

# **BUILDING RESILIENT INDUSTRIES AMIDST COVID-19: *LESSONS FROM THE MALAWI FINANCIAL SECTOR***

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Sunbird Nkopola



***“A strong and resilient banking system is the foundation for sustainable economic growth, as banks are at the centre of the credit intermediation process between savers and investors. Moreover, banks provide critical services to consumers, small and medium-sized enterprises, large corporate firms and governments who rely on them to conduct their daily business, both at a domestic and international level”***

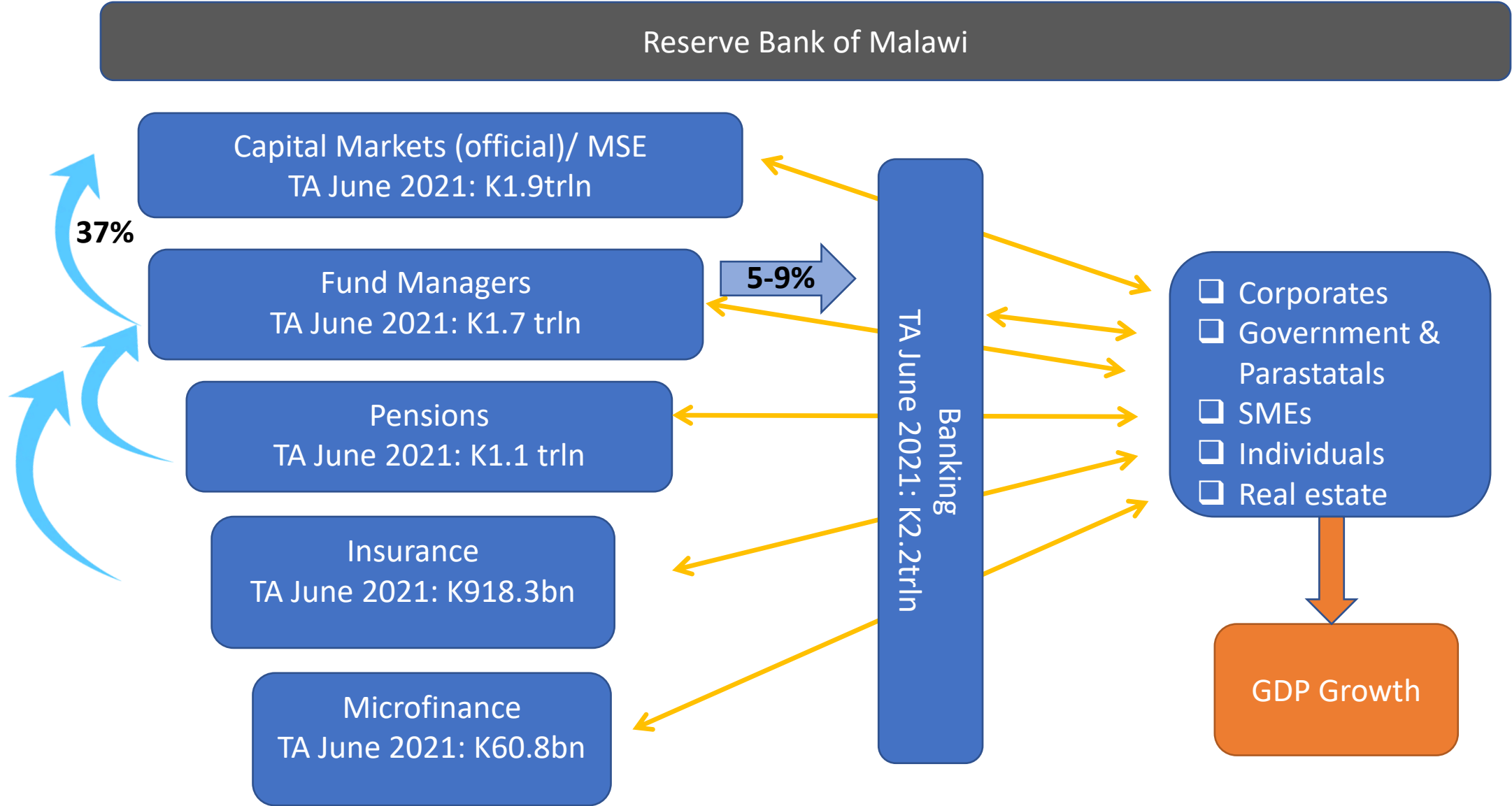
Basel Committee on Bank Supervision consultative document

**Strengthening the resilience of the banking sector**

16 April 2010

Contributed  
5.93% to GDP  
in 2020

# The Malawi Financial Sector





**How has Covid-19 impacted the  
operating environment of  
financial sector institutions?**



## The 2 most severe shocks in modern history

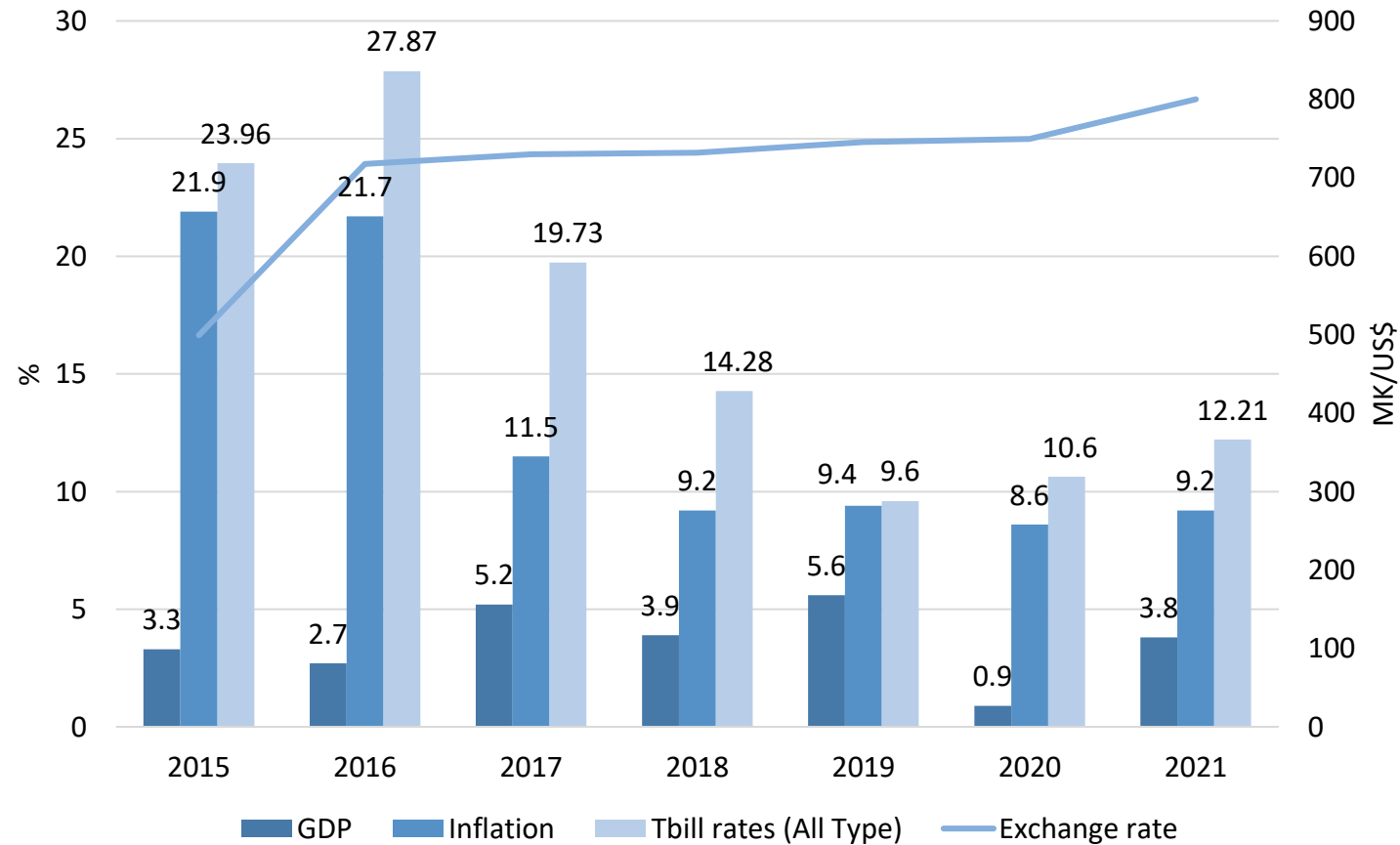
	Global Financial crisis	Covid - 19
Source of the problem	Financial sector	Health sector
Impact	Demand side	Supply & demand side
Solution	Central Banks & Governments	Financial market participants?

