Bridgepath Capital
Invest to Achieve

Malawi Monthly Economic Report and a Brief on the Regional Economic Outlook for Sub-Saharan Africa

April 2023

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Inflation

The headline inflation rate increased to 27.0% in March 2023 from 26.7% in February 2023 due to a rise in food inflation to 32.4% from 31.7%, offsetting a marginal decrease in non-food inflation to 20.2% from 20.5%. Inflation in Malawi is projected to be 24.7% in 2023, according to the International Monetary Fund (IMF). Due to the worsening inflation outlook, the Monetary Policy Committee raised the average headline inflation projection for 2023 to 24.5%. It was projected at an annual average of 18.2% during the previous MPC meeting and 21.0% in 2022. Inflationary risk emanates from the damage to agricultural fields that resulted from Cyclone Freddy. This may result in less-than-expected maize yield among other agricultural commodities for the 2023-24 year, exerting upward pressure on food prices.

Fiscal and Monetary Policy

The Monetary Policy Committee (MPC) has raised the benchmark Policy rate by 400 basis points to 22.00% from 18.00%. The policy rate hike, a crucial driver of interest rates on loans, has compelled commercial banks to raise the reference rate to 20% from 17.30%. The MPC has also decided to increase the Liquidity Reserve Requirement (LRR) ratio on domestic currency deposits by 200 basis points to 5.75% from 3.75%. Both decisions are attempts to curb inflation.

Exchange Rates and Foreign Currency Reserves

The Malawi Kwacha traded at MK1,034.86/USD as of 30 April 2023, a marginal depreciation from MK1,033.80/USD as of 31 March 2023. Year-to-date, the Kwacha has depreciated against the USD by 0.02% 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 0.52%. The Reserve Bank of Malawi is yet to release updated information on foreign exchange figures for March 2023. However, in February 2023, the country's gross official foreign exchange reserves marginally increased by 0.5% to USD280.66 million, from USD279.22 in January 2023.

As highlighted by Oxford Economics, Malawi is still experiencing sporadic fuel supply problems which started during the latter half of 2022 because of lack of forex reserves needed to pay for fuel imports. There is optimism that forex reserve levels will improve with the tobacco marketing season opening in April 2023.

Stock Market

The year-to-date return on the Malawi All Share Index (MASI) was 39.37% in April 2023 compared to 3.45% in April 2022. The stock market was bullish month-on-month, with the MASI increasing to 86,462.61 points as of 30 April 2023 from 80,298.12 points as of 31 March 2023. The increase in the MASI resulted from share price gains in NBS, NITL, OMU, TNM, ILLOVO, NBM, NICO, AIRTEL and Standard Bank. In addition, there was a marginal share price gain in SUNBIRD. The share price gains offset share price losses by ICON, FMBCH and marginal losses by PCL, MPICO and FDH Bank. NBS was the largest share price gainer as its share price increased by 27.21% to MK80.00 per share in April 2023 from MK62.89 per share in March 2023. ICON was the largest share price loser as its share price decreased by 5.30% to MK11.26 in April 2023 from MK11.89 in March 2023.

Government Securities

The government awarded MK85.20 billion through Treasury Bills (TBs) and Treasury Notes (TNs) auctions in April 2023, a 68% decrease from MK265.61 billion awarded in March 2023. MK65.05 billion was awarded in the TBs auctions in April 2023, compared to MK125.78 billion in March 2023. MK20.15 billion was awarded in the TNs auctions in April 2023 compared to MK139.83 billion awarded in March 2023. The TBs had a 0.7% rejection rate, while the TNs had a nil rejection rate in April 2023. The average TB yield marginally decreased to 16.66% from 16.67%, while the average TN yield maintained its position at 25.80%.

Economic Growth

According to Oxford Economics, economic growth is forecasted at 2.1% for 2023 compared to 1.3% in 2022. An agricultural sector hampered by adverse weather conditions in the form of recurring Cyclones and high fertilizer prices, compounded by strained consumer spending due to high inflation, will likely inhibit economic growth this year. However, industry and services sectors with fewer power outages than previously expected should spur economic activity. Real GDP growth is predicted to rebound to 3.4% in 2024 as private consumption and exports of goods and services improve.

The International Monetary Fund projects real GDP growth of 2.4% for Malawi in 2023. Fiscal consolidation, monetary policy tightening, and reforms that will bring the economy back to a sustainable path are expected to support economic recovery in the medium term. The African Development Bank (AfDB) forecasts GDP growth to average 3.0% between 2023 and 2024.

According to the Malawi 2023 Annual Economic Report, the GDP growth rate is expected to be 2.7% in 2023. This expectation was attributed to the expected improvements in power supply and weather conditions, resulting in improved agriculture production. With the World Bank revising its earlier GDP growth projection of 2.7% for 2023 downwards to 1.4%, the GDP growth rate projections from various published sources range between 1.4% and 3.0%, bringing the projected average GDP growth rate for 2023 to 2.2%. The GDP forecasts may be subject to adjustment as tropical Cyclone Freddy caused damage to agriculture, caused a slowdown in economic activity and disrupted supply chains, which would all affect the level of economic growth in the period.

Risks

The Malawian economy has continued to face several significant risks that include but are not limited to dependence on rain-fed agriculture, foreign exchange rate risk, currency depreciation risk, reliance on aid and power supply insufficiency. These risk factors may 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 susceptible to weather-related shocks such as the recent tropical Cyclone Freddy that hit the country hard.

In addition to this, the country faces additional foreign exchange rate risk compounded by global inflationary pressure resulting from increased prices of imports and decreased prices of Malawian exports. Furthermore, 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.

Additionally, there is the risk of depreciation of the domestic currency. If the risk of reduction in exports and associated export earnings were to materialize, the domestic currency might be exposed to currency depreciation risk. This would further make the importation of goods and services relatively more expensive while reducing the value earned from exporting domestically produced goods and services. This may have a knock-on effect on inflation and, subsequently, on the country's fiscal deficit.

Malawi is also significantly dependent on external aid, making the economy vulnerable to changes in aid flows and donor priorities. For instance, in the aftermath of tropical Cyclone Freddy, the Minister of Finance indicated that the government might be unable to fully fund the effort to rebuild the damaged infrastructure in various sectors and would be looking to its development partners for support in these projects. As such, with this dependence, a reduction in aid could lead to reduced public investment, social services, and economic growth.

Furthermore, the presence of high levels of informality. A significant proportion of economic activity in Malawi occurs in the informal sector, which can limit government revenue collection and reduce the effectiveness of tax regulations. Informality can also make it difficult for businesses to access finance, hindering investment and growth.

Lastly, Malawi has a relatively underdeveloped financial sector, with limited access to credit and other financial services for many individuals and businesses. This can make it difficult for companies to expand and invest in new projects, limiting economic growth.

Economic overview

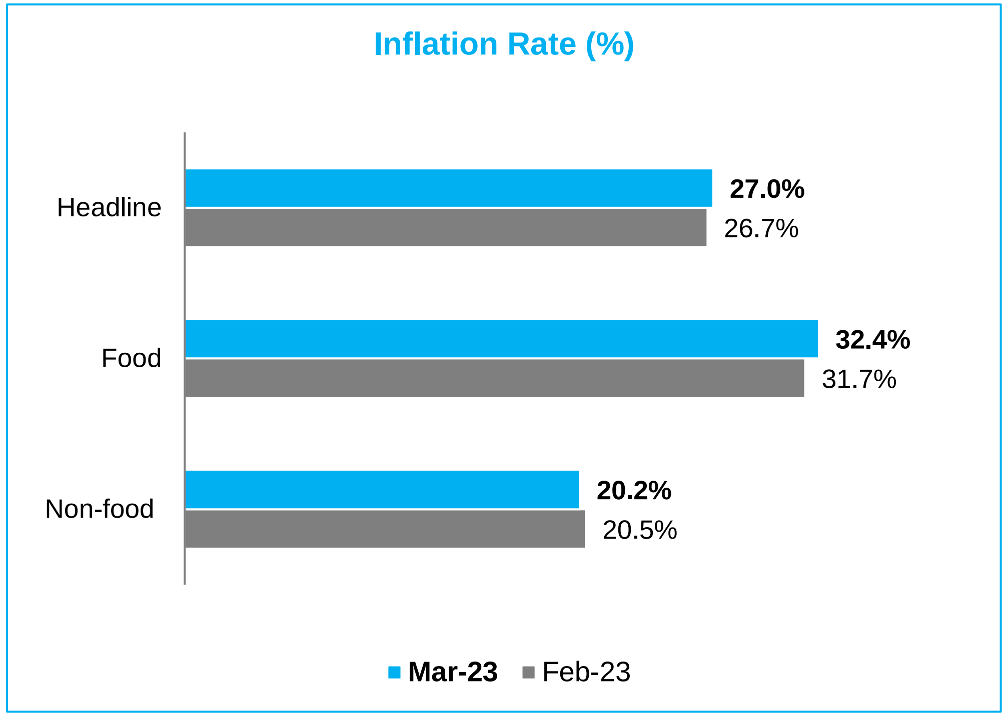
Inflation (Source: NSO, RBM)

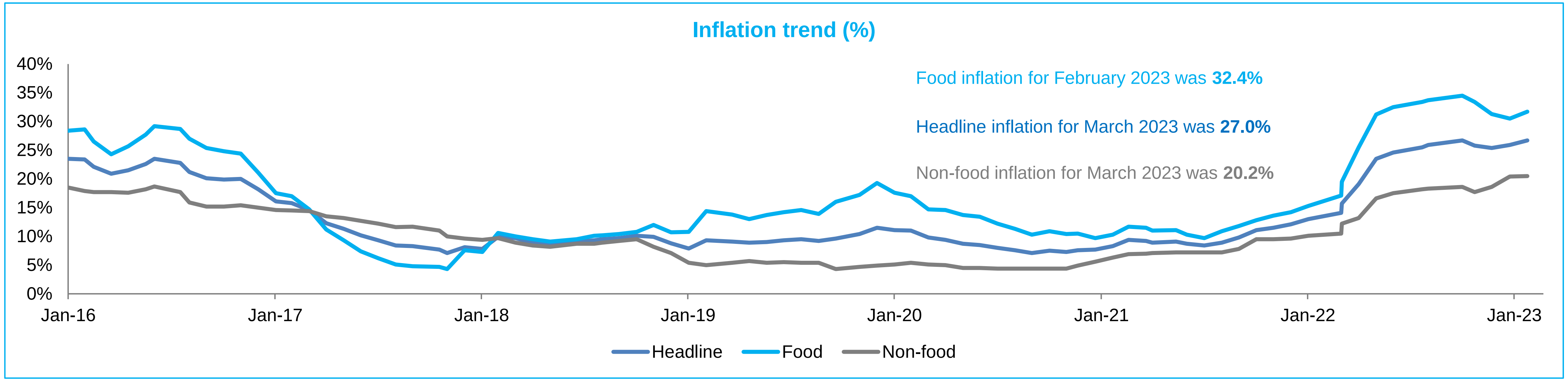
Headline inflation rate for March 2023 increased by 0.3 percentage points to 27.0%, from 26.7% in February 2023. The increase was due to increases in food inflation to 32.4% which offset a marginal decrease in nonfood inflation to 20.2% during the period under review.

