



National Bank of Malawi plc
ECONOMIC
Newsletter

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Exchange Rate

The Malawi Kwacha/US\$ exchange depreciated by approximately 2.5% in the period July-Oct 2020 to trade at MK757 currently. The rate, however, stabilized towards the tail end of this period. The depreciation was mainly triggered by seasonal factors resulting from increase in foreign exchange demand for farm inputs including the fertilizer. The loss in value of the Kwacha was exacerbated by a short tobacco crop with production falling by 31% at 114 million kilograms coupled with covid-19 essential equipment import pressure.

Foreign exchange queues have therefore remained a feature of the market with unmet demand estimated at USD130 million. This scenario notwithstanding, the authorities are taking a cautious approach and perhaps adopting a managed float stance. Exchange rate re-alignment, which market participants are calling for, appears not be attractive to the authorities due to lack of a good export base and capacity as well as dominance of commodities with low demand elasticities. There may also be an incentive to maintain a relatively strong Kwacha due to the heavy government infrastructure requirements in the budget which will require significant construction equipment imports. A strong Malawi Kwacha makes these projects relatively cheaper and less demanding on local resources.

Despite the significant unmet demand, evidence on the markets points to tight Malawi Kwacha liquidity conditions which is dampening some of the pressure on the exchange rate. The short-term forecast is for the Kwacha to depreciate marginally during the traditional lean forex supply period to the end of the year.

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Inflation

Inflation has reduced from 11.1% recorded in January 2020 to 7.1% in the month of September 2020 representing a decline of 4% in the ten months. Year to date inflation is averaging at 8.1% anchored by non-food inflation which has remained below 5% in the period. This outturn is currently lower than the projected annual average inflation of 8.6% for 2020 published by the monetary authorities. The major drivers for this trend in inflation has been the low economic growth rate of 1.2% projected in 2020 coupled with low food prices as a result of a good harvest last season.

The effects of Covid-19 are expected to remain in the medium term as far as 2022 for hardest hit industries like the hospitality and tourism industry when moratoria for loan repayments are eventually lifted.



The main upside risk to inflation remains pressures emanating from non-food inflation as a result of trade related constraints of covid-19 and delayed fiscal consolidation aimed at reducing the government deficit and debt accumulation.

The monetary Policy authorities has a medium-term inflation rate objective of 5% with a symmetric band of 2.0%.

Monetary Policy and Interest rates

The forth meeting of the Monetary Policy Committee meeting of 2020 held on 5th and 6th November decided to reduce the Policy rate to 12%, a reduction of 150 basis points. This decision was motivated by the inflation outturn articulated above coupled with expectation of lower inflation in 2021. The decision is aimed at buttressing economic recovery from the effects of Covid-19 pandemic and job creation.

Short term interest rates are, however, reflecting the tight liquidity conditions in the market with the overnight interbank rate remaining very close to the Policy rate at 13.6%. On the other hand, Treasury Bills average yields recorded the following mixed movements: 91 day 9.95% (9.95%), 182 day 12.90% & 364 day 13.9% (13.84%) in the month of October 2020.

Earlier in the year, on April 9th, 2020 the Registrar of financial institutions announced several measures to mitigate the impact of Covid-19 on the economy. These included a reduction of the LRR by 1.25% and a relaxation of provisioning requirements to accommodate covid-19 affected businesses. Due, in part, to these temporary accommodations, credit to private sector has remained strong at 18.6% from the beginning of May 2020.

The above notwithstanding, considerable risks remain with an estimated 15% of the banking industry loan portfolio affected by Covid-19. Downside risk is mainly emanating from the tight liquidity conditions and scarcity of foreign exchange in the market. These have been the cause of considerable unemployment and threaten to damage supplier relationships to private sector for those industries with heavy requirements for raw material imports.

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National Output

Meanwhile, the National Statistics Office has announced that it has completed the rebasing of the economy's GDP from 2010 to 2017. The rebasing has been premised on the need to have GDP reflect current relative prices and accommodate structural changes in the economy over time. Consequently, nominal GDP for 2017 has been adjusted upwards by 38.4% from MK4,635.4 billion (US\$6.35 billion) in the 2010 base year to MK6,417.3 billion (US\$8.8 billion) in the 2017 base year.

In real terms, GDP for 2018 stood at MK6,701.0 billion (US\$9.2 billion) and increased to MK7,084.4 billion (US\$9.5 billion) in 2019. These figures represent real GDP growth rates of 4.4% and 5.7% in 2018 and 2019, respectively.

The 2020 forecast is for the economy to grow by 1.2%.

Selected Economic Indicators

	UNIT	2017	2018	2019	2020	2021
GDP@ market Prices	MK bn	6,417.3	6,701.0	7,084.4	7,219.0	7,589
GDP@ 2017 constant prices	%	5.2	4.4	5.7	1.2	4.5
Inflation (average)	%	11.5	9.2	9.4	8.6	8.4
Inflation (yearend)	%	7.1	9.9	11.5	8.1	8
Policy rate	%	18	16	13.5	13.5	12.5
Mortgage rate (min)	%	25	25	21.5	21	20

Source: NSO; RBM

Disclaimer

Any opinion expressed in this newsletter should be regarded as solely that of the individual persons in our Economic Department and as such inquiries and comments should be forwarded to that department. The Bank shall not be held liable for the consequences of any action taken based on this newsletter.

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