Bridgepath Capital
Invest to Achieve

Monthly Economic Report and a brief on Foreign Exchange and Foreign Exchange Reserves

March 2022

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Executive Summary and Outlook

Inflation

Headline inflation increased to 13.0% in February 2022 from 12.1% in January 2022 due to increases in both food and non-food inflation. Food inflation increased to 15.3% from 14.2%, and non-food inflation increased to 10.1% from 9.6% during the period under review. According to the National Statistical Office (NSO), the housing, water and electricity component of inflation increased by 2.6% between January 2022 and February 2022. It was the second largest increase in the components, exceeded by the change in the food component of inflation.

The Monetary Policy Committee (MPC) at its first meeting of 2022, held on 2 and 3 February 2022, revised the projected annual inflation for 2022 to 10.4% from a previously projected 8.9%. The upward revision in the projection made by the MPC reflects an upward shift in the forecasts for domestic and imported inflation. Similarly, the Economist Intelligence Unit (EIU) anticipates elevated inflation, and projects inflation to average 11.0% in 2022, an increase from an estimated average of 9.0% in 2021. The increase is projected on account of the risk of further tropical storms, higher global oil prices, exchange rate depreciation and pent-up domestic demands. From 2023, as global oil prices are forecast to fall while agricultural output rises, inflation is projected to take a downward trajectory.

Fiscal Policy

On 23 March 2022, the 2022/23 national budget was passed by the Parliament without any changes and will be implemented from 1 April 2022 to 31 March 2023. In the budget, the total revenue and grants are projected at MK1.96 trillion, an increase of 58% from a total of MK1.24 trillion in the 2021/22 fiscal year and represent 17.2% of gross domestic product (GDP). The EIU expects revenue collection to remain subdued on account of a slow recovery in the country's key sectors including agriculture and tourism. For the fiscal years 2024/25-2025/26, the EIU expects the tax base to expand, resulting in a modest recovery in government revenue, improvement in tax collection and budgetary support that is likely to follow from an International Monetary Fund (IMF) programme.

The total expenditure for the 2022/23 fiscal year is projected at MK2.84 trillion, an increase of 38% from a total expenditure value of MK2.06 trillion in the 2021/22 fiscal year and it represents 24.9% of GDP. The EIU expects expenditure to remain elevated, at more than 30% of GDP between 2021 and 2026. The EIU further expects that the government will reduce its allocation to subsidies as part of an IMF programme agreement, therefore gradually reducing expenditure as a proportion of GDP.

The overall fiscal deficit for the 2022/23 fiscal year is projected at MK884 billion, an increase of 7% from a revised fiscal deficit of MK825 billion for the 2021/22 fiscal year and represents 7.7% of GDP. The EIU expects a budget deficit of 8.5% of GDP in the 2022/23 fiscal year and for the deficit to narrow to 7.1% of GDP in 2023/24 fiscal year.

Monetary Policy

The EIU expects the MPC to revise the Policy rate upward at its second meeting. This is on account of increases in inflation past the Policy rate at 12%, to 12.1% in January 2022 and to 13.0% in February 2022. Furthermore, due to the Kwacha's depreciation, and inflation remaining higher than the RBM's target of 5% (±2%), the EIU forecasts no room for further easing.

Exchange Rates

Based on middle rates, the Malawi Kwacha marginally depreciated by 0.18% against the United States Dollar as it traded at MK823.60/USD as at 31 March 2022, from MK822.10/USD as at 28 February 2022. Year-to-date, the Malawi Kwacha has marginally depreciated against the USD by 0.51% as at 31 March 2022, while the Kwacha had depreciated by 1.74% during the same period in 2021.

For March 2022, the gross official forex reserves were USD374.48 million, a decrease of 2.83% from USD385.40 million in February 2022. The private sector reserves were USD391.49 million, a decrease of 3.86% from USD407.22 million in February 2022. The total forex reserve position was USD765.97 million, a decrease of 3.36% from USD792.62 million in February 2022.

The EIU forecasts a continued depreciation of the Kwacha on the back of a significant current-account deficit and increases in global oil prices that also exert pressure on the current-account balance. Furthermore, a low foreign exchange reserve position and the risk of a sudden end to foreign currency inflows remain the major downside risks to exchange rate stability over the forecast period.

Stock Market

The Malawi All Share Index (MASI) marginally increased by 0.99% to 45,921.23 points in March 2022 from 45,472.09 points in February 2022. This was due to share price gains for NBM, ILLOVO, FDH Bank, FMBCH and Standard Bank which offset share price losses for TNM, ICON and NBS. The MASI year-to-date return was 1.22% as at 31 March 2022, it was 0.53% during the same period in the previous year. In terms of market price movement, NBM had the largest share price gain during the period to MK948.01 per share as at the close of March 2022 from MK900.00 per share as at the close of February 2022, representing a 5.33% increase. During the period under review, TNM had the largest share price loss to MK17.40 per share from MK17.99 per share, representing a 3.28% decrease during the period under review.

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Government Securities

The government awarded a total of MK297 billion in March 2022 from MK161 billion in February 2022 through Treasury Bills (TBs) and Treasury Notes (TNs) auctions. The TBs auctions had a rejection rate of 1% and the TNs auctions had a rejection rate of 2%. The average TB yield marginally increased to 12.58% from 12.49% and the average TN yield marginally increased to 20.50% from 20.35% during the period under review.

Economic Growth

For 2022, the government of Malawi through the 2022/23 national budget, forecasts the real GDP growth rate to increase to 4.1% from 3.9% recorded in 2021. The forecast is based on the expectation that economic activity will increase as mining and quarrying, manufacturing, transportation, construction, and wholesale and retail sectors rebound in the period. It is also based on the expectation that climate and weather-induced events such as the recently experienced tropical storms Ana, Dumako and Gombe will not persist in the forecast period. For 2023, the government of Malawi projects the real GDP growth to slow down to 4.0%.

The forecast by the government of Malawi for 2022 is higher than the same period forecasts by the IMF and the EIU at 3.5% and 2.8%, respectively. The latter expect the lower real GDP forecast based on the negative impact of the tropical storms on Malawi's agriculture sector, with most of the damage experienced by smallholder farmers. In nominal GDP terms, the EIU estimate domestic GDP for 2022 to increase to USD9.45 billion (MK7.92 trillion) in 2022 from USD8.50 billion (MK6.83 trillion) in 2021.

Thereafter, the EIU expects economic growth to pick up gradually, increasing to an annual average of 3.7% between 2023 and 2026, on account of improvements in the performance of the mining sector due to strengthened backward and forward linkages that are essential for import substitution and internal growth, recovery in tourism and the commercialization of agriculture.

COVID-19 Status and Developments

The total cumulative confirmed COVID-19 cases increased to 85,640 as at March 2022 from 85,339 as at February 2022. Similarly, the cumulative COVID-19 related deaths increased to 2,626 as at 31 March 2022, from 2,615 as at 28 February 2022. These changes were accompanied by the daily positivity rate and the daily case fatality rate maintaining their positions at 1.3% and 3.1% respectively, during the period under review. The daily recovery rate increased to 93.8% as at March 2022 from 88.6% as at 28 February 2022.

Risks

The salient downside risks for the country are cessation of financing from regional development banks, depreciation of the Malawi Kwacha, higher inflation, lower than anticipated agricultural productivity, new waves of infection and a protracted COVID-19 pandemic, and inadequate power supply.

A sudden cessation of available financing from regional development banks poses risk to the outlook. The materialization of this risk could result in real exchange rate adjustments, compression of imports, dampen economic growth and negatively affect financial stability, as well as lower the living standards of the vulnerable population.

Global supply chain disruptions have induced global inflationary pressure. This poses domestic exchange rate risk and the risk of higher import prices. Although Malawi experienced lower domestic food prices due to a strong harvest in the immediate previous agricultural season, exchange rate depreciation and inflationary trends on imported commodities would put upward pressure on the country's already elevated fiscal deficit. In addition, the damage caused by tropical storms Ana, Dumako and Gombe could result in reduced agricultural output in the current agricultural season, leading to domestic food supply shortages and increases in food prices. Furthermore, the protracted Russia-Ukraine conflict continues to exert inflationary pressure on the global energy and commodities markets.

There is the risk that the agricultural productivity in the current agricultural season may be lower than anticipated. This could be as a result of implementation challenges of the Affordable Inputs Programme (AIP) and the negative effects of tropical storms. The challenges to AIP implementation included the backing out of fertiliser suppliers and calls by the World Bank for the government of Malawi for a downward revision of the budgetary allocation made to the programme. Additionally, the effects of tropical storms Ana, Dumako and Gombe may reverse prospective gains that AIP implementation may have spurred in the season. Furthermore, the country's agricultural productivity remains vulnerable to weather and climatic shocks, such as the recent consecutive tropical storms, due to the economy's dependence on rain-fed agriculture. The Famine Early Warning Systems Network (FEWSNET) indicated that the country is forecast to experience rainfall deficits in the current agricultural season.

The risk emergence of new, more transmissible COVID-19 variants, and the onset of more waves of infection enhances the risk of a protracted COVID-19 pandemic. The effects of these developments would negatively affect the outlook. This risk is heightened by the slow domestic pace of COVID-19 vaccine uptake, relative to global trends.

Compounding these risks, is the risk of power supply insufficiency. The current electricity production capacity remains below the level of national demand. Furthermore, the tropical storm Ana caused damage to some national electricity generation stations enhancing the gap between electricity demand and supply.

Economic overview

Inflation (Source: NSO, MERA, RBM)

Headline inflation increased to 13.0% in February 2022 from 12.1% in January 2022. This was on account of increases in both food and non-food inflation during the period under review.

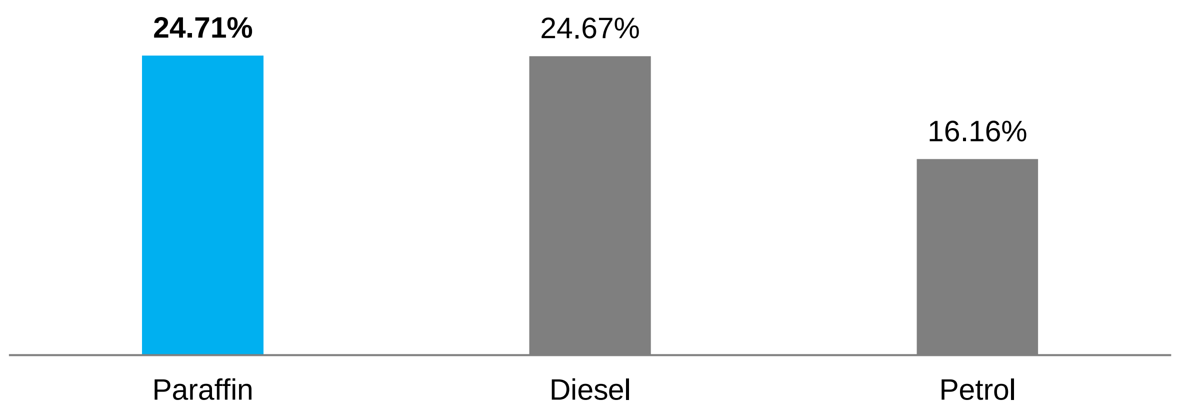
Food inflation increased to 15.3% from 14.2%, and non-food inflation increased to 10.1% from 9.6% during the period under review.

Month-on-month, headline inflation increased to 13.0% in February 2022 from 12.1% in January 2022. In February 2021, headline inflation was 8.3%. The month-on-month increase in headline inflation was on account of increases in both food and non-food inflation during the period under review. Food inflation increased to 15.3% in February 2022 from 14.2% in January 2022. Non-food inflation increased to 10.1% in February 2022 from 9.6% in January 2022. According to the National Statistical Office (NSO), the housing, water and electricity component of inflation increased by 2.6% between January 2022 and February 2022. It was the second largest increase in the components, exceeded by the change in the food component of inflation.