The headline inflation rate increased by 0.3 percentage points to 27.0% in March 2023 from 26.7% in February 2023. The increase was due to a rise in food inflation to 32.4% in March 2023 from 31.7% in February 2023 which offset a marginal decrease in non-food inflation to 20.2% in March 2023 from 20.5% in February 2023. The national month-to-month inflation rate for March 2023 stands at 2.2%, the food inflation rate is at 3.3% while the non-food inflation rate is at 0.6%.

The Monetary Policy Committee (MPC) observed that such a high inflationary environment is not conducive to economic growth. Therefore, the MPC decided to address inflationary pressures by increasing the Policy rate by 400 basis points to 22.00% from 18.00% as well as the Liquidity Reserve Ratio (LRR) on local currency deposits by 200 basis points to 5.75% from 3.75%. However, the LRR ratio on foreign currency deposits and the Lombard rate has been maintained at 3.75% and 20 basis points above the Policy rate, respectively.

The Reserve Bank of Malawi (RBM) anticipates headline inflation to average higher at 24.5% in 2023 than the 18.2% projected during the previous MPC meeting and compared to 21.0% for 2022. On the outlook, the MPC noted that the onset of the food crop harvesting period in 2023Q2 will likely result in a slowdown in food inflation during the quarter. However, considering the relatively lower food crop size, the lean period would set in earlier than normal. The MPC further observed that the declining commodity prices translating into non-food disinflation was no longer realistic in the face of heightened demand-side inflationary pressures arising from fiscal risks and second-round effects of the Cyclone.





Economic overview (Continued)

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

The gross official foreign exchange reserves marginally increased by 0.5% to USD280.66 million as of February 2023, from USD279.22 million as of 31 January 2023.This translates to an import cover of 1.12 months in February 2023. Figures for March 2023 are yet to be released.

Foreign currency market

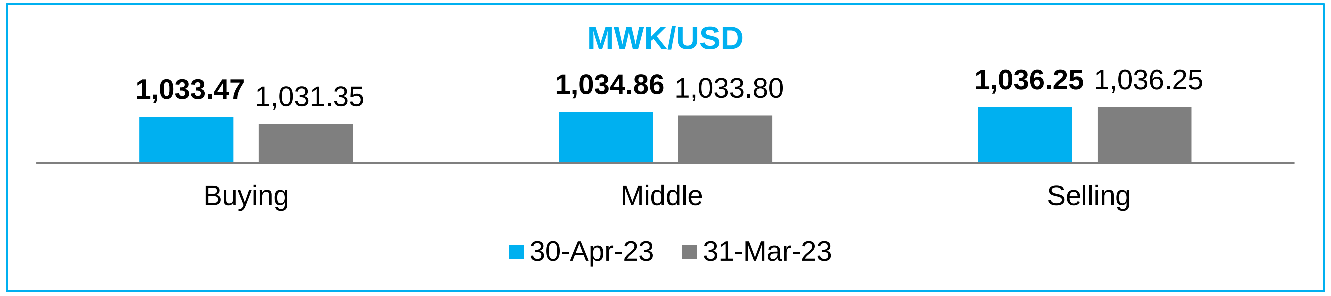
Month-on-month, the Kwacha marginally depreciated against the United States Dollar (USD) by 0.10% as it traded at MK1,034.86/USD as of 30 April 2023, from MK1,033.80/USD as of 31 March 2023. Year-to-date, the Kwacha has marginally depreciated against the USD by 0.02% as it traded at MK1,034.67/USD as of 31 December 2022. During the same period in the previous year, the Kwacha had depreciated against the USD by 0.52%.

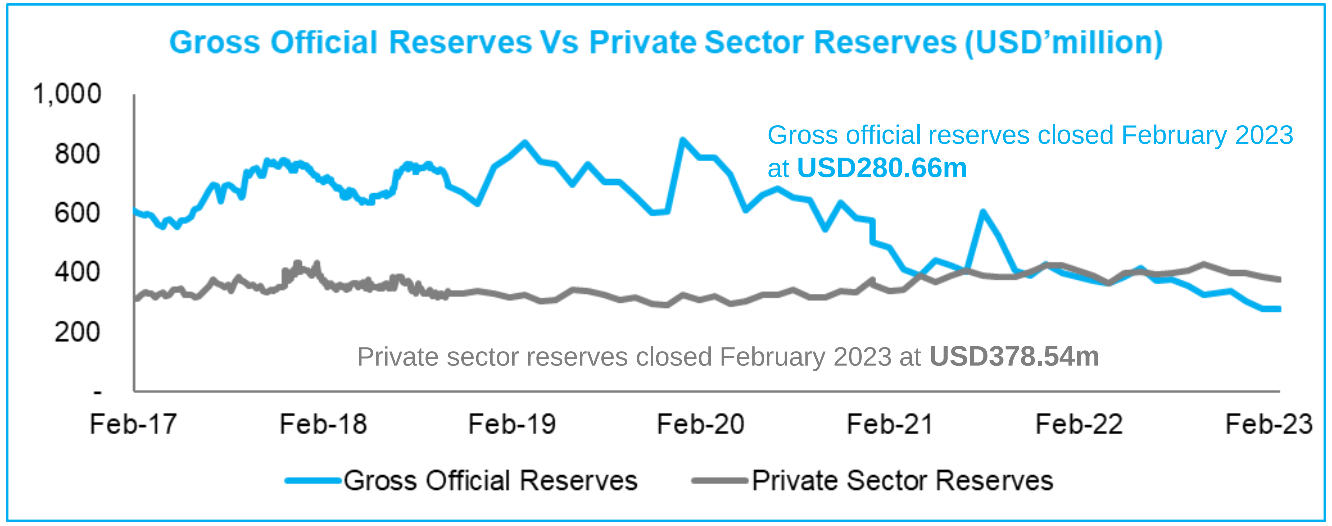
Foreign Exchange Reserves Position

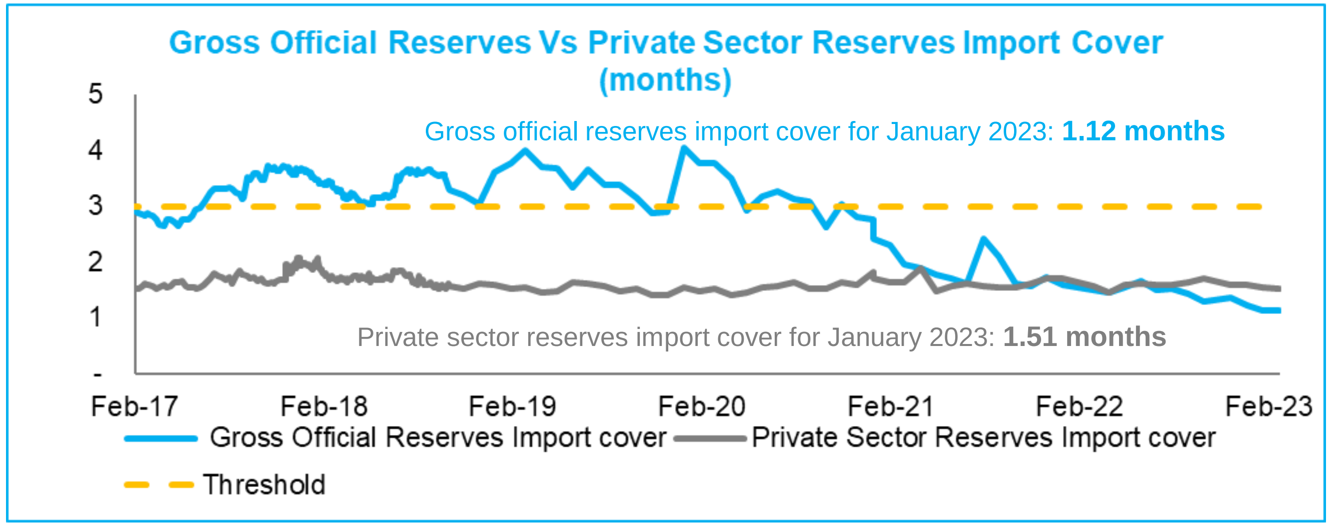
As of 28 February 2023, the country's gross official foreign exchange reserves marginally increased by 0.5% to USD280.66 million from a gross official foreign exchange reserve of USD279.22 million in January 2023. Foreign exchange reserves held by the private sector decreased by 2% to USD378.54 million as of 28 February 2023, from USD384.37 million as of 31 January 2023. In total, foreign exchange reserves held in the country in February 2023 were USD659.20 million, a marginal decrease of 0.7% from USD663.59 million in January 2023.

The import cover for gross official foreign exchange reserves for February 2023 maintained its position at 1.12 months during the period under review. For private sector foreign exchange reserves, import cover was 1.51 months in February 2023, a decrease of 2% from 1.54 months in January 2023. In February 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 2.63 months in February 2023 from 2.66 months in January 2023.

	Gross Official (USD'million)	Private Sector (USD'million)	Gross Official import cover (months)	Private sector import cover (months)
Feb-23	**280.66**	**378.54**	**1.12**	**1.51**
Jan-23	279.22	384.37	1.12	1.54







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)

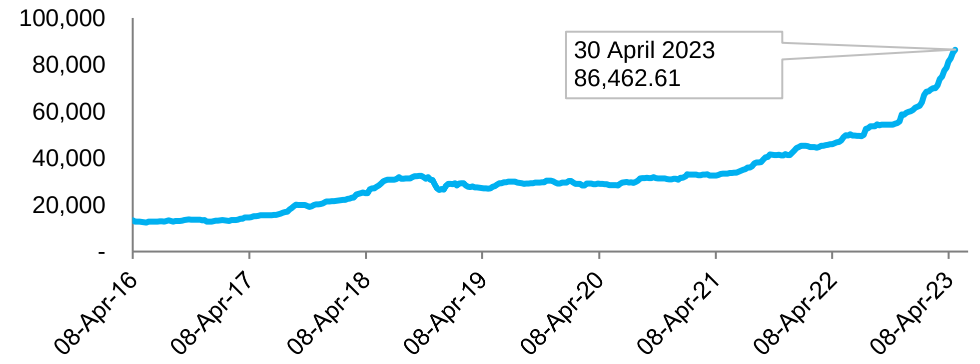
The MASI year-to-date return was 39.37% in April 2023, and it was 3.45% during the same period in the previous year.