### Covid impact on the Economy and Financial Sector:

- Overall reduction in economic activity- GDP growth declined to 0.9% in 2020 from 5.6%.
- Increased unemployment – from 5.56% in 2019 to 5.99% in 2020
- Heightened credit risk – NPL ratio above 5% since Dec 2019 (June 2021:6.6%)
- High operating cost associated with Covid-19 preventative and control measures as well as investment in technology

# Operating environment

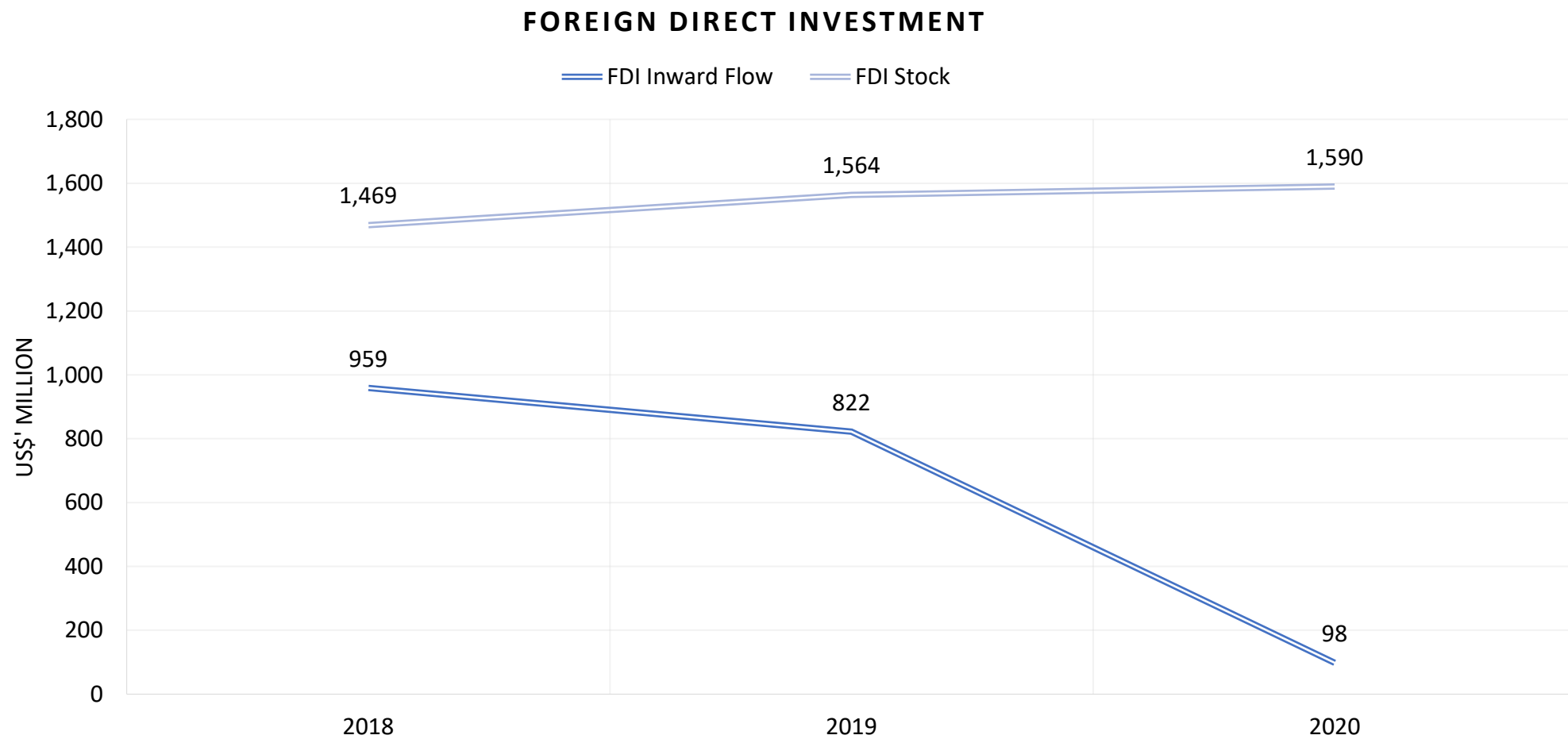
Key economic indicators



## CURRENT RISKS:

1. Low vaccine uptake – 2.6% fully vaccinated
2. Impact of 3<sup>rd</sup> wave?

# Operating environment continued



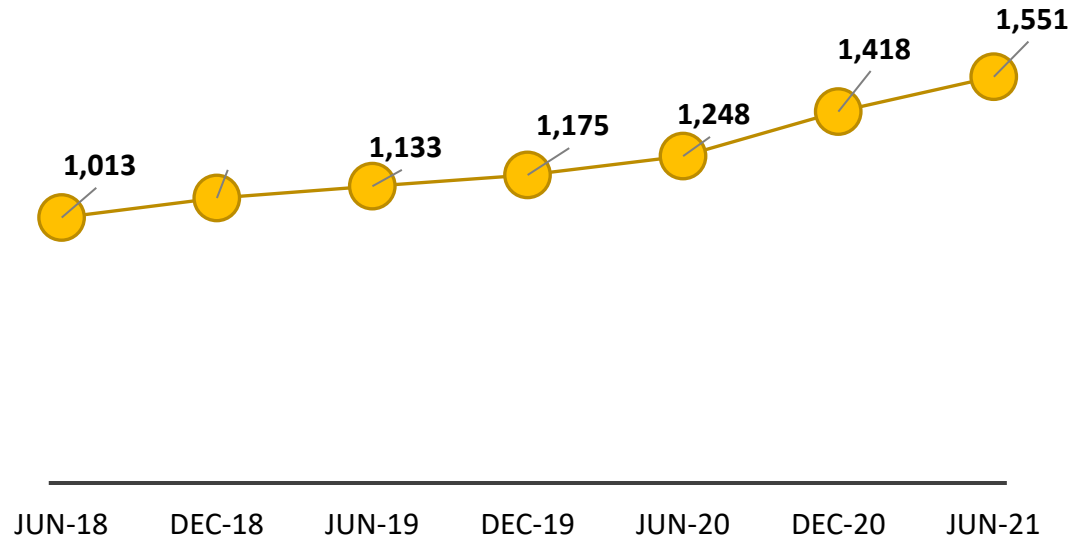


What has been the  
financial Sector's  
contribution this far?