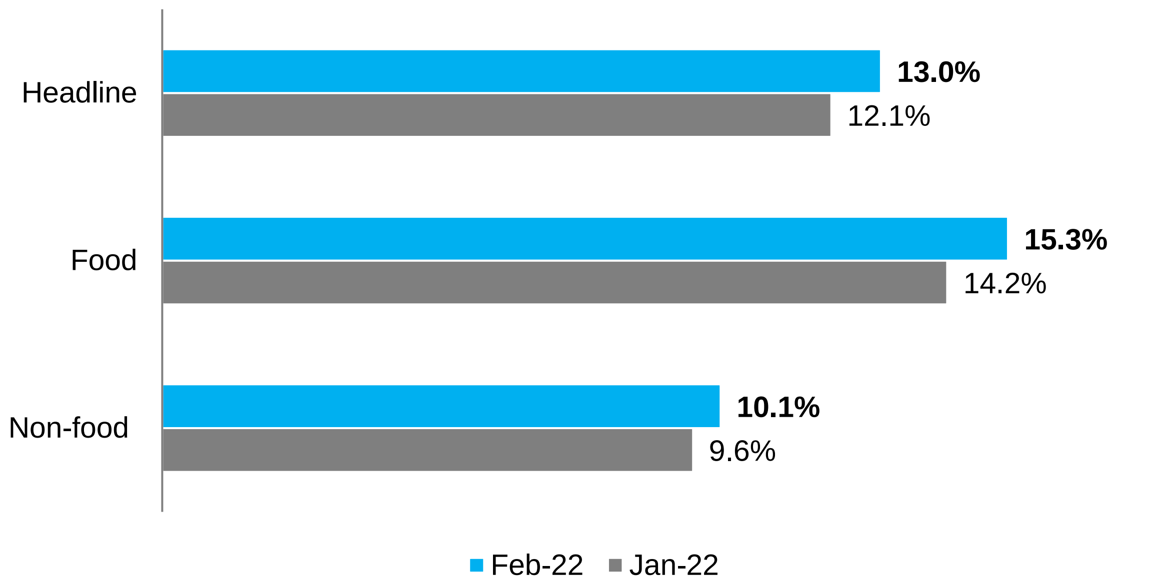
The Malawi Energy Regulatory Authority (MERA), based on its mandate to determine the prices of energy sales and services, announced that the landed costs of petroleum products, are affected by Free on Board (FOB) prices and the exchange rate of the Malawi Kwacha against the United States Dollar (USD). Since the establishment of the ruling maximum pump prices in October 2021, the landed costs of petrol, diesel and paraffin have increased by 16.16%, 24.67% and 24.71%, respectively. Following the approval of a new MERA Board by the Public Appointments Committee (PAC) of Parliament on 30 March 2022, the first task of the new MERA Board would be to review the fuel selling prices which have remained constant despite international prices surging.

At the first MPC meeting of 2022 held on 2 and 3 February 2022, the annual inflation projections for 2022 were revised upwards to 10.4% from 8.9% projected in the fourth MPC meeting of 2021. The upward adjustments are a reflection of seasonal increases in prices of domestically produced food items and imported inflation.

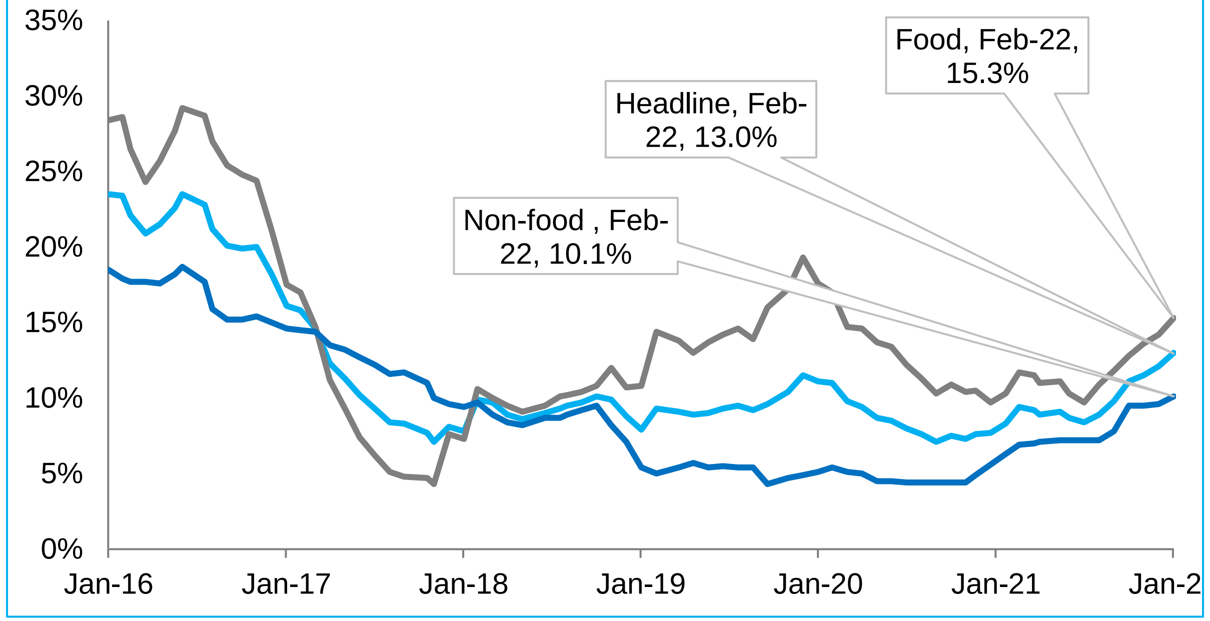
Percentage change in the landed costs as at 7 March 2022 (%)



Monthly Inflation figures (%)



Inflation trend (%)



Economic overview (Continued)

Government securities (Source: RBM)

The government awarded MK78 billion through TBs auctions in March 2022, an increase of 2% from MK77 billion awarded in February 2022.

The government awarded MK219 billion through TNs auctions in March 2022, an increase of 161% from MK84 billion awarded in February 2022.

Treasury Bills (TBs)

In March 2022, the government sought to borrow MK30 billion through Treasury Bills (TBs) auctions, a decrease of 73% from MK113 billion sought in February 2022. Participants applied to place MK79 billion through the TBs auctions in March 2022, an increase of 2% from MK77 billion applied for in February 2022. The applications had a rejection rate of 1% during the period under review, as the government awarded MK78 billion through TBs auctions in March 2022, an increase of 1% from MK77 billion awarded in February 2022.

Treasury Notes (TNs)

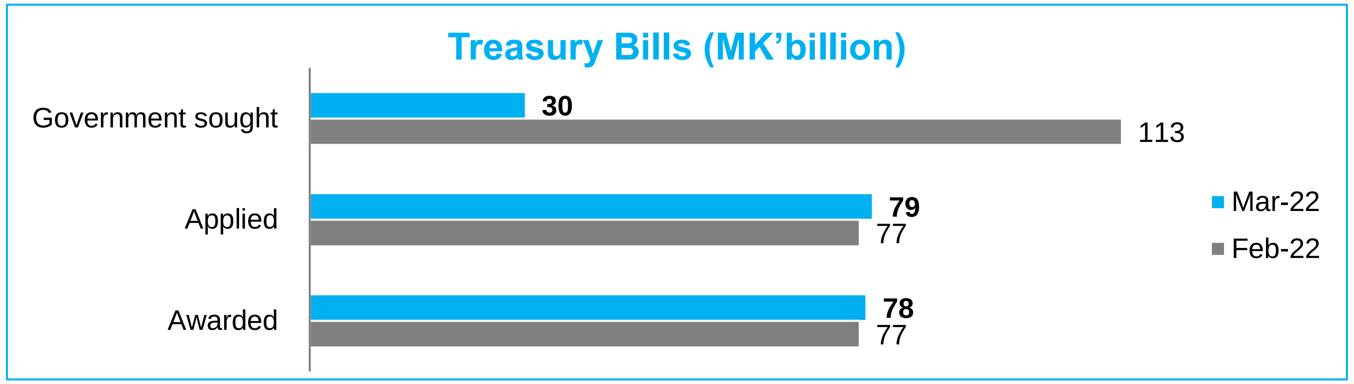
In March 2022, the government sought to borrow MK102 billion through Treasury Notes (TNs) auctions, a decrease of 13% from MK116 billion sought in February 2022. Participants applied to place MK224 billion through the TNs auctions, an increase of 166% from MK84 billion applications in February 2022. From the applications, the government awarded MK219 billion, an increase of 161% from MK84 billion awarded in February 2022. The applications had a 2% rejection rate during the period under review.

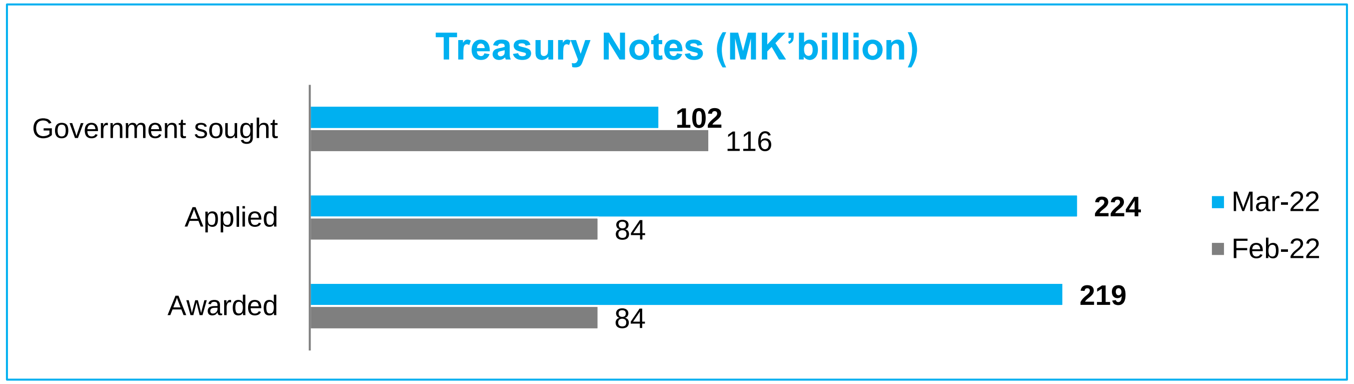
Government Securities Yield Curve

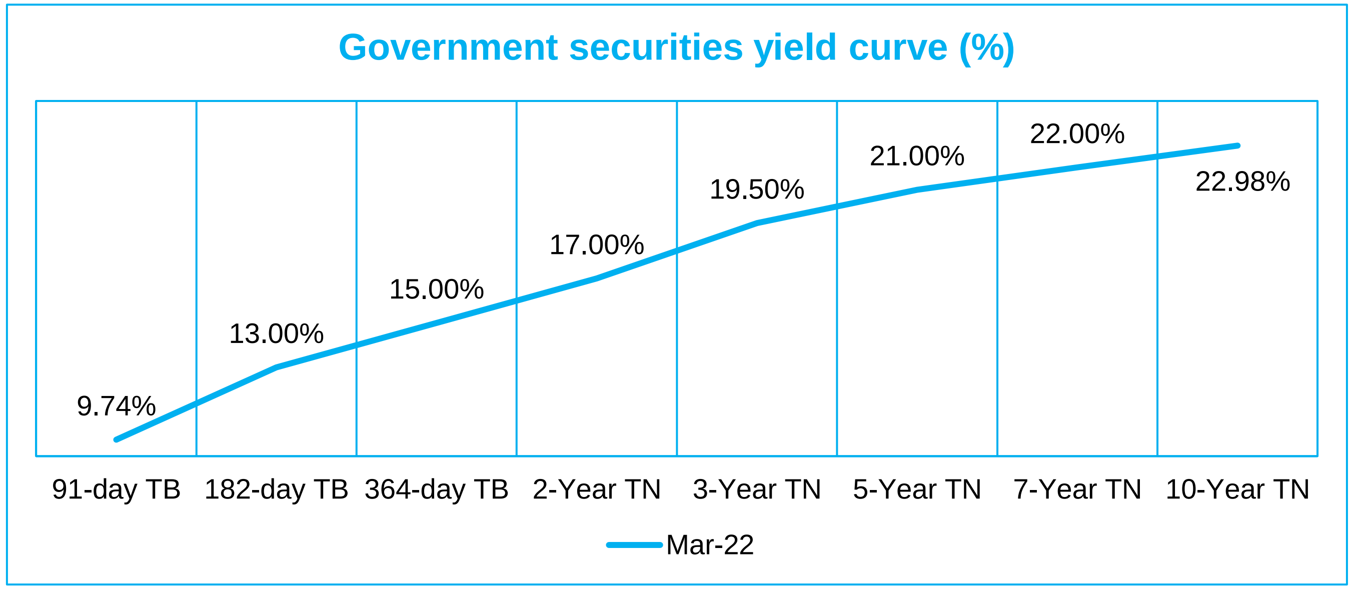
As at 31 March 2022, the yields for the 91-days TB and the 182-days TB marginally increased to 9.74% from 9.47%, and 13.00% from 12.99% as at 28 February 2022, respectively. The 364-days TB maintained its position at 15.00% during the period under review.