The stock market was bullish over the period as the Malawi All Share Index (MASI) increased to 86,462.61 points in April 2023 from 80,298.12 points in March 2023, representing an 8% increase. The year-to-date return on the MASI is 39.37%. It was 3.45% during the same period in the previous year.

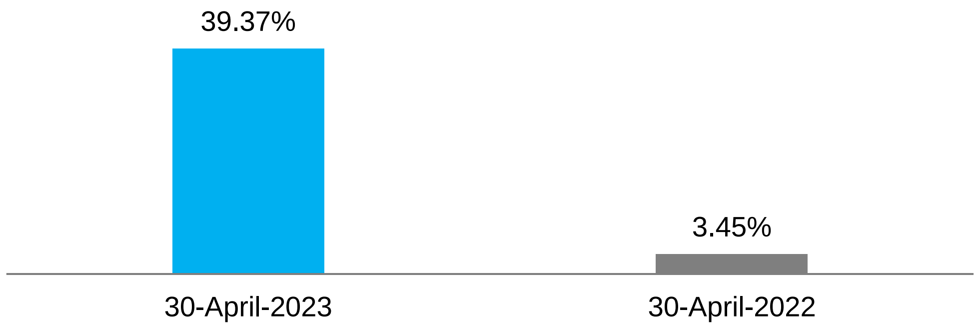
In April 2023, NBS was the largest share price gainer as its share price increased by 27.21% to MK80.00 per share from MK62.89 per share in March 2023. Other counters that had share price gains were NITL, OMU, TNM, ILLOVO, NBM, NICO, AIRTEL and Standard Bank. There was also a marginal share price gain for SUNBIRD during the period.

In terms of share price losses, there were losses by ICON, FMBCH and marginal losses by PCL, MPICO and FDH Bank.

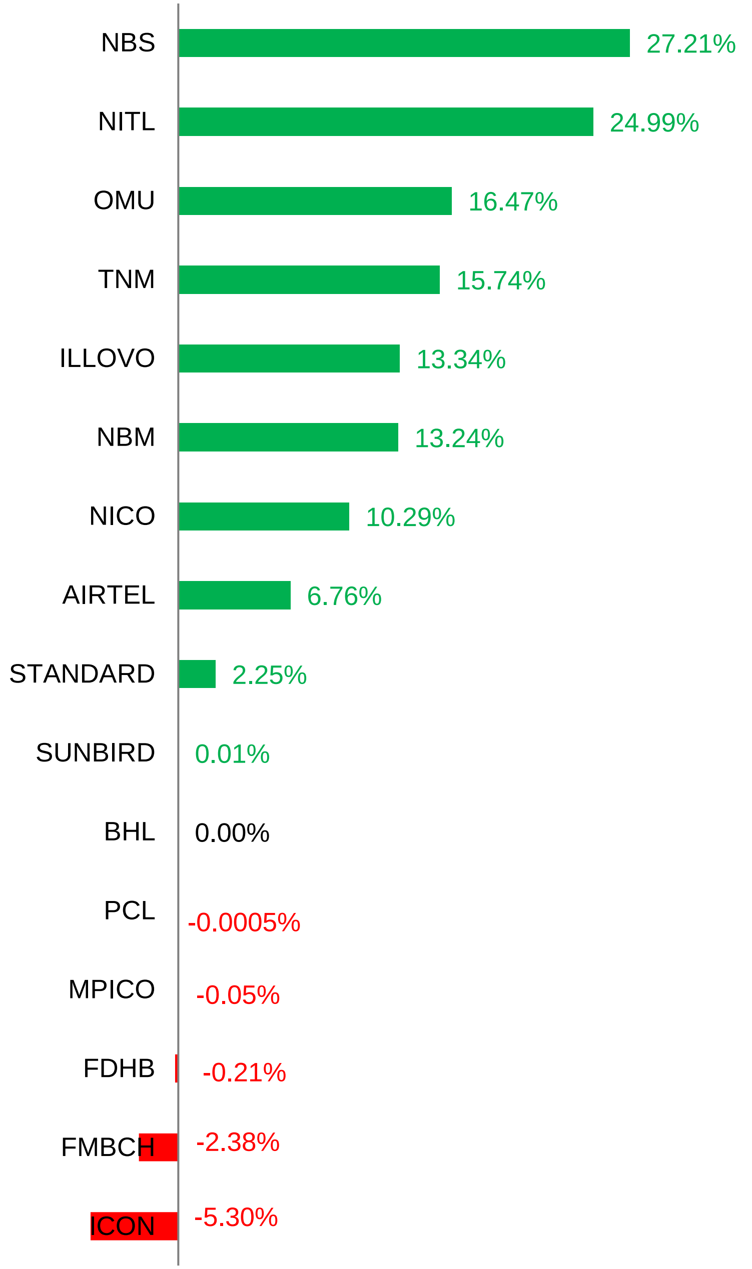
Malawi All Share Index (MASI)



MASI Year-to-date return (%)



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



Symbol	Closing prices (MK/share)	
	30-Apr-23	31-Mar-23
AIRTEL	80.08	75.01
BHL	10.96	10.96
FDHB	38.90	38.98
FMBCH	163.00	166.98
ICON	11.26	11.89
ILLOVO	850.03	750.00
MPICO	20.57	20.58
NBM	2,000.09	1,766.29
NBS	80.00	62.89
NICO	150.00	136.00
NITL	250.00	200.01
OMU	1,025.01	880.04
PCL	2,181.29	2,181.30
STANDARD	2,250.04	2,200.60
SUNBIRD	120.01	120.00
TNM	17.94	15.50

Economic overview (Continued)

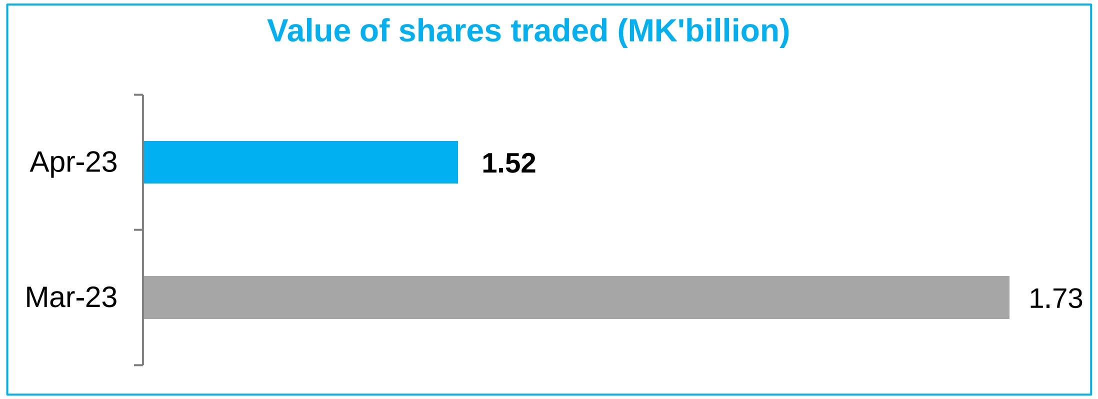
Stock market (Source: MSE)

According to its summary audited financial statements, NBS reported a net profit of MK18.9 billion for the year ended 31 December 2022, an increase of 145% from a net profit of MK7.7 billion in the previous year.

MSE Traded Volumes

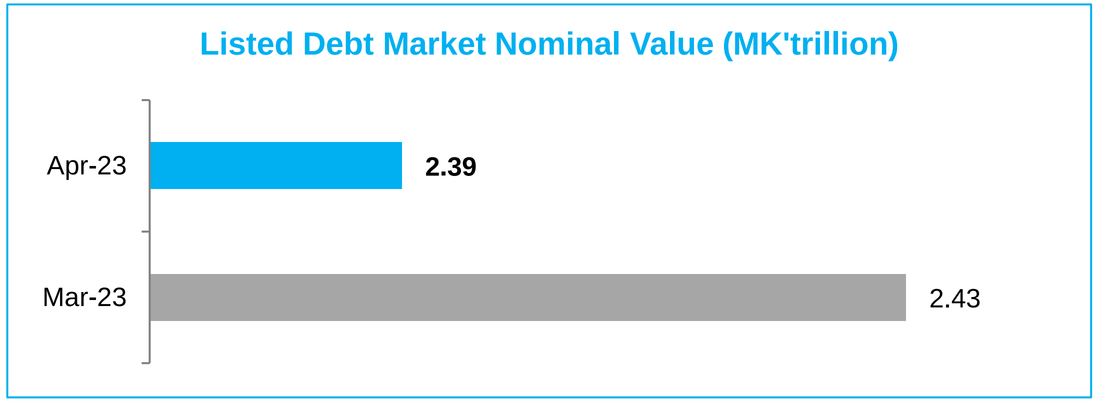
A total of MK1.52 billion worth of shares was traded on the Malawi Stock Exchange (MSE) in April 2023. This was a 12% decrease from MK1.73 billion worth of shares traded in March 2023. NBS Bank had the highest value of shares traded in April 2023 at MK429 million.

The total number of trades increased to 657 in April 2023, from 599 in March 2023. The figure below shows the total value of shares traded on the MSE in April 2023 compared to March 2023.



Listed Debt Market

The total number of instruments listed on the debt market decreased to 60 in April 2023 from 61 in March 2023. There were no trades on the debt market in April 2023. The nominal value of all listed debt securities decreased to MK2.39 trillion in April 2023 from MK2.43 trillion in March 2023.



TBA: to be announced

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
BHL	(0.60)	(0.75)	20%
TNM	0.97	9.69	(90%)
FMBCH *(USD'million)*	28.39	21.84	30%
ICON	14.64	8.61	70%
MPICO	5.65	4.71	20%

Published financial results

Amounts in billions of Malawi Kwacha unless specified otherwise.

