



Monthly Economic Report and A Brief on the Proposed 2023- 24 National Budget

February 2023



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Inflation

Headline inflation rate increased to 25.9% in January 2023 from 25.4% in December 2022 due to an increase in non-food inflation to 20.4% from 18.6% despite a decrease in food inflation to 30.5% from 31.3% during the period. Non-food inflation rose on account of an increase in prices of items such as utilities, clothing and footwear, and others. Utilities such as housing, water, and electricity make up 23.7% of the basket that is used to calculate the Consumer Price Index (CPI) used to determine inflation. The Reserve Bank of Malawi (RBM) expressed concern that high inflation levels may not support economic growth, but the RBM is taking a neutral stance towards inflation due to mixed outlooks. The RBM anticipates a reduction in annual average headline inflation to 18.2% in 2023 from 21.0% in 2022. However, there is still a possibility of increased inflation risks due to structural challenges. Headline inflation projections from various published sources are falling within a range of 17.4% and 22.7%, this means that the projected average inflation rate for 2023 is 19.4%.

Monetary Policy

During the first Monetary Policy Committee (MPC) meeting of 2023 held on 1 and 2 February 2023, the MPC maintained the policy rate at 18.00%, the Liquidity Reserve Requirement (LRR) on both domestic and foreign deposits was maintained at 3.75%; the Lombard rate was maintained at 20 basis points above the policy rate. The decision to maintain the policy rate was made to allow for more time for the impact of the October 2022 policy rate adjustment to transmit through the economy. A further adjustment may be necessitated by trends in the inflation rate as the year progresses.

Exchange Rates and Foreign Currency Reserves

The Malawi Kwacha traded at MK1,033.69/USD as of 28 February 2023, from MK1,031.87/USD as of 31 January 2023. Year-to-date, the Kwacha has appreciated against the USD by 0.09% as it traded at MK1,034.67/USD as of 31 December 2022. During the same period in the previous year, the Kwacha had depreciated against the USD by 0.32%.

In January 2023, the gross official foreign exchange reserves in the country decreased by 8% to USD279.22 million from USD304.65 million, while foreign exchange reserves held by the private sector decreased by 4% to USD384.37 million from USD399.20 million in the previous months. The import cover for gross official foreign exchange reserves decreased to 1.12 months from 1.22 months and the import cover for private sector foreign exchange reserves decreased to 1.54 months from 1.60 months between December 2022 and January 2023. The country's total foreign exchange were at USD663 million in January 2023 from USD703.85 million in December 2022. This means that the import cover for the total reserves was at 2.66 months in January 2023 from 2.82 months in December 2022. The import cover for gross official foreign exchange reserves remained below the required threshold of 3 months.

Stock Market

The year-to-date return on the Malawi All Share Index (MASI) was 14.56% in February 2023 compared to negative 1.46% in February 2022. Month-on-month, the stock market was bullish with the MASI increasing to 71,069.31 points as at 28 February 2023 from 68,451.77 points as at 31 January 2023. The increase in the MASI was as a result of share price gains in NICO, FDH Bank, OMU, AIRTEL, and NBM. In addition to this, there were marginal share price gains in TNM, ILLOVO, and Standard Bank. The share price gains offset marginal share price losses by NBS, ICON, MPICO, FMBCH, and PCL. NICO was the largest share price gainer as its share price increased by 36.36% to MK90.00 per share in February 2023, from MK66.00 per share in January 2023 followed by FDH bank as its share price increased by 20.69% to MK35.00 per share in February 2023 from MK29.00 per share in January 2023. NBS was the largest share price loser as its share price decreased by 0.16% to MK38.44 in February 2023 from MK38.50 in January 2023.

Government Securities

The government awarded a total of MK156 billion through Treasury Bills (TBs) and Treasury Notes (TNs) auctions in February 2023, a 16% decrease from MK186 billion awarded in January 2023. A total of MK72 billion was awarded in the TBs auctions in February 2023 compared to MK102 billion in January 2023. A total of MK84.11 billion was awarded in the TNs auctions in February 2023 compared to MK84.26 billion awarded in January 2023. The TBs had a 31.14% rejection rate while the TNs had a 2.00% rejection rate in February 2023. The average TB yield maintained its position at 16.67% between January 2023 and February 2023 and the average TN yield maintained its position at 25.79% during the period.

Economic Growth

The Malawi government through the Ministry of Finance has estimated the country's Gross Domestic Product (GDP) growth in 2022 at 1.2%, a significant decrease from the 4.6% growth in 2021. The country faced numerous challenges such as adverse weather conditions, devastating cyclones, disrupted international supply of commodities due to the Russia-Ukraine war, foreign exchange crisis, and extreme fuel shortages. The Ministry of Finance reported that despite these challenges, the economy still registered positive growth due to good performance in construction, accommodation and food services, financial and insurance services.

According to the Malawi 2023 Annual Economic Report, the projected GDP growth rate for 2023 is 2.7%, attributed to the expected improved supply of electricity and favourable weather conditions, which will result in improved agriculture production. The rehabilitation of the Kapichira power plant and expected donor support will also help ease some of the economic challenges faced by the country. GDP growth rate projections from various published sources are falling within a range of 1.6% and 3.0%, this means that the projected average GDP growth rate for 2023 is 2.3%.

Risks

The Malawian economy has continued to face several significant risks that limit the country's potential for growth and worsen poverty. Firstly, the economy's heavy dependence on rain-fed agriculture as a crucial source of employment and export earnings, makes it vulnerable to weather-related shocks, input price related shocks, and structural challenges such as those faced in the implementation of the Affordable Inputs Programme (AIP)

In addition to this, the country faces additional exchange rate risk compounded by global inflationary pressure resulting from increased prices of our imports and decreased Malawi export prices. This further risks depreciation of the domestic currency, increasing inflation and it is expected to also exert pressure on the country's fiscal deficit. Moreover, Malawi has struggled to attract foreign investment, which is critical for economic growth and job creation. Without sufficient foreign investment, the country is expected to continue to face limitations in its capacity to develop infrastructure, create jobs, and support economic growth.

Malawi's heavy dependence on external aid makes the economy vulnerable to changes in aid flows and donor priorities. A reduction in aid could lead to reduced public investment, social services, and economic growth, as the government struggles to finance critical development programmes. A shift in donor priorities could leave the country with limited resources to fund its set development agendas and thus negatively affect economic growth.

Lastly, power supply insufficiency. Restoration works at the Kapichira dam have been extended for the third time since operations began. This has resulted in the country still struggling with low power supply which translates to persistent power outages. The low electrical power supply risks lower economic growth as the Malawi Confederation of Chamber of Commerce and Industry (MCCCI) reported that in 2022, poor electricity supply led to loss of businesses in the country.



Economic overview

Inflation (Source: NSO, RBM, IFPRI)

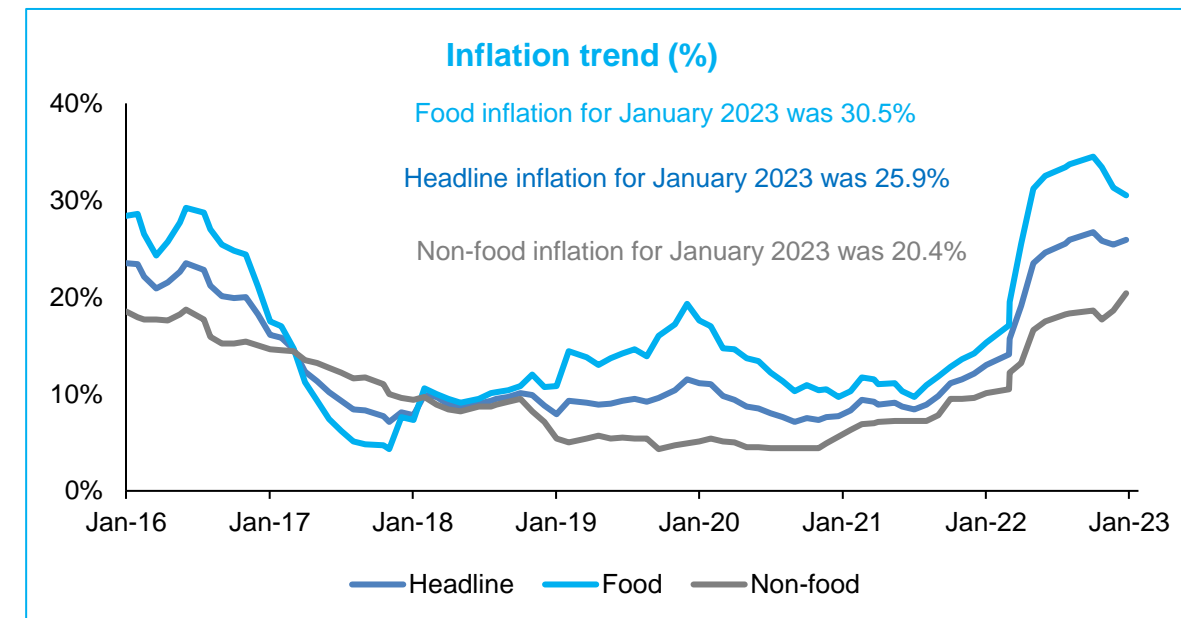
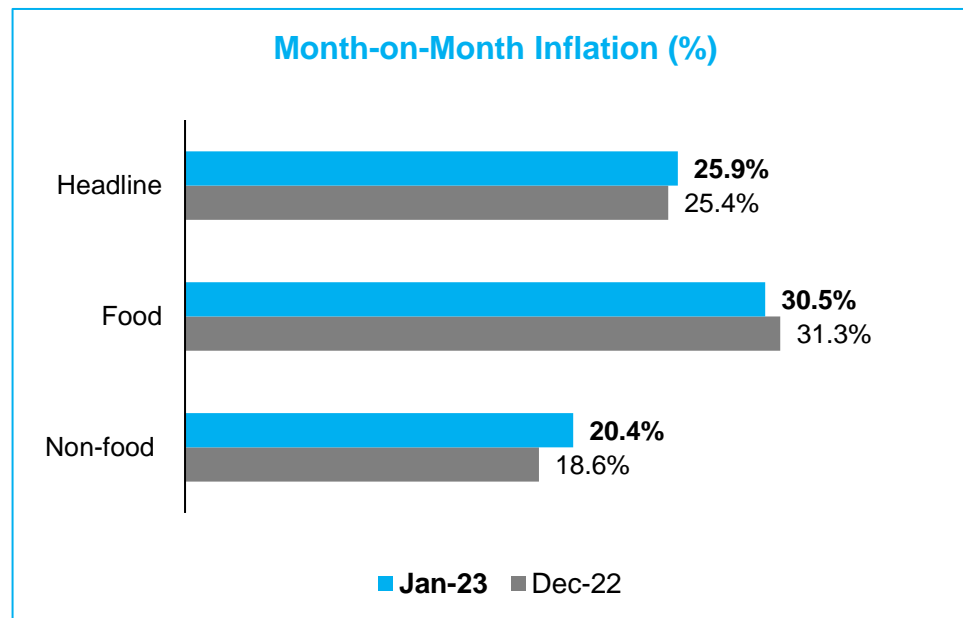
Headline inflation rate for January 2023 increased by 0.5% to 25.9% from 25.4% reported in December 2022. The increase was due to an increase in non-food inflation to 20.4% from 18.6%, despite a decrease in food inflation to 30.5% from 31.3% during the period. Non-food inflation rose on account of an increase in prices of items such as utilities, clothing and footwear, and others.

Headline inflation rate for January 2023 increased by 0.5% to 25.9% from 25.4% reported in December 2022. The increase was due to an increase in non-food inflation to 20.4% in January 2023 from 18.6% in December 2022, despite a decrease in food inflation to 30.5% from 31.3% during the period. According to the National statistical office (NSO), non-food inflation rose on account of an increase in prices of items such as utilities, clothing and footwear, and others. Utilities such as housing, water, and electricity make up 23.7% of the basket that is used to calculate the Consumer Price Index (CPI) used to determine inflation.