As at 31 March 2022, the yields for all the TN tenors marginally increased, except for the 10-year TN yield which maintained its position at 22.98% from 28 February 2022. The 2-year TN yield marginally increased to 17.00% from 16.70%, the 3-year TN yield marginally increased to 19.50% from 19.33%, the 5-year TN yield marginally increased to 21.00% from 20.78% and the 7-year TN yield marginally increased to 22.00% from 21.98% during the period under review.

The average Treasury Bill yield marginally increased to 12.58% in March 2022 from 12.49% in February 2022. Similarly, the average Treasury Note yield marginally increased to 20.50% from 20.35% during the period under review.







Foreign currency market and Foreign reserve position (Source: RBM)

Year-to-date, the Malawi Kwacha has marginally depreciated against the United States Dollar by 0.51%.

The gross official forex reserves in March 2022 were USD374.48 million, a decrease of 2.83% from USD385.40 million as at the close of February 2022. This translates to an import cover of 1.50 months as at the close of March 2022, a decrease of 2.60% from 1.54 months as at the close of February 2022.

Foreign currency market

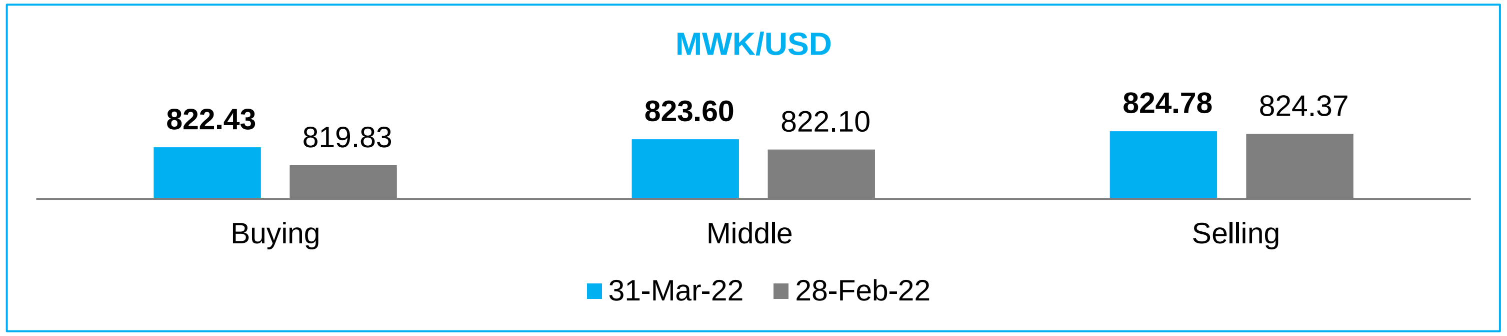
Month-on-month, the Kwacha marginally depreciated by 0.18% against the USD and traded at MK823.60/USD as at 31 March 2022, from MK822.10/USD as at 28 February 2022. Year-to-date, the Kwacha has marginally depreciated against the USD by 0.51% as it traded at MK819.44/USD as at 31 December 2021. During the same period in the previous year, the Kwacha had depreciated against the USD by 1.74%.

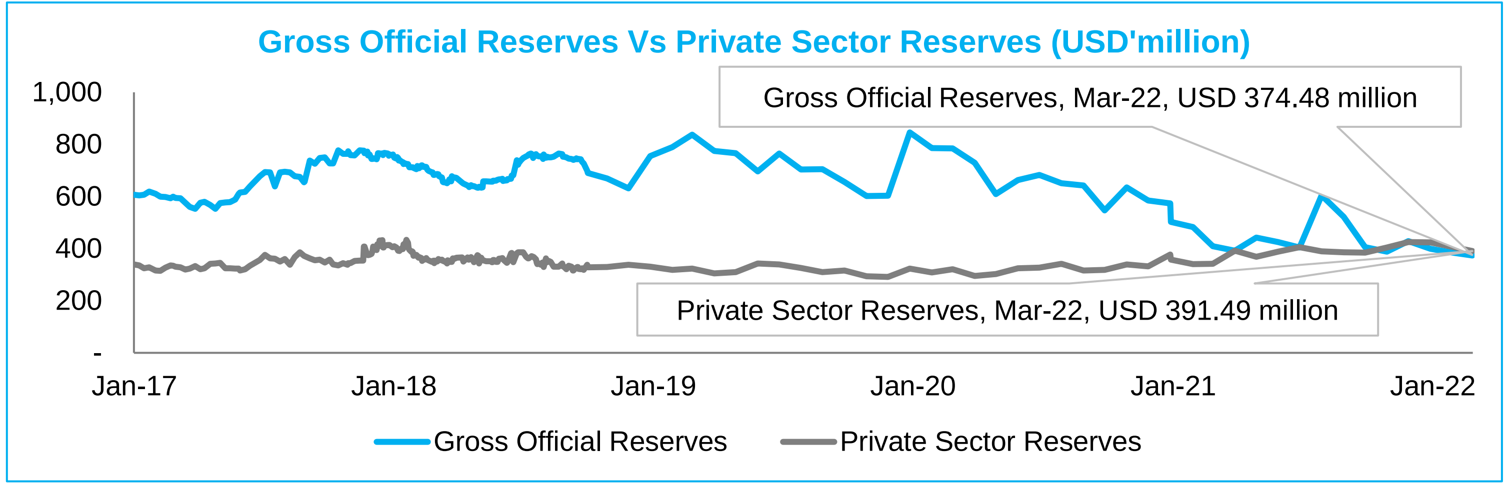
Foreign reserve position

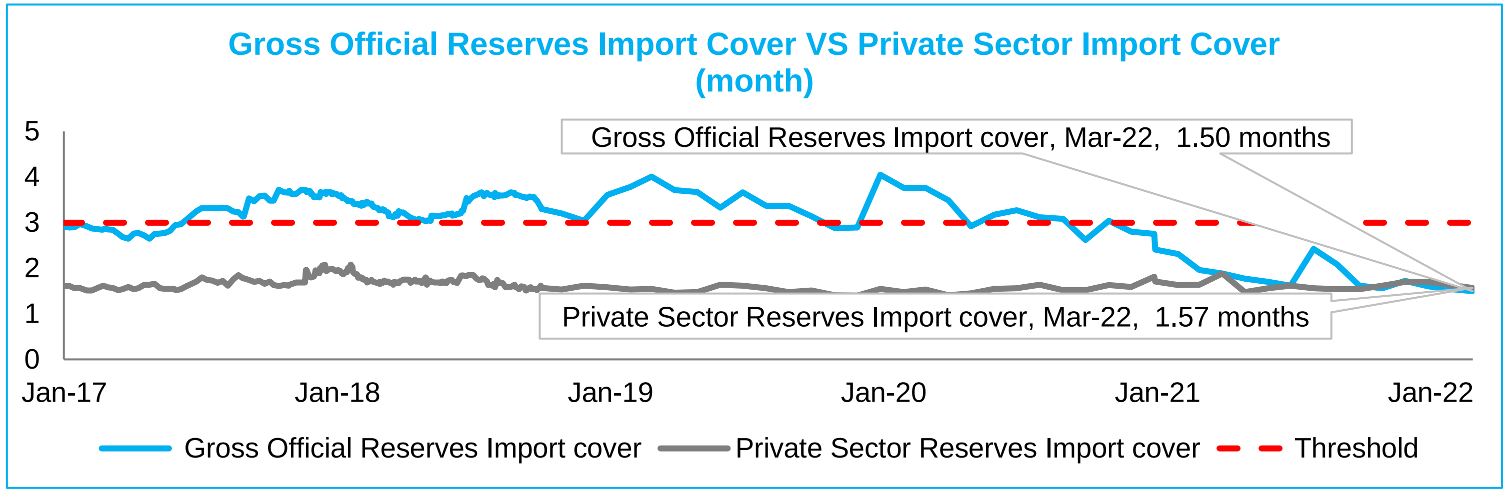
As at 31 March 2022, the country's gross official forex reserves decreased by 2.83% to USD374.48 million from a gross official reserve position of USD385.40 million as at 28 February 2022. The private sector forex reserves decreased by 3.86% to USD391.49 million as at 31 March 2022 from USD407.22 million as at February 2022. Overall, the total foreign exchange reserves held in March 2022 were USD765.97 million, a decrease of 3.15% from USD792.62 million in February 2022.

Import cover for gross official reserves for March 2022 was 1.50 months, a decrease of 2.60% from 1.54 months in February 2022. For private sector reserves, import cover decreased to 1.57 months, a decrease of 3.68% from 1.63 months in February 2022. The import cover for gross official reserves remained below the required threshold of 3 months as at 31 March 2022. The total foreign exchange reserves import cover decreased to 3.07 months in March 2022 from 3.17 months in February 2022.

	Gross Official (USD'million)	Private Sector (USD'million)	Gross Official import cover (months)	Private sector import cover (months)
Mar-22	**374.48**	**391.49**	**1.50**	**1.57**
Feb-22	385.40	407.22	1.54	1.63







USD – United States Dollar

NB: The reported closing rates are actual trade-weighted market average Telegraphic Transfer rates.

Economic overview (Continued)

Stock market (Source: MSE)

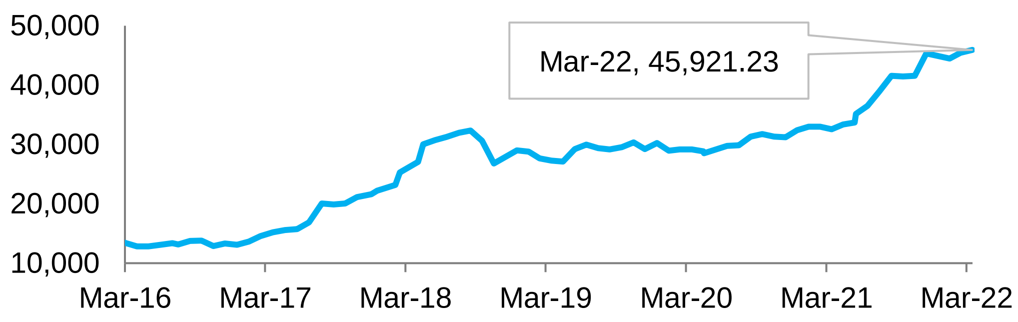
The stock market was marginally bullish during the period under review with the MASI closing the month of March 2022 at 45,921.23 points from 45,472.09 points in February 2022. Month-on-month, this represents an increase of 0.99%.

The MASI year-to-date return was 1.22% in March 2022, and it was 0.53% during the same period in the previous year.

The stock market was marginally bullish over the period with the Malawi All Share Index (MASI) increasing by 0.99% to 45,921.23 points in March 2022, from 45,472.09 points in February 2022. Year-to-date, the return on the MASI is 1.22%, it was 0.53% during the same period in the previous year.