Counter	Profit/(loss) for the year ended 31 December 2022	Profit/(loss) for the year ended 31 December 2021	Percentage Change (%)
SUNBIRD	3.1	0.75	307%
NITL	7.0	4.7	49%
NBS	18.9	7.7	145%
FDHB	22.9	11.7	96%
NICO	39.0	20.5	90%
STANDARD	39.2	24.8	58%
NBM	52.7	39.4	33.6%

Dividends

Counter	Dividend type	Proposed/ Declared	Dividend per share (MK)	Last day to register	Date of payment
NBS	2nd interim	Declared	1.55	21 April 2023	5 May 2023
NICO	2nd interim	Declared	4.00	5 May 2023	12 May 2023
FDH	Final	Proposed	0.58	19 May 2023	26 May2023
Standard	Final	Proposed	51.14	TBA	TBA
NITL	Final	Proposed	2.35	TBA	TBA
Sunbird	Final	Proposed	1.50	TBA	TBA
NBS	Final	Proposed	0.90	TBA	TBA
NBM	Final	Proposed	32.11	TBA	TBA
NICO	Final	Proposed	1.00	TBA	TBA

Economic overview (Continued)

Government securities (Source: RBM)

The government awarded a total of MK85.20 billion through Treasury Bills (TBs) and Treasury Notes (TNs) auctions in April 2023, a 68% decrease from MK265.61 billion awarded in March 2023.

Treasury Bills (TBs)

In April 2023, the government sought to borrow MK153.70 billion through Treasury Bills (TBs) auctions. This represents a 115% increase from MK71.39 billion sought in March 2023. Participants applied to place a total of MK65.53 billion through TBs auctions in April 2023. This represents a 48% decrease from MK126.27 billion that was applied for in March 2023. The government awarded a total of MK65.05 billion in April 2023, a 48% decrease from MK125.78 billion that was awarded in March 2023. The TBs had a 0.7% rejection rate in April 2023 compared to 0.4% in March 2023. In April 2023, only the 91-day TB and 364-days TB were issued following the suspension of the 182-day TB in the first quarter of 2023 due to an over-allotment of the tenor.

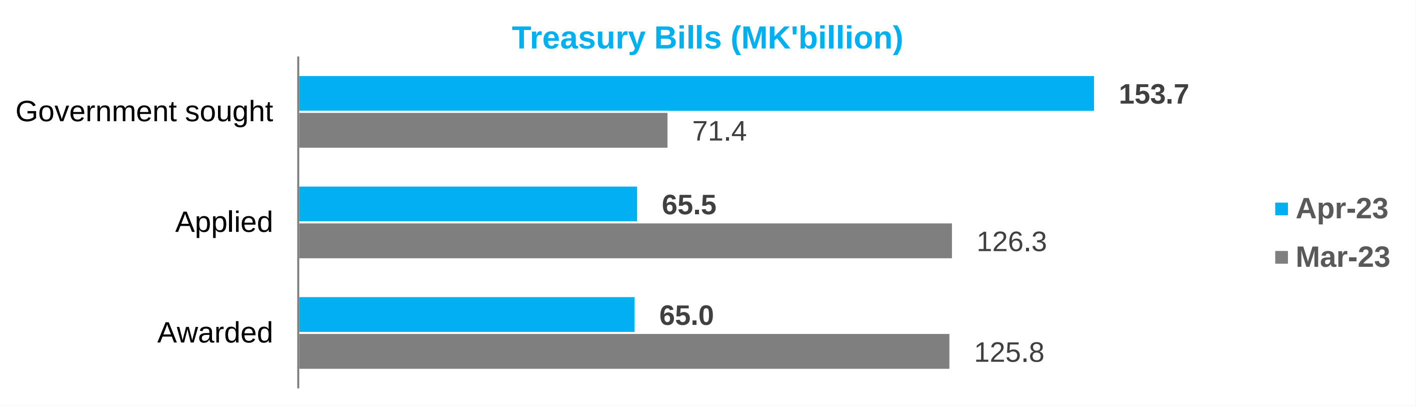
Treasury Notes (TNs)

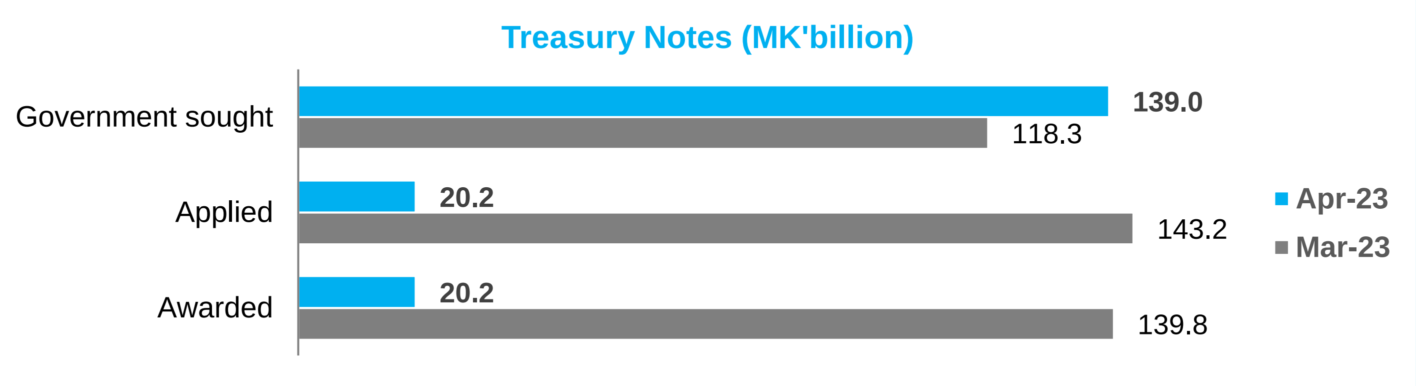
The government sought to borrow MK139.06 billion through Treasury Notes (TNs) auctions in April 2023. This represents an 18% increase from MK118.3 billion that was sought in March 2023. Participants applied to place a total of MK20.2 billion through TNs auctions in April 2023. This represents an 86% decrease from MK143.2 billion which was applied for in March 2023. A total of MK20.2 billion was awarded in the TNs auctions in April 2023. This was an 86% decrease from MK139.8 billion which was awarded in March 2023. The TNs had a nil rejection rate in April 2023 compared to 2.3% in March 2023.

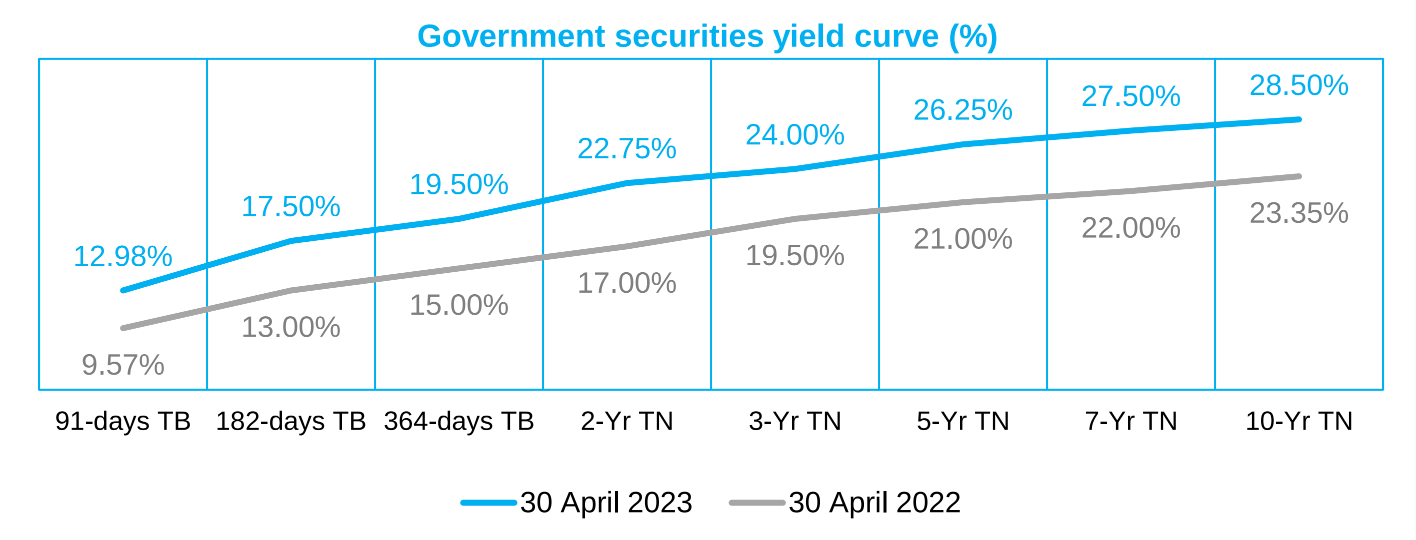
Government Securities Yield Curve

The average TB yield marginally declined to 16.66% during the period under review. The yields for 91-day TB, the 182-day TB and the 364-day TBs were at 12.98%, 17.50%, and 19.50%, respectively, as at 30 April 2023.

The average TN yield maintained its position at 25.80% during the period under review.







Other Market Developments

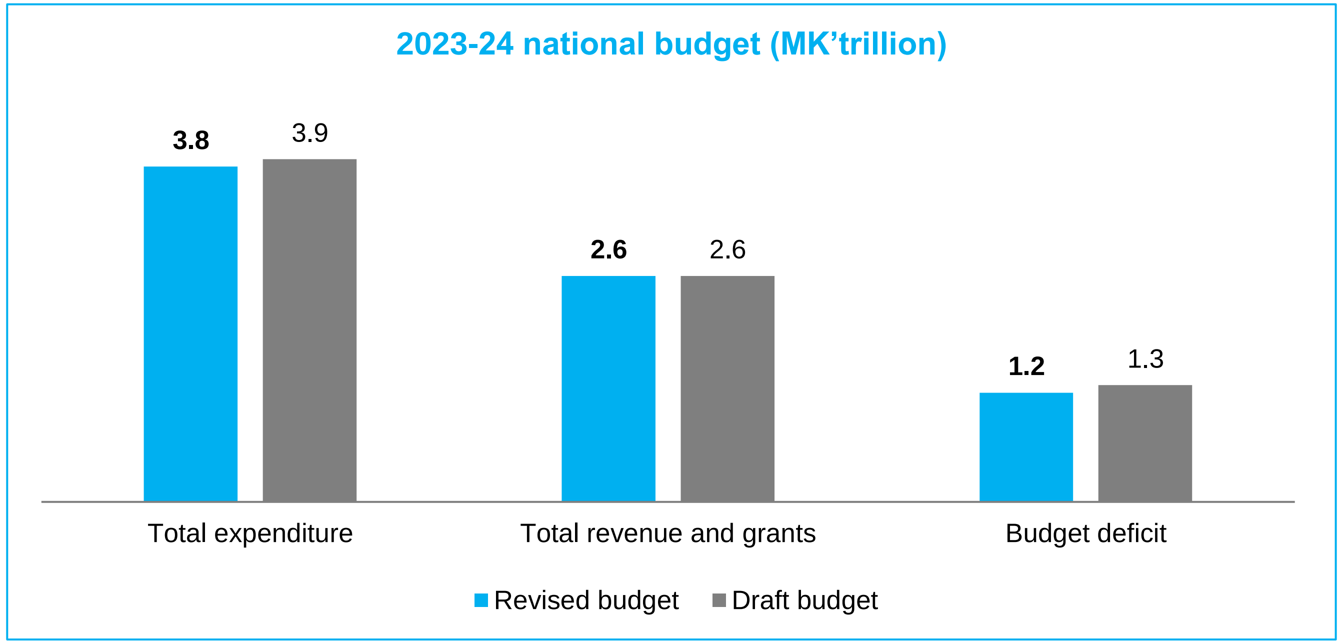
Fiscal and Monetary Policy (Source: RBM, Various Published Media)

The Department of Disaster Management Affairs (DoDMA) Cyclone Freddy draft assessment report indicates that 2.3 million people have been affected by Tropical Cyclone Freddy in Malawi. The number of displaced people stands at 659,278 (in 767 camps), 2,171 injuries, 676 dead and 533 missing.