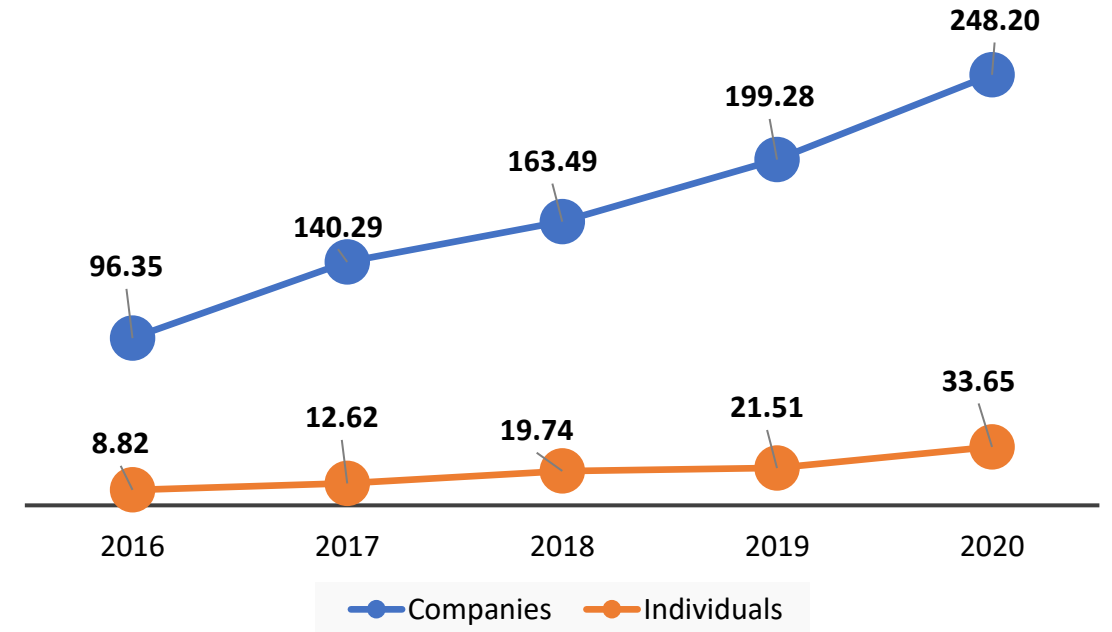


# Contribution towards security of deposits

## Total Banking Sector Customer Deposits (K'bens)



## Sources of Funds Under Management (K'bens)

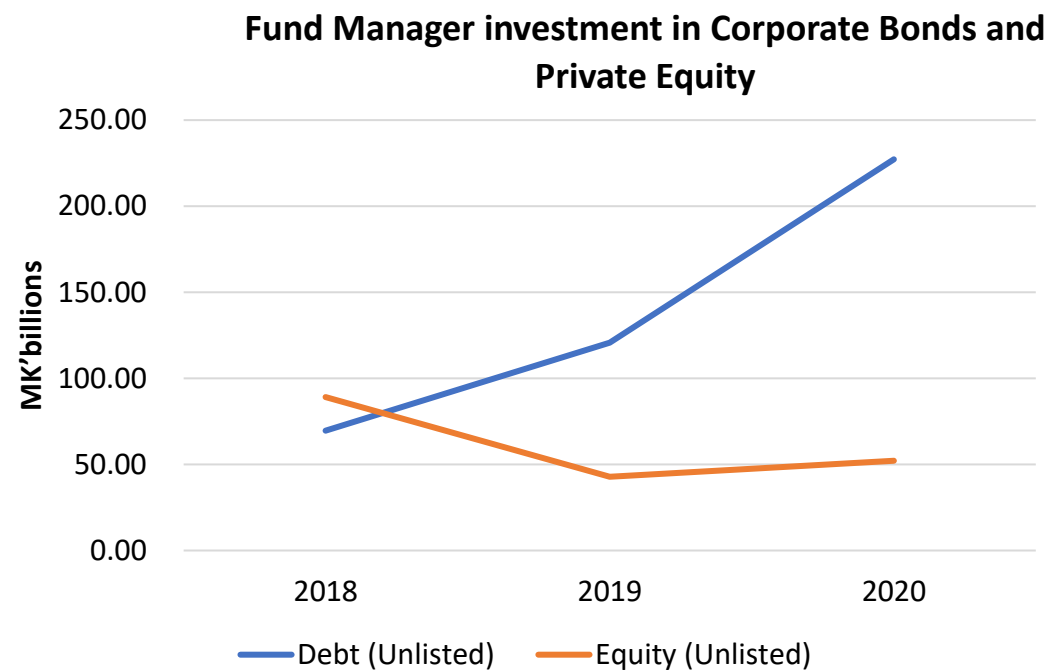
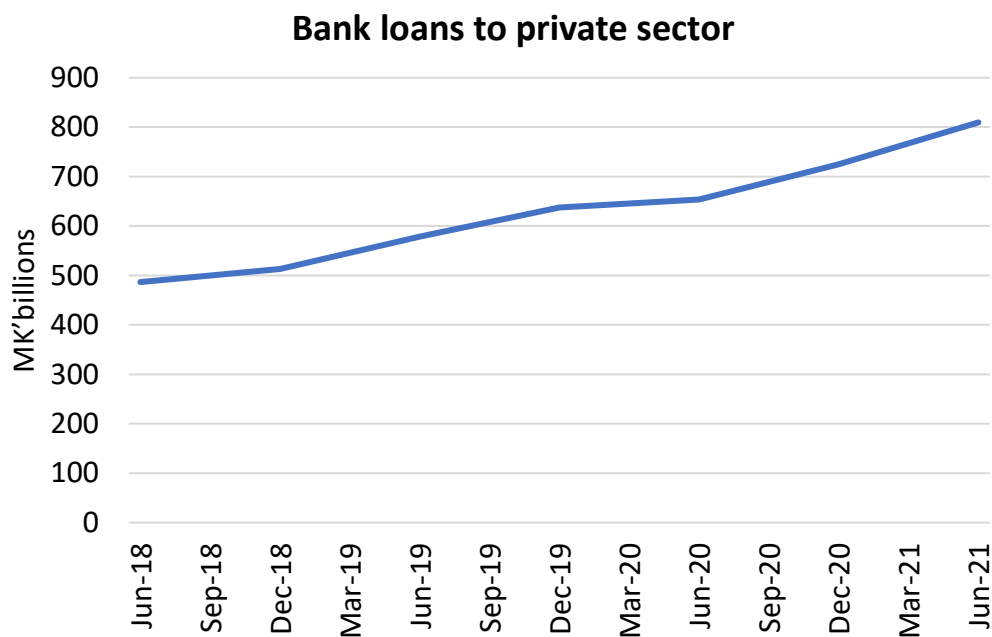


Households and businesses have sought out a safe and stable environment for deposits amid heightened uncertainty and financial sector organizations have played a key role in providing a safe haven for these funds.

Total customer deposits for the banking sector grew by 20% in 2020.

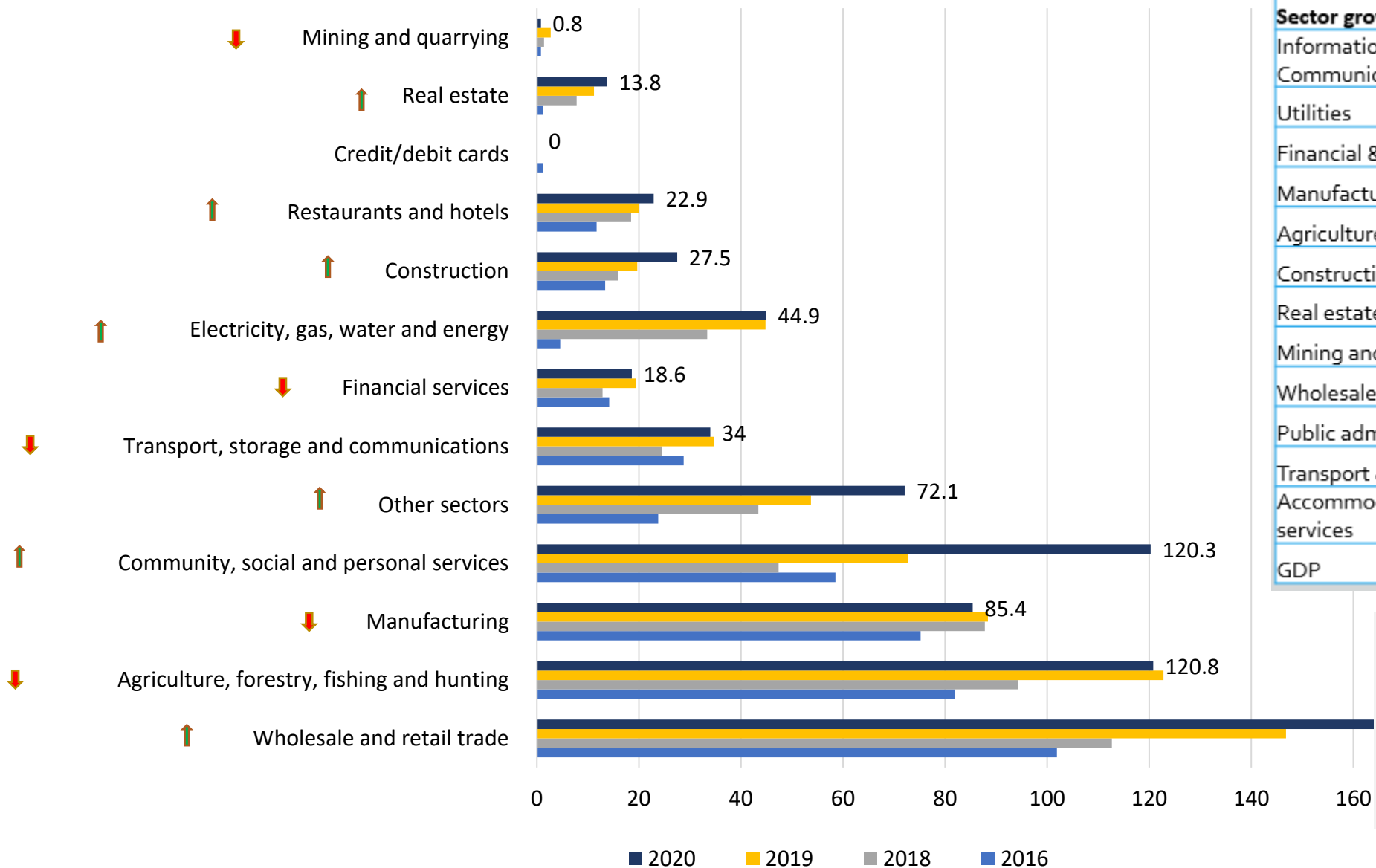
Funds invested with Fund Managers by both individuals and Companies increased by 56.4% and 24.6% respectively

# Contribution towards increasing demand for credit to the private sector



- Companies experienced declines in revenue and to offset these revenue shortfalls, companies sought significant amounts of funding to keep their doors open and employees on the payroll while continuing to offer important services and products.
- Banks have used the increased deposit base to extend credit into the economy to support jobs and economic activity. Loans grew by 15.2% in 2020
- Banks and fund managers further implemented various types of relief for their customers on existing financial obligations. 350 facilities amounting to K20.4 billion were still under moratorium as at 31 Dec 2020, which was a reduction from a total of 1,936 facilities worth K103.4 billion as at June 2020.

