



Malawi Monthly Economic Report and a brief on the World Bank's Assessment of Malawi's Transport Infrastructure

May 2023



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Inflation

The headline inflation rate increased to 28.8% in April 2023 from 27.0% in March 2023 due to a rise in food inflation to 37.9% from 32.4%, offsetting a decrease in non-food inflation to 18.5% from 20.2%. Non-food inflation moderation was on the back of stability in retail pump prices, utility prices and transportation costs according to the Reserve Bank of Malawi.

The African Development Bank (AfDB) has forecast inflation to average 22.8% in 2023 and 15.4% in 2024. According to the International Monetary Fund (IMF), inflation in Malawi is projected to be 24.7% in 2023 and 18.3% in 2024. Oxford Economics projects inflation to average 24.8% in 2023, and 13.7% for 2024.

Fiscal and Monetary Policy

The Reserve Bank of Malawi (RBM) temporarily suspended the issuance of all Treasury Bills on 9 May 2023. The suspension was lifted 3 weeks later on 30 May 2023 and included the 182-days Treasury Bill that was initially suspended on 24 February 2023.

Regarding monetary policy, the RBM stated that until there is strong optimism for improved inflation performance, it is important for monetary policy to remain tightened to preserve any gains from the previous anti-inflation policy measures.

Exchange Rates and Foreign Currency Reserves

The Malawi Kwacha traded at MK1,034.46/USD as of 31 May 2023, a marginal appreciation of 0.04% from MK1,034.86/USD as of 30 April 2023. Year-to-date, the Kwacha has marginally appreciated 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 25.68%.

As of 31 March 2023, gross official reserves decreased by 19.17% to USD216.7 million (0.9 months of import cover) from USD268.1 million (1.1 months of import cover) in February 2023. Similarly, private sector reserves dropped by 0.82% to USD375.4 million (1.5 months of import cover) at end March 2023 from USD378.5 million (1.5 months of import cover) registered in February 2023. In total, foreign exchange reserves held in the country in March 2023 were USD592.1 million, a decrease of 8.43% from USD646.6 million in February 2023. The total foreign exchange reserves import cover decreased to 2.4 months in March 2023 from 2.6 months in February 2023.

Stock Market

The year-to-date return on the Malawi All Share Index (MASI) increased by 26.4 percentage points to 65.77% in May 2023 from 39.37% in April 2023. The MASI year-to-date return was 10.87% in May 2022. The stock market was bullish month-on-month, with the MASI increasing by 18.94% to 102,837.75 points as of 31 May 2023 from 86,462.61 points as of 30 April 2023. The increase in the MASI resulted from share price gains for FDH Bank, TNM, SUNBIRD, NITL, ILLOVO, FMBCH, AIRTEL, NBS, OMU, NICO and STANDARD. In addition, there were marginal share price gains for MPICO and NBM. The share price gains offset a share price loss by BHL and a marginal loss by PCL. FDH was the largest share price gainer as its share price increased by 65.84% to MK64.51 per share in May 2023 from MK38.90 per share in April 2023. BHL was the largest share price loser as its share price decreased by 8.76% to MK10.00 in May 2023 from MK10.96 in April 2023.

Government Securities

The government awarded a total of MK98.04 billion through Treasury Bills (TBs) and Treasury Notes (TNs) auctions in May 2023, a 15% increase from MK85.20 billion awarded in April 2023. The government awarded a total of MK14.2 billion in TBs, in May 2023, a 78% decrease from MK65.0 billion that was awarded in April 2023. A total of MK83.8 billion was awarded in the TNs auctions in May 2023. This entailed a 382% increase from MK20.2 billion which was awarded in April 2023. The TBs had a 37.8% rejection rate, while the TNs had a 13.74% rejection rate in May 2023. The average TB yield increased to 17.66% from 16.66%. Similarly, the average TN yield increased to 27.89% from 25.80% during the period under review. The 10-year TN increased its yield to 31.19% from 28.50% during the period under review.

Economic Growth

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 World Bank GDP growth projection for 2023 is 1.4%. This projection is 0.3 percentage points lower than the 1.7% predicted by the Reserve Bank of Malawi following the adverse effects of Tropical Cyclone Freddy.

The African Development Bank (AfDB) expects Malawi's real GDP growth to be at 2% in 2023 and 3.5% in 2024.

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.

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. A scenario in which the country experiences below-average rainfall in the November–March rainy season which could lead to crop failure and insufficient grazing, affecting future agricultural yield. Malawi is categorized as a region of high concern with a projected 3.8 million people in a state of acute food insecurity in Malawi.

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's development prospects are greatly hindered by the lack of reliable transport infrastructure and services. Its infrastructure gap is significant, ranking 129 out of 140 countries in the 2019 Global Competitiveness Index. Imports to Malawi primarily come through the four ports in Beira, Mozambique; Durban, South Africa; Dar es Salaam, Tanzania; and Nacala, Mozambique. Most cargo, even bulk freight, is transported by road despite the long distances to the seaports. Rail connections are underutilized largely due to infrastructure constraints at Nacala and network restrictions or gaps with Beira. The dependence on a poor road transport network, fragments the local market, and causes high fuel costs significantly reducing the overall competitiveness of Malawi's exports and increases the price of key imports.

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.

Malawi has a very low national electrification rate estimated at 12.4%, the lowest in the Southern Africa Development Community (SADC) region. Rural and urban electrification rates are estimated at 3.9% and 48.7%, respectively. Power generation is also subject to adverse climatic events such as Tropical Cyclone ANA, which damaged the hydropower plant at Kapichira Power Station in 2022. The effects of climate change may also lead to less rainfall in some years and therefore less water available for power generation. In addition, insufficient transmission and distribution facilities result in frequent power outages rendering economic and social development difficult.