Following the second Monetary Policy Committee (MPC) meeting, the benchmark Policy rate has been raised by 400 basis points to 22.00% from 18.00%.

Fiscal Policy

The Department of Disaster Management Affairs (DoDMA) Cyclone Freddy draft assessment report indicates that 2,267,458 people have been affected by Tropical Cyclone Freddy in Malawi. The number of displaced people stands at 659,278 (in 767 camps), 2,171 injuries, 676 dead and 533 missing. In the agriculture sector, a total of 2,267,458 people (51% women) lost their crops and livestock as 179,223 hectares of land have been destroyed. The second highest recorded impact was food security with 1.3 million people being acutely food insecure. Regarding shelter, 882,989 households had their houses either partially or completely damaged



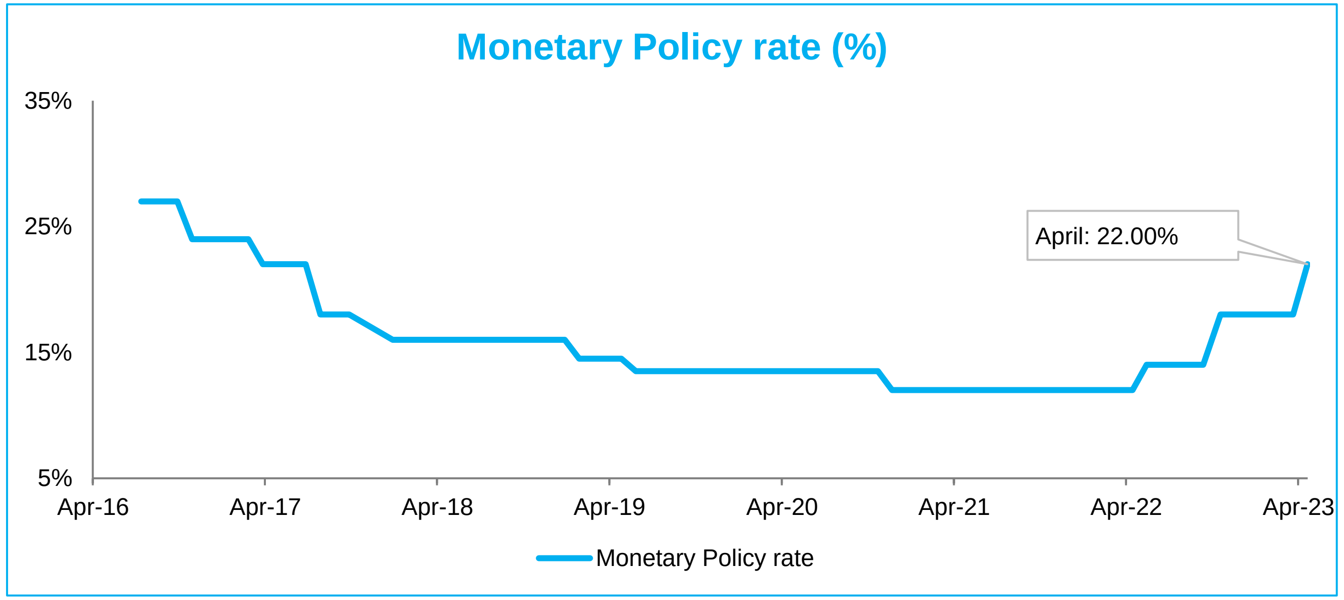
Monetary Policy

The second Monetary Policy Committee (MPC) meeting for 2023 was held on 26 and 27 April 2023. The MPC noted that the inflation outlook had worsened since the last MPC meeting, mainly due to unforeseen domestic shocks. In particular, the occurrence of Cyclone Freddy in Southern Malawi and localized drought in Northern Malawi had worsened the food supply prospects and strengthened adverse supply-side inflationary pressures. The Committee also observed that the need to rehabilitate the infrastructure damaged by the Cyclone has the adverse impact of amplifying aggregate demand and fueling inflation, requiring further tightening of monetary policy to dampen the demand effects.

Due to the worsening inflation outlook, the Monetary Policy Committee raised the benchmark Policy rate by 400 basis points to 22.00% from 18.00%. The MPC has also decided to increase the Liquidity Reserve Requirement (LRR) ratio on domestic currency deposits by 200 basis points to 5.75% from 3.75%. Both decisions are attempts to curb inflation.

The hike of the Policy rate, which is a key driver of interest rates on loans, has in turn resulted in increased reference rate to 20% effective 4 May 2023 from the rate of 17.30%.

The next MPC meeting is scheduled for 26 and 27 July 2023 and resulting decisions will be announced on 27 July 2023.



Regional And Global Market Developments

Global oil price developments (Source: OPEC, Reuters)

The monthly average OPEC Reference Basket (ORB) price increased by 7.24% to a monthly average of USD84.13/barrel in April 2023, from USD78.45 /barrel in March 2023.

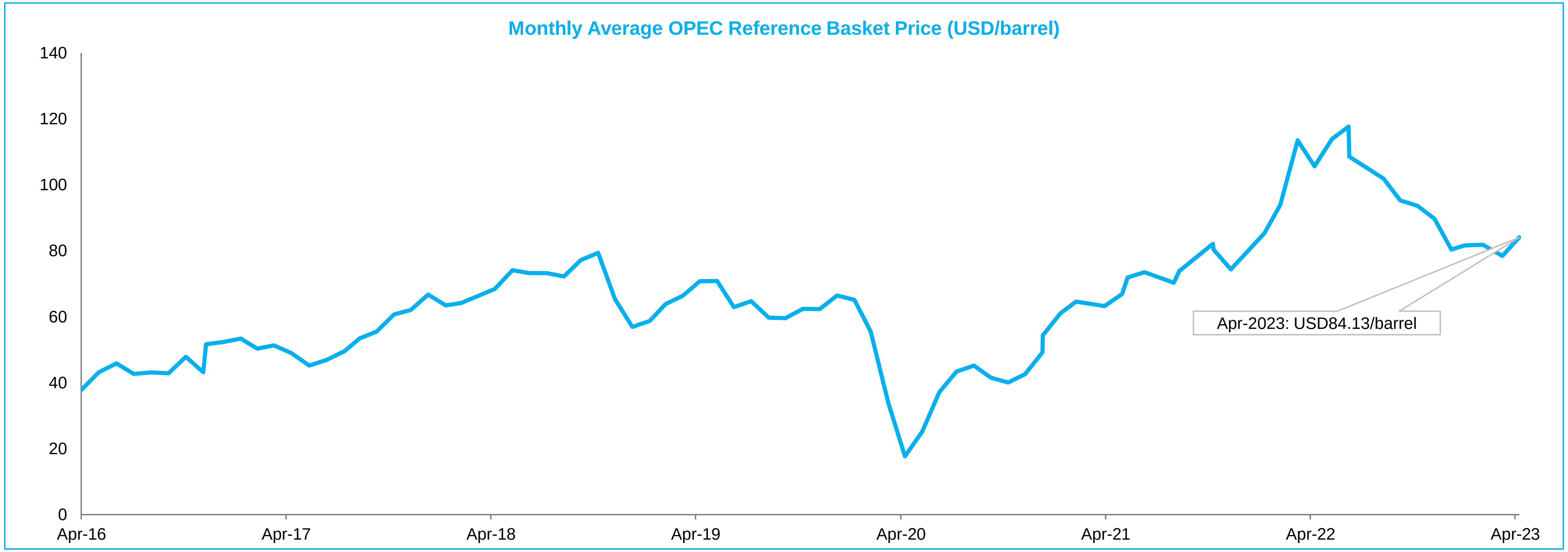
The monthly average OPEC reference basket price increased to USD84.13/barrel in April 2023 from a monthly average of USD78.45/barrel in March 2023. This represents an increase of 7.24% month-on-month. Year-on-year, this represents a 20.36% decrease from an average price of USD105.64/barrel as of April 2022.

On April 2, 2023, Saudi Arabia and other OPEC+ oil producers announced a further reduction of about 1.16 million barrels per day in oil production, which brings the total cuts to 3.66 million barrels per day (about 3.7% of the global demand). Despite agreeing to an output cut of 2 million barrels per day from November 2022, OPEC+ members are implementing voluntary output cuts as a precautionary measure to stabilize the oil market due to concerns that a global banking crisis may affect global demand. Analysts predict that these developments may cause a rise in oil prices.

As of 13 April 2023, OPEC maintained its forecast that oil demand would rise by 2.32 million barrels per day (bpd), or 2.3%, in 2023. OPEC maintained its 2023 global economic growth forecast at 2.6% and cited potential downside risks. Still, it said the spillover from U.S. bank failures in March had a limited economic impact.

Global fertilizer price developments (Source: Oxford Economics)

Oxford Economics forecasts global fertiliser prices to fall by 31.1% in 2023 after increasing by 54.8% in 2022 and 104.1% in 2021. This development is expected to help Malawi's 2022/23 agricultural season to claw back some lost ground in performance compared with the past couple of seasons.



A Brief on the Regional Economic Outlook for Sub-Saharan Africa

The region's financing options have deteriorated significantly as the acceleration in the tightening of global monetary policy, prompted by the rapid pickup in global inflation after the onset of Russia's war in Ukraine, has led to higher interest rates worldwide and raised borrowing costs.

Introduction

A funding squeeze has hit the region of Sub-Saharan Africa hard. Persistent global inflation and tighter monetary policies have led to higher borrowing costs for Sub-Saharan African countries and have placed more significant pressure on exchange rates. The funding squeeze aggravates the rising interest burden on public debt because of a greater reliance on expensive market-based funding and a long-term decline in aid budgets.