The inflation rate took a u-turn from a downward trajectory on account of the country being in lean season during the months leading up to the harvest. Despite decline in food inflation, maize prices increased by 9% to MK512.00 per Kg which translates to MK25,600.00 per 50 Kg bag in January 2023, from MK471.00 per Kg and MK23,550.00 per 50 Kg bag in December 2022. Food makes up 53.7% of the basket that is used to calculate the CPI.

The Reserve Bank of Malawi (RBM) stated that the current high inflation levels are not conducive to support economic growth which has been projected at 2.7% in 2023. The RBM in their January 2023 Market Intelligence report suggests a neutral stance towards inflation due to mixed outlooks. The report stated that global factors such as weak demand and a United Nations (UN)-backed agreement to reduce international prices for commodities may lower inflation, however country-specific factors may negate their impact.

The RBM anticipates that the annual average headline inflation will reduce to 18.2% in 2023 from 21.0% in 2022. However, the RBM reported that there is still a possibility of an increased inflation risk due to various structural challenges such as further supply-chain disruptions, and widening trade imbalances as the country's imports grow more than exports.





Economic overview (Continued)

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

The gross official foreign exchange reserves decreased by 8% to USD279.22 million as of 31 January 2023, from USD304.65 million as of 31 December 2022. This translates to an import cover of 1.12 months in January 2023, from an import cover of 1.54 months in December 2022.

Foreign currency market

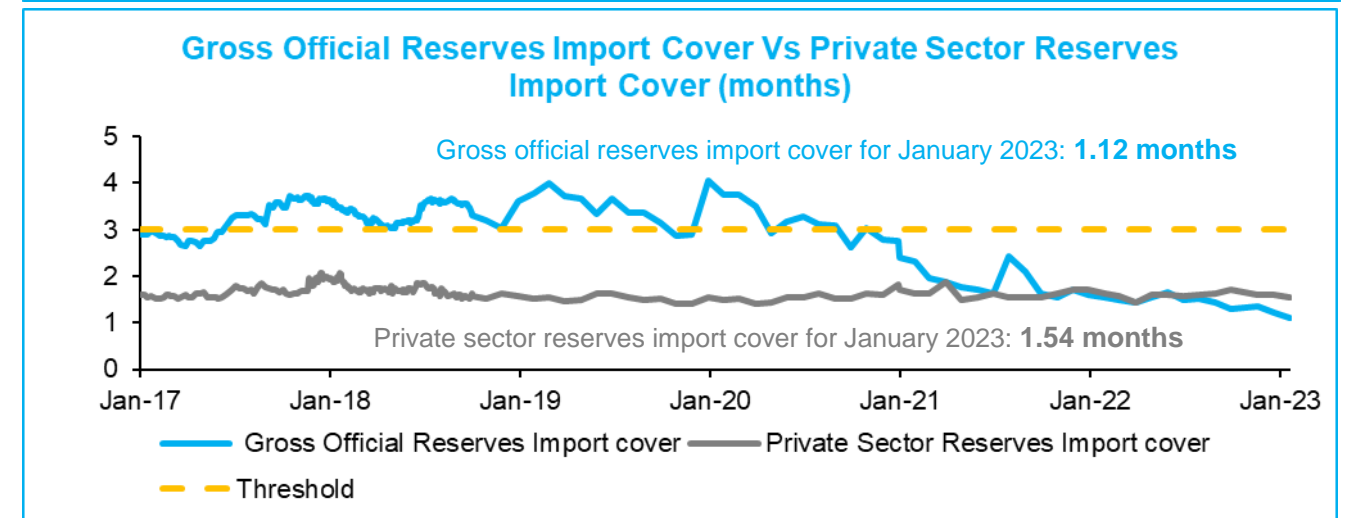
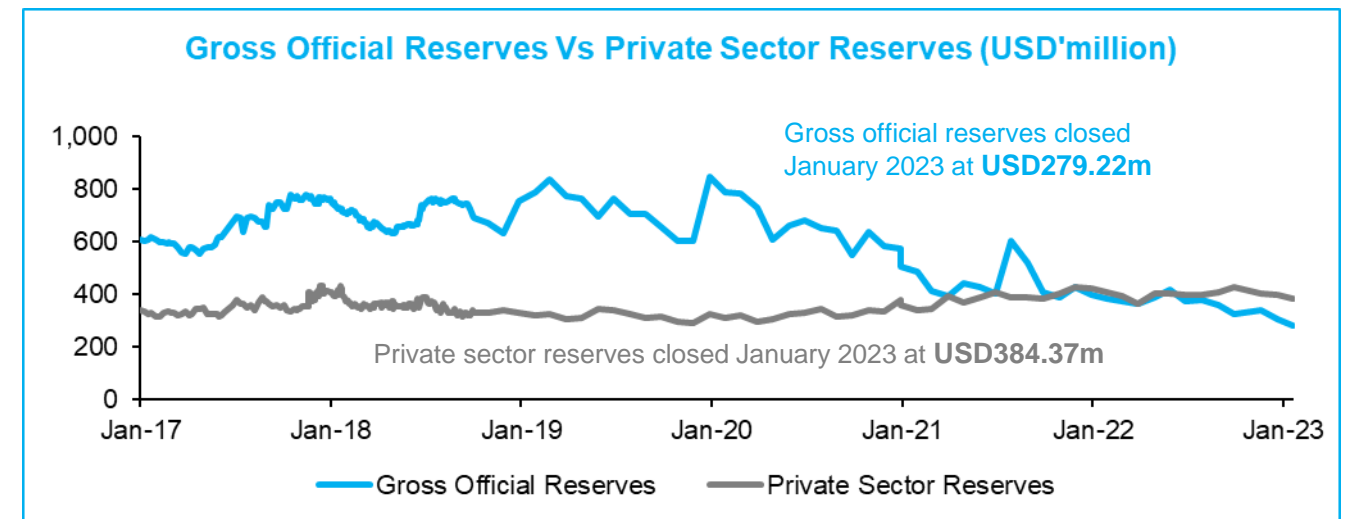
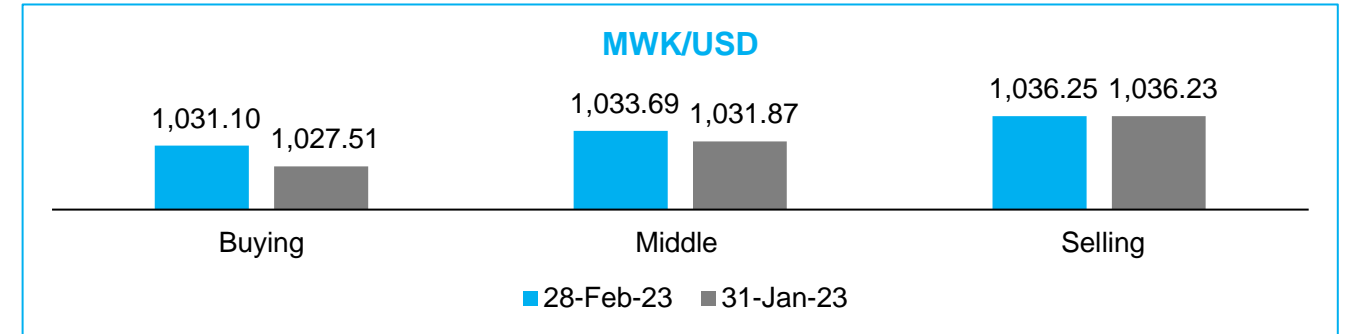
Month-on-month, the Kwacha marginally depreciated against the United States Dollar (USD) as it traded at MK1,033.69/USD as of 28 February 2023, from MK1,031.87/USD as of 31 January 2023. Year-to-date, the Kwacha has appreciated against the USD by 0.09% as it traded at MK1,034.67/USD as of 31 December 2022. During the same period in the previous year, the Kwacha had depreciated against the USD by 0.32%.

Foreign reserve position

As of 31 January 2023, the country's gross official foreign exchange reserves decreased by 8% to USD279.22 million, from a gross official foreign exchange reserve position of USD304.65 million as of 31 December 2022. Foreign exchange reserves held by the private sector decreased by 4% to USD384.37 million as of 31 January 2023, from USD399.20 million held as of 31 December 2022. In total, foreign exchange reserves held in the country in January 2023 were USD663.59 million, a 6% decrease from USD 703.85 million in December 2022.

The import cover for gross official foreign exchange reserves for January 2023 was 1.12 months, an 8% decrease from 1.22 months for December 2022. For private sector foreign exchange reserves, import cover was 1.54 months in January 2023, a decrease of 4% from 1.60 months for December 2022. In January 2023, the import cover for gross official foreign exchange reserves remained below the required threshold of 3 months. The total foreign exchange reserves import cover decreased to 2.66 months in January 2023, from 2.82 months in December 2022.

	Gross Official (USD'million)	Private Sector (USD'million)	Gross Official import cover (months)	Private sector import cover (months)
Jan-23	279.22	384.37	1.12	1.54
Dec-22	304.65	399.20	1.22	1.60





Economic overview (Continued)

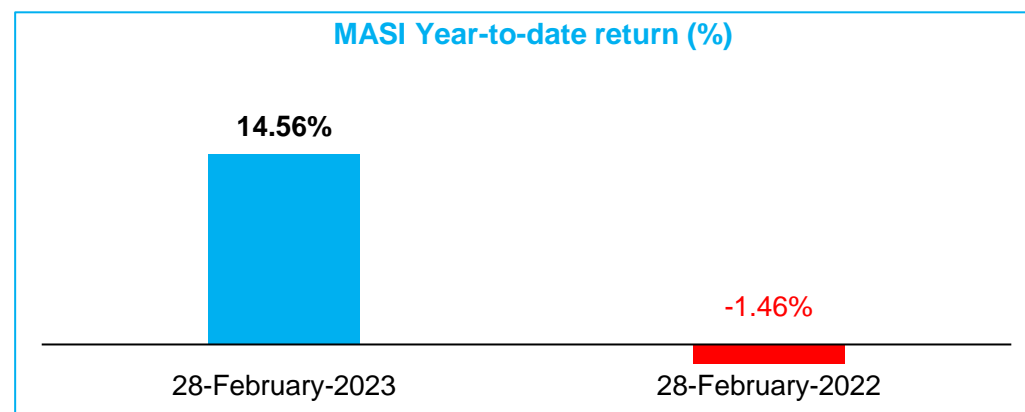
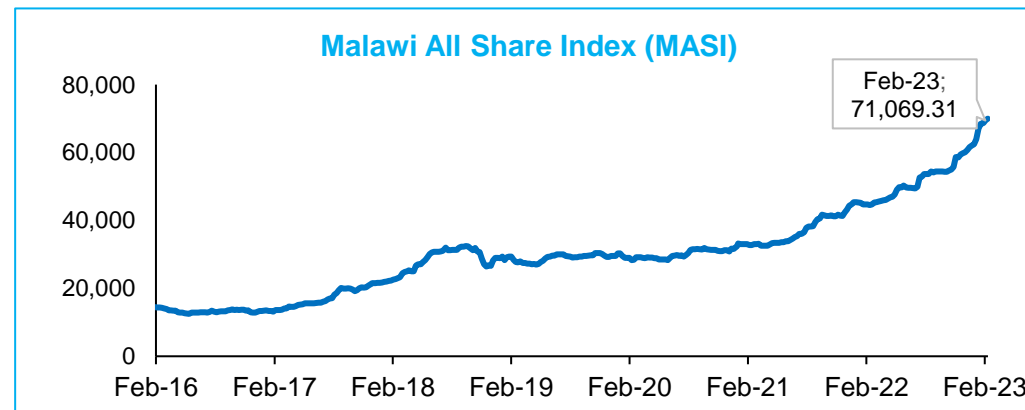
Stock market (Source: MSE)

The MASI year-to-date return was 14.56% in February 2023, and it was negative 1.46% during the same period in the previous year.