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

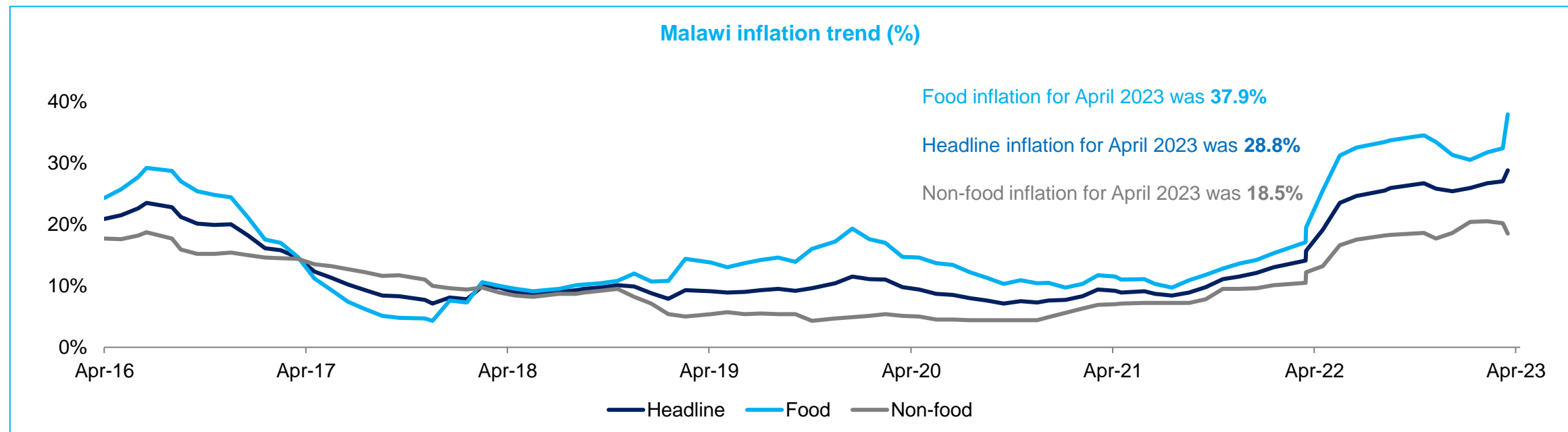
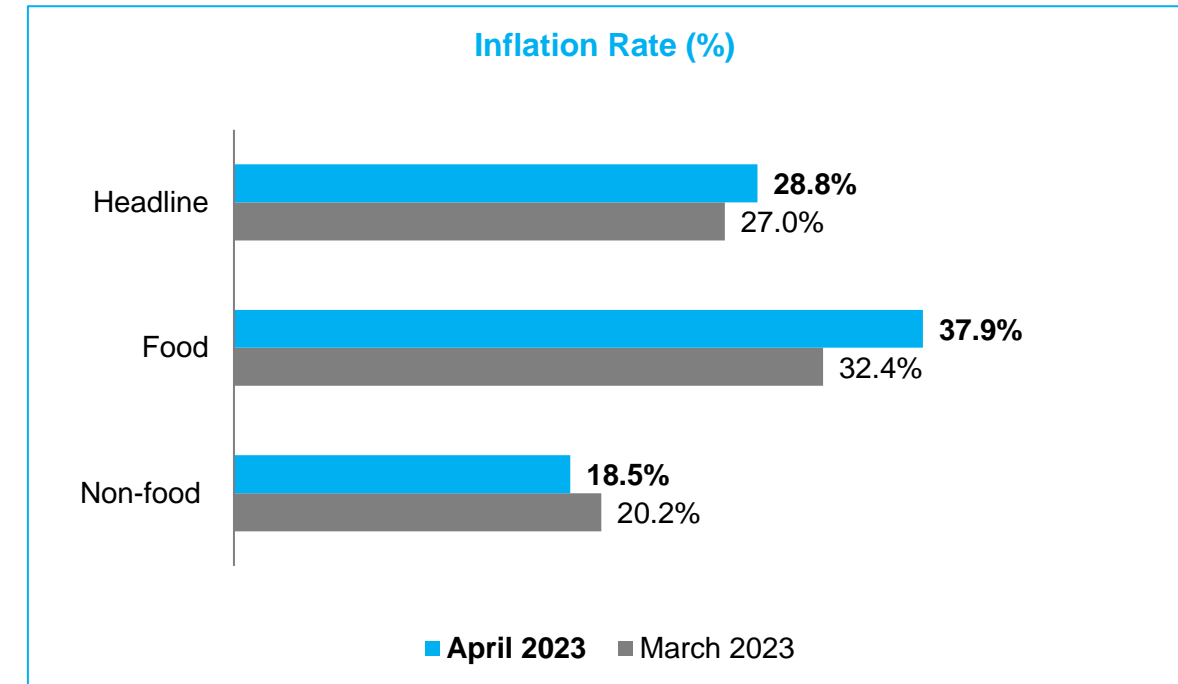
Inflation (Source: NSO, RBM)

Headline inflation rate for April 2023 increased by 1.8 percentage points to 28.8%, from 27.0% in March 2023. The increase was due to a rise in food inflation to 37.9% which offset a decrease in non-food inflation to 18.5% during the period under review.

The headline inflation rate increased by 1.8 percentage points to 28.8% in April 2023 from 27.0% in March 2023. The increase was due to a rise in food inflation to 37.9% in April 2023 from 32.4% in March 2023. This offset a decrease in non-food inflation to 18.5% in April 2023 from 20.2% in March 2023. According to the Reserve Bank of Malawi, food inflation was driven by unfavorable food price developments while non-food inflation decline was on the back of stability in retail pump prices, utility prices and transportation costs.

During this same period in 2022, headline inflation was 15.7% driven by food inflation of 19.5% and non-food inflation of 12.2%.

During the second meeting of the Monetary Policy Committee (MPC), inflationary pressures were addressed by increasing the Policy rate by 400 basis points to 22.00% from 18.00% as well as increasing the Liquidity Reserve Ratio (LRR) on local currency deposits by 200 basis points to 5.75% from 3.75%. The Reserve Bank of Malawi (RBM) anticipates headline inflation to average 24.5% in 2023, which is 6.3 percentage points higher than the 18.2% projected during the first MPC meeting. This anticipated inflation rate is also 3.5 percentage points higher than actual inflation for 2022 which was 21.0%.