The lack of financing affects a region already struggling with elevated macroeconomic imbalances. Public debt and inflation are at levels not seen in decades, with double-digit inflation present in half of the countries, eroding household purchasing power and significantly affecting the most vulnerable segments of the population. Estimates suggest that 132 million people were acutely food-insecure in 2022.

Economic recovery has been interrupted and will decline to 3.6% in 2023 in Sub-Saharan Africa. Amid a global slowdown, activity is expected to decelerate for the second year in a row. Still, this headline figure masks significant variation across the region. Many countries will register a slight pickup in growth this year, especially non-resource-intensive economies. Still, the regional average will be weighed down by sluggish growth in some key economies, such as South Africa.

The funding squeeze will also impact the region's longer-term outlook. A shortage of funding may force countries to reduce resources for critical development in sectors like health, education, and infrastructure, weakening the region's growth potential.

Drivers of financing constraints in Sub-Saharan Africa

The region's financing options have deteriorated significantly over the past year. The acceleration in the tightening of global monetary policy, prompted by the rapid pickup in global inflation after the onset of Russia's war in Ukraine, has led to higher interest rates worldwide and raised borrowing costs for Sub-Saharan African countries, both on domestic and international markets.

Higher uncertainty amid the pandemic and the war in Ukraine has also led to risk repricing, disproportionately affecting Sub-Saharan African countries because of lower credit ratings, cutting off virtually all frontier markets from international market access since spring 2022. More specifically, Eurobond issuances for the region declined from USD14 billion in 2021 to USD6 billion in the first quarter of 2022.

Borrowing costs have increased significantly over the past decade, with interest payments as a share of revenue doubling over the same period. At 11% of revenues (excluding grants) for the median Sub-Saharan African country in 2022, interest payments are about triple those of the median advanced economy. Structural shifts behind this increase in borrowing costs include a decline in aid budgets to the region that led some countries to turn to market-based finance, which is more expensive. Increased integration in international debt markets and deepening domestic financial markets made it easier to contract more private domestic and external debt on non-concessional terms.

Finally, inflows from China, which were a significant source of financing, have notably declined more recently.

The financing squeeze comes at a most unfortunate time, as the region faces elevated economic imbalances due to the COVID-19 pandemic and the war in Ukraine.

The region's growth is expected to decline to 3.6% in 2023 from 3.9% in 2022. This is on account of factors such as the rise in central bank rates to fight inflation and the war in Ukraine dampening global economic activity and thus, export demand for the region.

Inflation

Inflation remains elevated and volatile. The median inflation rate in the region was about 10% in February 2023, more than doubled since the beginning of the pandemic. Besides registering double-digit headline inflation in roughly half of the countries in the region, about 80% also experienced double-digit food inflation in February 2023. However, fuel price pressures have decelerated recently because international prices fell from their peak in mid-2022 by up to 30% as of the end of 2022, providing some reprieve for the region.

A few countries also faced pressures to raise public wages in the second half of 2022 because of the increased cost of living triggered by higher food and fuel prices (Cameroon, Mali, Rwanda, and The Gambia).

Public Debt

Sub-Saharan Africa's public debt ratio, at 56% of GDP in 2022, has reached levels last seen in the early 2000s. Since the pandemic, the debt increase has been driven by widening fiscal deficits because of overlapping crises, slower growth, and exchange rate depreciations. Elevated public debt levels have raised concerns about debt sustainability, with 19 of the region's 35 low-income countries already in debt distress or facing a high risk of debt distress in 2022.

Exchange Rates

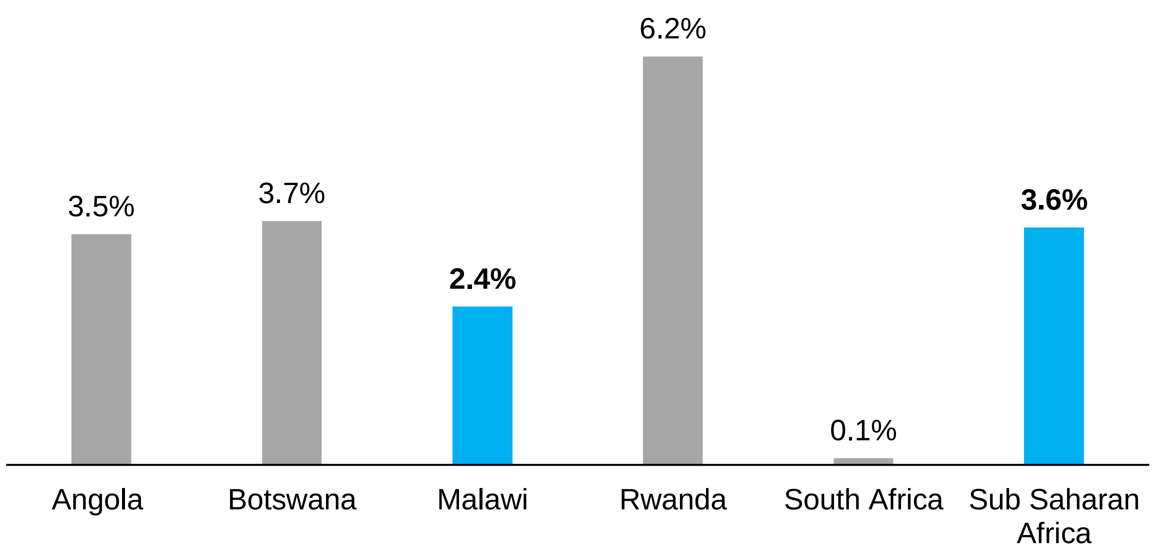
Most currencies in the region depreciated against the US dollar in 2022. For those already grappling with high inflation, the weakening of the currency relative to the dollar made matters even worse because the region is highly dependent on imports, with a significant share of them invoiced in dollars. Currency depreciations also contributed to higher general government debt because about 40% of Sub-Saharan Africa's debt is external as of 2021. Although exchange rate pressures have eased since November 2022, they remain elevated and volatile because significant depreciations have already occurred.

Economic Growth

Given this challenging environment, the region's growth is expected to decline to 3.6% in 2023 from 3.9% in 2022. This subdued outlook in Sub-Saharan Africa marks a growth slowdown for the second year in a row. Some common factors explain the growth underperformance, including the rise in central bank rates to fight inflation and the war in Ukraine, dampening global economic activity and, thus, export demand for the region.

Nonetheless, there are significant variations across the region, as Rwanda is on the higher end of the region's growth distribution; Malawi's growth is slated below the regional average. Meanwhile, South Africa's growth is projected to decelerate sharply to 0.1% in 2023, weighed down by an intensification of power outages, a weaker external environment, and a negative carry-over effect from the growth slowdown at the end of 2022.

Real GDP growth rate for 2023



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Regional growth is expected to pick up from 3.6% in 2023 to 4.2% in 2024, driven by higher private consumption and investment.

Fiscal Policy

Countries in Sub-Saharan Africa had limited fiscal space entering the pandemic recession, hampering policymakers' ability to mount an effective response. This has resulted in larger scarring effects on the economy, including from disruptions to education. The current funding squeeze is constraining many countries' ability to address these scars, contributing to the muted recovery. Moreover, authorities are forced to reduce resources for critical development sectors such as health, education, and infrastructure, weakening the region's medium-term growth prospects.

The lack of fiscal space has also made it challenging for countries to address the vast social needs, especially those in the most vulnerable segments of the population. Insufficient funding meant that the authorities struggled to scale up targeted support when the region faced record-high food, fuel, and fertilizer prices in 2022. In fact, the cost-of-living crisis remains a major concern for Sub-Saharan Africa given the high incidence of poverty.

Threats from the Global Economic Environment

The ongoing banking sector turbulence in major economies could impact the region through several channels. Depression in activity in the key advanced economies could cause lower demand for imports and lower commodity prices, banking sector stress in the latter economies could nonetheless increase global risk aversion, which would aggravate the funding squeeze even further for the region, dollar appreciation would worsen vulnerabilities in countries with large dollar-denominated external debt.

Stickier-than-expected inflation could prompt further monetary policy tightening. This could lower net financial inflows to Sub-Saharan Africa and aggravate balance of payment pressures, which would lead to domestic currency depreciations and squeeze already tight financing conditions even further.

Another global risk is an escalation of the war in Ukraine, which could perpetuate already elevated global uncertainty and raise food and energy prices, making the financing environment even more difficult.

Finally, a worsening in geoeconomic fragmentation could have negative spillovers into Sub-Saharan Africa, including rising trade barriers and higher food prices, because the region relies highly on commodity exports and is sensitive to global demand and price shocks.

Future Recovery

Consistent with the global rebound, regional growth is expected to pick up from 3.6% in 2023 to 4.2% in 2024. Almost four-fifths of the countries are projected to register a growth pickup in 2024, driven by higher private consumption and investment. Importantly, the recovery for Sub-Saharan Africa is linked intricately to global developments that are conditional on the realization of key global factors such as recovery from the impact of the Russia-Ukrainian war.

Global inflation is projected to recede further in 2024. Thus, it is assumed that major central banks may slow the pace of monetary policy tightening in the second half of 2023 as inflation (excluding volatile food and energy prices) has been declining at a three-month rate. Subsequently, a slower pace of tightening implies less pressure on exchange rates and spreads for the region. However, global interest rates are expected to remain elevated and well above pre-pandemic levels.

Crude oil prices are expected to continue to fall by about 6% in 2024 relative to the previous year as demand pressures Subside. Since net fuel importers represent two-thirds of the region's GDP, lower prices should affect Sub-Saharan Africa's growth positively. Non-fuel commodity prices are projected to remain broadly unchanged.

Consistent with the expected receding of global inflation, the median inflation for the region is projected to be down at 5% by the end of 2024 (year-over-year), still above pre-pandemic levels. Sub-Saharan Africa is a large importer of food and energy items, which average 50% of the region's consumption basket. Thus, the recent onset in the decline in global food and fuel prices that is projected to continue throughout this year and next, is expected to contribute much to the slowdown in regional headline inflation.

Sub-Saharan African lags significantly in revenue collections, with a median tax ratio of only 13% of GDP in 2022, compared with 18% and 27% in other emerging economies and developing countries and advanced economies, respectively.

Possible Solutions to Explore in the Context of Financing Constraints

1. Consolidating public finances and strengthening public financial management amid difficult funding conditions

Fiscal consolidation, which is expected to continue into the medium term, can be pursued to minimise possible negative impacts on growth and poverty. This will require increased efforts to boost revenue mobilization and prioritise and increase the efficiency of spending where possible.