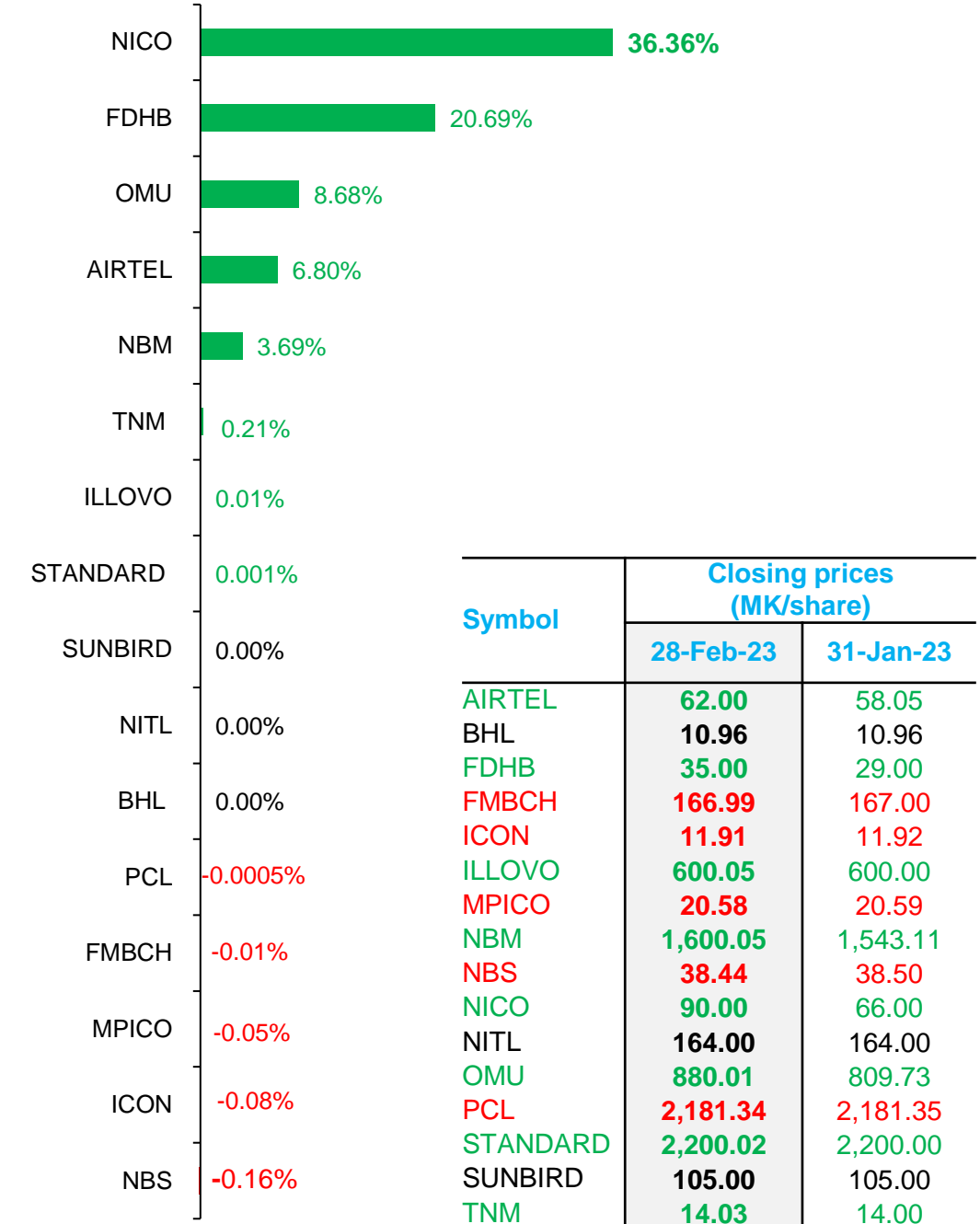
The stock market was bullish over the period as the Malawi All Share Index (MASI) increased to 71,069.31 points in February 2023, from 68,451.77 points in January 2023, representing a 4% increase. The year-to-date return on the MASI is 14.56%, it was negative 1.46% during the same period in the previous year.

In February 2023, NICO was the largest share price gainer as its share price increased by 36.36% to MK90.00 per share, from MK66.00 per share in January 2023. This was followed by FDH Bank and OMU whose share prices increased by 20.69% and 8.68%, respectively. There were also share price gains for AIRTEL (6.80%), and NBM (3.69%), as well as marginal share price gains for TNM, ILLOVO, and Standard Bank in the period under review.

In terms of share price losses, there were marginal share price losses for NBS, ICON, MPICO, FMBCH, and PCL in the period under review.



Month-on-Month share price percentage change (%)



Symbol	Closing prices (MK/share)	
	28-Feb-23	31-Jan-23
AIRTEL	62.00	58.05
BHL	10.96	10.96
FDHB	35.00	29.00
FMBCH	166.99	167.00
ICON	11.91	11.92
ILLOVO	600.05	600.00
MPICO	20.58	20.59
NBM	1,600.05	1,543.11
NBS	38.44	38.50
NICO	90.00	66.00
NITL	164.00	164.00
OMU	880.01	809.73
PCL	2,181.34	2,181.35
STANDARD	2,200.02	2,200.00
SUNBIRD	105.00	105.00
TNM	14.03	14.00



Economic overview (Continued)

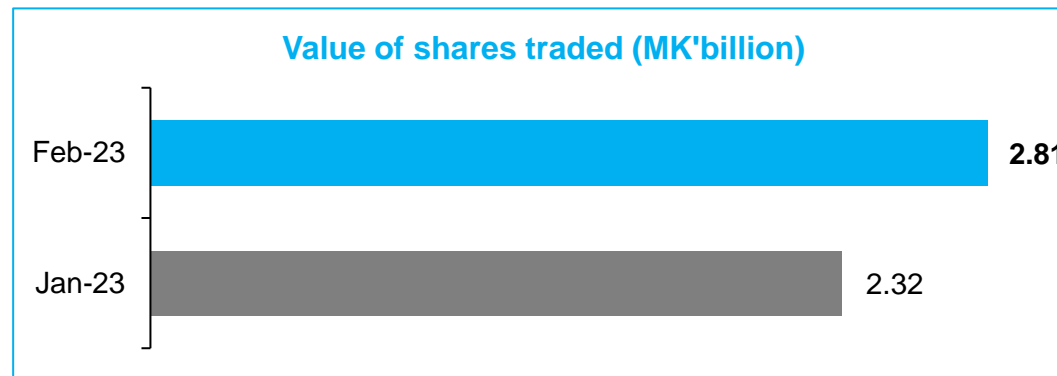
Stock market (Source: MSE)

ILLOVO expects its profit for the period ended 28 February 2022 to be between MK32.0 billion and MK34.5 billion, a 248%-275% increase from a profit of MK9.2 billion made in the same period in the previous year.

MSE Traded Volumes

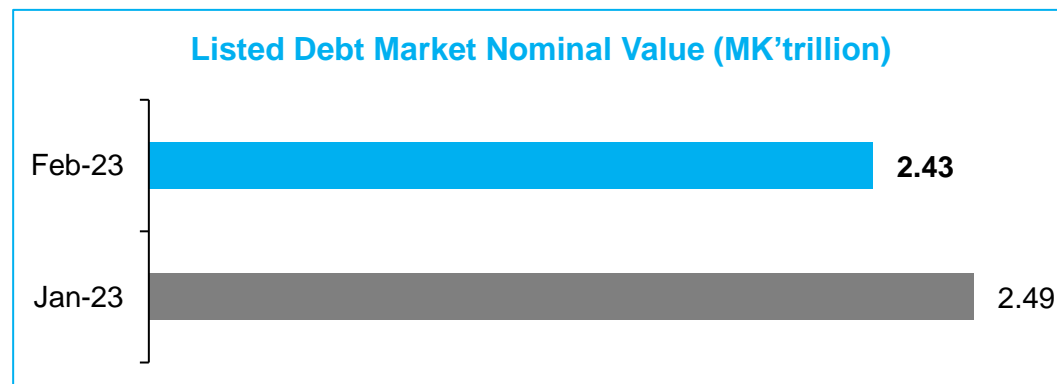
A total of MK2.81 billion worth of shares was traded on the Malawi Stock Exchange (MSE) in February 2023. This was a 21% increase from MK2.32 billion worth of shares traded in January 2023. PCL had the highest value of shares traded in February 2023 at MK1.10 billion.

The total number of trades increased to 507 in February 2023 from 439 trades in January 2023. The figure below shows the total value of shares traded on the MSE in February 2023 compared to January 2023.



Listed Debt Market

The total number of instruments listed on the debt market decreased to 61 in February 2023 from 62 in January 2023. There were no trades on the debt market in February 2023. The nominal value of all listed debt securities decreased to MK2.43 trillion in February 2023 from MK2.49 trillion in January 2023.



Corporate Announcements

Trading Statements

Amounts in billions of Malawi Kwacha unless specified otherwise.

Counter	31 December 2022	31 December 2021	Trading statement profit/loss expectation
FDHB	17.51	11.67	50%
BHL	(0.60)	(0.75)	20%
SUNBIRD	2.55	0.75	240%
TNM	0.97	9.69	(90%)
NBS	18.45	7.69	140%
FMBCH (USD'million)	28.39	21.84	30%
ICON	14.64	8.61	70%
NBM	45.41	34.93	30%
NITL	6.31	4.67	35%
NICO	18.51	9.74	90%
MPICO	5.65	4.71	20%

Published financial results

Amounts in billions of Malawi Kwacha unless specified otherwise.

Counter	Expected profit/(loss) for the half year ending 28 February 2023	Actual profit/(loss) for the half year ended 28 February 2022	Trading statement profit/(loss) expectation
ILLOVO	32.0-34.5	9.2	248%-275%

Dividends

Counter	Dividend type	Proposed/ Declared	Dividend per share (MK)	Last day to register	Date of payment
ILLOVO	Final	Proposed	5.44	TBA	TBA



Economic overview (Continued)

Government securities (Source: RBM)

The government awarded a total of MK156 billion through Treasury Bills (TBs) and Treasury Notes (TNs) auctions in February 2023. This represents a 16% decrease from MK186 billion awarded in January 2023.

Treasury Bills (TBs)

In February 2023, the government sought to borrow MK96 billion through Treasury Bills (TBs) auctions. This represents a 57% increase from MK61 billion sought in January 2023. Participants applied to place a total of MK105 billion through TBs auctions in February 2023. This represents a 2% increase from MK103 billion that was applied for in January 2023. The government awarded a total MK72 billion in February 2023, a 29% decrease from MK102 billion that was awarded in January 2023. The TBs had a 31.14% rejection rate in February 2023 compared to 0.93% in January 2023. Issuance of the 182-days TB in the first quarter of 2023 was suspended on the 24 February 2023 following an over allotment of the tenor.