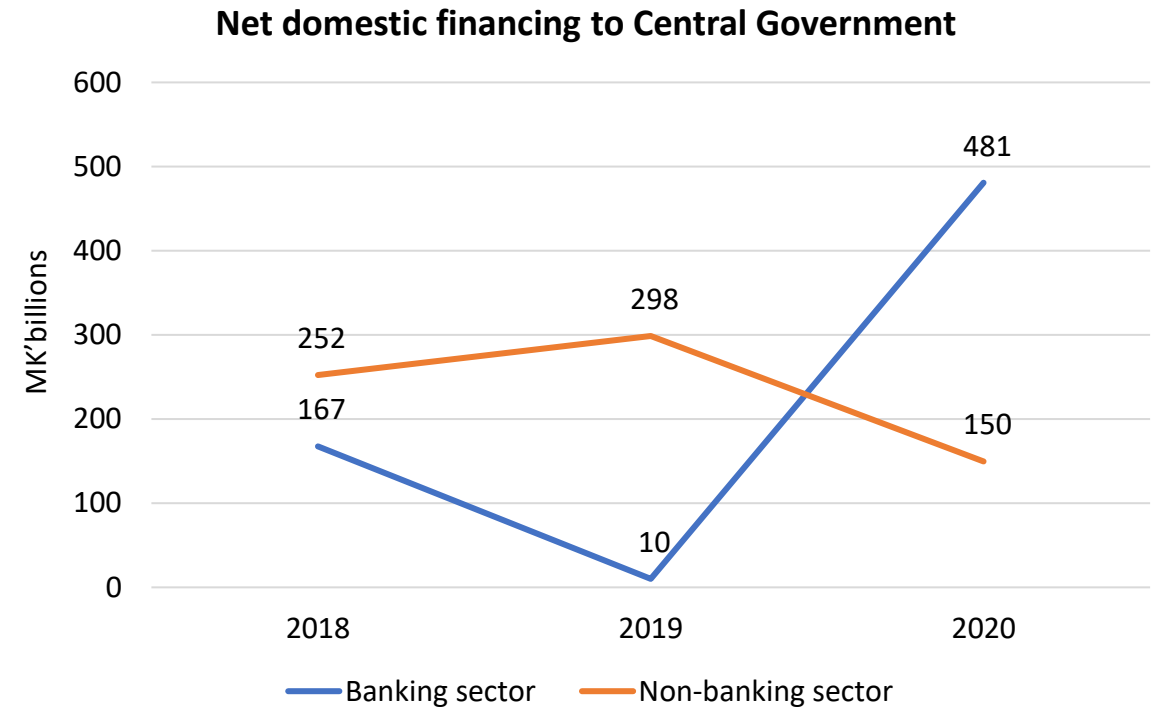
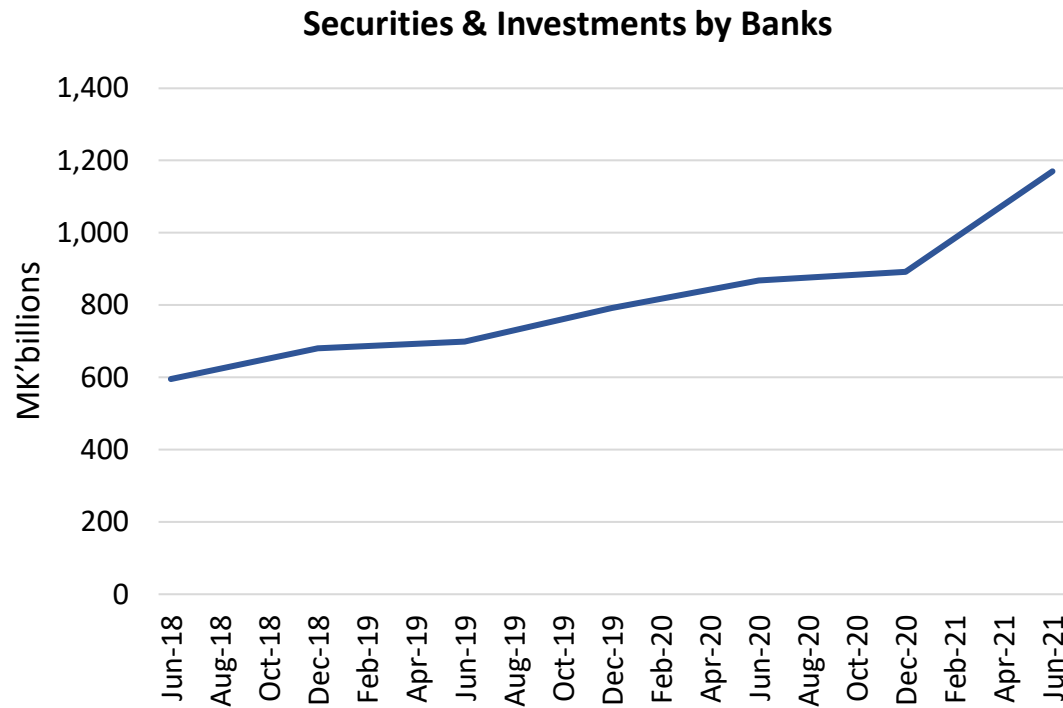
## Banking Sector Loans by Sector MK'billions



Sector growth rates	2019	2020	2021*
Information & Communication	9.30%	6.10%↓	5.40%↓
Utilities	7.90%	4.60%↓	3.50%↓
Financial & Insurance	5.10%	4.60%↓	4.80%↑
Manufacturing	7.60%	4.30%↓	3.70%↓
Agriculture	5.90%	4.20%↓	5.50%↑
Construction	7.80%	3.60%↓	2.50%↓
Real estate	2.80%	3.00%↓	3.80%↑
Mining and quarrying	7.40%	2.30%↓	1.20%↓
Wholesale and retail	6.00%	-1.30%↓	2.00%↑
Public admin & defense	9.50%	-3.50%↓	3.20%↑
Transport & Storage	8.70%	-7.10%↓	3.10%↑
Accommodation & Food services	3.40%	-21.40%↓	1.30%↑
GDP	5.60%	0.90%↓	3.80%↑