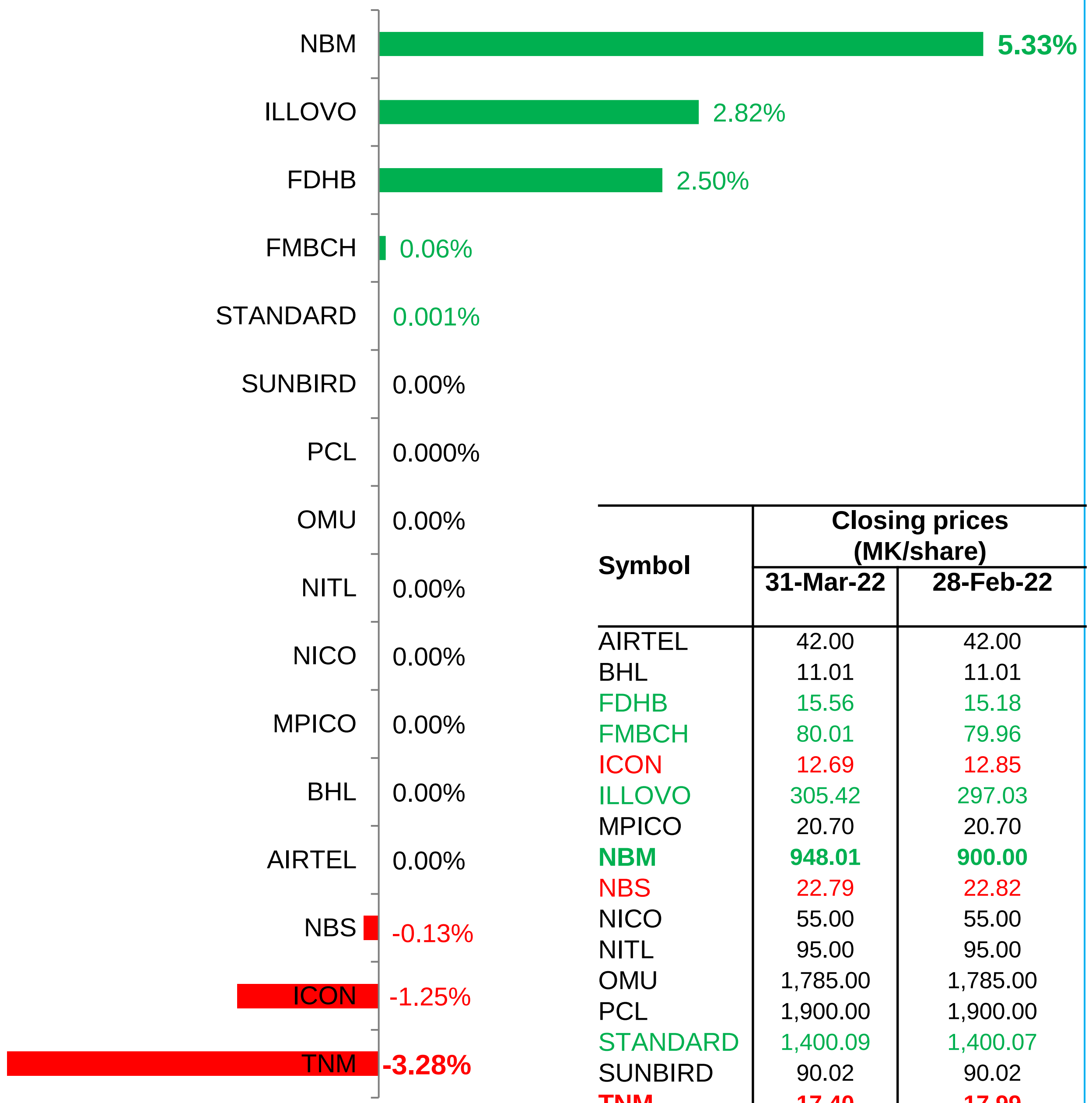
The largest gainer was NBM whose share price increased by 5.33% to MK948.01 per share in March 2022, from MK900.00 per share in February 2022. There were share price gains for ILLOVO and FDH Bank, as well as marginal share price gains for FMBCH and Standard Bank during the period. Eight counters closed the month at the same prices as the previous month. These counters were: Sunbird, PCL, OMU, NITL, NICO, MPICO, BHL and AIRTEL. The largest loser in March 2022 was TNM whose share price decreased by 3.28% to MK17.40 per share, from MK17.99 per share in February 2022. There was a share price loss for ICON as well as a marginal share price loss NBS during the period under review.

Malawi All Share Index (MASI)



MASI year-to-date Return (%)

Month-on-month Share Price Gains/Losses (%)



Symbol	Closing prices (MK/share) 31-Mar-22	Closing prices (MK/share) 28-Feb-22
AIRTEL	42.00	42.00
BHL	11.01	11.01
FDHB	15.56	15.18
FMBCH	80.01	79.96
ICON	12.69	12.85
ILLOVO	305.42	297.03
MPICO	20.70	20.70
NBM	**948.01**	**900.00**
NBS	22.79	22.82
NICO	55.00	55.00
NITL	95.00	95.00
OMU	1,785.00	1,785.00
PCL	1,900.00	1,900.00
STANDARD	1,400.09	1,400.07
SUNBIRD	90.02	90.02
TNM	**17.40**	**17.99**

Economic overview (Continued)

Stock market (Source: MSE)

The total value of shares traded increased by 28% in March 2022 to MK1.79 billion from MK1.40 billion traded in February 2022.

In March 2022, there were no trades registered in the listed debt market. The last trades were in April 2021.

ILLOVO expects its profit for the period ended 28 February 2022 to be MK8.87 billion, an increase of 45% from a profit of MK6.12 billion for the same period in the previous year.

According to their summary audited results for the year ended 31 December 2021, NITL Plc closed the period with a profit after tax of MK4.67 billion, an increase of 216% from MK1.48 billion in the previous year.

MSE Traded Volumes

There was MK1.79 billion worth of shares traded in March 2022, an increase 28% from MK1.40 billion worth of shares traded in February 2022. TNM and PCL had the highest value of shares traded at MK385 million and MK261 million respectively, during the period under review. The total number of trades in the month under review decreased to 306 trades from 267 trades in February 2022. The figure below traces the total value of shares traded on the MSE in March 2022.

Value of shares traded (MK'billion)

Listed Debt market

There were no trades registered in the listed debt market for the month of February 2022.

Listed Debt Market Nominal value (MK'trillion) – the total nominal value of all the listed debt securities was MK1.55 trillion as at 31 March 2022.

USD: United States Dollar
AFS: Audited Financial Statements
PAT: Profit After Tax (12 months/Full year)

Corporate Announcements

Financial year Trading Statements

The following companies wish to advise the public that their profit/loss after tax for the financial year is expected to be higher or lower than the previous corresponding period by the specified amount.

Amounts in billions of Malawi Kwacha unless specified otherwise.

Counter	Expected PAT 2021	AFS PAT 2020	Trading statement profit/loss expectation
Press Corporation Plc	29.8	19.9	50%
FMBCH Plc (USD'million)	29.8	21.3	40%
Airtel Malawi Plc	29.82	22.09	35%
MPICO plc	6.08	4.34	40%
BHL plc	(0.87)	(0.45)	(93%)
TNM plc	9.28	7.73	20%
NBM plc	29.19	22.45	30%
NBS plc	8.46	7.05	20%

Latest Summary Published Accounts

Amounts in billions of Malawi Kwacha unless specified otherwise.

Counter	31 December 2021	31 December 2020	Actual Change in Profit/Loss
Standard Bank	24.77	23.74	4%
Old Mutual (ZAR'billion)	7.21	5.09	42%
Sunbird Tourism Plc	0.75	(1.18)	164%
NITL Plc	4.67	1.48	216%

Half year Trading Statements

The following companies wish to advise the public that their profit/loss after tax for the half year is expected to be higher or lower than the previous corresponding period by the specified amount.

Counter	Expected profit/(loss) for the half year ending 28 February 2022	Actual profit/(loss) for the half year ended 28 February 2021	Trading statement profit/(loss) expectation
Illovo (MK'billion)	8.87	6.12	45%

Dividends

Counter	Dividend type	Proposed/ declared	Dividend per share (MK)	Last day to register	Date of payment
OMU	Final	Proposed	27.10	19 April 2022	23 May 2022
Standard Bank	Final	Proposed	8.52	TBA	TBA
NITL	Final	Proposed	2.25	TBA	TBA

TBA: To be announced

Other Market Developments

Fiscal Policy and Monetary Policy (Source: Malawi Government, RBM, EIU)

The 2022/23 national budget is projected to have a deficit of MK884 billion as total expenditure and total revenue and grants are projected at MK2.84 trillion and MK1.96 trillion, respectively.

The Monetary Policy Committee (MPC) maintained the Policy rate at 12% during its first meeting of 2022.

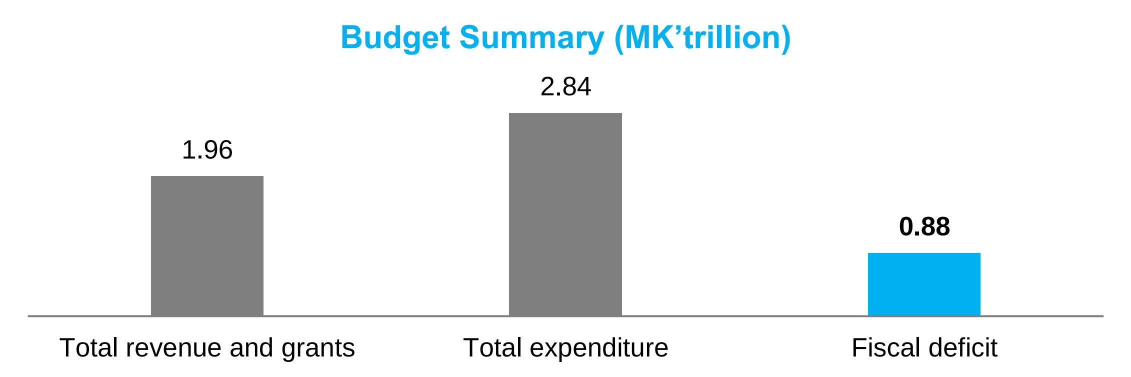
2022/23 National Budget

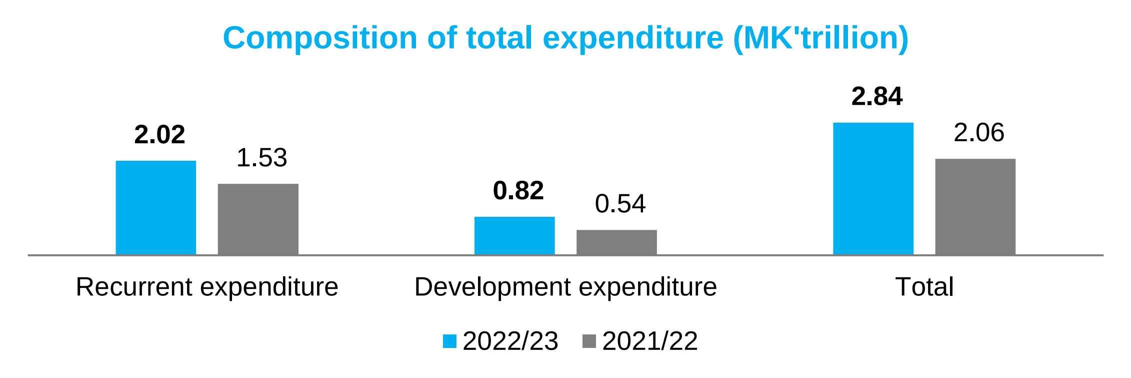
The 2022/23 national budget was passed by the parliament on 23 March 2022 and will be implemented from 1 April 2022 to 31 March 2023. The 2022/23 national budget was passed without any changes being implemented. It is aimed at aiding the economy in recovery from the slowdown in economic growth that was caused by the COVID-19 pandemic. The national budget seeks to achieve this by pursuing fiscal consolidation, public debt management, fiscal discipline, export diversification and import substitution in order to promote local manufacturing.