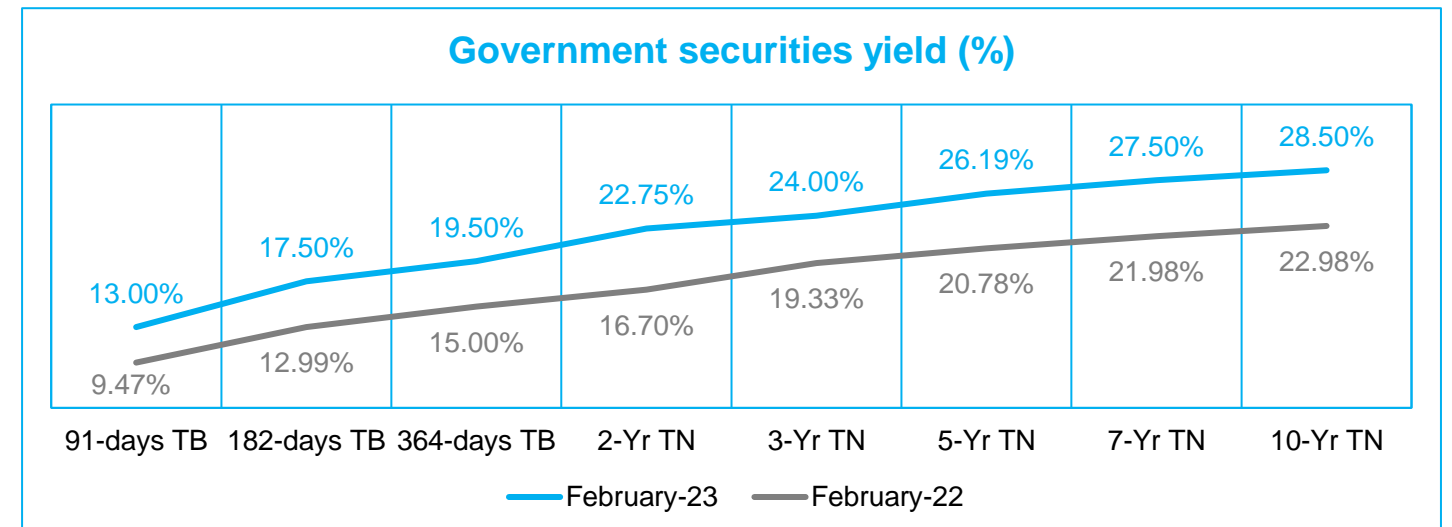
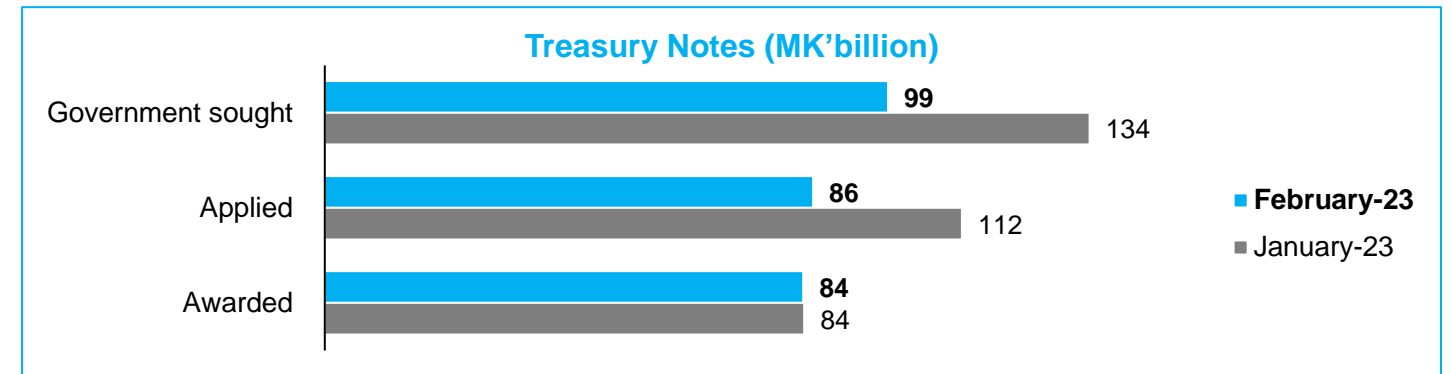
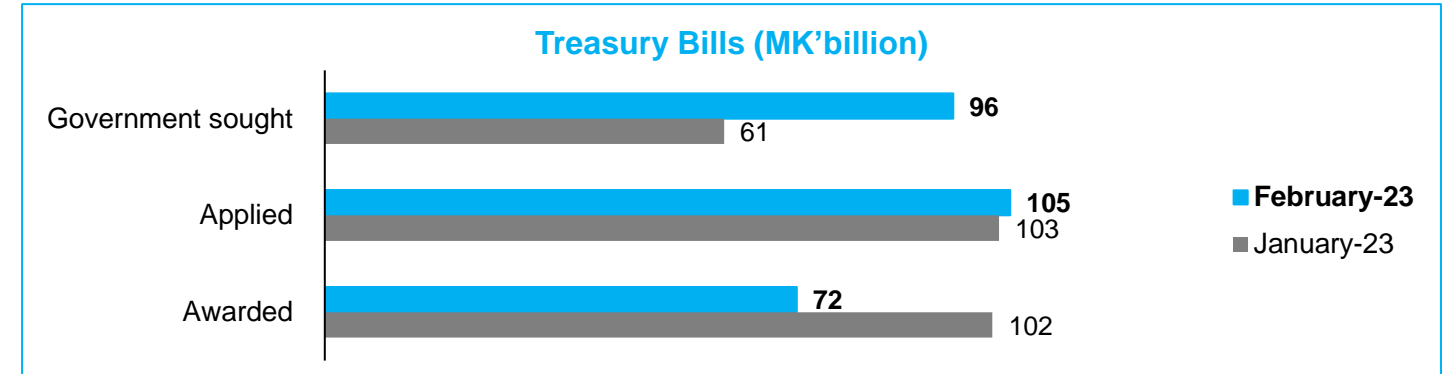
Treasury Notes (TNs)

The government sought to borrow MK99 billion through Treasury Notes (TNs) auctions in February 2023. This represents a 26% decrease from MK134 billion that was sought in January 2023. Participants applied to place a total of MK86 billion through TNs auctions in February 2023. This represents a 23% decrease from MK112 billion that was applied for in January 2023. A total of MK84.11 billion was awarded in the TNs auctions in February 2023. This was a 0.18% decrease from MK84.26 billion that was awarded in January 2023. The TNs had a 2% rejection rate in February 2023 compared to 24.55% in January 2023.

Government Securities Yield Curve

The average TB yield was maintained at 16.67% between January 2023 and February 2023. The yields for 91-days TB, the 182-days TB and the 364-day TBs remained at 13.00%, 17.50%, and 19.50%, respectively, during the period under review.

The average TN yield was maintained at 25.79% between January 2023 and February 2023. During the period under review, 2-year TN had a 22.75% yield while the 3-year TN had a 24.00% yield. The 5-year TN, 7-year TN and the 10-year TN had 26.19%, 27.50% and 28.50% yields, respectively.





The Export Development Fund (EDF), a Reserve Bank of Malawi institution, began purchasing rough gemstones from small-scale artisanal miners to promote the growth and diversification of exports in the country.

Other Market Developments

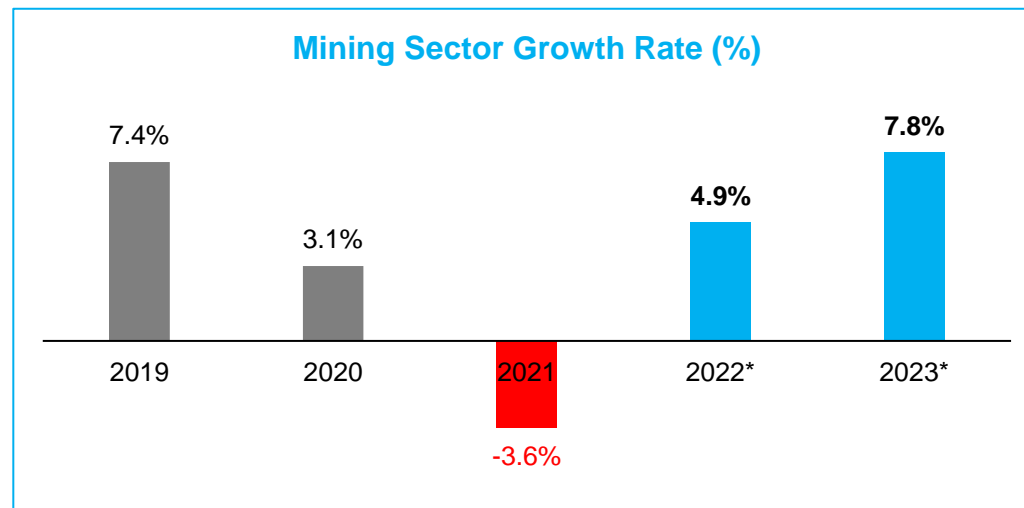
The Newly Established Gemstone Market, Malawi's Agriculture Sector, and Monetary Policy

(Source: RBM, Ministry of Finance, Various Published Media)

Export Development Fund's (EDF) Gemstone Market

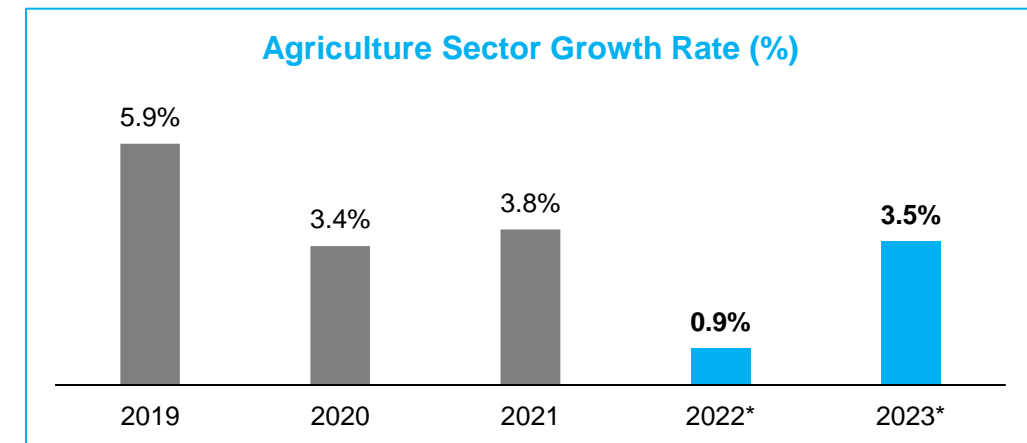
The Export Development Fund (EDF), a Reserve Bank of Malawi institution, began purchasing rough gemstones from small-scale artisanal miners to promote the growth and diversification of exports in the country. In February 2023, a structured market for gemstones was established to provide responsible markets for locals and boost the country's foreign reserves. However, the gemstones were exported raw, resulting in a significant loss of earnings. Gemstones, such as ruby, sapphire, aquamarine, tourmaline, and rhodolite garnet, are mined by small-scale miners throughout the country, but marketing them requires sophisticated techniques. Furthermore, there is a need for civic education to help locals distinguish between gemstones and other stones. Currently, the Ministry of Mining is combating illegal mining of precious stones, which has become rampant in the country.

According to the 2023 Malawi Annual Economic Report, the mining sector in Malawi experienced a growth rate of 4.9% in 2022 due to an increase in the extraction of quarry and gemstones, which were in high demand for construction projects. The growth rate for 2023 is projected to be 7.8% due to the expected recovery of the economy and the reinstatement of full capacity electricity production. The updated geological map under the Geological Mapping and Mineral Assessment Project (GEMMAP) project and the formalization of artisanal mining are also expected to contribute to the growth of the sector, along with continued implementation of construction projects.



Malawi's Agricultural Sector

According to data from the African Development Bank (AfDB), despite consistent allocation of at least 10% of the national budget to the agriculture sector over the past five years, Malawi has failed to achieve desired sectoral growth. The AfDB noted that the sector's production and productivity has remained below its potential and cannot match the increasing demand from domestic and export markets. Several factors have been cited as the reasons, including land fragmentation, climate change, low access to inputs, weak market linkages, and lack of investment. Agriculture remains the backbone of Malawi's economy, contributing about 25% to the country's GDP and employing about 64% of the labor force.



Monetary Policy

During the first Monetary Policy Committee (MPC) meeting of 2023 held on 1 and 2 February 2023, the MPC decided to keep the policy rate at 18.0%. The decision to maintain the policy rate was made to allow for more time for the impact of the October 2022 policy rate adjustment to transmit through the economy. In anticipation of a more favourable outlook on inflation the policy rate was maintained at 18.0% and further adjustment may be necessitated by trends in the inflation rate as the year progresses.

The second MPC meeting for 2023, is scheduled for the 26 and 27 April 2023.