This will also rely on continued revenue mobilization. Sub-Saharan African countries lag significantly in revenue collections, with a median tax ratio of only 13% of GDP in 2022, compared with 18% in other emerging and developing countries and 27% in advanced economies. Successful revenue mobilization efforts often require pursuing revenue administration reforms and improving the design of tax policies by expanding the base for value-added tax and leveraging digitalization in tax collection.

In addition, there is a need for better management of fiscal risks and more proactive debt management. International assistance also remains critical to alleviating governments’ financing constraints. For countries that require debt reprofiling or restructuring, a well-functioning debt-resolution framework is vital to creating fiscal space.

2. Containing inflation

In cases where countries are still experiencing very high inflation or significant volatility, authorities need to continue to tighten policy rates decisively because these countries are susceptible to second-round effects and de-anchoring of inflation expectations. Tackling both after they become entrenched will be very difficult.

In countries that have signs of inflation peaking but where inflation is still relatively elevated, authorities need to steer monetary policy cautiously until inflation is firmly on a downward trajectory and inflation projections return within the target band of the central bank in the medium term.

3. Managing the exchange rate

Policymakers can take several steps to mitigate possible economic adverse impacts due to the necessary currency adjustments. In countries where the exchange rate passthrough aggravates inflation, tighter monetary policy will help alleviate the pressure by keeping inflation expectations in check and stem capital outflows while attracting inflows. Where fiscal imbalances are key drivers of exchange rate pressures, fiscal consolidation can help to rein in external imbalances and contain the increase in debt related to currency depreciation.

For countries with shallow foreign exchange markets, weak monetary policy credibility, and large foreign exchange mismatches, foreign exchange intervention can temporarily reduce some costs associated with excessive exchange rate movements. However, countries can quickly run out of reserves if exchange rate pressures persist because of fundamental forces.

4. Responding to climate change without sacrificing basic needs

Ensuring that essential efforts to fund and address climate change do not crowd out basic needs, like health and education, is critical. Climate finance provided by the international community must come on top of current aid flows.

In addition, the private sector has the potential to mobilize significant climate finance in the region as it does in the rest of the world. This can be done by developing financing instruments like green or sustainability-linked bonds and attracting private institutional investors.

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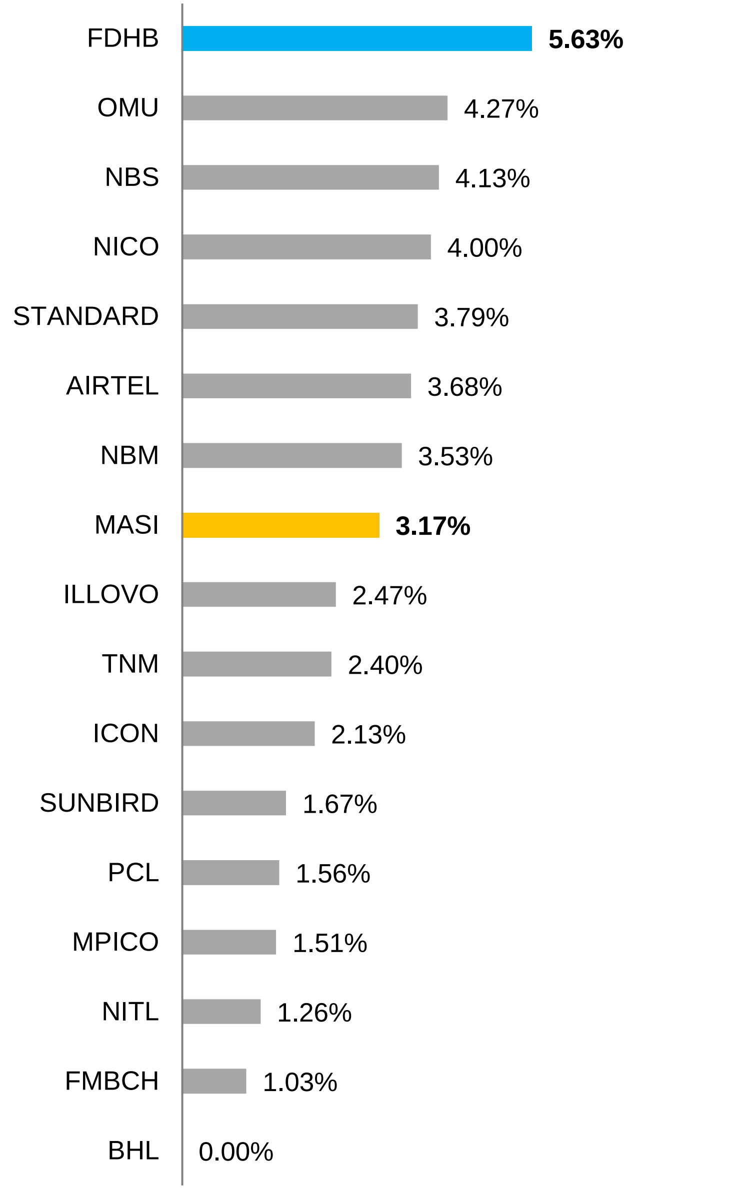
Appendix

Appendix 1: Historical Monthly Economic Indicators

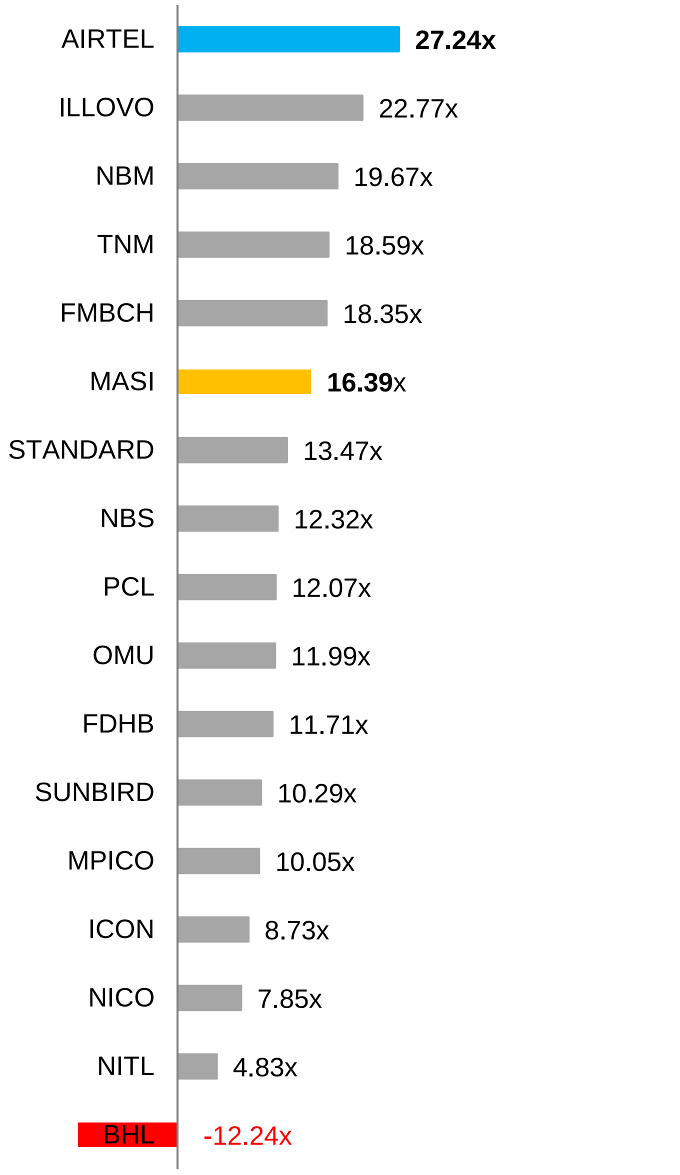
	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23
Exchange rates (middle rates)																			
MK/USD	821.34	822.88	818.44	822.81	822.10	823.60	823.67	1,029.90	1,033.36	1,035.03	1,035.42	1,033.79	1,032.88	1,034.42	1,031.87	1,031.87	1,033.68	1,033.80	**1,034.86**
MK/GBP	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	1,315.33	**1,325.22**
MK/EUR	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	1,156.66	**1,171.01**
MK/ZAR	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	59.76	**57.89**
Foreign Exchange Reserves																			
Gross Official Reserves (USD'mn)	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	280.66	N/A	**N/A**
Private Sector Reserves (USD'mn)	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	378.54	N/A	**N/A**
Total reserves (USD'mn)	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	659.20	N/A	**N/A**
Gross Official Reserves Import cover (months)	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	1.12	N/A	**N/A**
Inflation																			
Headline	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%	26.7%	27.0%	**N/A**
Food	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%	31.7%	32.4%	**N/A**
Non-food	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%	20.5%	20.2%	**N/A**
Interest Rates																			
Monetary Policy rate	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%	18.00%	**22.00%**
Average Interbank rate	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%	15.00%	**15.19%**
Average base lending rate	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%	18.20%	**18.44%**
Bank reference rate	12.20%	12.20%	12.20%	12.20%	12.20%	12.20%	12.20%	13.50%	13.80%	13.90%	13.80%	13.90%	13.90%	16.60%	17.30%	17.30%	17.30%	17.30%	**17.30%**
Government Securities Yields																			
91-days Treasury Bill	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%	13.00%	**12.98%**
182-days Treasury Bill	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%	17.50%	**17.50%**
364-days Treasury Bill	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%	19.50%	**19.50%**
2-year Treasury Note	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%	22.75%	**22.75%**
3-year Treasury Note	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%	24.00%	**24.00%**
5-year Treasury Note	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%	26.25%	**26.25%**
7-year Treasury Note	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%	27.50%	**27.50%**
10-year Treasury Note	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%	28.50%	**28.50%**
Stock Market Indices																			
MASI	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	80,298.12	**86,462.61**
DSI	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	64,886.76	**70,512.35**
FSI	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	8,381.79	**8,202.52**