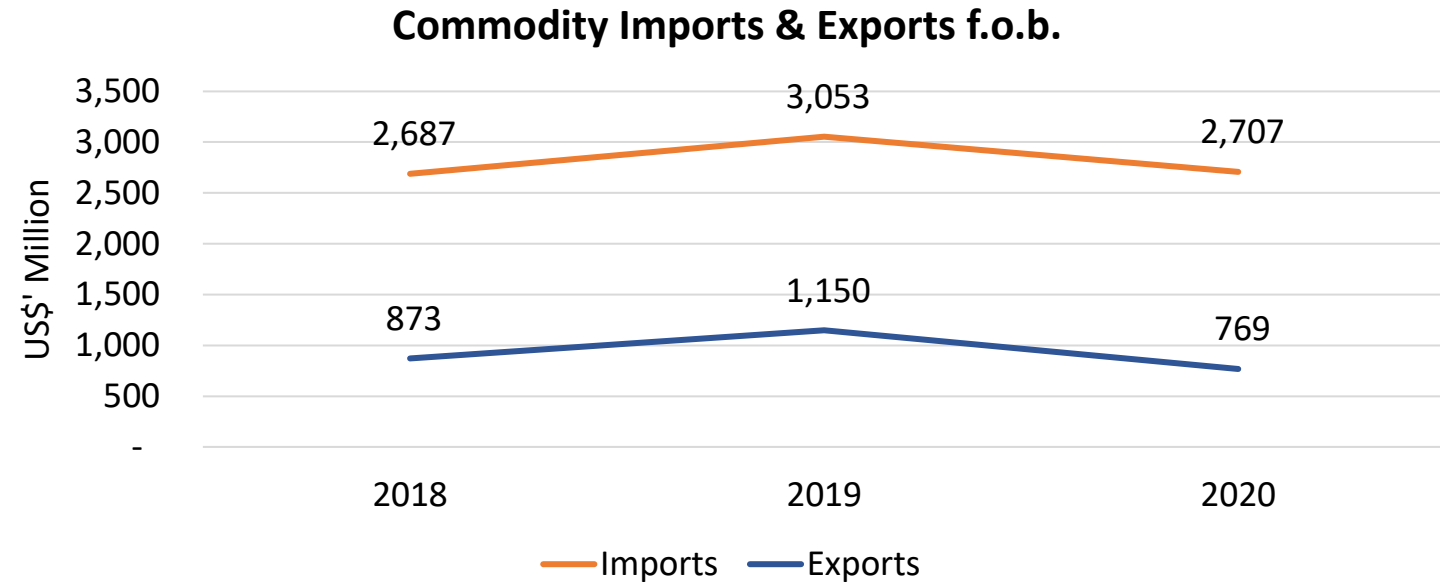
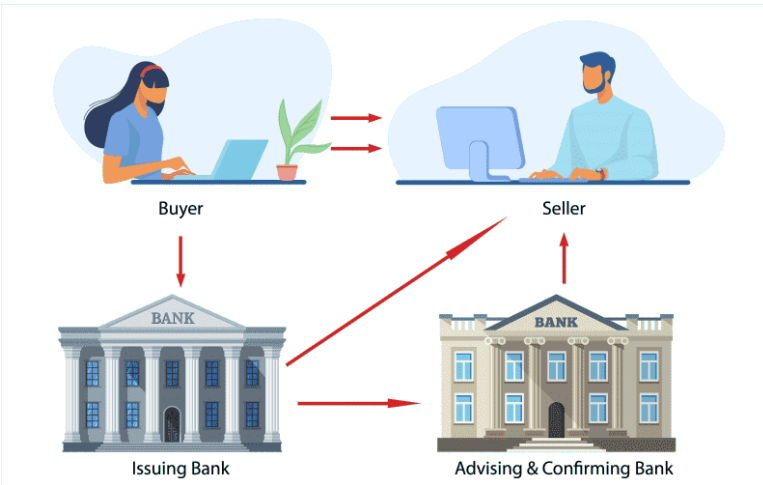
- Highest growth in lending under community, social & personal services at 65.2% and construction at 39%
- 56% of loans concentrated in 3 sectors

## Contribution towards increasing demand for funding to the public sector



- Governments around the world have faced significantly increased funding requirements during the pandemic to finance direct economic stimulus measures and to fund dramatic increases in health care and other essential services. Much of these stimulus measures have been funded through government borrowing in the bond market.
- Banks and other financial sector players served as effective conduits of government support programs – MK631bn net financing to Government in 2020.
- Banks and Fund Managers have discounted a significant portion of Promissory Notes that were issued to companies. Total PNs issued stand at MK119.76bn and MK83.6bn has been traded on the secondary market

# Contribution towards trade facilitation



- Imports and Exports declined due to the impact of Covid 19 as most economies slowed down. Main exports for Malawi remain Tobacco, Cotton, Tea and Sugar. However, there is an increase in export of legumes and pulses.
- Main imports for Malawi remain fuel and fertilizer. However, there was an increase in imports of pharmaceutical related products.
- Gross official reserves declined to US\$576.24mn as at 31 Dec 2020 from US\$846.55mn as at 31 Dec 2019. Banking sector reserves increased to US\$377.97mn as at 31 Dec 2020 from US\$324.07mn as at 31 Dec 2019.
- Banks supported trade activity such as tobacco exports, maize export to South Sudan, importation of Affordable Input Program (AIP) and importation of fuel



# Corporate Social Responsibility

Financial Market players proactively initiated their own programs to support government through Ministry of Health, hospitals, DHO, Prisons, Universities etc facing hardship due to the pandemic.



PCL, NBM plc Donate Towards COVID-19...



OLD MUTUAL (MALAWI) LIMITED DONATES A TOTAL OF MK30 MILLION TO BLANTYRE AND LILONGWE DHO



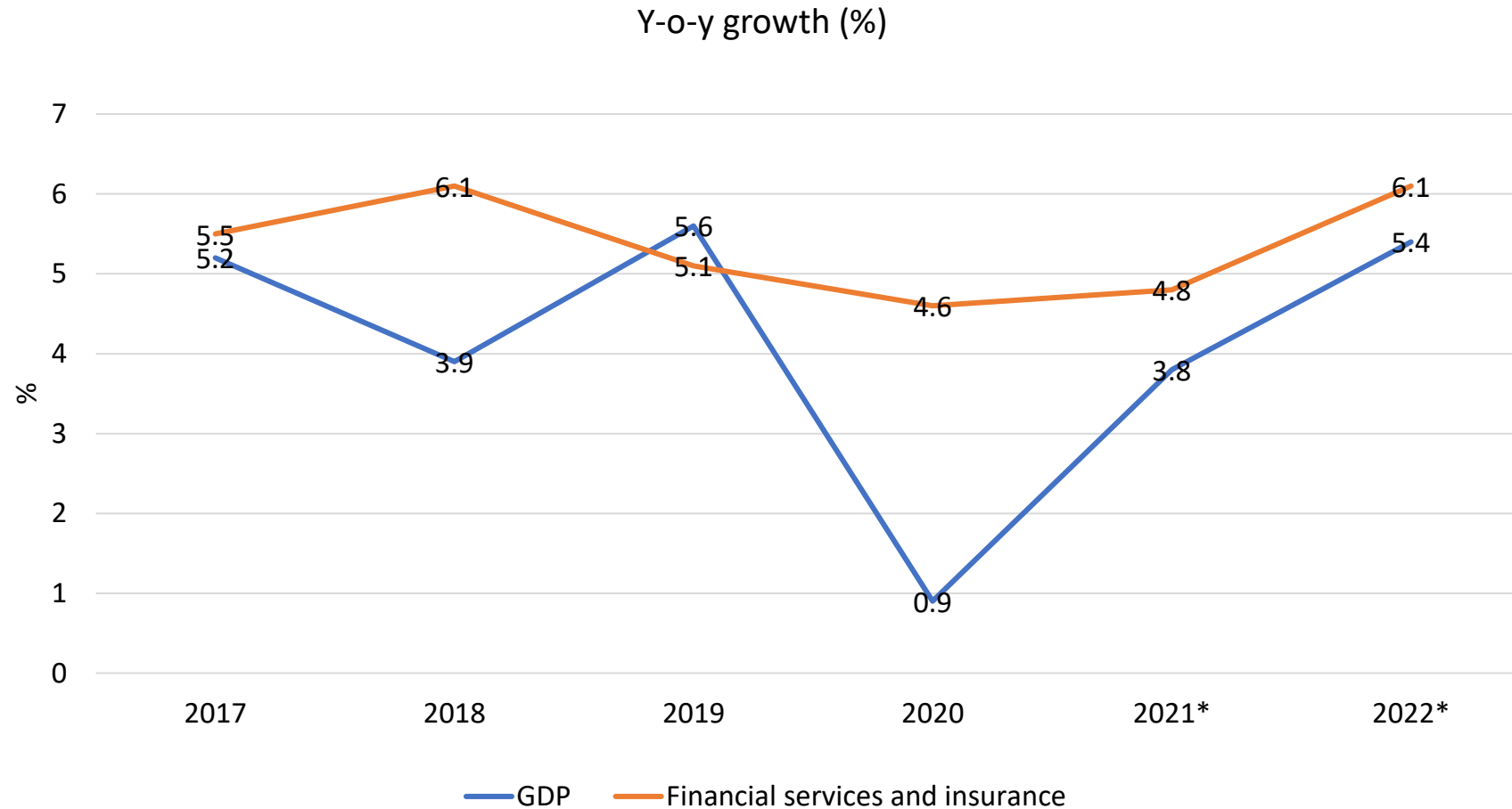
As a member of the NBS Group, NBS Bank, once again supported the Blantyre DHO's efforts in the fight against the covid-19 pandemic. The Group donated 20 oxygen units, 20 incubator trays, 20 mattresses and 20 hospital beds, 8 of which are ICU hydraulic adjustable to cater for very serious cases.  
#StaySafe #ItsPossible  
NBS Bank