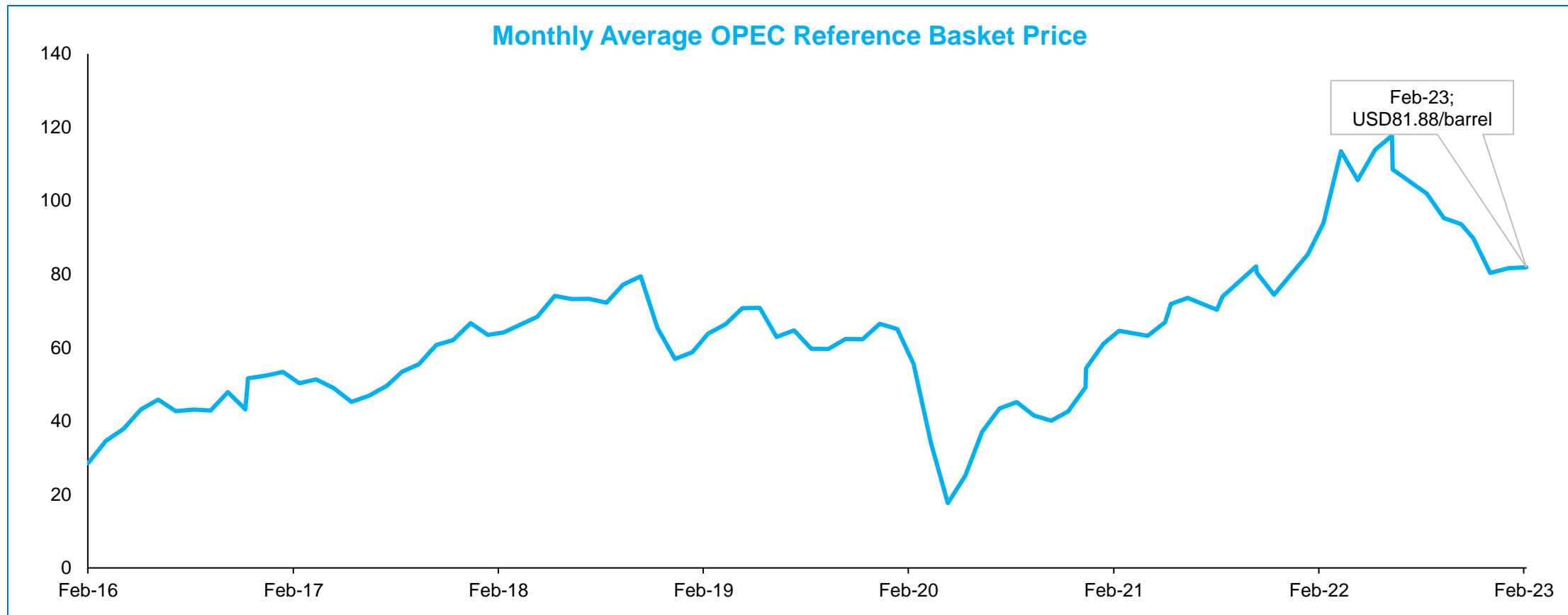
Regional And Global Market Developments

Global oil price developments (Source: OPEC)

The monthly average OPEC Reference Basket (ORB) price marginally increased by 0.32% to a monthly average of USD81.88/barrel in February 2023, from USD81.62/barrel in January 2023.

The monthly average OPEC reference basket price marginally increased to USD81.88/barrel in February 2023 from a monthly average of USD81.62/barrel in January 2023. This represents a marginal increase on 0.32% month-on-month. Year-on-year, this represents a 13% decrease from an average price of USD93.95/barrel as of February 2022.

On the international market, China and India have become significant buyers of Russian crude oil due to Western sanctions and embargoes on Russian oil, as well as price caps due to the Ukraine war. In January 2023, India's crude oil imports reached a six-month high and China's buyers have saved billions of dollars from buying Russian oil. Oil prices are expected to go high as Russia plans to cut oil production by 500,000 barrels per day in March 2023, equating to about 5% of its output. Goldman Sachs analysts predict that future oil supply shortages will drive prices toward USD100/barrel by the end of the year.





Special Topic: The Proposed 2023-24 National Budget Brief

The 2023-24 national budget has been set under the theme “Sacrificing today for a better tomorrow: Regaining Macroeconomic stability and growth through collective responsibility for our shared future”.

2023-24 Proposed National Budget Introduction

The 2023-24 proposed national budget is said to have been made in line with the aspirations of the country as outlined in the Malawi 2063 First Ten Year Implementation Plan (MIP-1). According to the Ministry of Finance, resources to various Ministries, Departments, and Agencies (MDAs) have been allocated based on the MIP-1 and Malawi 2063 Pillars and Enablers.

The Minister of Finance recognized the need for prioritization of efficient allocation, and prudent utilization of our resources to achieve development. The government thus expressed their intention to implement policy reforms to enhance resource mobilization and prudent expenditure management to decrease public debt and make it more sustainable. This implies that the government intends to ensure that expenditure in the 2023-24 budget to be in line with the country’s revenue. The 2023-24 national budget has been set under the theme “*Sacrificing today for a better tomorrow: Regaining Macroeconomic stability and growth through collective responsibility for our shared future*”.

2022-23 National Budget Performance Overview

Total expenditure for the 2022-23 fiscal year will likely be at MK3.04 trillion, which is 26.7% of the country’s GDP. Of this, MK2.35 trillion is recurrent expenditure while MK688.45 billion is development expenditure. Overall budget deficit for the 2022-23 national budget is projected at MK1.01 trillion which translates to 8.8% of the country’s GDP. The projected deficit is higher than the approved deficit of MK884.04 billion. The increase in the deficit has been attributed to higher than planned salary adjustments, Public Debt Interest, Pensions and Gratuities and other critical expenditure needs. The projected deficit is currently being financed through domestic borrowing of MK745.79 billion as well as foreign borrowing at MK261.11 billion.

The 2022-23 budget has supported the completion, implementation and initiation of numerous projects across all sectors and through the various MDA’s in the country.

Government Reform Programs

1. Public Finance Management

The government intends to continue to conduct fiscal risk analysis to detect potential areas of fiscal risk facing State Owned Enterprises (SOEs) in the country. The government plans on either restructuring or closing SOEs that continue to make losses. At the moment, over 90% of SOE’s have opened revenue holding accounts with the RBM for easy monitoring of their revenue, and to address under collection of non-tax revenue including surpluses and dividends. The government will sanction SOEs that do not comply to the Public Financial Management (PFM) Act, 2022 by 1 April 2022.

2. Integrated Financial Management Information System (IFMIS)

The government intends to continue consolidating the gains that have been registered in the IFMIS implementation so far. These will include enhancing the system in financial reporting, bank reconciliation, recording of government commitments, and payment efficiency through stable Electronic Funds Transfer (EFTs) platform. They will also roll out additional system functionalities such as contract management, revenue management, asset management and project systems. Further, they intend to develop strategies on how local Council IFMIS could be improved to be robust as the Central payment System.

3. International Public sector Accounting Standards (IPSAS)

The government plans on migrating to implement Accrual International Public Sector Accounting Standards (IPSAS) which will lead to greater accountability, and fight against fraud and corruption, improved financial management information reporting and transparency, improved cash-flow management information reporting and transparency, improved cash-flow management and improved use and management of public sector resources.

The government intends on conducting a valuation of all government assets in compliance with IPSAS to provide a picture of the total value of all government assets and improve financial management and reporting.

Following the passing of the Deposit Insurance Act in March 2022, which seeks to protect clients from losing their deposits with banks and other financial institutions, the government intends to operationize the Deposit Insurance Corporation during the 2023-24 fiscal year with funding from the budget and RBM to establish a deposit insurance scheme to ensure stability of the financial system and protect small depositors from losses.

4. Malawi Carbon Markets Initiative (MCMI)

The government plans on operationizing the Carbon Credit Trading Market. This market will not only encourage private investment in the green business or low-carbon development aimed at curbing carbon emissions and other pollutants but will also allow the investors to generate and trade credits and earn significant returns from their investments. Malawi has a wide range of natural resources and expert calculations estimates the value of Malawi’s carbon credits at 20 million metric tonnes of carbon per annum.

5. Social Support Programs

To improve the efficiency and effectiveness of social protection programmes the government is implementing an integrated Safety Net programme by accelerating implementation of the United Beneficiary Registry (UBR) which collects socio-economic and demographic information on households. To harmonize and coordinate targeting framework for various social protection programmes and will enhance its efficiency and avoid multiple access by some beneficiaries. The government has signed an agreement with its development partners to implement the integrated social protection program.



The Proposed 2023-24 National Budget Brief (Continued)

Proposed 2023-24 National budget Overview.

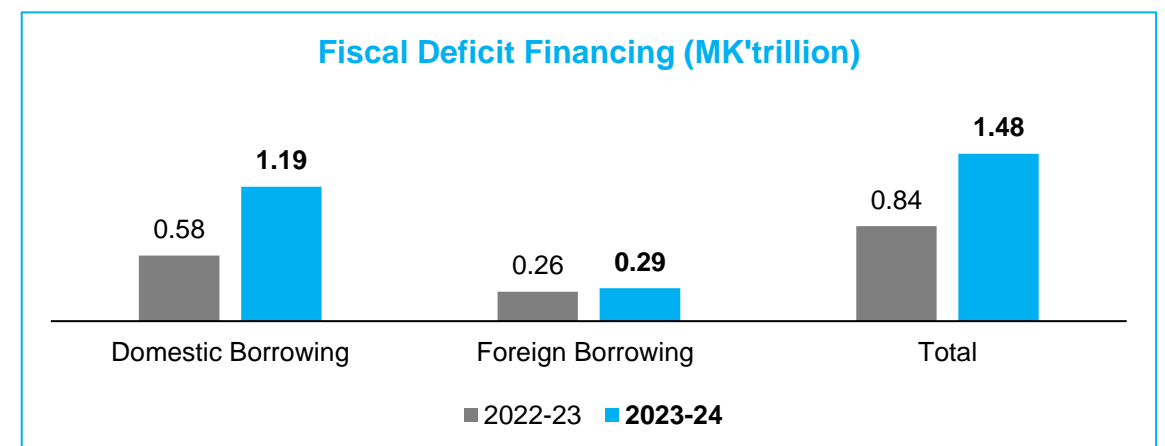
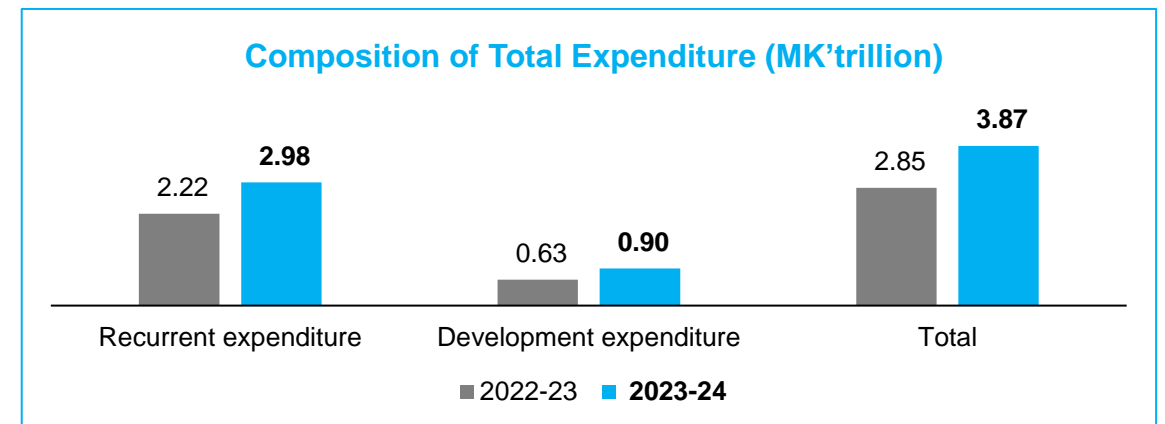
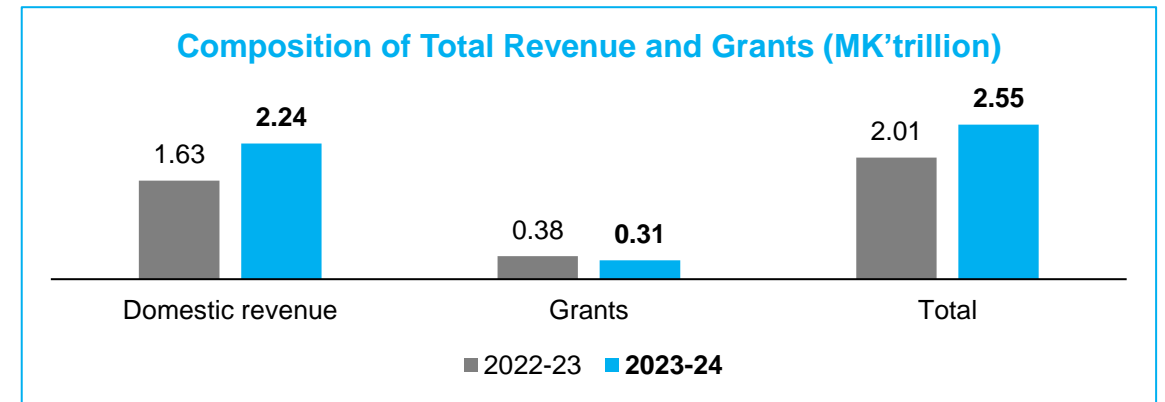
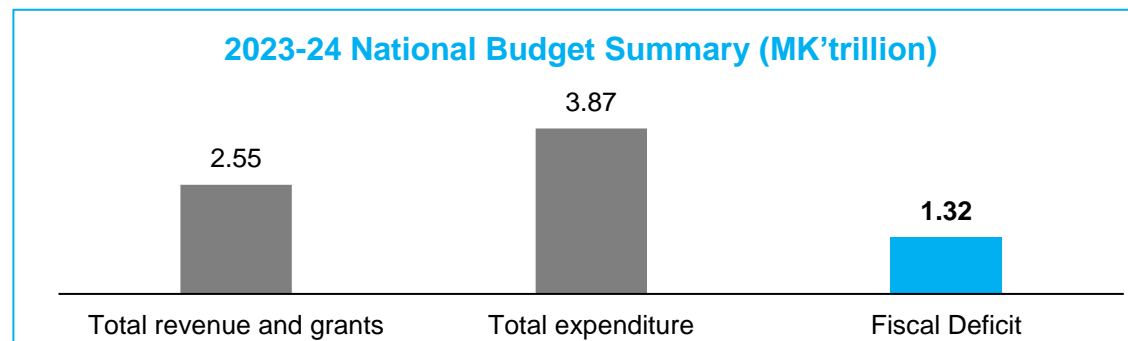
Total revenue and grants for 2023-24 have been projected to MK2.55 trillion while total expenditure has been projected to MK3.87 trillion. The deficit of MK1.32 trillion will be financed by both domestic and foreign borrowing.