Total revenue and grants for the 2022/23 fiscal year are projected at MK1.96 trillion, an increase of 58% from a total of MK1.24 trillion in the 2021/22 national budget. Similarly, the 2022/23 projected total revenue and grants represent 17.2% of GDP, an increase of 5.1 percentage points from a proportion of 12.1% of GDP represented by the total revenue and grants for the 2021/22 fiscal year. Similarly, for the 2022/23 fiscal year, grants are projected at MK320.3 billion, an increase of 130% from MK139.0 billion for the 2021/22 fiscal year. The EIU expects revenue collection to remain subdued on account of a slow recovery in the country's key sectors including agriculture and tourism. As the agricultural and tourism sectors recover in the fiscal years 2024/25-2025/26, the EIU expects the tax base to expand, resulting in a modest recovery in government revenue, improvement in tax collection and budgetary support that is likely to follow from an International Monetary Fund (IMF) programme.

The total expenditure for the 2022/23 fiscal year is projected at MK2.84 trillion, an increase of 38% from a total expenditure value of MK 2.06 trillion in the 2021/22 fiscal year. Similarly, the total expenditure projected for the 2022/23 fiscal year represents 24.9% of GDP, an increase of 4.8 percentage points from a proportion of 20.1% represented by the total expenditure in the 2021/21 fiscal year. The increase in projected expenditure is on account of increases in the projected recurrent and development expenditure for the 2022/23 fiscal year. The EIU expects expenditure to remain elevated, at more than 30% of GDP between 2021 and 2026. This is forecast on the back of the government's poverty reduction mandate and large public-sector wage bill. It further expects that the government will reduce its allocation to subsidies as part of an IMF programme agreement, therefore gradually reducing expenditure as a proportion of GDP.

The overall fiscal deficit for the 2022/23 fiscal year is projected at MK884 billion, an increase of 7% from a revised fiscal deficit of MK825 billion in the 2021/22 fiscal year. The fiscal deficit for the 2022/23 fiscal year represents 7.7% of GDP, a decrease from a proportion of 8% of GDP represented by the 2021/22 fiscal deficit. The EIU expects a budget deficit of 8.5% of GDP in the 2022/23 fiscal year and for the deficit to narrow to 7.1% of GDP in 2023/24 fiscal year.





Monetary Policy

During the first MPC meeting of 2022 held on 2 and 3 February 2022, the MPC decided to maintain the Policy rate at 12%; 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. This is based on inflationary pressures that are emanating from transitory sources and the need for policy support to entrench domestic economic recovery.

The EIU expects the MPC to revise the Policy rate upward at its second meeting. This is on account of increases in inflation to 12.1% in January 2022 and to 13.0% in February 2022. Due to the Kwacha's depreciation and inflation remaining higher than the RBM's target of 5% (±2%), the EIU forecasts no room for further easing. Furthermore, the EIU expects other small rate increases over the 2023-26 period on the back of inflationary pressure.

Special Topic: Foreign Exchange and Foreign Exchange Reserves

(Source: RBM, IMF)

Foreign exchange rates are the price at which one currency can be traded for another.

In August 2021, the RBM re-introduced an export incentive scheme that allowed exporters to retain a proportion of their export proceeds in their Foreign Currency Denominated Accounts (FCDAs) while selling the remainder to authorized dealer banks (ADBs).

What are foreign exchange rates

Foreign exchange rates are the price at which one currency can be traded for another. For instance, this could be the price of the Malawi Kwacha (MK) compared to the price of the South African Rand (ZAR). There are two ways in which the foreign exchange rate is quoted; directly and indirectly. On one hand, a direct foreign exchange rate quote is when one unit of a foreign currency is expressed in terms of the domestic currency. For instance, the direct exchange rate for the Malawi Kwacha to South African Rand as at 24 March 2022, was MK68.76/ZAR. This means that MK68.76 is equal to ZAR1. On the other hand, an indirect foreign exchange rate quote is when one unit of the domestic currency is expressed in terms of a foreign currency. Using the same currency pair, the indirect exchange rate for the Malawi Kwacha to the South African Rand would be ZAR0.015/MK. This means, ZAR0.015 is equal to MK1.00. Typically, foreign exchange rates are quoted directly.

Central Bank intervention

The Central Banks of economies may intervene in the foreign exchange markets in order to achieve various overall economic objectives. For example, the Reserve Bank of Malawi (RBM), Malawi's Central Bank, may intervene in the foreign exchange market with the aim of controlling inflation, influencing the level of the exchange rate, reducing the volatility of the foreign exchange rate, reducing foreign exchange supply liquidity challenges and influencing the level of foreign reserves available.

Central Banks can use a variety of interventions for maintaining the value of the exchange rate and these include, but are not limited to, adopting a fixed or floating exchange rate regime and managing a foreign exchange reserve. The adoption of fixed exchange rate regime entails continued intervention by the authority to maintain the exchange rate at a predetermined level. While the adoption of a floating exchange rate regime entails enabling the exchange rate to be determined by supply and demand dynamics in the foreign exchange market, without direct intervention by the authority. Furthermore, foreign exchange reserves may be accumulated during period of excess supply and used in periods of excess demand to cushion the effect of foreign exchange scarcity in those periods.

The RBM implements a floating exchange rate regime and seeks to maintain reserves with a minimum import cover requirement of three months as the threshold. To this end, the foreign exchange reserves that are under the direct control of the RBM are referred to as gross official foreign exchange reserves, while the foreign exchange reserves that are under the direct control of authorized dealer banks (ADBs), are referred to as private sector foreign exchange reserves. The minimum monthly import requirement for both reserves is USD250 million (MK206.05 billion), it was revised upward from USD209 million in May 2021.

Malawi's Foreign Exchange Reserve position

In terms of the foreign exchange reserves position, the gross official foreign exchange reserves peaked at USD846.55 million in December 2019. Between December 2019 and July 2021, the gross official reserves declined to USD404.18 million, a decrease of 52% over the period. As at July 2021, the reserves represented 1.62 months worth of import cover, well below the three-month minimum requirement. The decline was partly influenced by the negative effects of the COVID-19 outbreak in 2020 that depressed global and domestic economic activity. Over the same period, the private sector foreign exchange reserves increased to USD405.79 million in July 2021, an increase of 25% from USD324.07 million in December 2019.

In August 2021, the International Monetary Fund (IMF), implemented a general Special Drawing Rights (SDR) allocation worth SDR23.93 billion (USD340 billion) to its member countries. Malawi was allocated SDR133 million (USD189 million) which boosted the country's gross official foreign exchange reserve position to USD604.50 million in August 2021. Despite the increase, the reserves remained below the three-month minimum requirement.

At the same time, in August 2021, the RBM re-introduced an export incentive scheme that allowed exporters to retain a proportion of their export proceeds in their Foreign Currency Denominated Accounts (FCDAs) while selling the remainder to ADBs. The scheme was initially implemented in 1994 and required exporters to retain 10% of their export proceeds while selling the remaining 90% to ADBs. The scheme was gradually adjusted and eventually abolished in March 2015. Its re-introduction in August 2021 was on account of tightness in the foreign exchange market. In its re-introduced form, the scheme required exporters to retain 70% of their export proceeds while selling the remaining 30% to an ADB of their choice within 2 days of receipt of the proceeds. This was done to improve the country's foreign exchange reserve position. This scheme helped to boost and sustain the private sector foreign exchange reserve position while the gross official foreign exchange reserve position continued to deteriorate during the period of the scheme's implementation.

(Source: RBM, IMF)

From 25 March 2022, the RBM revised the requirements for the mandatory sale of export proceeds from being sold to ADBs, to being directly sold to the RBM through receiving ADBs.

Malawi's Foreign Exchange position (Rates and Reserves) (Continued)

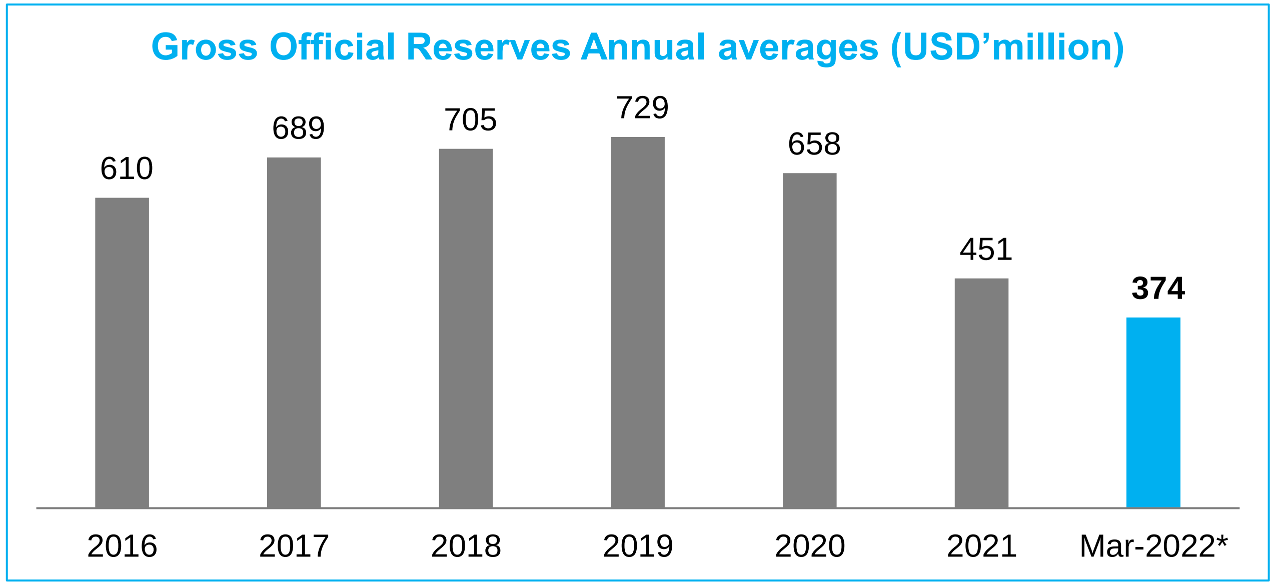
As alluded to earlier, the country's gross official foreign exchange reserve position has declined to USD374.48 million as at the end of March 2022. With this view, from 25 March 2022, the RBM revised the requirements for the mandatory sale of export proceeds from being sold to ADBs, to being directly sold to the RBM through receiving ADBs. The proportions and the time period within which they are expected to make the sale remain as stipulated in the August 2021. The revision of the requirements was implemented to ensure foreign exchange availability on the market through rebuilding the gross official foreign exchange reserves.

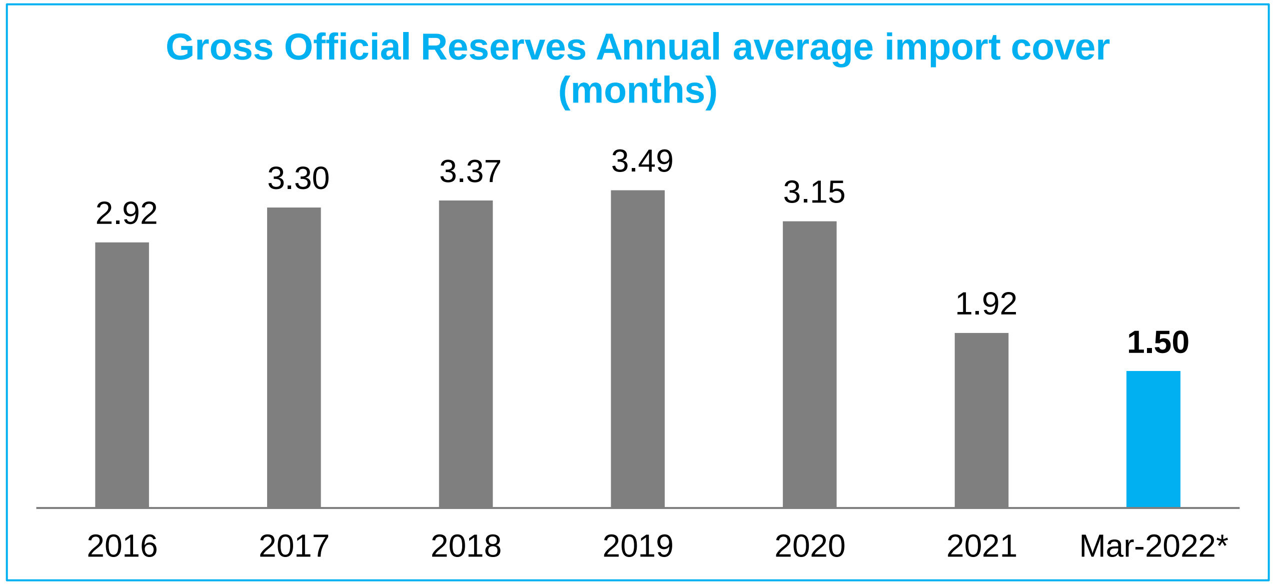
Purpose of rebuilding foreign exchange reserves

Rebuilding the foreign exchange reserve position would help with maintaining liquidity. This means that the country can still engage in international trade if there was no inflow of foreign currency. This could be from the lack of trade of domestically produced goods and service on the international market. If for instance, the effects of the tropical storms dampened the agricultural productivity in the current season, such that the proceeds earned from the international sale of the domestically produced commodities was insufficient for the economy's importing needs, the foreign exchange reserves could be used to cover the deficit.