Economic overview (Continued)

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

The gross official foreign exchange reserves decreased by 19.17% to USD216.7 million as of March 2023, from USD268.1 million as of 28 February 2023. This translates to an import cover of 0.9 months in March 2023, a decrease of 18.18% from 1.1 months in February 2023.

Foreign currency market

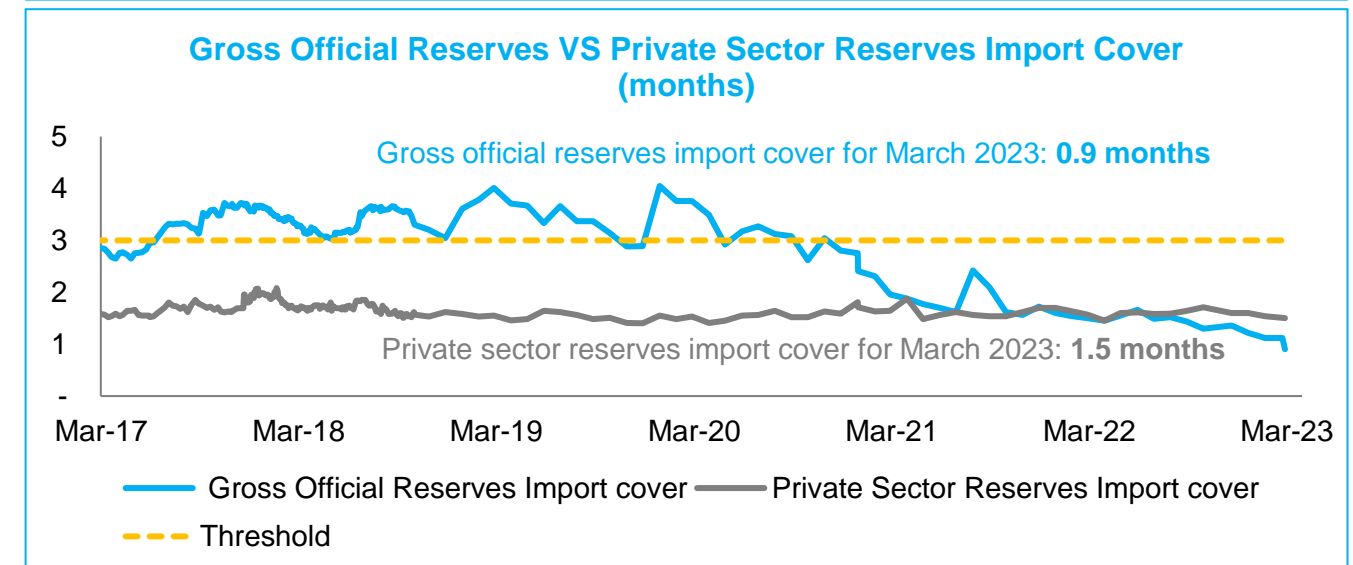
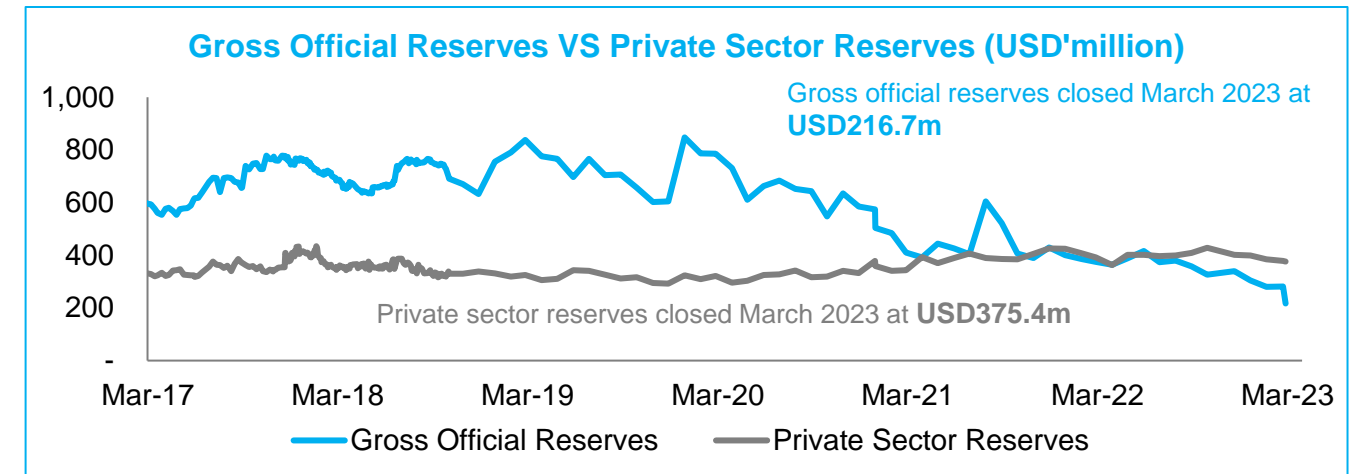
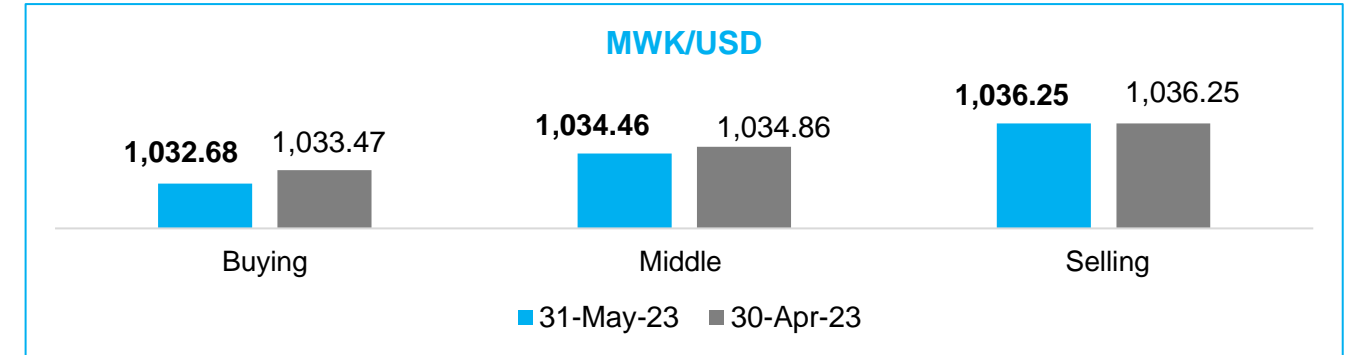
Month-on-month, the Kwacha marginally appreciated against the United States Dollar (USD) by 0.04% as it traded at MK1,034.46/USD as of 31 May 2023, from MK1,034.86/USD as of 30 April 2023. Year-to-date, the Kwacha has marginally appreciated against the USD by 0.02% as it traded at MK1,034.67/USD as of 31 December 2022. During the same period in the previous year, the Kwacha had depreciated against the USD by 25.68%.