The main focus of the budget is to continue containing the budget deficit and will continue to address issues of public debt management, fiscal consolidation, prudent and efficient use of resources, export diversification, import substitution, strengthening the balance of payments position as well as promoting local manufacturing. The budget has been made on the assumption that GDP will grow at 2.7% in 2023 and 3.2% in 2024, inflation rate will average 17.9%, the policy rate will be 18.0% and tax refunds of 3.0% of the total tax collection.

Total revenue and grants for the 2023-24 fiscal year are estimated at MK2.55 trillion representing 16.8% of the GDP. This is a 26% increase from MK2.01 trillion that was budgeted for in the 2022-23 fiscal year. Revenue will be made up of domestic revenue estimated at MK2.24 trillion and grants are estimated at MK311.50 billion compared to MK1.63 domestic revenue and MK379.30 billion grants planned for in the 2022-23 budget.

Total expenditure for the 2023-24 fiscal year is projected at MK3.87 trillion representing 25.5% of GDP and a 35% increase from MK2.85 trillion expenditure that was budgeted for in the 2022-23 fiscal year. In the 2023-24 budget, recurrent expenditure has been estimated at MK2.98 trillion while development expenditure has been set at MK896.21 billion compared to MK2.22 trillion and MK629.59 billion for the 2022-23 budget.

The 2023-24 national budget will run with a MK1.32 trillion fiscal deficit which translates to 8.7% of the GDP and a 57% increase for a deficit of MK842.11 billion estimated in the previous budget. The Deficit will be financed through foreign borrowing amounting to MK288.78 billion and domestic borrowing amounting to MK1.19 trillion.





The Proposed 2023-24 National Budget Brief (Continued)

Proposed 2023-24 Budget Highlights

Public debt has increased from MK6.38 trillion reported in March 2022 to MK7.90 trillion as of 31 December 2022. This represents a 24% increase in total public debt between March 2022 and December 2022.

Debt Restructuring

The total public debt of the country at the end of December 2022 was K7.90 trillion or 69.93% of GDP. Domestic debt was K4.43 trillion while external debt was K3.47 trillion. The increase in debt was due to the issuance of treasury securities to finance budget deficits and refinancing of old maturing debts. The pace of borrowing is unsustainable, and the government intends to boost domestic revenue capacity and fight corruption and fraud. Government intends to continue its debt restructuring strategy which, through a combination of fiscal consolidation and debt treatment, is expected to bring public debt levels to moderate risk in the medium term. The government is engaging with its creditors, including China and India, for possible debt treatment and exploring debt swap arrangements. Cabinet approved a Medium-Term Debt Management Strategy for the period 2022-2026 to achieve an optimal debt portfolio.

AIP

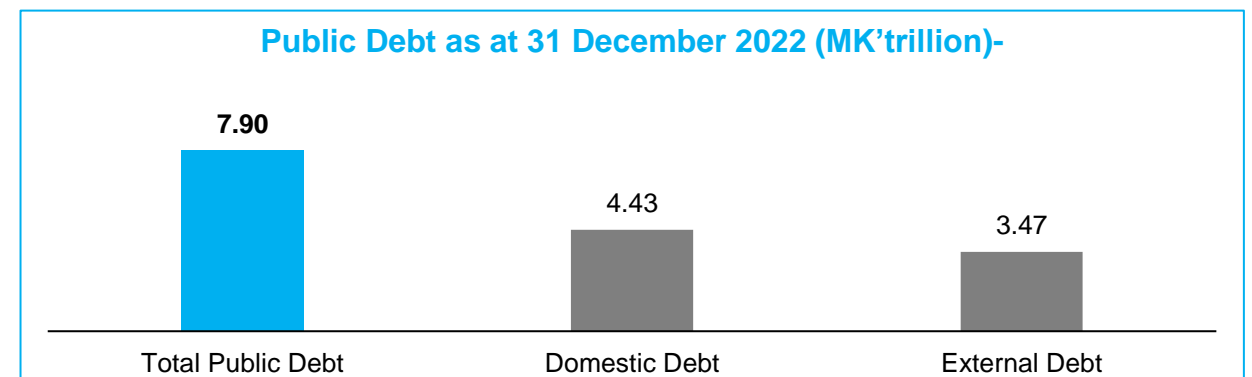
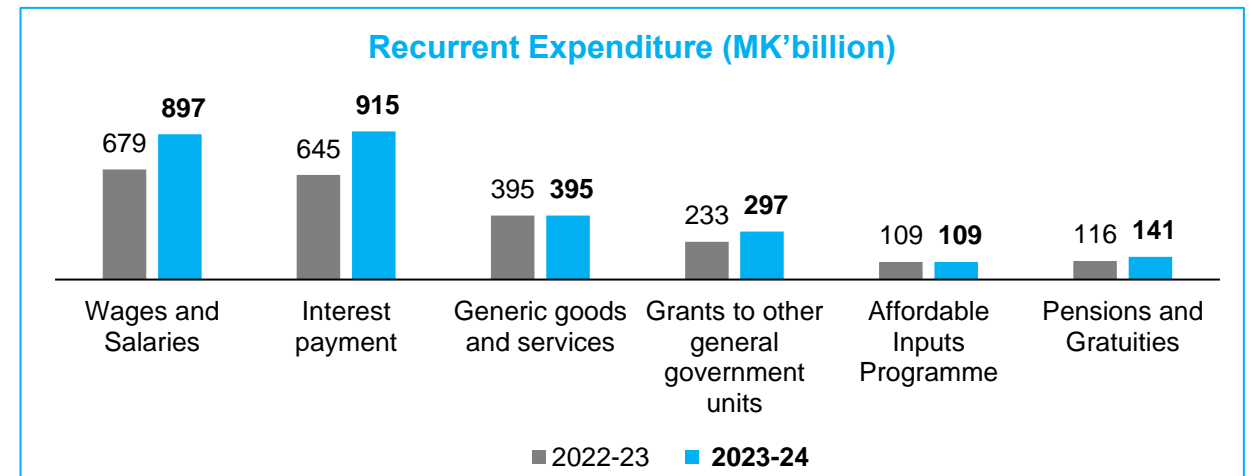
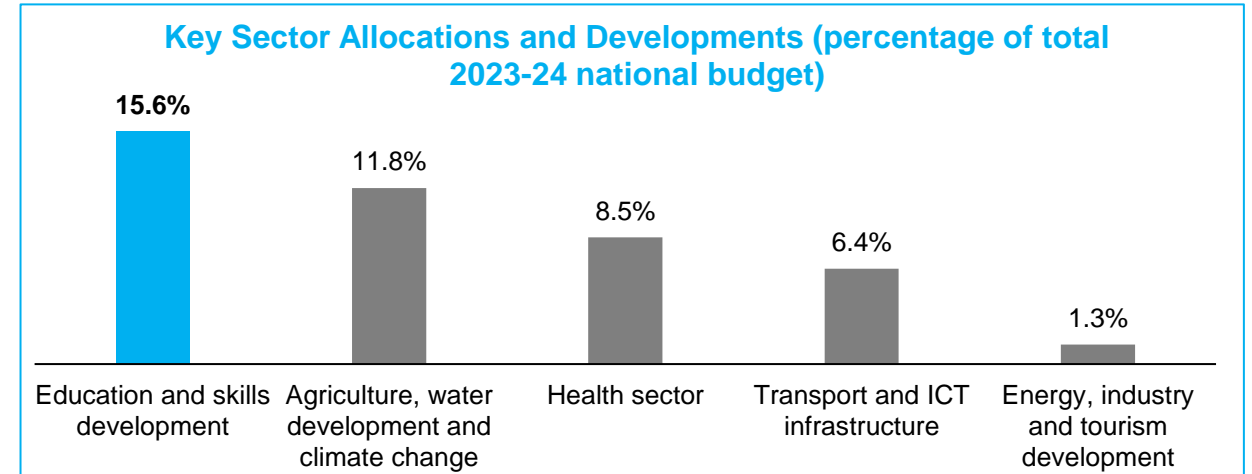
The government intends to continue implementing a reformed Affordable Inputs Program in 2023/2024 fiscal year. Learning from the challenges encountered this financial year and the previous ones, the AIP is to undergo various necessary reforms to enhance targeting, efficiency and mitigate all risks on the fiscus.

Budget Support

The government is engaging with international organizations namely, IMF, World Bank, and European Union for possible budget support. The World Bank has committed USD60 million for a Development Policy Operation budget support, while the EU will announce its committed amount as discussions continue.

New Tax Measures

The proposed 2023-24 national budget outlined new tax measures aimed at broadening the tax base and promoting domestic and foreign investment across all sectors. The tax measures include a reduction in tax on airtime and data from 10% to 7.5%, specific taxes for second-hand motor vehicles, tax incentives for large-scale farming, a tax holiday for players in the energy generation business, tax exemptions for electric motor vehicles and charging equipment, and electronic tax stamps on still water, lotion, and glycerine while wheat flour has been exempted from value-added tax (VAT). Religious organizations running credible schools and hospital facilities can import duty-free two motor vehicles designed for the transportation of persons every five years.