The foreign exchange reserves would also permit the country to meet its external obligations such as sovereign and commercial debt re-payments. With external debt for the 2022/23 fiscal year projected at MK230 billion, a revamped foreign exchange reserve position would help to cater to that debt repayment whenever repayments are due.

Furthermore, as part of the IMF's Article IV review of Malawi, the IMF advised that allowing for greater flexibility in the exchange rate, containing external imbalances, and rebuilding the foreign exchange reserves are critical in reducing the country's vulnerabilities to external shocks.





*: End of month figures

Global oil developments (Source: OPEC, International Energy Agency)

The monthly average OPEC Reference Basket (ORB) price increased by 20.8% to a monthly average of USD113.48/barrel in March 2022 from USD93.95/barrel in February 2022.

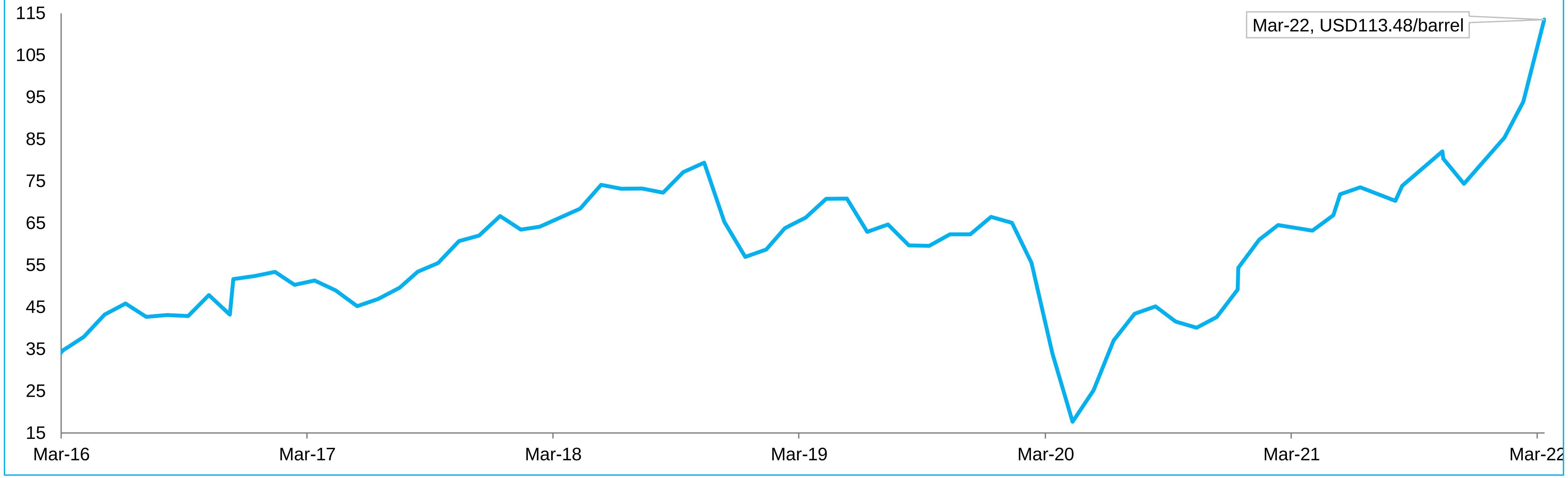
Month-on-month, the monthly average OPEC Reference Basket (ORB) price increased by 20.8% to a monthly average of USD113.48/barrel in March 2022 from a monthly average of USD93.95/barrel in February 2022. Similarly, the monthly average ORB price has increased by 75.8% year-on-year as it was USD66.91/barrel in March 2021.

According to the International Energy Agency (IEA), due to the expectation that the surging commodity prices and sanctions levied against Russia after its invasion of Ukraine will likely result in a decline of global economic growth, the IEA revised its forecast for word oil demand by 1.3mb/d for the period between the second and fourth quarter of 2022. This results in a slower growth forecast for 2022 at an average of 950kb/d. However, total demand in 2022 is projected at 99.7mb/d, an increase of 2.1mb/d from 2021 demand.

Furthermore, the likelihood of large-scale supply disruptions to Russian oil production is threatening to create a global oil supply shock. This is exacerbated by OPEC+ continuing to stick to its agreement to increase production amounts only modestly on a monthly basis. Of the OPEC member countries, Saudi Arabia and the United Arab Emirates (UAE) hold substantial spare capacity that could immediately help to offset a Russian supply shortfall.

Additionally, the Organisation of Economic Co-operation and Development (OECD) total industry stocks were drawn down by 22.1 mb in January 2022. At 2,621 mb, the inventories were 335.6 mb below the 2017-2021 average and simultaneously at their lowest level since April 2014. The industry stocks covered 57.2 days of forward demand, which is a year-on-year decline by 13.6 days.

Monthly average OPEC Reference Basket Price (USD/barrel)



COVID-19 Update

Latest COVID-19 statistics and vaccination developments (Source: Malawi Ministry of Health)

As at 31 March 2022, 5% of the Malawian population had been fully vaccinated against COVID-19 infection.

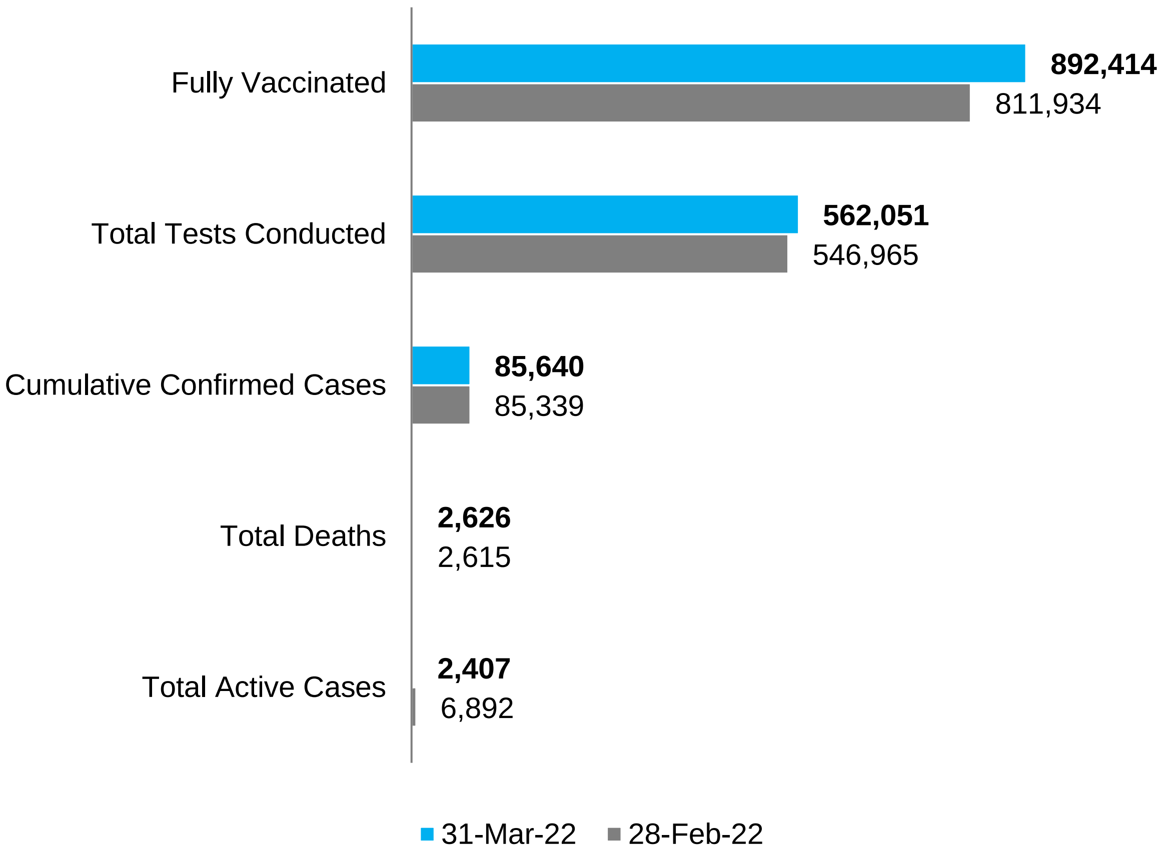
As at 31 March 2022 892,414 individuals had been fully vaccinated against the COVID-19 virus, an increase of 9.9% from 811,934 individuals fully vaccinated in February 2022.

As at the end of March 2022, 892,414 individuals has been fully vaccinated against the COVID-19 virus in Malawi. This is an increase of 9.9% from 811,934 individuals fully vaccinated in February 2022. The number of fully vaccinated individuals represents 5% of the Malawian population. The Ministry is targeting to vaccinate 60% of the Malawian population by December 2022. This is aimed at reaching herd immunity which would result in the protection of the entire population.

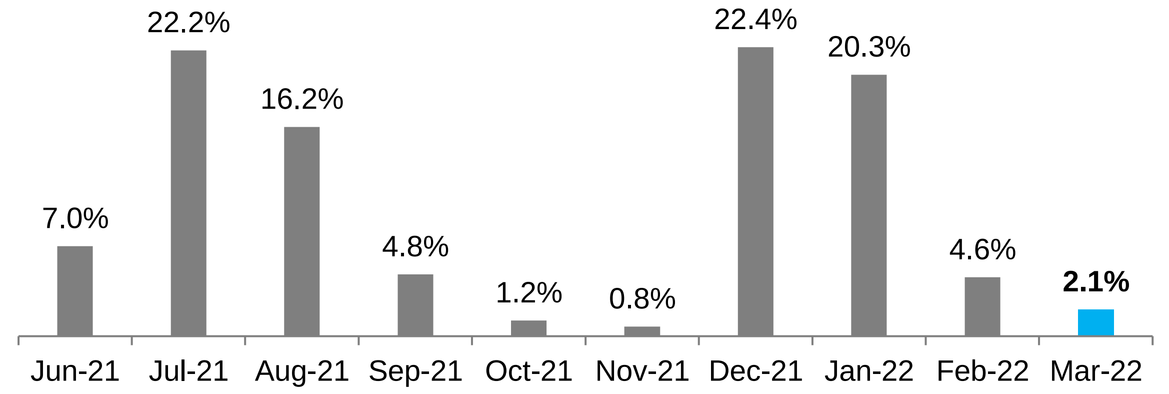
The total cumulative confirmed COVID-19 cases increased to 85,640 as at 31 March 2022 from 85,339 as at 28 February 2022. Similarly, the cumulative COVID-19 related deaths increased to 2,626 in March 2022 from 2,615 in February 2022. These changes were accompanied by the daily positivity rate and the daily case fatality rate maintaining their positions at 1.3% and 3.1% respectively, during the period under review. The daily recovery rate increased to 93.8% as at March 2022 from 88.6% as at 28 February 2022.

Looking at monthly averages, the monthly average positivity rates decreased to 2.1% in March 2022 from 4.6% in February 2022. The monthly average case fatality rate marginally increased to 3.1% in March 2022 from 3.0% in February 2022. The monthly average recovery rate increased to 90.6% in March 2022 from 85.8% in February 2022.