Foreign Exchange Reserves Position

As of 31 March 2023, the country's gross official foreign exchange reserves decreased by 19.17% to USD216.7 million from a gross official foreign exchange reserve of USD268.1 million in February 2023. Foreign exchange reserves held by the private sector marginally decreased by 0.82% to USD375.4 million as of 31 March 2023, from USD378.5 million as of 28 February 2023. In total, foreign exchange reserves held in the country in March 2023 were USD592.1 million, a decrease of 8.43% from USD646.6 million in February 2023.

The import cover for gross official foreign exchange reserves decreased by 18.18% to 0.9 months for March 2023 from 1.1 months in February 2023. For private sector foreign exchange reserves, import cover maintained its position at 1.5 months during the period under review. In March 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 2.4 months in March 2023 from 2.6 months in February 2023.

	Gross Official (USD'million)	Private Sector (USD'million)	Gross Official import cover (months)	Private sector import cover (months)
Mar-23	216.7	375.4	0.9	1.5
Feb-23	268.1	378.5	1.1	1.5





Economic overview (Continued)

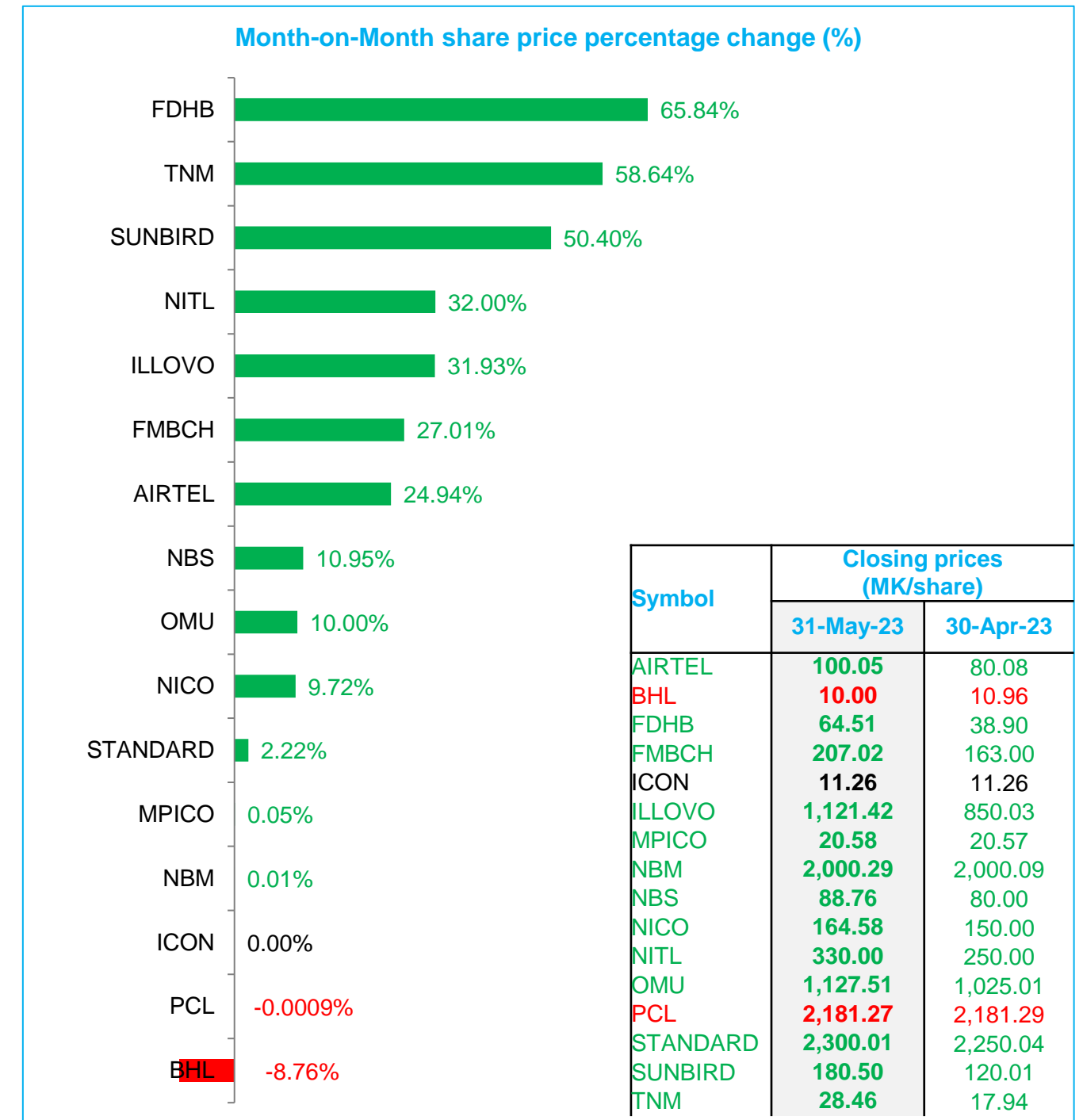
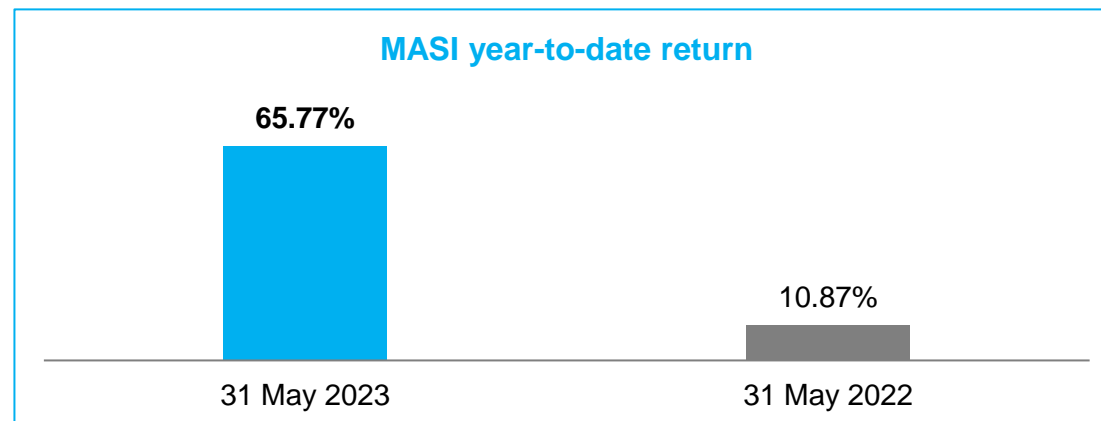
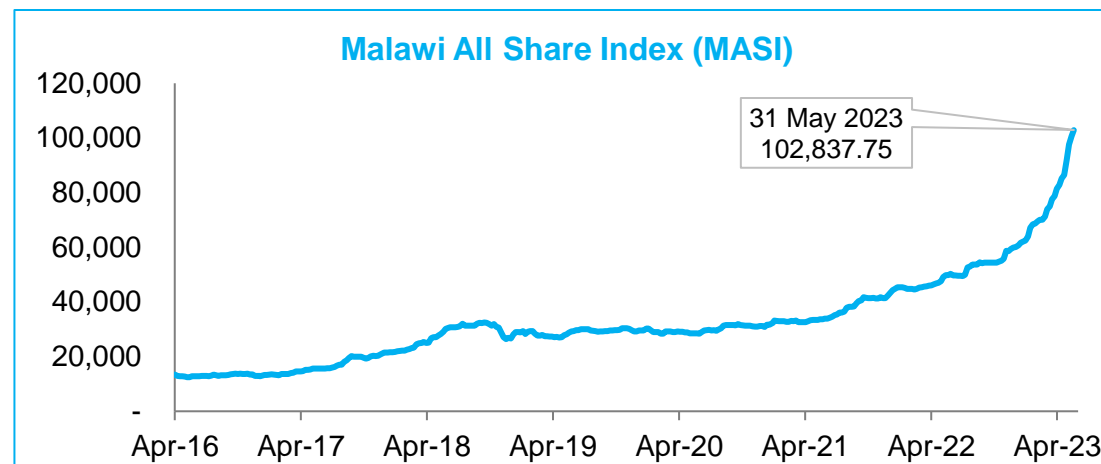
Stock market (Source: MSE)