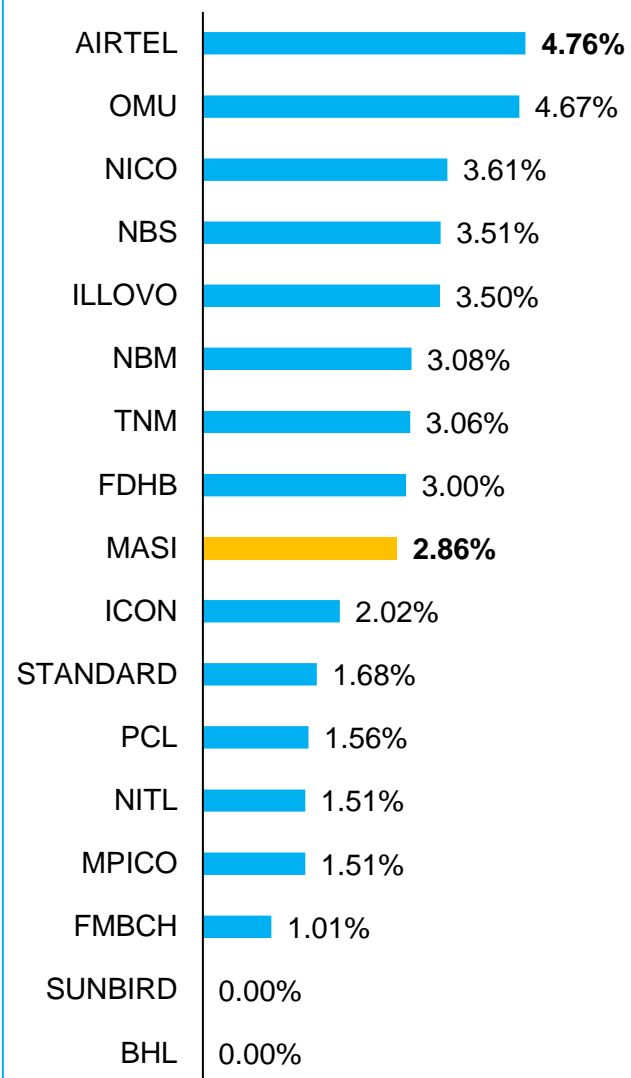


Appendix

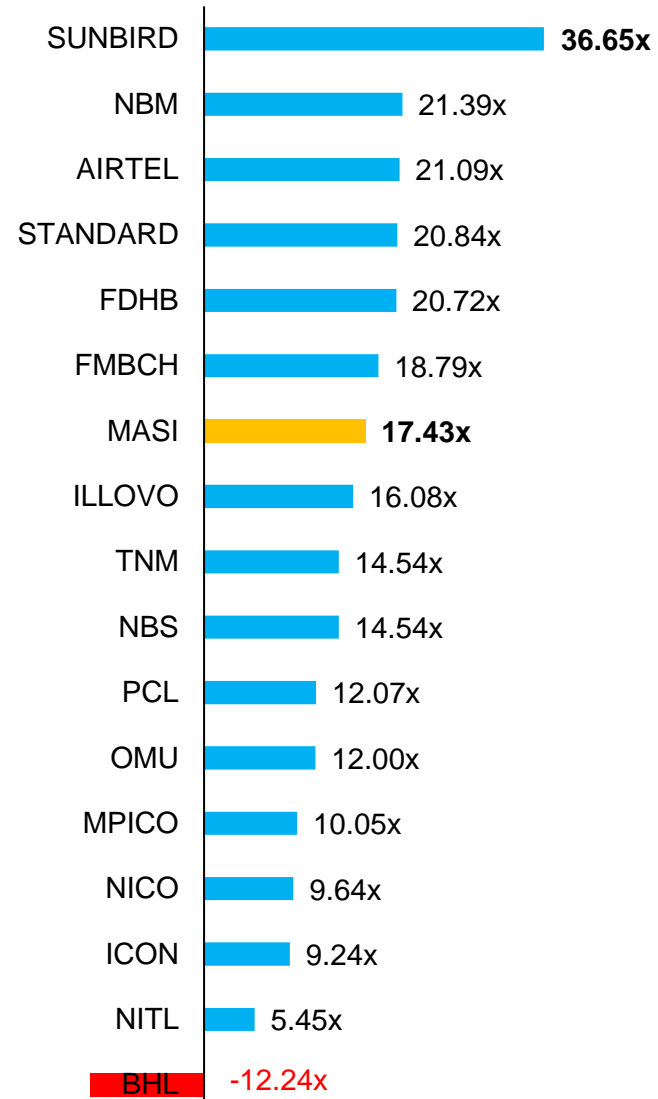
Appendix 1: Historical Monthly Economic Indicators

	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23
Exchange rates (middle rates)																		
MK/USD	822.17	821.34	822.88	818.44	822.81	822.10	823.60	823.67	1,029.90	1,033.36	1,035.03	1,035.42	1,033.79	1,032.88	1,034.42	1,031.87	1,031.87	1,033.68
MK/GBP	1,168.72	1,201.21	1,194.23	1,208.01	1,211.73	1,283.92	1,214.22	1,150.18	1,380.71	1,289.26	1,296.86	1,240.77	1,180.36	1,234.05	1,276.81	1,305.57	1,305.57	1,280.21
MK/EUR	1,026.14	1,037.74	1,099.91	1,138.47	1,072.50	1,170.30	1,031.32	966.40	1,180.96	1,108.47	1,085.01	1,066.19	1,047.49	1,062.62	1,105.82	1,152.30	1,152.30	1,128.21
MK/ZAR	58.90	59.04	57.21	57.68	61.82	64.84	66.90	59.34	72.04	65.02	64.13	62.49	58.78	58.36	62.11	60.72	60.72	57.83
Foreign Exchange Reserves																		
Gross Official Reserves (USD'mn)	521.87	405.66	389.26	429.17	399.98	385.40	374.48	363.27	388.22	415.73	372.99	378.89	357.18	326.06	338.87	304.65	279.22	N/A
Private Sector Reserves (USD'mn)	386.05	384.75	404.81	425.52	424.49	407.22	391.49	362.84	401.13	401.60	396.02	398.43	408.84	427.67	400.77	399.20	384.37	N/A
Total reserves (USD'mn)	907.92	790.41	794.07	854.69	824.47	792.62	765.97	726.11	789.35	817.33	769.01	777.32	766.02	753.73	739.64	703.85	663.59	N/A
Gross Official Reserves Import cover (months)	2.09	1.62	1.56	1.72	1.60	1.54	1.50	1.45	1.55	1.66	1.49	1.52	1.43	1.30	1.36	1.22	1.12	N/A
Inflation																		
Headline	8.9%	9.8%	11.1%	11.5%	12.1%	13.0%	14.10%	15.70%	19.10%	23.50%	24.6%	25.5%	25.9%	26.7%	25.8%	25.4%	25.9%	N/A
Food	10.9%	11.8%	12.8%	13.6%	14.2%	15.3%	17.10%	19.50%	25.50%	31.20%	32.5%	33.4%	33.7%	34.5%	33.4%	31.3%	30.5%	N/A
Non-food	7.2%	7.8%	9.5%	9.5%	9.6%	10.1%	10.50%	12.20%	13.20%	16.60%	17.5%	18.2%	18.3%	18.6%	17.7%	18.6%	20.4%	N/A
Interest Rates																		
Monetary Policy rate	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	14.00%	14.00%	14.00%	14.00%	14.00%	18.00%	18.00%	18.00%	18.00%	18.00%
Average Interbank rate	11.98%	11.98%	11.98%	11.98%	11.15%	11.70%	11.70%	11.70%	11.84%	12.48%	12.50%	12.50%	12.50%	15.00%	15.00%	15.00%	15.00%	15.00%
Average base lending rate	12.20%	12.20%	12.20%	12.20%	12.20%	12.20%	12.20%	12.20%	13.50%	13.80%	13.90%	14.20%	14.20%	18.20%	18.20%	18.20%	18.20%	18.20%
Government Securities Yields																		
91-days Treasury Bill	9.59%	9.60%	9.58%	9.70%	9.70%	9.47%	9.74%	9.57%	9.75%	9.75%	10.00%	11.00%	11.00%	11.00%	13.00%	13.00%	13.00%	13.00%
182-days Treasury Bill	12.98%	12.98%	12.98%	13.00%	13.00%	12.99%	13.00%	13.00%	15.00%	15.005	15.00%	15.50%	15.50%	15.50%	17.50%	17.50%	17.50%	17.50%
364-days Treasury Bill	14.20%	14.20%	14.22%	14.47%	15.00%	15.00%	15.00%	15.00%	17.03%	17.60%	17.74%	18.33%	18.75%	18.75%	19.50%	19.50%	19.50%	19.50%
2-year Treasury Note	16.63%	16.64%	16.64%	16.66%	16.70%	16.70%	17.00%	17.00%	18.50%	18.85%	20.50%	21.00%	21.50%	21.50%	22.50%	22.50%	22.75%	22.75%
3-year Treasury Note	18.99%	18.99%	19.00%	19.05%	19.04%	19.33%	19.50%	19.50%	21.90%	22.00%	22.00%	23.00%	23.00%	23.00%	23.00%	24.00%	24.00%	24.00%
5-year Treasury Note	20.26%	20.44%	20.53%	20.54%	20.78%	20.78%	21.00%	21.00%	23.95%	24.00%	24.00%	25.00%	25.00%	25.00%	26.00%	26.00%	26.19%	26.19%
7-year Treasury Note	21.36%	21.36%	21.15%	20.94%	20.94%	21.98%	22.00%	22.00%	22.33%	22.33%	25.53%	26.75%	26.50%	26.50%	27.50%	27.50%	27.50%	27.50%
10-year Treasury Note	23.25%	23.00%	22.50%	22.50%	22.98%	22.98%	22.98%	23.35%	23.35%	27.00%	27.00%	27.00%	27.50%	27.50%	27.50%	28.50%	28.50%	28.50%
Stock Market Indices																		
MASI	41,550.15	41,458.37	41,565.98	45,367.68	44,501.63	45,472.09	45,921.23	46,934.16	50,300.44	49,596.14	52,889.87	54,454.45	54,389.92	55,046.26	55,795.69	62,036.05	68,451.77	71,069.31
DSI	34,266.54	34,188.36	34,284.11	37,061.70	36,322.34	37,186.63	37,584.34	37,283.40	39,037.30	39,011.21	42,717.13	44,109.31	44,360.30	44,986.52	48,811.22	50,804.03	54,351.80	56,674.50
FSI	3,450.70	3,450.25	3,450.24	4,223.15	4,183.22	4,182.23	4,184.71	5,720.11	7,305.55	6,538.52	5,548.61	5,548.61	5,154.73	5,100.84	5,613.43	5,614.30	8,374.09	8,382.28

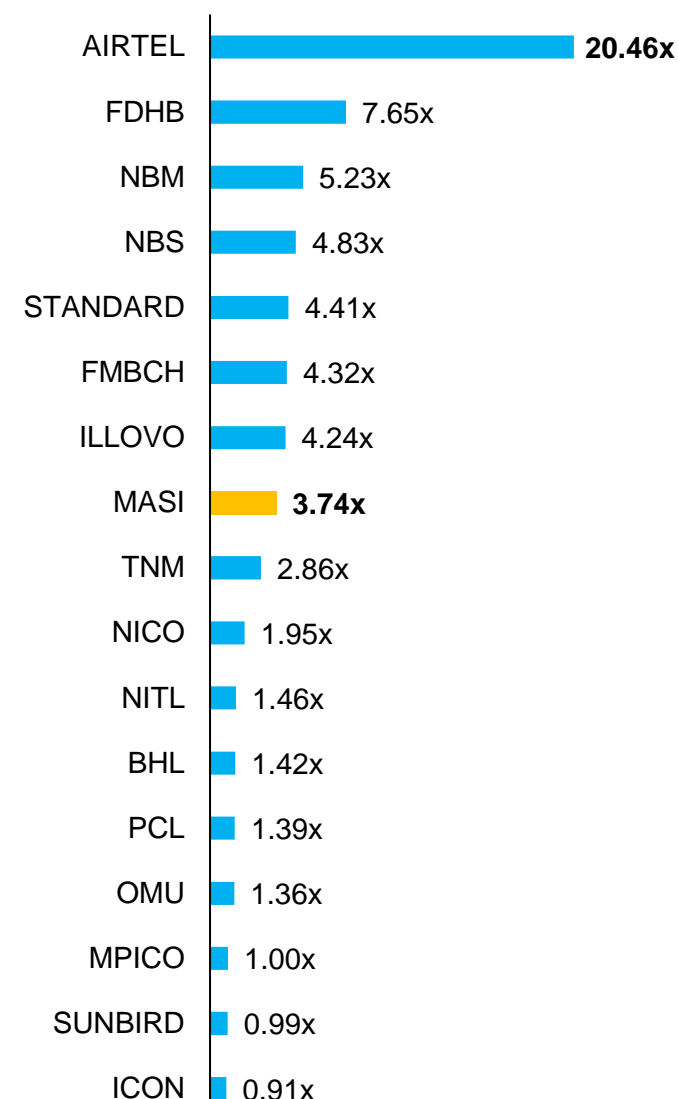
Dividend Yield (%)- the weighted average dividend yield on the MSE was 2.86% in February 2023. The counter with the highest dividend yield was AIRTEL at 4.76%.



