4	2.5	2.1	3.1	2.9	1.8
Other Receipts	2.1	0.3	15.1	2.1	1.7	1.8	2.0	0.8	0.6	0.8	1.6	18.1	31.5
Grants	24.8	2.6	8.9	7.7	23.2	16.2	26.2	10.1	54.4	6.0	20.8	16.3	11.9
Total Expenditures	**175.7**	**133.9**	**140.1**	**143.0**	**111.2**	**125.8**	**132,5**	**179.4**	**231.9**	**192.9**	**143.7**	**218.8**	**130.4**
Recurrent Expenditure	145.7	117.3	107.9	117.2	101.3	110.4	115.9	164.0	213.1	180.8	125.4	200.7	117.5
Interest Payments	29.3	24.5	18.4	8.4	6.9	34.8	25.8	10.1	52.4	29.9	16.3	48.0	28.2
Domestic	27.4	24.0	17.8	8.1	5.8	31.5	23.5	9.8	51.1	29.7	14.5	45.0	26.5
Foreign	1.9	0.5	0.6	0.3	1.2	3.2	2.2	0.4	1.3	0.2	1.7	3.0	1.7
Development	30.0	16.6	32.2	25.8	9.9	15.5	16.6	15.4	18.7	12.0	18.3	18.1	12.9
Deficit/Surplus	**-62.9**	**-55.3**	**-33.4**	**-35.3**	**-7.9**	**-23.1**	**-5.2**	**-85.7**	**-82.2**	**-89.0**	**-43.7**	**-88.1**	**19.1**
Financing (net)	62.0	58.6	55.8	44.8	52.9	82.9	-37.2	71.6	95.7	49.5	34,7	144.7	-38.3
Foreign	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	62.0	58.6	55.8	44.8	52.9	82.9	-37,2	71.6	95.7	49.5	34.5	144.7	-38.3
Banking System	62.2	76.9	72.6	-30.0	21.8	80.0	-70.3	50.7	95.3	51.7	15.6	126.5	-32.7
Non-Bank Sector	-0.2	-18.3	-16.7	74.8	31.1	2.9	33.1	20.9	0.4	-2.2	18.9	18.2	-5.6
Errors and Omissions	-0.9	3.3	22.5	9.2	45.0	59.7	-42.2	-14.1	13.5	-39.5	-9.2	56.7	-19.2

Source: Reserve Bank of Malawi

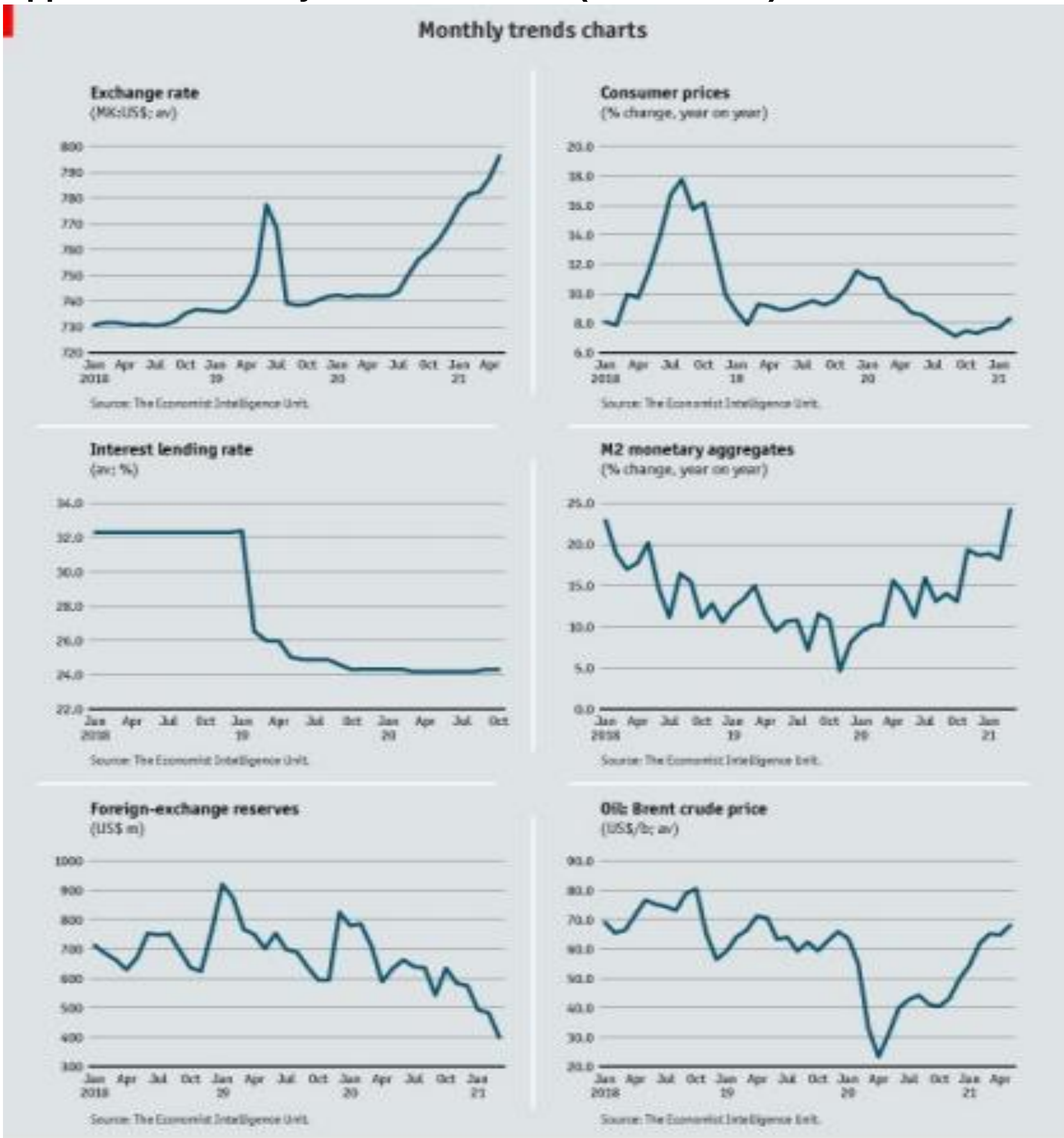
Appendix 5: Malawi selected Economic indicators (Source: RBM)