The MASI year-to-date return was 65.77% in May 2023, and it was 10.87% 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 102,837.75 points in May 2023, from 86,462.61 points in April 2023, representing an 18.94% increase. The year-to-date return on the MASI is 65.77%. It was 10.87% during the same period in the previous year.

In May 2023, FDH Bank was the largest share price gainer as its share price increased by 65.84% to MK64.51 per share from MK38.90 per share in April 2023. Other counters that had share price gains were TNM, SUNBIRD, NITL, ILLOVO, FMBCH, AIRTEL, NBS, OMU, NICO and STANDARD. There were also marginal share price gains for MPICO and NBM during the period.

In May 2023, BHL was the largest share price loser as its share price decreased by 8.76% to MK10.00 per share from MK10.96 per share in April 2023. PCL had a marginal share price loss to MK2,181.27 from MK2,181.29



Symbol	Closing prices (MK/share)	
	31-May-23	30-Apr-23
AIRTEL	100.05	80.08
BHL	10.00	10.96
FDHB	64.51	38.90
FMBCH	207.02	163.00
ICON	11.26	11.26
ILLOVO	1,121.42	850.03
MPICO	20.58	20.57
NBM	2,000.29	2,000.09
NBS	88.76	80.00
NICO	164.58	150.00
NITL	330.00	250.00
OMU	1,127.51	1,025.01
PCL	2,181.27	2,181.29
STANDARD	2,300.01	2,250.04
SUNBIRD	180.50	120.01
TNM	28.46	17.94



Economic overview (Continued)

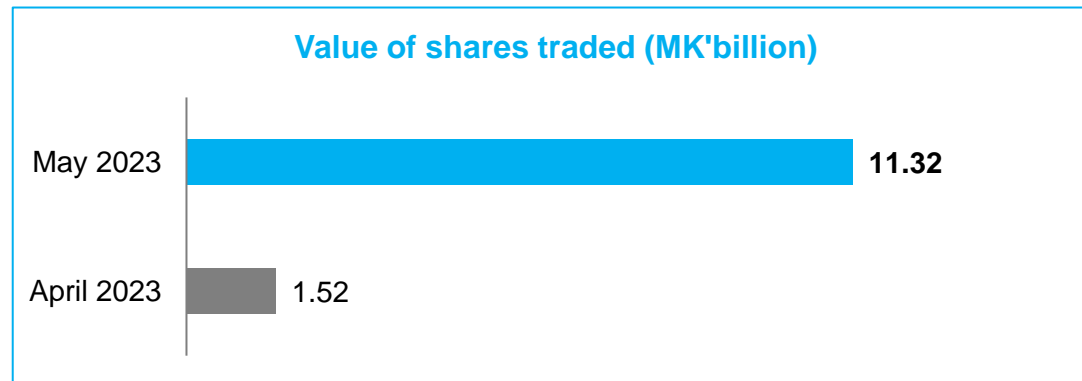
Stock market (Source: MSE)

According to its summary audited financial statements, TNM reported a net loss of MK1.76 billion for the year ended 31 December 2022, a decrease of 118% from a net profit of MK9.69 billion in the previous year.