**How has the financial  
sector managed to  
maintain resilience?**



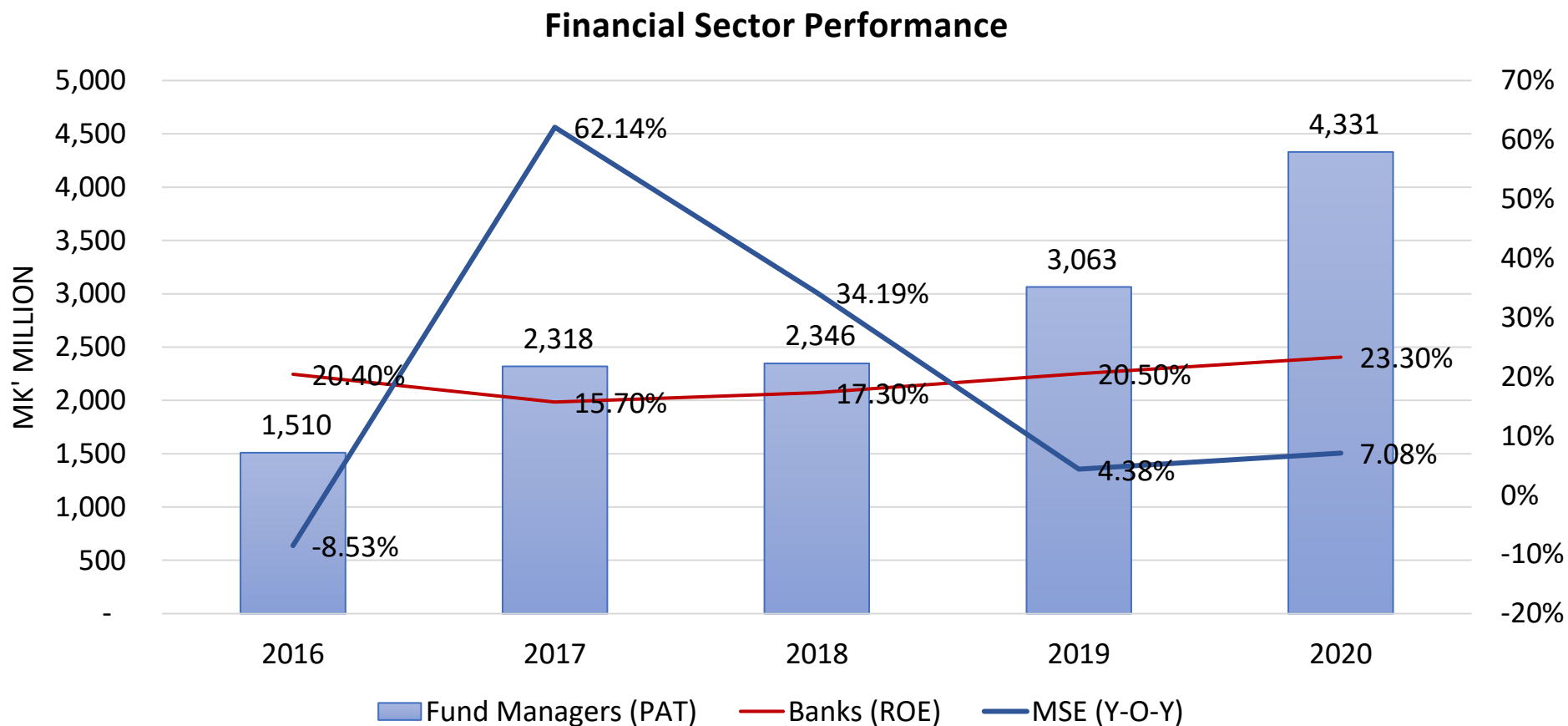
# Is the financial sector really resilient or not?



- The Malawi Financial Sector has been known to be resilient to economic shocks.