Table 8: Selected Economic Indicators (in MK' billion, unless otherwise stated)

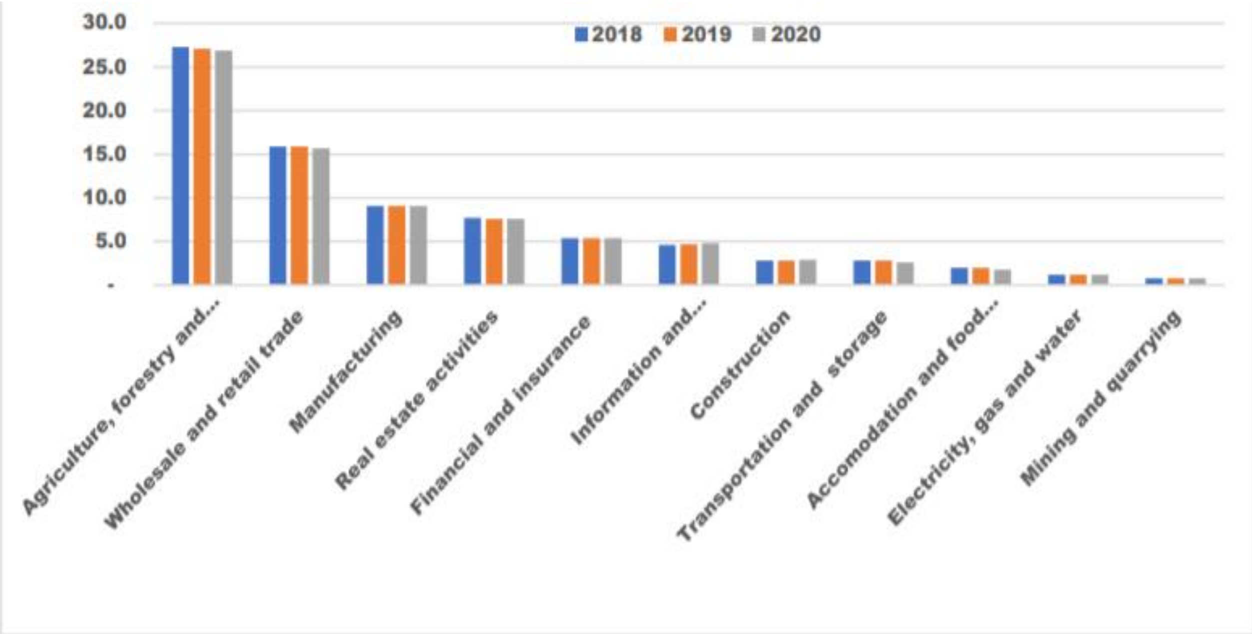
	2013	2014	2015	2016	2017	2018	2019	2020	2020 Apr	2021 Apr
Real Sector[3]										
Population (million)	15.3	15.8	16.3	16.8	17.4	17.9	18.5	19.1	19.1	19.5
GDP at current market prices	1,924.1	2,534.5	3,212.7	3,812.6	4,631.9	5,266.3	8,098.5	8,816.2	8,816.2	10,601.1
Real GDP growth (percent)	6.3	6.2	3.3	2.7	5.1	4.0	5.1	0.9	0.9	3.8
GDP per capita (K'000)	133.6	160.4	197.1	226.9	266.6	293.7	437.8	461.6	461.6	499.1
GDP per capita (US$)	361.9	378.0	394.5	318.1	365.1	401.0	592.2	615.8	615.8	601.4
Consumer Price Index (CPI)[4]	127.3	157.6	192.0	233.7	260.7	104.7	114.5	124.4	121.6	132.8
Year-on-year inflation rate (percent)	27.3	23.8	21.9	21.7	11.5	9.2	9.4	8.6	9.4	9.2
Fiscal Sector										
Total Revenue	476.4	535.9	661.3	810.0	946.6	1,079.1	1,208.5	1,302.0	112.8	149.5
Domestic Revenues	373.0	483.0	614.2	742.0	858.7	988.6	1,058.5	1,096.0	88.0	137.6
Grants	103.4	52.9	47.1	67.0	87.9	90.5	145.0	206.1	24.8	11.9
Total expenditure	539.3	593.1	762.7	964.3	1,136.1	1,316.7	1,446.2	1,804.4	175.7	130.4
Recurrent	459.9	534.4	667.2	832.5	973.1	1,119.9	1,241.9	1,557.0	145.7	117.5
Development	79.4	58.7	95.5	131.8	163.0	196.9	204.3	247.4	30.0	12.9
Deficit/GDP ratio (after grants)	-3.4	-2.6	-3.2	-4.0	-4.1	-4.5	-2.9	-5.7	-0.7	0.2
Monetary Sector										
Net Foreign Assets	134.2	241.6	339.5	355.8	455.7	372.6	403.4	187.7	274.6	25.4
Net Domestic Credit	452.4	458.2	604.4	755.0	937.8	1,098.1	1,238.8	1,792.3	1,411.5	1,988.9
Government	184.1	153.4	209.0	337.5	519.9	606.8	629.0	1,094.3	797.3	1,256.3
Statutory bodies	17.8	4.3	5.1	9.2	8.1	34.5	55.7	59.8	61.2	69.8