MSE Traded Volumes

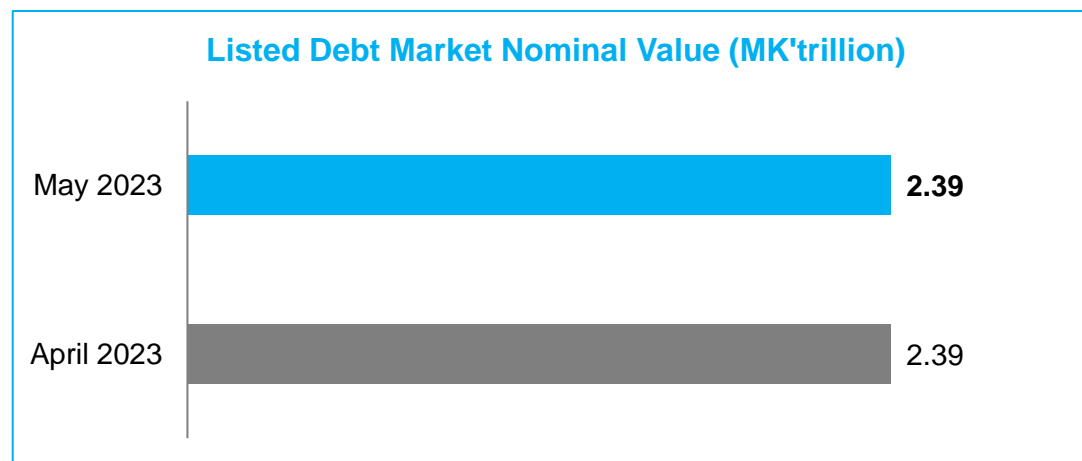
A total of MK11.32 billion worth of shares was traded on the Malawi Stock Exchange (MSE) in May 2023. This represented a 645% increase from MK1.52 billion worth of shares traded in April 2023. NBM had the highest value of shares traded in May 2023 at MK2.58 billion.

The total number of trades increased to 1,330 in May 2023, from 657 in April 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 maintained at 60 in May 2023. There were no trades on the debt market in May 2023. The nominal value of all listed debt securities maintained at MK2.39 trillion in May 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
BHL	(0.60)	(0.75)	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 (%)
TNM	(1.8)	9.69	-118%
SUNBIRD	3.1	0.75	307%
NITL	7.0	4.7	49%
MPICO	8.1	5.4	50%
ICON	16.7	8.7	92%
NBS	18.9	7.7	145%
FDHB	22.9	11.7	96%
ILLOVO	26.6	20.5	30%
NICO	39.0	20.5	90%
STANDARD	39.2	24.8	58%
NBM	52.7	39.4	33%
FMBCH (USD'mn)	61.2	40.4	51%

Dividends

Counter	Dividend type	Proposed/ Declared	Dividend per share (MK)	Last day to register	Date of payment
FMBCH	2 nd interim	Declared	0.34 US cents	9 June 2023	16 June 2023
ILLOVO	Interim	Declared	10.80	23 June 2023	30 June 2023
Standard	Final	Proposed	51.14	7 July 2023	21 July 2023
MPICO	Final	Proposed	0.22	14 July 2023	28 July 2023
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
ICON	Final	Proposed	0.13	TBA	TBA



Economic overview (Continued)

Government securities (Source: RBM)

The government awarded a total of MK98.04 billion through Treasury Bills (TBs) and Treasury Notes (TNs) auctions in May 2023, a 15% increase from MK85.20 billion awarded in April 2023.

Treasury Bills (TBs)

In May 2023, the government sought to borrow MK42.7 billion through Treasury Bills (TBs) auctions. This represents a 72% decrease from MK153.7 billion sought in April 2023. Participants applied to place an amount MK22.8 billion through TBs auctions in May 2023. This represents a 65% decrease from MK65.5 billion that was applied for in April 2023. The government awarded a total of MK14.2 billion in May 2023, a 78% decrease from MK65.1 billion that was awarded in April 2023. The TBs auction had a 37.8% rejection rate in May 2023 compared to 0.7% in April 2023.