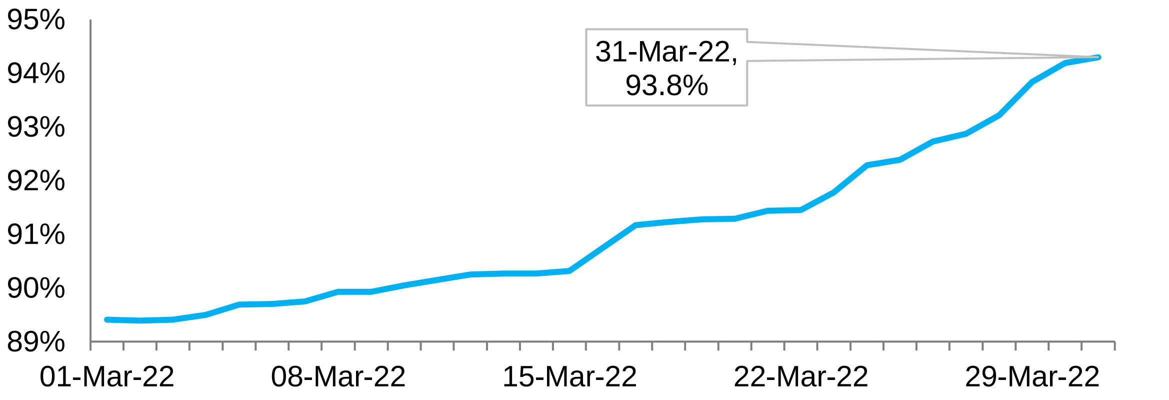
COVID-19 Statistics as at 31 March 2022



Monthly average positivity rate (%)



Daily recovery rates (%)



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Appendix

Appendix 1: Historical Economic Indicators

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	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22
Exchange rates																
MK/USD	776.82	776.49	787.03	790.30	797.66	800.17	811.95	817.43	820.40	822.17	821.34	822.88	819.44	822.81	822.10	**823.60**
MK/GBP	1,070.14	1,107.24	1,140.90	1,139.62	1,164.37	1,191.58	1,192.94	1,203.74	1,196.67	1,168.72	1,201.21	1,194.23	1,208.01	1,211.73	1,283.92	**1,214.22**
MK/EUR	987.95	991.78	1,006.72	993.04	1,035.48	1,042.52	1,042.52	1,048.56	1,044.60	1,026.14	1,037.74	1,099.91	1,138.41	1,072.50	1,170.30	**1,031.32**
MK/ZAR	56.43	54.60	55.69	56.13	59.33	62.28	62.28	60.79	60.90	58.90	59.04	57.21	57.68	61.82	64.84	**66.90**
Foreign Exchange Reserves																
Gross Official Reserves (USD'mn)	574.26	502.98	483.38	410.16	392.01	443.25	424.99	404.18	604.50	521.87	405.66	389.26	429.17	399.98	385.40	**374.48**
Private Sector Reserves (USD'mn)	377.97	358.29	340.50	342.58	392.61	369.64	388.78	405.79	389.47	386.05	384.75	404.81	425.52	424.49	407.22	**391.49**
Total reserves (USD'mn)	952.23	861.27	823.88	752.74	784.62	812.89	813.77	809.97	993.97	907.92	790.41	794.07	854.69	824.47	792.62	**765.97**
Gross Official Reserves Import cover (months)	2.75	2.41	2.31	1.96	1.88	1.77	1.70	1.62	2.42	2.09	1.62	1.56	1.72	1.60	1.54	**1.50**
Inflation																
Headline	7.60%	7.70%	8.30%	9.40%	9.2%	8.9%	9.1%	8.7%	8.4%	8.9%	9.8%	11.1%	11.5%	12.1%	13.0%	-
Food	10.50%	9.70%	10.30%	11.70%	11.5%	11.0%	11.1%	10.3%	9.7%	10.9%	11.8%	12.8%	13.6%	14.2%	15.3%	-
Non-food	4.90%	5.60%	6.30%	6.90%	7.0%	7.1%	7.2%	7.2%	7.2%	7.2%	7.8%	9.5%	9.5%	9.6%	10.1%	-
Interest Rates																
Monetary Policy rate	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	**12.00%**
Average Interbank rate	11.41%	11.34%	10.67%	11.37%	11.72%	11.92 %	11.94%	11.96%	11.97%	11.98%	11.98%	11.98%	11.98%	11.15%	11.70%	**11.70%**
Average base lending rate	12.30%	12.10%	12.00%	11.90%	12.10%	12.10%	12.20%	12.20%	12.20%	12.20%	12.20%	12.20%	12.20%	12.20%	12.20%	**12.20%**
Government Securities' Yields																
91-days Treasury Bill	9.95%	9.95%	9.95%	9.95%	9.88%	9.98%	9.62%	9.33%	9.60%	9.59%	9.60%	9.58%	9.70%	9.70%	9.47%	**9.74%**
182-days Treasury Bill	12.49%	12.59%	12.80%	12.80%	12.77%	12.80%	12.81%	12.96%	12.96%	12.98%	12.98%	12.98%	13.00%	13.00%	12.99%	**13.00%**
364-days Treasury Bill	13.53%	13.64%	13.77%	13.80%	13.80%	13.83%	13.87%	13.90%	14.08%	14.20%	14.20%	14.30%	14.54%	15.00%	15.00%	**15.00%**
2-year Treasury Note	16.46%	16.50%	16.50%	16.50%	16.50%	16.51%	16.65%	16.63%	16.63%	16.63%	16.64%	16.64%	16.64%	16.70%	16.70%	**17.00%**
3-year Treasury Note	18.30%	18.56%	18.66%	18.66%	18.80%	18.80%	18.97%	19.00%	18.99%	18.99%	18.99%	19.00%	19.04%	19.04%	19.33%	**19.50%**
5-year Treasury Note	19.77%	19.95%	19.97%	19.98%	19.98%	19.98%	20.08%	20.25%	20.09%	20.26%	20.44%	20.53%	20.35%	20.78%	20.78%	**21.00%**
7-year Treasury Note	20.00%	20.00%	20.50%	20.50%	20.50%	20.50%	20.59%	20.98%	21.36%	21.36%	21.36%	20.94%	20.94%	20.94%	21.98%	**22.00%**
10-year Treasury Note	22.50%	22.50%	22.50%	22.50%	22.50%	22.50%	21.85%	22.54%	23.01%	23.25%	23.00%	22.50%	22.50%	22.98%	22.98%	**22.98%**
Stock Market Indices																
MASI	32,392.84	32,988.58	33,009.75	32,562.96	33,380.63	33,676.89	35,144.56	36,496.03	38,945.62	41,681.86	41,458.37	41,565.98	45,367.68	44,501.63	45,472.09	**45,921.23**
DSI	27,755.46	28,090.02	28,108.19	27,710.72	28,257.89	28,376.03	28,739.26	29,749.56	31,929.22	34,383.73	34,188.36	34,284.11	37,061.70	36,322.34	37,186.63	**37,584.34**
FSI	1,363.88	1,613.58	1,614.45	1,614.33	1,844.72	2,030.51	3,234.45	3,479.97	3,479.97	3,454.70	3,450.25	3,450.24	4,223.15	4,183.22	4,182.23	**4,184.71**

Appendix 2: Selected stock market statistics as at 31 March 2022

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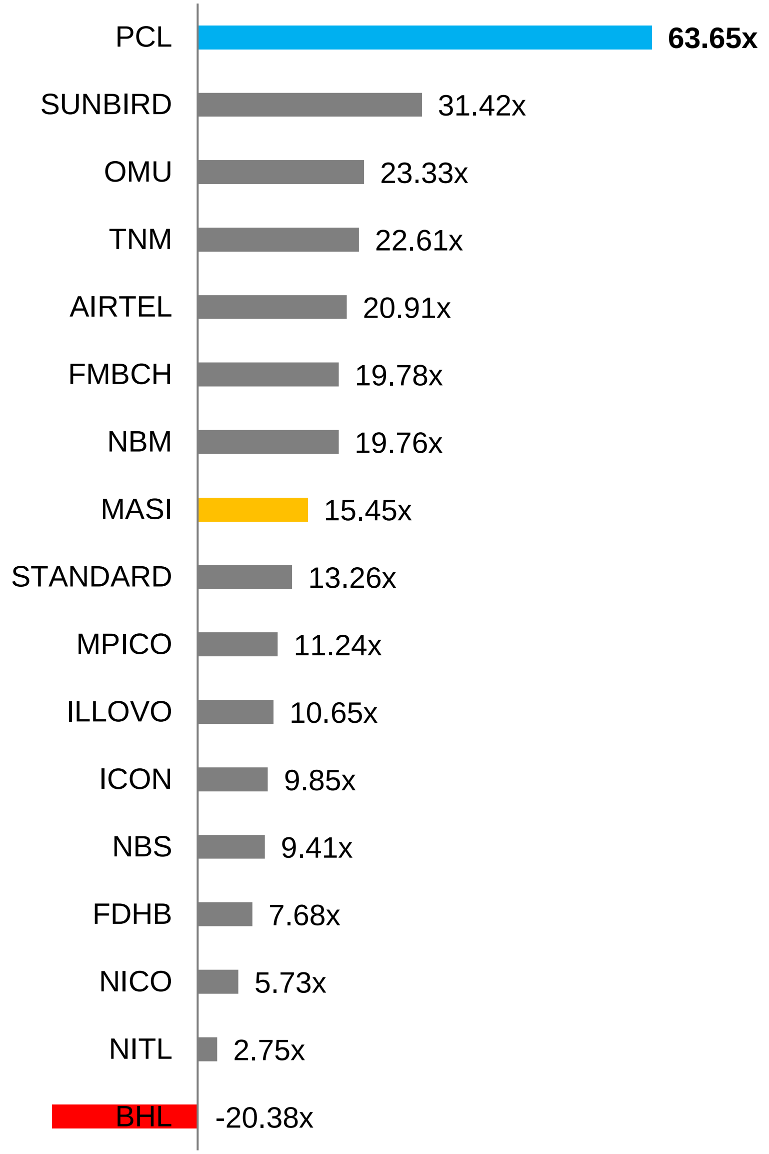
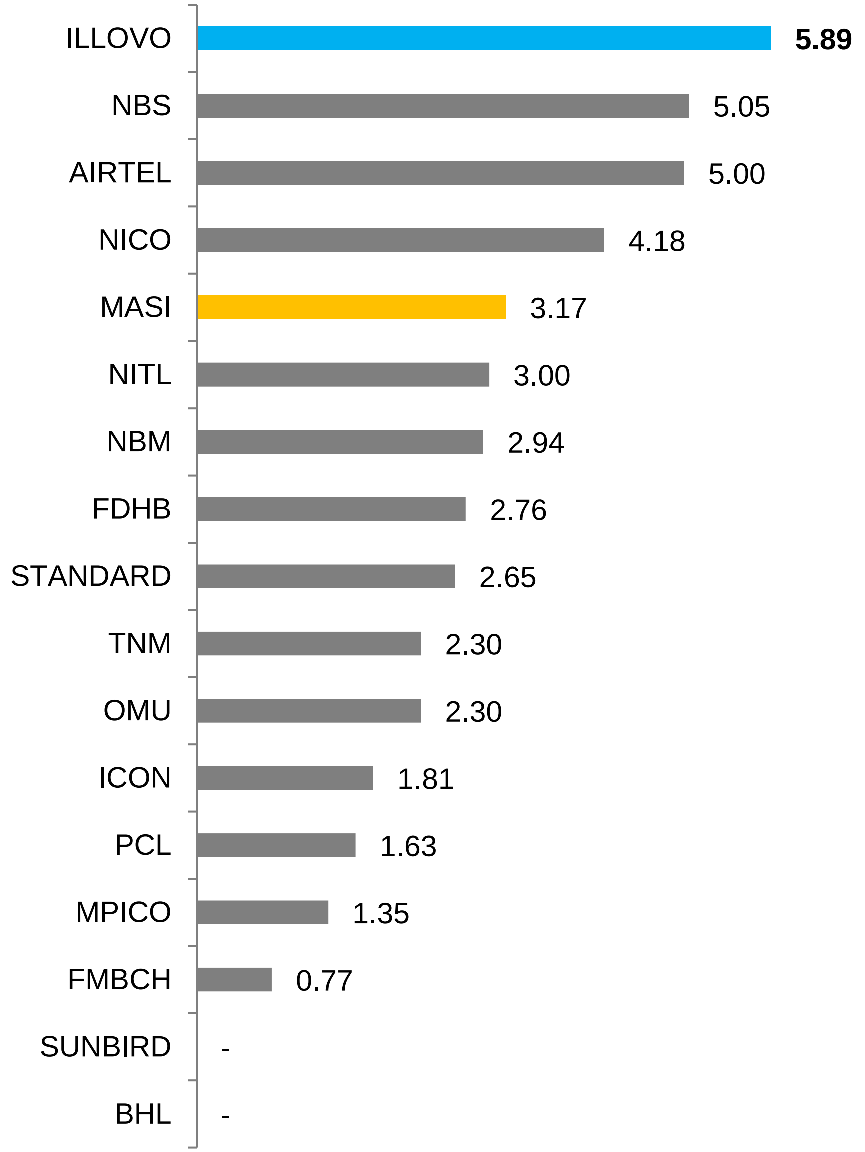
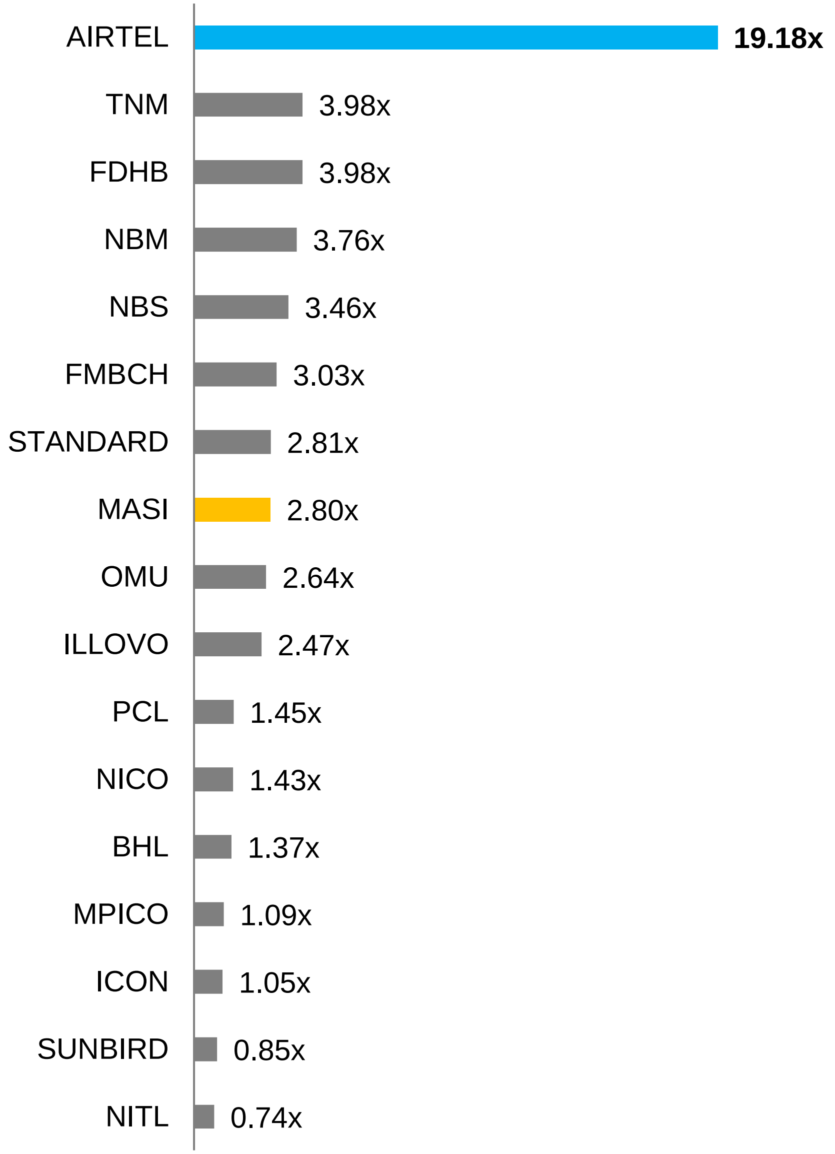
P/E Ratio – the weighted average price to earnings ratio on the MSE was 15.45x in March 2022. PCL had the highest at 63.65 while BHL had the lowest at negative 20.38x.