Private (gross)	250.4	300.5	390.3	408.3	409.8	456.7	554.1	638.2	553.0	662.8
Money Supply (M2)	522.0	629.8	778.8	897.3	1,074.4	1,196.5	1,293.0	1,534.3	1,351.3	1,645.0
M2 Growth Rate (annual percent)	35.1	20.7	23.7	15.2	19.7	11.4	8.1	18.7	15.6	21.7
Reserve Money	156.9	212.3	206.0	240.6	278.9	289.4	278.1	341.5	321.4	345.8
Banks Deposits	61.6	92.4	66.0	56.2	78.2	59.6	26.0	57.3	73.8	53.8
External Sector										
Overall Balance	68.6	76.3	45.1	-45.0	1.9	-2.8	54.5	-191.7	..	..
Current Account	-449.1	-482.1	-550.1	-727.6	-1,088.9	-814.5	-945.0	-1058.0	..	..
Exports (fob)	435.6	600.9	531.6	737.5	611.2	814.5	975.4	838.3	33.6	33.5
Imports (cif)	1035.5	1171.4	1,134.6	1,577.6	1,864.1	2,141.6	2,421.2	2,285.7	116.4	197.7
Trade balance	-599.9	-570.4	-603.0	-840.1	-1,252.9	-1,327.1	-1,445.9	-1,447.5	-82.8	-164.2
Capital account balance	222.7	194.1	114.0	525.1	761.8	629.1	693.8	613.0	..	..
Gross foreign exchange reserves	279.8	389.6	549.2	586.7	739.4	660.1	700.6	731.3	552.3	468.2
Official	174.4	276.6	445.3	438.6	549.9	548.2	605.5	437.2	433.6	305.9
Commercial banks	105.4	113.0	103.9	148.1	189.5	111.9	95.2	188.9	118.7	162.2
Import cover (Official reserves in months)	2.1	3.1	3.2	2.9	3.6	3.6	3.9	2.7	2.8	1.8
Current account balance/GDP (percent)	-27.6	-19.7	-17.1	-19.1	-23.5	-17.3	-15.1	-12.1	..	..
Debt/GDP (percent)	58.9	48.6	49.5	54.0	59.8	62.9	61.2	50.7	57.7	..
Debt Service/Exports (percent)	2.5	3.4	3.8	2.4	5.5	4.9	11.0	12.9	34.6	..
MK/US Dollar (eop)	435.229	435.229	664.365	725.01	730.46	733.69	738.87	773.11	741.02	797.66
MK/US Dollar (pd avg)	369.181	369.181	499.607	713.85	726.65	732.33	742.23	749.53	741.90	793.87