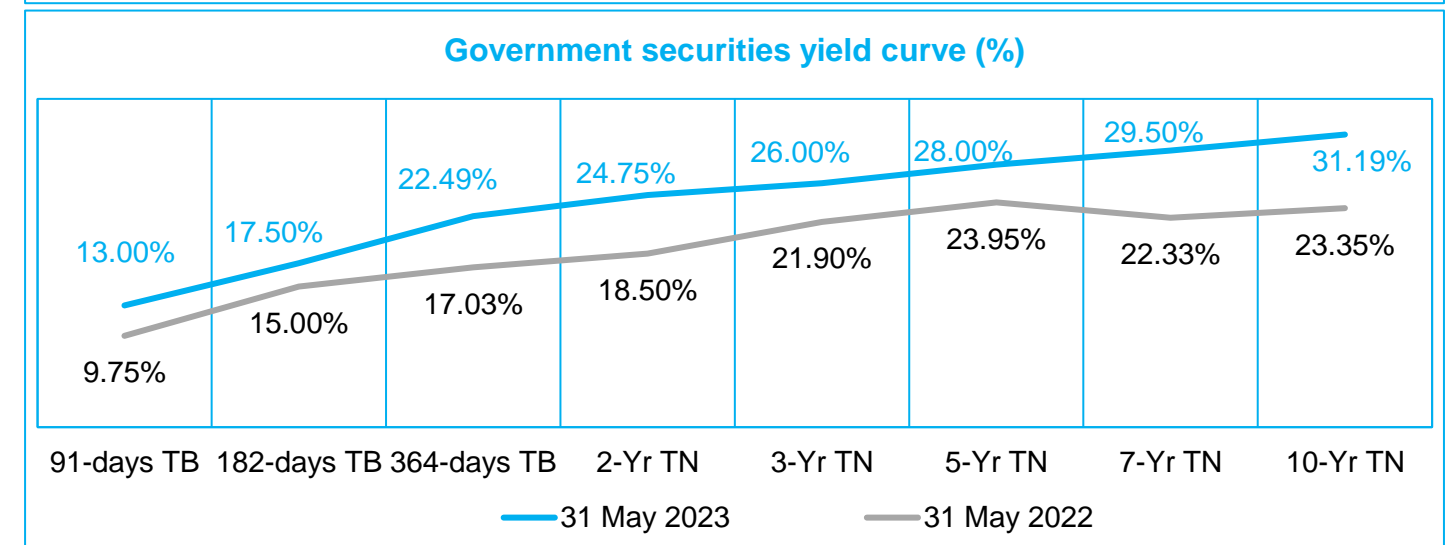
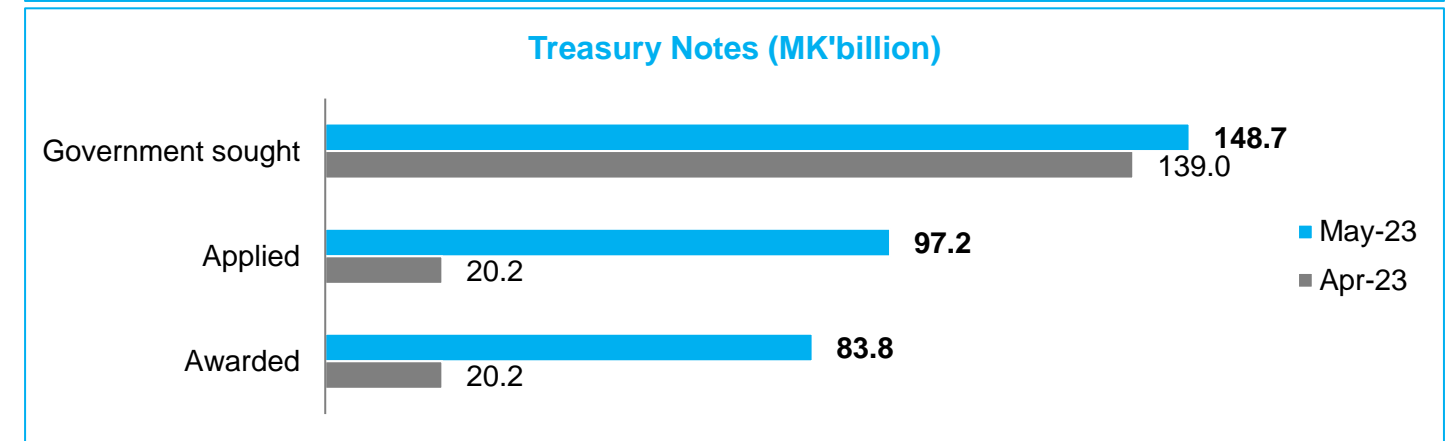
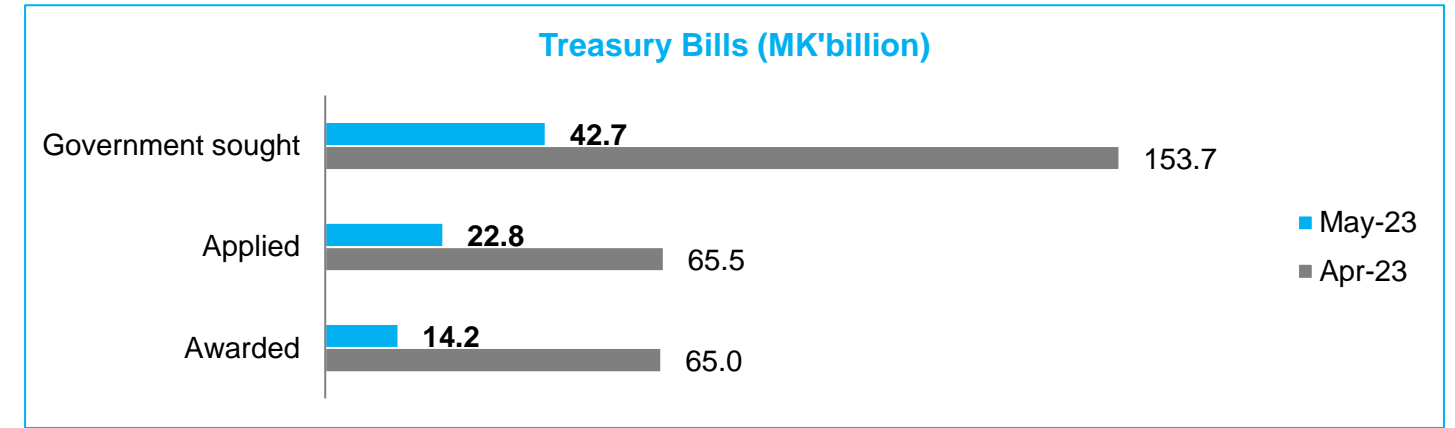
Treasury Notes (TNs)

The government sought to borrow MK148.7 billion through Treasury Notes (TNs) auctions in May 2023. This represents a 7% increase from MK139.1 billion that was sought in April 2023. Total participant applications stood at MK97.2 billion in May 2023. This represents a 382% increase from MK20.2 billion which was applied for in April 2023. A total of MK83.8 billion was awarded in the TNs auctions in May 2023. This entailed a 276% increase from MK20.2 billion which was awarded in April 2023. The TNs auction had a 13.74% rejection rate in May 2023 compared to a nil rejection rate in April 2023.

Government Securities Yield Curve

From April 2023 to May 2023, the 364-day TB yield increased to 22.49% from 19.50%, the 182-day TB yield maintained at 17.50% and the 91-day TB yield increased to 13.00% from 12.98%. The average TB yield increased by a single percentage point to 17.66% in May 2023 from 16.66% in April 2023. The average TB yield was 13.93% at end May 2022.