P/E Ratio- the weighted average price to earnings on the MSE was 17.43x in February 2023. The counter with the highest ratio was SUNBIRD at 36.65x.

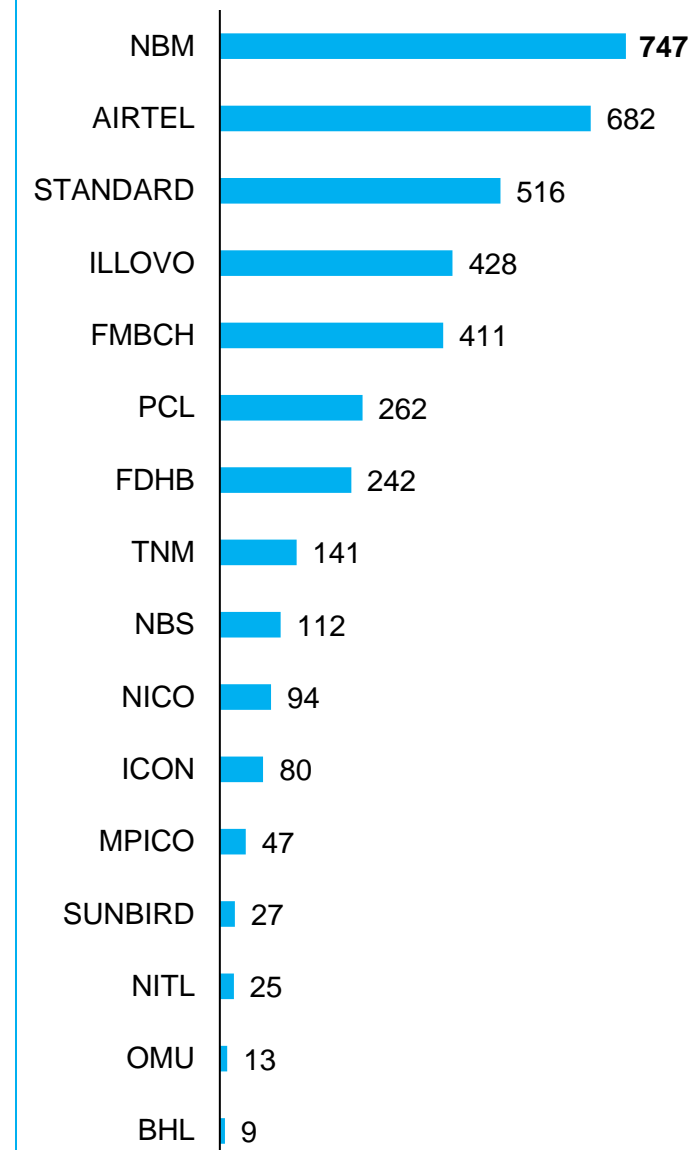


P/BV Ratio - the weighted average price to book value on the MSE was 3.74x in February 2023. The counter with the highest ratio is AIRTEL at 20.46x.



Market Capitalization (MK'billion)-

NBM had the highest market capitalization at MK747 billion in February 2023.



EIU projections

Economic growth			
	2022	2023*	2024*
Real GDP Growth	1.8	1.6	3.0
Private consumption (% of GDP)	1.2	2.5	3.0
Government consumption (% of GDP)	2.0	2.8	2.8
Gross fixed investment(% of GDP)	4.0	5.5	5.6
Exports of goods & services (USD'million)	974	952	1,177
Imports of goods & services (USD'million)	-3,178	-2,809	-2,813
Agriculture (% of GDP)	1.9	1.5	3.0
Industry (% of GDP)	1.9	2.0	2.7
Services (% of GDP)	1.8	1.6	3.0

*: EIU forecasts

Key indicators					
	2020	2021	2022	2023*	2024*
Real GDP growth (%)	-1.0	5.8	1.8	1.6	3.0
Consumer price inflation (av; %)	8.6	9.2	21.4	17.4	12.3
Government balance (% of GDP)	-6.2	-6.7	-10.1	-7.4	-6.2
Current-account balance (% of GDP)	-19.5	-19.3	-24.6	-16.1	-12.5
Lending Interest rate (av; %)	24.2	23.9	26.0	26.0	24.0

*: EIU forecasts

Oxford Economics Projections

Malawi forecast overview							
		2019	2020	2021	2022	2023*	2024*
Nominal GDP	\$bn	8.0	8.5	8.6	9.0	8.9	9.9
Nominal GDP per capita	\$	424.9	436.5	432.9	438.9	427.2	459.7
Real GDP growth	% year	5.4	0.8	2.8	1.3	1.7	3.7
CPI inflation	%	9.4	8.6	9.3	22.1	19.2	13.2
Exchange rate (MK/USD)	Average	745.5	749.5	804.2	940.7	1,114.0	1,182.2
Exports	\$bn	1.1	0.8	1.1	1.2	1.3	1.4
Imports	\$bn	2.8	2.6	3.0	3.2	3.4	3.6
Current account	\$bn	-1.3	-1.5	-1.5	-1.6	-1.7	-1.7
Current account	% of GDP	-16.5	-17.3	-17.9	-18.3	-18.5	-16.9
Foreign direct investment	% of GDP	1.1	1.0	1.0	1.1	1.2	1.2
External debt	% of GDP	30.3	34.8	47.8	59	71.9	75.8
Reserves	\$bn	0.8	0.6	0.4	0.4	0.4	0.5
Import cover	Months	3.1	2.2	1.5	1.2	1.3	1.5
Government balance	% of GDP	-6.3	-11.4	-12.4	-11.6	-10.5	-8.4
Government debt	% of GDP	62.3	76.2	88.6	87.3	86.9	84.7
Brent Crude oil	US\$/bbl	64.4	41.8	70.7	102.6	92.3	87

	2021	2022	2023*	2024*	2025*	2026*	2027*
National accounts and prices (percent change, unless otherwise indicated)							
Real GDP	2.2	0.8	2.4	3.2	3.8	4.3	4.5
Nominal GDP (MK'bn)	9,599	11,354	14,018	16,684	19,278	21,641	24,048
GDP deflator	6.5	17.3	20.6	15.3	11.3	7.6	6.3
CPI (annual average)	9.3	20.8	22.7	17.1	12.1	8.1	6.8
Central government (percent of GDP on a fiscal year)							
Revenue	14.9	15.4	15.5	17.0	18.1	17.5	16.9
Tax and nontax revenue	13.1	13.4	13.9	14.9	15.7	15.9	16.1
Expenditure and net lending	22.3	24.3	24.6	25.8	25.6	24.2	23.1
Overall balance (excl. grants)	-9.2	-11.6	-10.6	-10.5	-9.2	-7.2	-5.8
Overall balance (incl. grants)	-7.5	-9.7	-9.0	-8.4	-6.8	-5.6	-5.0
Financial gap/residual gap	0.0	0.0	4.1	4.5	2.1	1.9	0.8
Domestic primary balance	-2.5	-4.1	-0.6	0.8	2.2	2.7	2.4
Money and credit (percentage change)							
Broad money	30.0	27.5	23.5	19.0	15.5	12.3	10.6
Credit to private sector	18.6	27.9	14.7	10.9	8.2	7.4	5.2
External sector (USD million, unless otherwise indicated)							
Exports (goods and services)	1,262	1,294	1,421	1,477	1,544	1,638	1,792
Imports (goods and services)	3,255	3,409	3,173	3,291	3,265	3,217	3,261
Gross official reserves	429	172	409	682	835	980	1,039
(months of imports)	1.6	0.6	1.5	2.5	3.1	3.6	3.7
Current account (% of GDP)	-14.6	-14.8	-13.6	-14.3	-13.1	-11.2	-9.6
Overall balance (% of GDP)	0.00	-1.7	-2.4	0.2	-0.1	0.0	0.5
Financing gap (% of GDP)	0.00	2.8	4.9	2.6	1.9	1.8	0.5
Debt stock and service (percent of GDP, unless otherwise indicated)							
External public debt	32.8	38.9	37.1	35.6	33.6	30.9	28.8
Total public debt	64.0	76.6	74.6	74.5	73.8	72.6	71.0
External debt service (% of exports)	14.4	55.6	26.7	22.7	20.2	20.6	12.2

Appendix 5: List of Acronyms and Abbreviations

ADB:	Authorized Dealer Banks	MCMI:	Malawi Carbon Markets Initiative	TT:	Telegraphic Transfer
AfDB:	African Development Bank	MDA:	Ministry's Departments and Agencies	UAE:	United Arab Emirates
AIP:	Affordable Inputs Program	MERA:	Malawi Energy Regulatory Authority	UBR:	United Beneficiary Registry
BHL:	Blantyre Hotels Plc	MK:	Malawi Kwacha	UN:	United Nations
CPI:	Consumer Price Index	M-O-M:	Month-on-month	USA:	United States of America
DSI:	Domestic Share Index	MPC:	Monetary Policy Committee	USD:	United States Dollar
EDF:	Export development Fund	MSE:	Malawi Stock Exchange	Y-O-Y:	Year-on-year
EFT:	Electronic Funds Transfer	MW:	Mega Watts	YTD:	Year-to-date
EIU:	Economist Intelligence Unit	NBM:	National Bank of Malawi Plc	ZAR:	South African Rand
EU:	European Union	NICO:	NICO Holdings Plc		
EUR:	Euro	NITL:	National Investment Trust Limited Plc		
FDHB:	FDH Bank Plc	NSO:	National Statistical Office		
FMBCH:	FMB Capital Holdings Plc	OMU:	Old Mutual Limited Plc		
FSI:	Foreign Share Index	OPEC:	Organization of the Petroleum Exporting Countries		
GBP:	Great British Pound	ORB:	OPEC Reference Basket		
GDP:	Gross Domestic Product	P/BV:	Price to book value		
GEMMAP:	Geological Mapping and Mineral Assessment Project	PCL:	Press Corporation Limited Plc		
IFMIS:	Integrated Financial Management Information System	P/E:	Price to earnings		
IFPRI:	International Food Policy Research Institute	PFM:	Public Financial Management		
IMF:	International Monetary Fund	RBM:	Reserve Bank of Malawi		
IPSAS:	International Public Sector Accounting Standards	SUNBIRD:	Sunbird Tourism Plc		
LRR:	Liquidity Reserve Requirement	TAMA:	Tobacco Association of Malawi		
MASI:	Malawi All Share Index	TB:	Treasury Bill		
Mb/d:	Million barrels per day	TN:	Treasury Note		
MCCCI:	Malawi Confederation of Chambers of Commerce and Industry	TNM:	Telekom Networks Malawi Plc		

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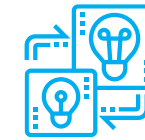
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