Source: National Statistical Office, Reserve Bank of Malawi and Ministry of Finance

Appendix 6: Monthly Trends—Malawi (Source: EIU)



Appendix 7: Contribution to GDP by sector (Source: NSO, RBM)



Source: National Statistical Office, Reserve Bank, Ministry of Finance and Ministry of Economic Planning and Development

Appendix 8: Malawi Economic growth Projections (Source: EIU)

Economic growth

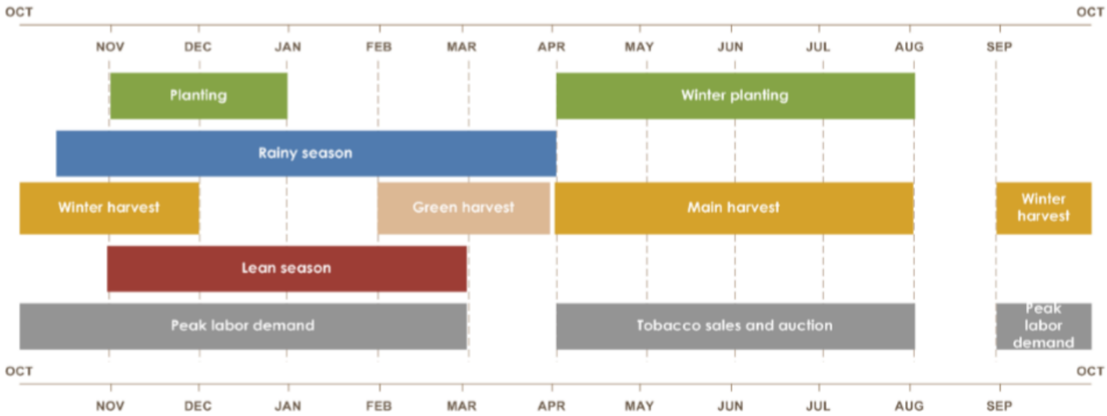
%	2020[a]	2021[b]	2022[b]	2023[b]	2024[b]	2025[b]
GDP	-1.0	2.3	4.0	4.5	4.9	5.2
Private consumption	-1.5	1.5	3.0	4.0	4.3	4.8
Government consumption	2.0	2.0	3.0	4.0	2.0	3.0
Gross fixed investment	-5.0	5.0	5.0	8.0	8.0	7.0
Exports of goods & services	-12.0	3.6	5.0	5.2	6.5	7.2
Imports of goods & services	-5.0	3.0	4.0	5.0	5.8	6.5
Domestic demand	-1.6	2.0	3.2	4.5	4.5	4.9
Agriculture	3.0	3.0	3.1	4.0	4.5	5.0
Industry	-1.6	2.1	5.4	5.2	5.8	5.6
Services	-3.0	2.0	4.1	4.5	4.9	5.2

[a] Economist Intelligence Unit estimates. [b] Economist Intelligence Unit forecasts.

Appendix 9: Global Projections (Source: IMF)