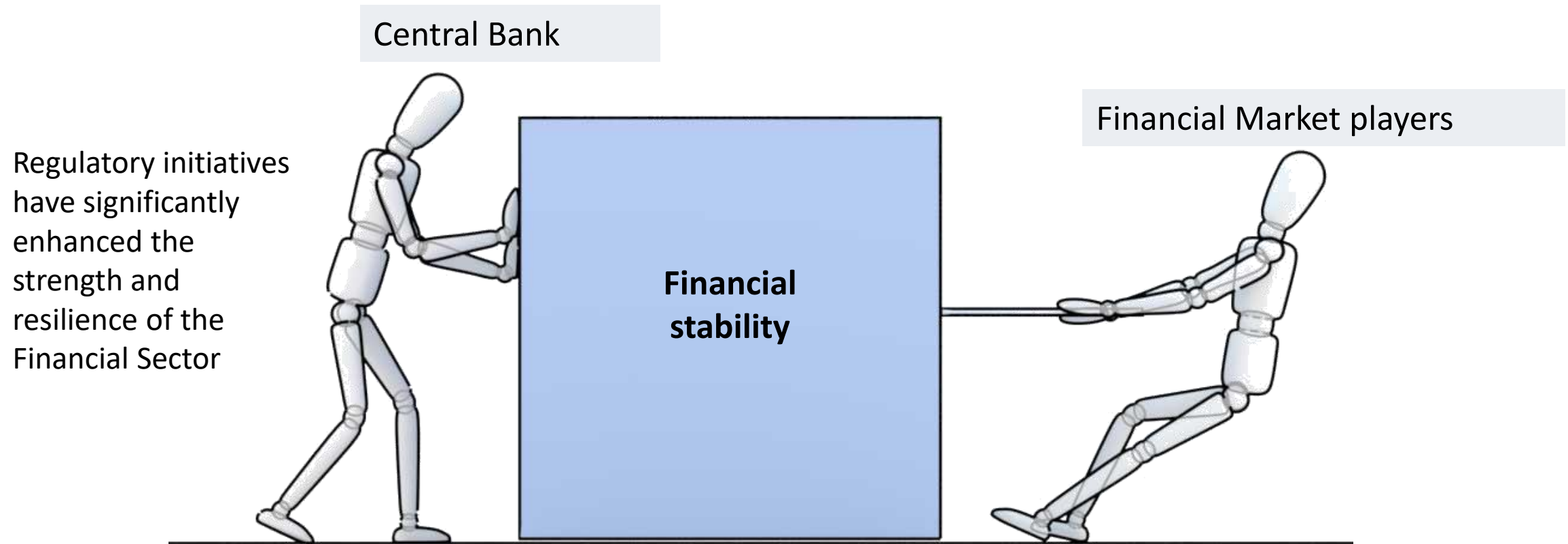


## Is the financial sector really resilient or not? Continued...



# Areas that support financial resilience of financial institutions: 1.

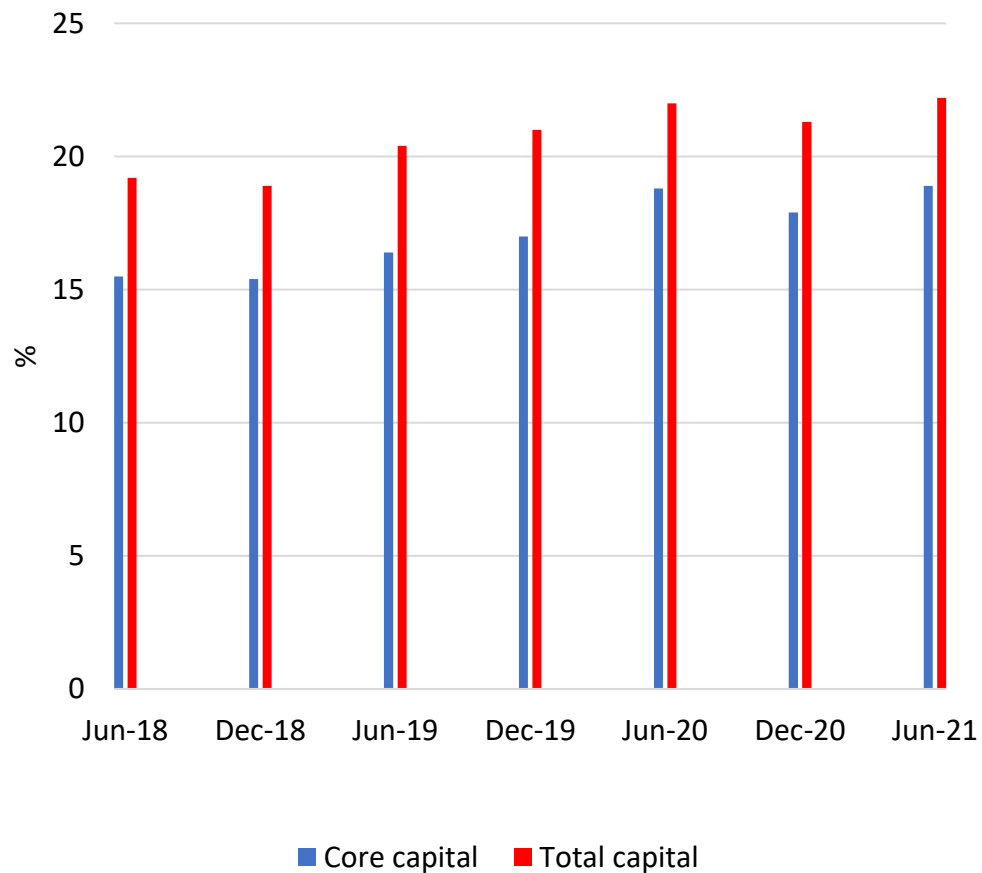
## Financial sector regulation



# Areas that support financial resilience of financial institutions:

## 2. Capital adequacy

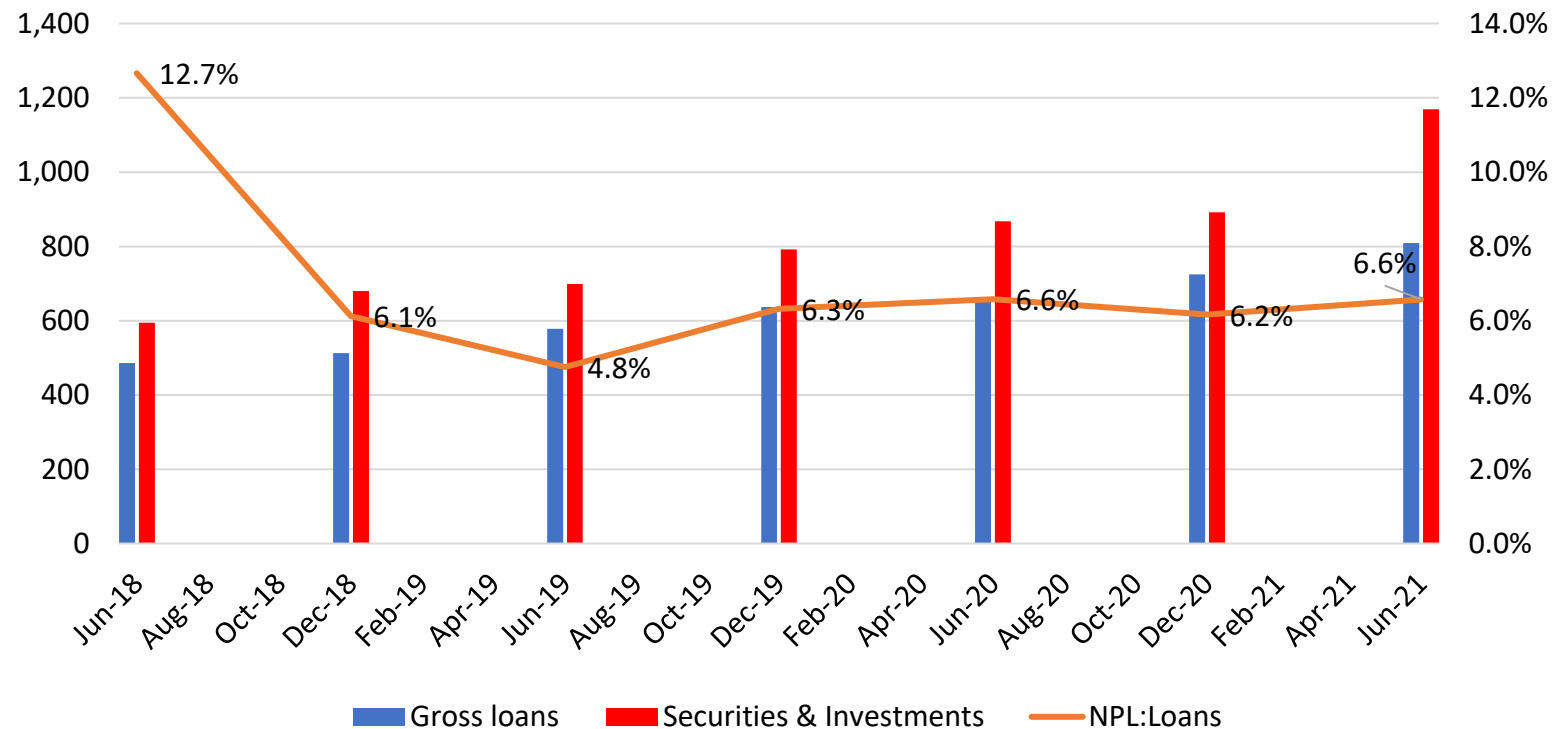
Banking sector capital ratios



- Adequate capital is the foundation of a safe banking system and financial markets as a whole. It provides financial institutions with a "cushion" against unexpected losses. Target is to ensure that financial institutions set aside sufficient capital relative to the underlying risks that each institution faces.

# Areas that support financial resilience of financial institutions:

## 3. Asset quality and sector concentration



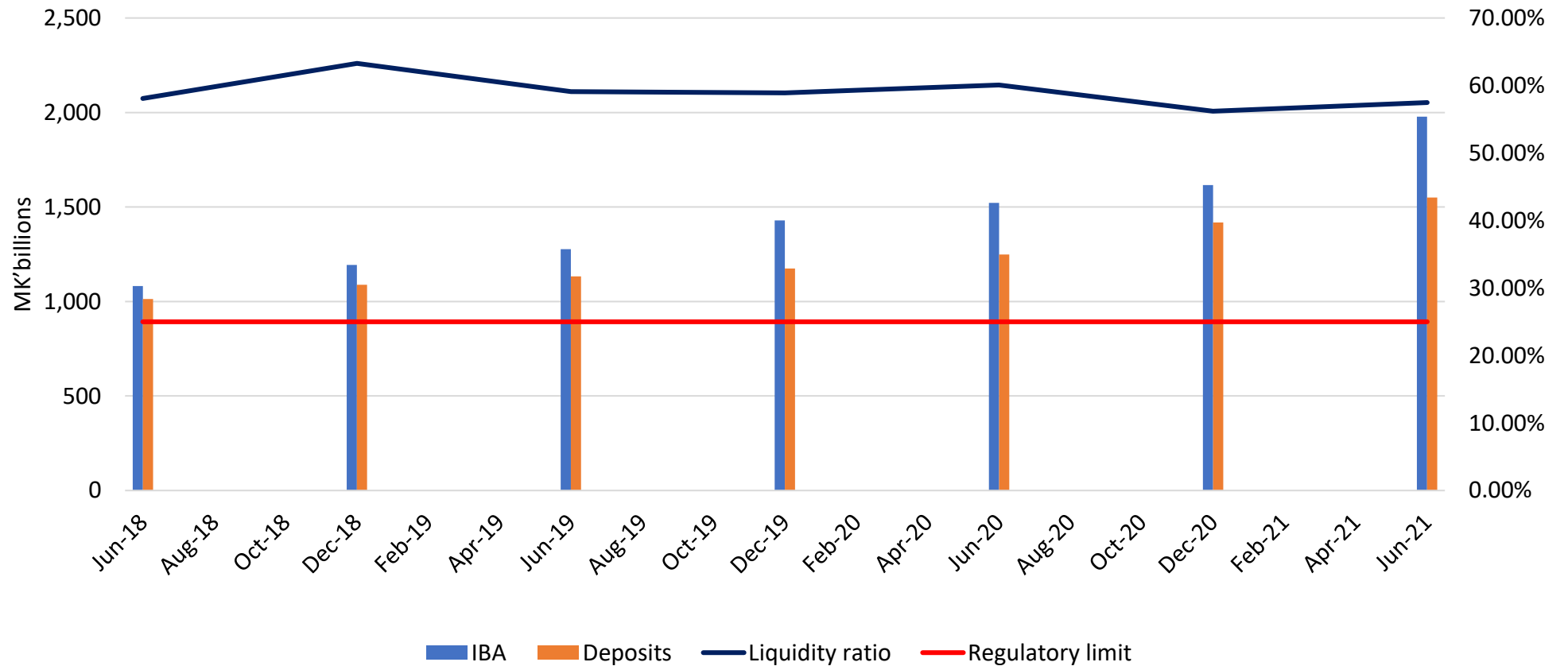
Composition of Assets managed by Fund Managers		
	2019	2020
Money market	39%	35%
Listed debt	1%	1%
Unlisted debt	9%	14%
Equity	41%	37%
Unlisted Equity	3%	3%
Unlisted Property	6%	8%