Dividend yield (%) – the weighted average dividend yield on the MSE was 3.17% in March 2022. The counter with the highest dividend yield was ILLOVO at 5.89%.



P/BV Ratio – the weighted average price to book value on the MSE was 2.80x in March 2022. The counter with the highest ratio was AIRTEL at 19.18 while NITL had the lowest ratio at 0.74x.



Appendix 3: EIU Projections

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Economic growth						
%	2021*	2022**	2023**	2024**	2025**	2026**
GDP	2.7	2.8	3.3	3.5	3.8	4.0
Private consumption	1.5	2.0	2.8	3.0	3.1	3.2
Government consumption	2.0	2.3	2.8	2.8	3.4	3.0
Gross fixed investment	5.0	5.0	5.5	5.6	5.7	5.8
Exports of goods & services	4.1	4.2	4.4	4.8	5.1	5.5
Imports of goods & services	3.0	3.5	4.0	4.3	4.5	4.7
Domestic demand	2.0	2.4	3.1	3.3	3.5	3.5
Agriculture	2.4	2.5	2.6	3.0	3.5	3.9
Industry	2.2	2.4	2.6	2.7	3.0	3.3
Services	2.9	3.0	3.9	4.0	4.2	4.3

Key indicators						
	2021*	2022**	2023**	2024**	2025**	2026**
Real GDP growth (%)	2.7	2.8	3.3	3.5	3.8	4.0
Consumer price inflation (av; %)	9.0	11.0	9.8	9.0	8.5	8.0
Government balance (% of GDP)	-12.6	-10.9	-8.5	-7.1	-6.5	-6.2
Current-account balance (% of GDP)	-15.8	-16.0	-14.5	-11.9	-11.6	-11.0
Short-term interest rate (av; %)	9.9	10.3	10.8	16.5	17.5	18.5
Exchange rate MK:US$ (av)	804.1	837.7	870	892.2	913	937.4

International assumptions						
	2021*	2022**	2023**	2024**	2025**	2026**
Economic growth (%)						
US GDP	5.7	3.4	2.1	1.8	1.9	1.7
OECD GDP	5.2	3.5	2.4	2	1.9	1.8
World GDP	5.6	3.9	3.1	2.8	2.7	2.6
World trade	9.9	5.5	4.4	3.9	3.6	3.7
Inflation indicators (% unless otherwise indicated)						
US CPI	4.7	5.2	1.9	2.2	2.2	2.2
OECD CPI	3.6	4.6	2.3	2.2	2.3	2.2
Manufactures (measured in US$)	6.5	1.2	2.2	2.1	2.5	2.1
Oil (Brent; US$/b)	70.4	90	71.3	66	59.3	53.5
Non-oil commodities (measured in US$)	37.6	7.2	-8.1	-12.8	0	0.6
Financial variables						
US$ 3-month commercial paper rate (av; %)	0.1	0.9	2	2.5	2.5	2.5
US$:€ (av)	1.18	1.12	1.13	1.18	1.22	1.24
¥:US$	109.77	117.41	118.48	118.4	118.05	117.4

*: *Estimates*
**: *Forecasts*

Appendix 4: IMF Projections

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	2020	2021	2022	2023	2024	2025	2026
National accounts and prices (percent change, unless otherwise indicated)							
Real GDP	0.9	2.2	3.5	4.5	4.0	4.0	4.1
Nominal GDP (MK'bn)	8,815	9,712	11,114	12,661	14,158	15,663	17,287
GDP deflator	8.5	7.8	10.6	9.0	7.5	6.4	6.0
CPI (annual average)	8.6	9.0	11.7	9.8	8.4	7.2	6.8
Central government (percent of GDP on a fiscal year)							
Revenue	14.9	14.8	14.3	14.3	14.4	14.4	14.3
Tax and nontax revenue	13.4	13.1	13.1	13.2	13.4	13.5	13.7
Expenditure and net lending	21.5	22.2	24.7	23.8	23.8	24.1	24.7
Overall balance (excl. grants)	-8.1	-9.1	-11.6	-10.6	-10.4	-10.6	-11.1
Overall balance (incl. grants)	-6.6	-7.4	-10.4	-9.5	-9.3	-9.7	-10.4
Financial gap/residual gap	0.8	-0.1	0.8	5.7	6.3	7.5	6.8
Domestic primary balance	-1.7	-2.5	-5.1	-3.0	-2.5	-2.2	-2.3
Money and credit (percentage change)							
Broad money	17.2	10.2	14.4	13.9	11.8	10.6	10.6
Credit to private sector	16.4	30.1	14.2	12.6	10.1	9.4	7.5
External sector (USD million, unless otherwise indicated)							
Exports (goods and services)	966	1,078	1,197	1,331	1,522	1,704	1,890
Imports (goods and services)	3,052	3,208	3,298	3,262	3,248	3,520	3,693
Gross official reserves	566	394	402	415	461	498	511
(months of imports)	2.1	1.4	1.5	1.5	1.6	1.6	1.6
Current account (% of GDP)	-13.6	-15.0	-14.3	-12.6	-10.8	-10.7	-10.4
Overall balance (% of GDP)	-3.2	-3.2	-4.2	-3.1	-2.3	-2.4	-3.5
Financing gap (% of GDP)	…	1.8	4.6	3.5	2.9	3.1	4.1
Debt stock and service (percent of GDP, unless otherwise indicated)							
External public debt	32.9	31.9	34.7	36.3	37.6	39.5	41.5
Total public debt	54.8	59.0	64.3	68.9	74.4	80.4	85.7
Ext. debt serv. (% of exports)	7.2	47.2	44.1	40.8	35.7	28.1	33.3

Appendix 5: List of Acronyms and Abbreviations

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ADB:	Authorised Dealer Bank
AIP:	Affordable Inputs Program
BHL:	Blantyre Hotels Plc
COVID-19:	Coronavirus disease
DSI:	Domestic Share Index
EIU:	Economist Intelligence Unit
EUR:	Euro
FCDA:	Foreign Currency Denominated Account
FEWSNET:	Famine Early Warning Systems Network
FDHB:	FDH Bank Plc
FMBCH:	FMB Capital Holdings Plc
FOB:	Free On Board
FSI:	Foreign Share Index
GBP:	Great British Pound
GDP:	Gross Domestic Product
ICON:	ICON properties plc
IEA:	International Energy Agency
IMF:	International Monetary Fund
LRR:	Liquidity Reserve Requirement
MASI:	Malawi All Share Index
MERA:	Malawi Energy Regulatory Authority
MK:	Malawi Kwacha
MPC:	Monetary Policy Committee
MPICO:	MPICO properties plc
MSE:	Malawi Stock Exchange
MW:	Mega Watts
NBM:	National Bank of Malawi Plc
NBS:	NBS Bank Plc
NICO:	NICO Holdings Plc
NITL:	National Investment Trust Limited Plc
NSO:	National Statistical Office
OECD:	Organisation of Economic Co-operation and Development
OMU:	Old Mutual Limited Plc
OPEC:	Organization of the Petroleum Exporting Countries
ORB:	OPEC Reference Basket
PAC:	Public Appointments Committee of Parliament
PCL:	Press Corporation Limited Plc
RBM:	Reserve Bank of Malawi
SDR:	Special Drawing Rights
STANDARD:	Standard Bank plc
SUNBIRD:	Sunbird Tourism Plc
TB:	Treasury Bill
TN:	Treasury Note
TNM:	Telekom Networks Malawi Plc
TT:	Telegraphic Transfer
UAE:	United Arab Emirates
USD:	United States Dollar
X:	Times
ZAR:	South African Rand

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