Appendix 2: Selected stock market statistics as of 30 April 2023

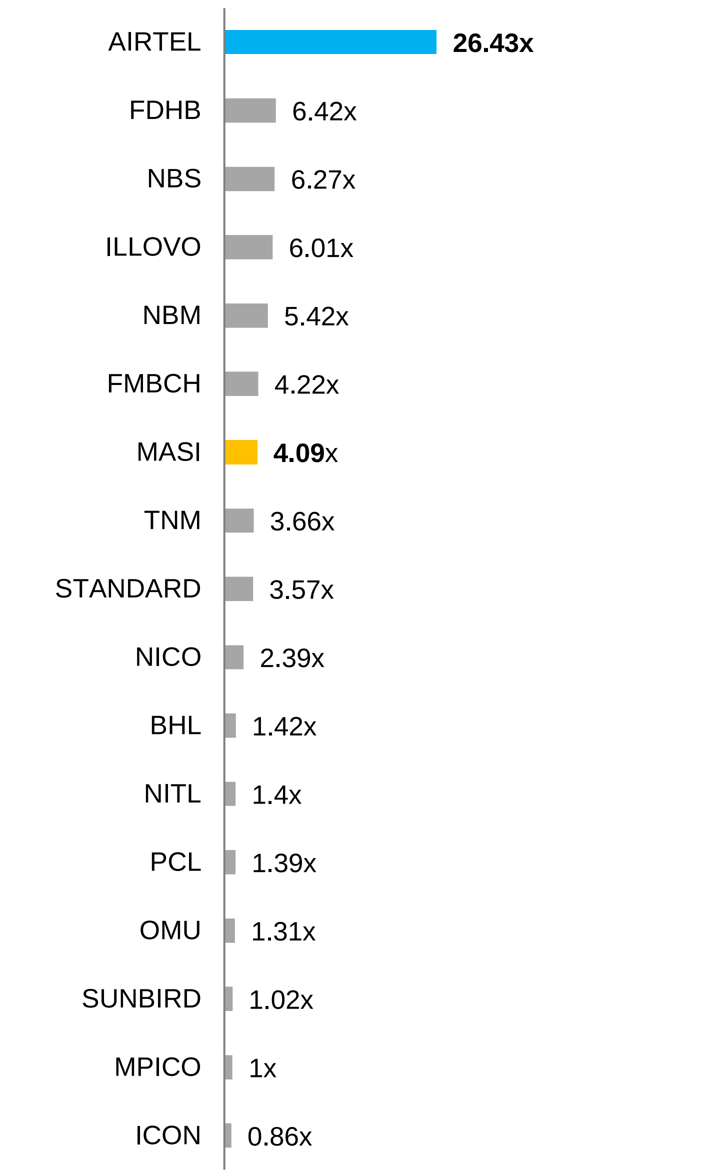
Dividend Yield (%) - the weighted average dividend yield on the MSE was 3.17% in April 2023. The counter with the highest dividend yield was FDH Bank at 5.63%.



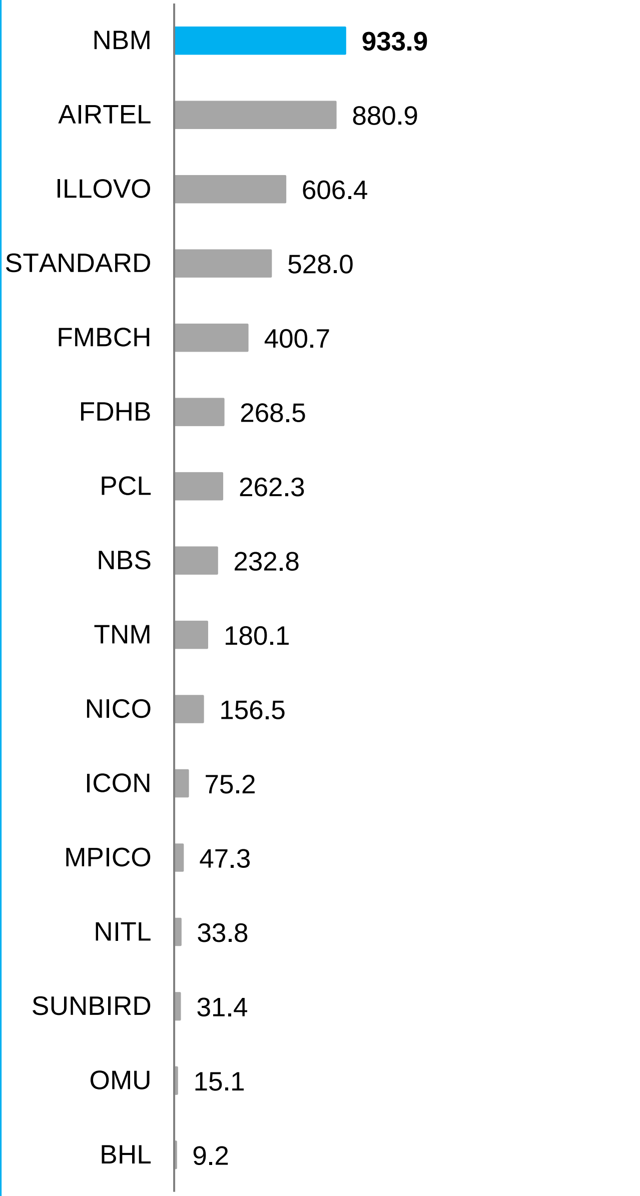
P/E Ratio - the weighted average price to earnings on the MSE was 16.39x in April 2023. The counter with the highest ratio was AIRTEL at 27.24x.



P/BV Ratio - the weighted average price to book value on the MSE was 4.09x in April 2023. The counter with the highest ratio is AIRTEL at 26.43x.



Market Capitalization (MK'billion) – NBM had the highest market capitalization at MK933.9 billion in April 2023.



Appendix 3: EIU and Oxford Economics Projections

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EIU projections

Economic growth (%)	2022*	2023**	2024**	2025**	2026**	2027**
GDP	1.7	2.0	3.0	3.7	4.0	4.3
Private consumption	1.2	1.1	2.5	3.1	3.2	3.3
Government consumption	2.2	2.0	2.8	2.7	2.6	2.4
Gross fixed investment	4.7	4.8	5.0	5.7	5.8	5.9
Exports of goods & services	3.3	5.0	4.8	5.1	5.5	5.9
Imports of goods & services	3.0	4.0	4.3	4.5	4.7	4.9
Domestic demand	1.7	1.6	2.8	3.4	3.5	3.5
Agriculture	1.5	2.8	3.0	3.5	3.9	4.3
Industry	1.7	2.0	2.7	3.0	3.3	3.6
Services	1.8	1.6	3.0	4.0	4.3	4.4

**: EIU forecasts*

Key indicators	2022*	2023**	2024**	2025**	2026**	2027**
Real GDP growth (%)	1.7	2.0	3.0	3.7	4.0	4.3
Consumer price inflation (av; %)	1.0	19.1	12.3	8.5	8.0	7.4
Government balance (% of GDP)	-10.2	-9.7	-9.1	-7.7	-5.8	-4.7
Current-account balance (% of GDP)	-24.9	-18.2	-14.1	-10.6	-8.6	-7.1
Short-term interest rate (av; %)	16.0	18.0	12.5	12.5	11.0	9.5
Exchange rate MK:US$ (av)	941.4	1,024.4	1,053.8	1,107.0	1,159.1	1,195.0

**: EIU forecasts*

Oxford Economics Projections

Malawi forecast overview (Annual percentage changes unless specified)	2020	2021	2022	2023	2024	2025
Real GDP growth	0.8	2.8	1.3	2.1	3.4	3.8
CPI inflation	8.6	9.3	20.8	24.8	13.7	9.4
Exports of goods ($bn)	0.8	1.1	1.2	1.3	1.4	1.5
Exports of services ($bn)	0.4	0.5	0.5	0.5	0.5	0.6
Imports of goods ($bn)	2.6	3.0	3.1	3.3	3.5	3.7
Imports of services ($bn)	0.6	0.6	0.6	0.6	0.7	0.7
Exports of goods	-23.0	30.2	10.6	10.2	9.7	6.4
Imports of goods	-6.5	14.0	5.2	5.9	5.9	5.9
Current account ($bn)	-1.5	-1.5	-1.6	-1.6	-1.6	-1.7
Current account balance (% of GDP)	-17.3	-17.9	-17.3	-15.9	-15.0	-14.7
Exchange rate per USD (year average)	749.5	804.2	941.4	1071.3	1166.2	1225.9
External debt total ($bn)	2.9	3.2	4.4	6.1	7.4	8.3
Government balance (% of GDP)	-11.4	-12.4	-14.1	-10.8	-9.0	-7.8
Government debt (% of GDP)	76.2	88.6	89.9	84.9	83.5	84.2
Population (million)	19.4	19.9	20.4	20.9	21.5	22.0
Nominal GDP ($bn)	8.5	8.6	9.0	9.9	10.6	11.3
GDP per capita ($ current prices)	436.5	432.9	438.6	471.0	494.1	512.0

Appendix 4: IMF Projections (April 2023)

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Annual percentage change (unless otherwise indicated)					
	2020	2021	2022	2023	2024
Real GDP	0.9	4.6	0.8	2.4	3.2
Consumer prices	8.6	9.3	20.8	24.7	18.3
Overall fiscal balance (% of GDP)	-8.2	-8.6	-10.4	-7.8	-8.0
Government debt (% of GDP)	54.8	61.6	70.1	72.2	69.4
Broad money (% of GDP)	17.5	20.1	23.6	24.7	24.9
External current account, including grants (% of GDP)	-13.8	-12.6	-3.6	-12.2	-13.3
External debt, official debt, debtor based (% of GDP)	31.8	30.9	29.9	33.2	34.4
Reserves (months of imports of goods and services)	0.9	0.4	1.1	1.3	2.8

Appendix 5: List of Acronyms and Abbreviations

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AfDB:	African Development Bank
BHL:	Blantyre Hotels Plc
CPI:	Consumer Price Index
DoDMA:	Department of Disaster Management Affairs
DSI:	Domestic Share Index
EIU:	Economist Intelligence Unit
EUR:	Euro
FDHB:	FDH Bank Plc
FMBCH:	FMB Capital Holdings Plc
FSI:	Foreign Share Index
GBP:	Great British Pound
GDP:	Gross Domestic Product
IMF:	International Monetary Fund
LRR:	Liquidity Reserve Requirement
MASI:	Malawi All Share Index
Mb/d:	Million barrels per day
MK:	Malawi Kwacha
M-O-M:	Month-on-month
MPC:	Monetary Policy Committee
MSE:	Malawi Stock Exchange
NBM:	National Bank of Malawi Plc
NICO:	NICO Holdings Plc
NITL:	National Investment Trust Limited Plc
NSO:	National Statistical Office
OMU:	Old Mutual Limited Plc
OPEC:	Organization of the Petroleum Exporting Countries
ORB:	OPEC Reference Basket
P/BV:	Price to book value
PCL:	Press Corporation Limited Plc
P/E:	Price to earnings
RBM:	Reserve Bank of Malawi
SUNBIRD:	Sunbird Tourism Plc
TB:	Treasury Bill
TN:	Treasury Note
TNM:	Telekom Networks Malawi Plc
TT:	Telegraphic Transfer
USA:	United States of America
USD:	United States Dollar
Y-O-Y:	Year-on-year
YTD:	Year-to-date
ZAR:	South African Rand

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