	Year over Year						Q4 over Q4 2/		
					Difference from October 2020 WEO Projections 1/				
		Estimate	Projections				Estimate	Projections	
	2019	2020	2021	2022	2021	2022	2020	2021	2022
World Output	**2.8**	**–3.5**	**5.5**	**4.2**	**0.3**	**0.0**	**–1.4**	**4.2**	**3.7**
Advanced Economies	**1.6**	**–4.9**	**4.3**	**3.1**	**0.4**	**0.2**	**–3.9**	**4.6**	**1.9**
United States	2.2	–3.4	5.1	2.5	2.0	–0.4	–2.1	4.0	2.0
Euro Area	1.3	–7.2	4.2	3.6	–1.0	0.5	–6.8	5.8	2.0
Germany	0.6	–5.4	3.5	3.1	–0.7	0.0	–5.3	5.2	1.7
France	1.5	–9.0	5.5	4.1	–0.5	1.2	–8.2	7.4	2.0
Italy	0.3	–9.2	3.0	3.6	–2.2	1.0	–8.3	4.2	2.3
Spain	2.0	–11.1	5.9	4.7	–1.3	0.2	–9.8	7.1	2.0
Japan	0.3	–5.1	3.1	2.4	0.8	0.7	–2.3	2.7	1.6
United Kingdom	1.4	–10.0	4.5	5.0	–1.4	1.8	–8.3	6.0	1.9
Canada	1.9	–5.5	3.6	4.1	–1.6	0.7	–4.0	3.7	2.7
Other Advanced Economies 3/	1.8	–2.5	3.6	3.1	0.0	0.0	–2.2	4.5	1.9
Emerging Market and Developing Economies	**3.6**	**–2.4**	**6.3**	**5.0**	**0.3**	**–0.1**	**0.9**	**3.7**	**5.4**
Emerging and Developing Asia	5.4	–1.1	8.3	5.9	0.3	–0.4	3.2	3.8	6.4
China	6.0	2.3	8.1	5.6	–0.1	–0.2	6.2	4.2	6.0
India 4/	4.2	–8.0	11.5	6.8	2.7	–1.2	0.6	1.7	7.8
ASEAN-5 5/	4.9	–3.7	5.2	6.0	–1.0	0.3	–3.2	5.2	6.1
Emerging and Developing Europe	2.2	–2.8	4.0	3.9	0.1	0.5	–2.7	4.8	3.0
Russia	1.3	–3.6	3.0	3.9	0.2	1.6	–4.6	5.3	2.6
Latin America and the Caribbean	0.2	–7.4	4.1	2.9	0.5	0.2	–4.8	2.3	2.8
Brazil	1.4	–4.5	3.6	2.6	0.8	0.3	–1.9	1.6	2.6
Mexico	–0.1	–8.5	4.3	2.5	0.8	0.2	–5.4	2.2	2.4
Middle East and Central Asia	1.4	–3.2	3.0	4.2	0.0	0.2	. . .	. . .	. . .
Saudi Arabia	0.3	–3.9	2.6	4.0	–0.5	0.6	–3.1	3.5	4.0
Sub-Saharan Africa	3.2	–2.6	3.2	3.9	0.1	–0.1	. . .	. . .	. . .
Nigeria	2.2	–3.2	1.5	2.5	–0.2	0.0	. . .	. . .	. . .
South Africa	0.2	–7.5	2.8	1.4	–0.2	–0.1	–6.2	2.8	0.6
Memorandum									
Low-Income Developing Countries	5.3	–0.8	5.1	5.5	0.2	0.0	. . .	. . .	. . .
World Growth Based on Market Exchange Rates	2.4	–3.8	5.1	3.8	0.3	0.0	–2.0	4.3	3.1
World Trade Volume (goods and services) 6/	**1.0**	**–9.6**	**8.1**	**6.3**	**–0.2**	**0.9**	. . .	. . .	. . .
Advanced Economies	1.4	–10.1	7.5	6.1	0.4	1.0	. . .	. . .	. . .
Emerging Market and Developing Economies	0.3	–8.9	9.2	6.7	–1.0	0.8	. . .	. . .	. . .
Commodity Prices (US dollars)									
Oil 7/	–10.2	–32.7	21.2	–2.4	9.2	–5.4	–27.6	13.5	–2.2
Nonfuel (average based on world commodity import weights)	0.8	6.7	12.8	–1.5	7.7	–2.0	15.4	2.0	–0.1
Consumer Prices									
Advanced Economies 8/	1.4	0.7	1.3	1.5	–0.3	–0.1	0.5	1.5	1.6
Emerging Market and Developing Economies 9/	5.1	5.0	4.2	4.2	–0.5	–0.1	3.2	3.8	3.7
London Interbank Offered Rate (percent)									
On US Dollar Deposits (six month)	2.3	0.7	0.3	0.4	–0.1	–0.1	. . .	. . .	. . .
On Euro Deposits (three month)	–0.4	–0.4	–0.5	–0.6	0.0	–0.1	. . .	. . .	. . .
On Japanese Yen Deposits (six month)	0.0	0.0	–0.1	–0.1	–0.1	–0.1	. . .	. . .	. . .

Appendix 10: Seasonal calendar for a typical year (Source: Fews NET)



Source: *FEWS NET*

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