*\*Not adding up to 100% due to Rounding off effects*

- More investment in government securities to manage risk.
- The sector's NPL ratio stood at 6.6%, which was beyond the acceptable limit of 5.0%, and also a deterioration from 6.2% in December 2020 but similar level to June 2020.
- \*Risk: Sectoral credit concentration risk remained a threat to the banking sector's stability as the top three industrial sectors continued to contribute to more than 50.0% of gross loans and leases (namely community, social and personal services sector, wholesale and retail trade sector and agriculture sector)

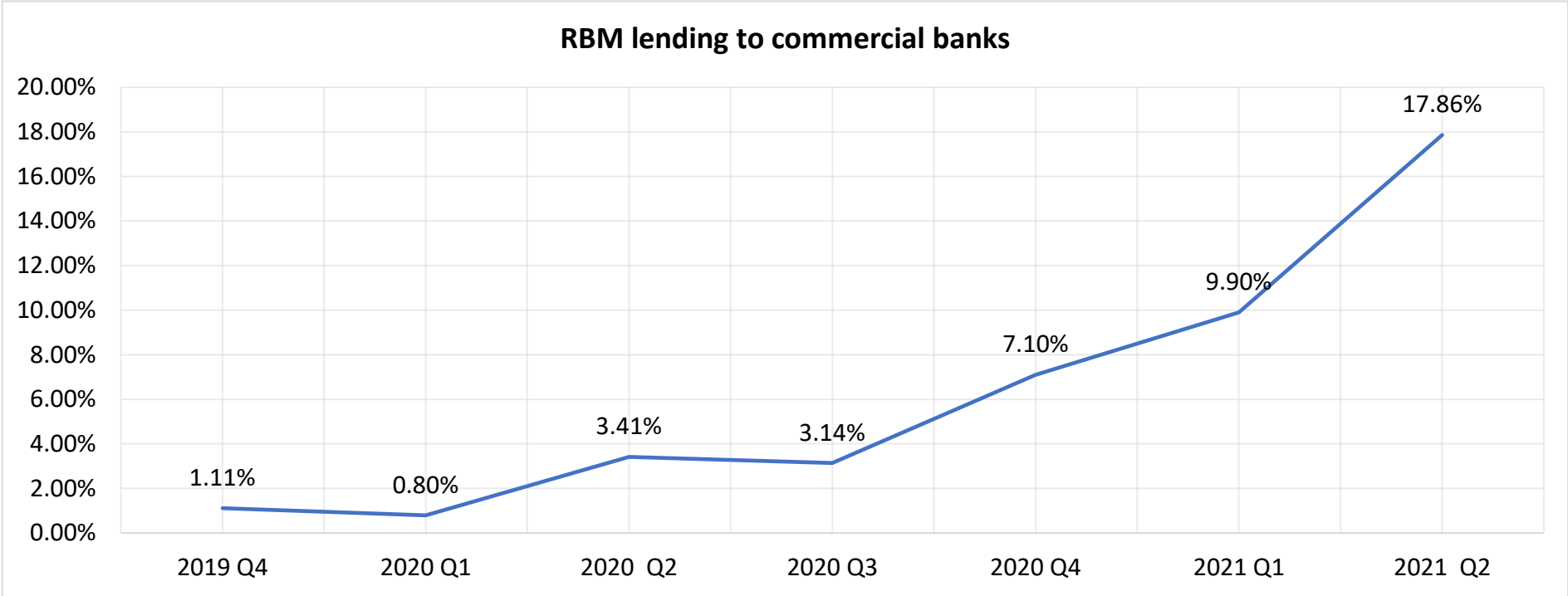
# Areas that support financial resilience of financial institutions:

## 4. Liquidity



- Deposits funding 70.4% followed by repurchase agreements at 7.6%
- Liquidity ratio increasing due to increased investment in government securities

# Areas that support financial resilience of financial institutions: Liquidity continued...



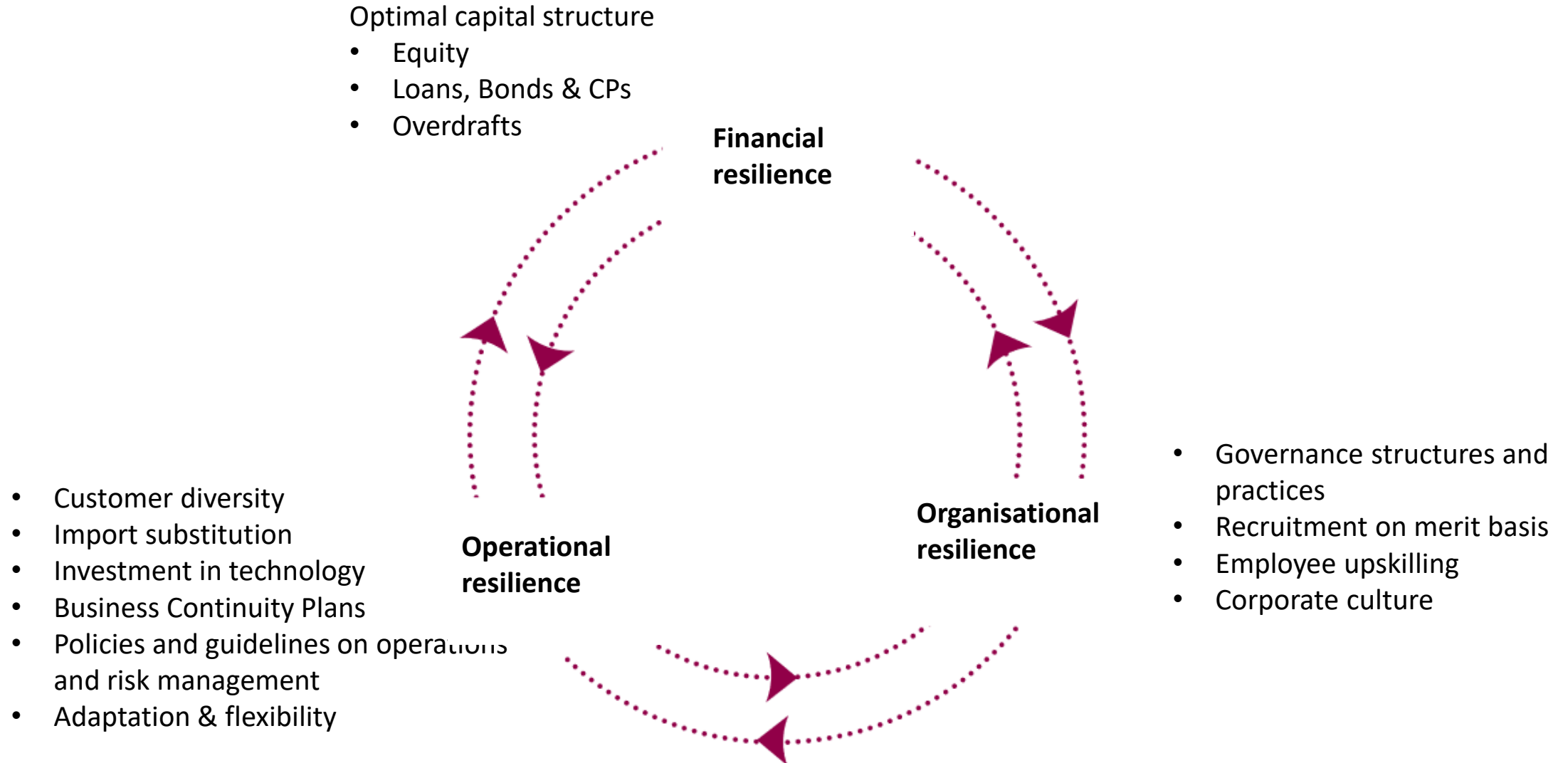
	2019 Q4	2020 Q1	2020 Q2	2020 Q3	2020 Q4	2021 Q1	2021 Q2
RBM lending to commercial banks	14,204.70	9,743.00	56,911.10	49,095.30	118,141.80	159,142.20	313,619.70

RBM has supported the Banking Sector as depicted in the Central bank lending to commercial banks which has increased quite significantly.



**How can other  
industries develop  
resilience?**

# AREAS THAT STRENGTHEN INSTITUTIONAL RESILIENCE





THANK YOU!!!