From April 2023 to May 2023, the 10-year TN yield increased to 31.19% from 28.50%, the 7-year TN yield increased to 29.50% from 27.50%, the 5-year TN yield increased to 28.00% from 26.25%, the 3-year TN yield increased to 26.00% from 24.00% and the 2-year TN yield increased to 24.75% from 22.75%. The average TN yield increased to 27.89% from 25.80% during the period under review. During the same period in 2022, the average TN yield was 22.01%.





Other Market Developments

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

Cumulative national value of tobacco sold stood at USD127.10 million (approximately MK127 billion) up 228.6% from USD55.61 million (approximately MK55 billion) of value sold during the same period in the previous year.

Effective 4 May 2023, commercial bank reference rate increased by 2.7 percentage points to 20.00% from 17.30%. On 5 June 2023, it was further raised by 1 percentage point to 21.00% effective 5 June 2023.

Fiscal Policy

The Reserve Bank of Malawi (RBM) notified the investing public on 9 May 2023 that the issuance of Treasury Bills (TBs) was temporarily suspended. However, the Bank continued to issue Treasury Notes (TNs) in line with the published April to June 2023 issuance calendar.

On 29 May 2023, the RBM, announced that issuance of all tenors of Treasury Bills will resume on 30 May 2023. This included the 182-day tenor that was suspended on 24 February 2023.

Regarding government revenue, the Malawi Revenue Authority (MRA) stated that it remains optimistic about achieving its tax revenue target of MK2.11 trillion for the 2023-2024 financial year despite a downgrade in economic growth assumptions. The MRA Commissioner General highlighted the need to widen the tax net with new initiatives such as operationalizing the collection of rental income tax. Despite this, the Commissioner General also pointed out that the government is losing an estimated MK100 billion yearly through tax evasion.

Monetary Policy

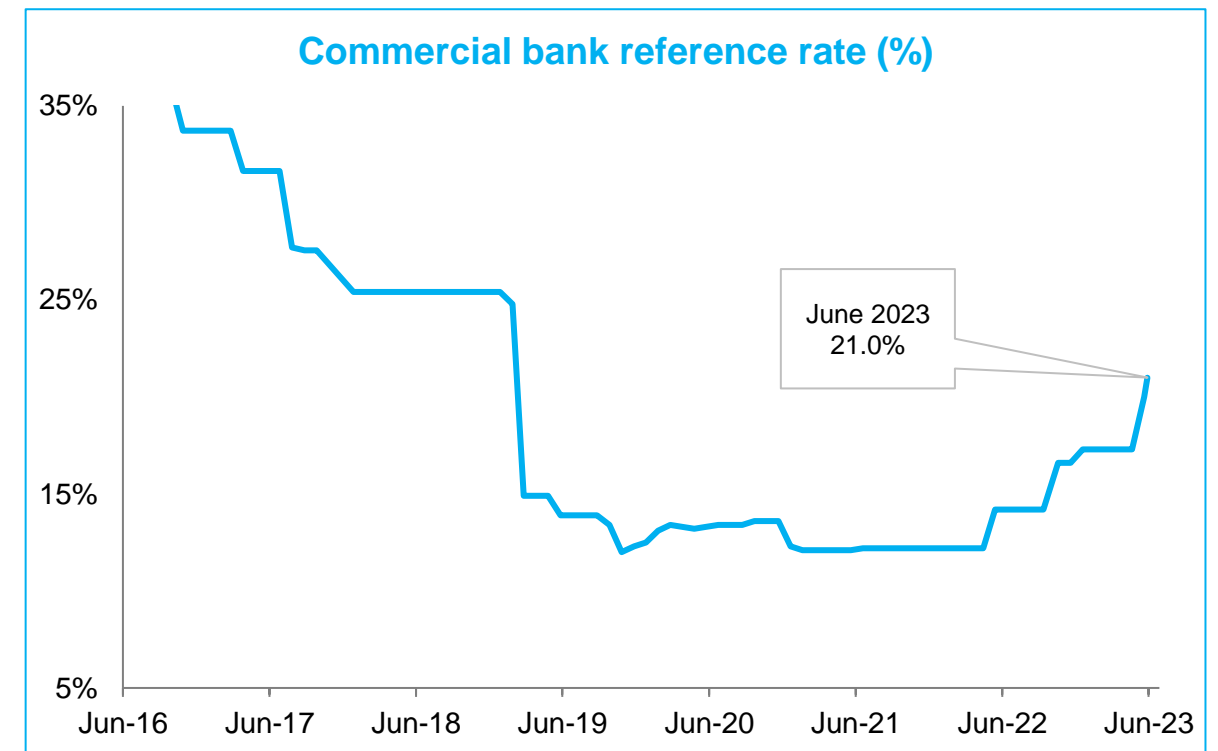
Following the second Monetary Policy Committee (MPC) meeting, the benchmark Policy rate was raised by 400 basis points to 22.00% from 18.00%. This in turn resulted in an increased commercial bank reference rate to 20.00% effective 4 May 2023 from the rate of 17.30%. It was further raised by 1 percentage point to 21.00% effective 5 June 2023..

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

According to the Reserve Bank, The decision by OPEC+ countries to cut oil production is a setback that could delay the return of inflation to central bank's targets. The RBM stated that until there is strong optimism for improved inflation performance, it is important for monetary policy to remain tightened to preserve any gains from the previous anti-inflation policy measures. This is considering that low and stable inflation is a catalyst for increased production that leads to high economic growth, and is also necessary for sustained financial sector stability.

Tobacco Market Developments

Figures from Auction Holdings Limited (AHL) Tobacco Sales show that 2.14 million kilograms (Kgs) of tobacco were sold at an average price of USD2.33/kg on 31 May 2023. This brought cumulative national figures up to 56.75 million Kgs sold at an average price of USD2.23Kg so far in the 2023 selling season leading up to 31 May 2023. Cumulative national value of tobacco sold stood at USD127.10 million (approximately MK127 billion) up 228.6% from USD55.61 million (approximately MK55 billion) of value sold during the same period in the previous year.





Regional And Global Market Developments

Global oil price developments (Source: OPEC, Reuters)

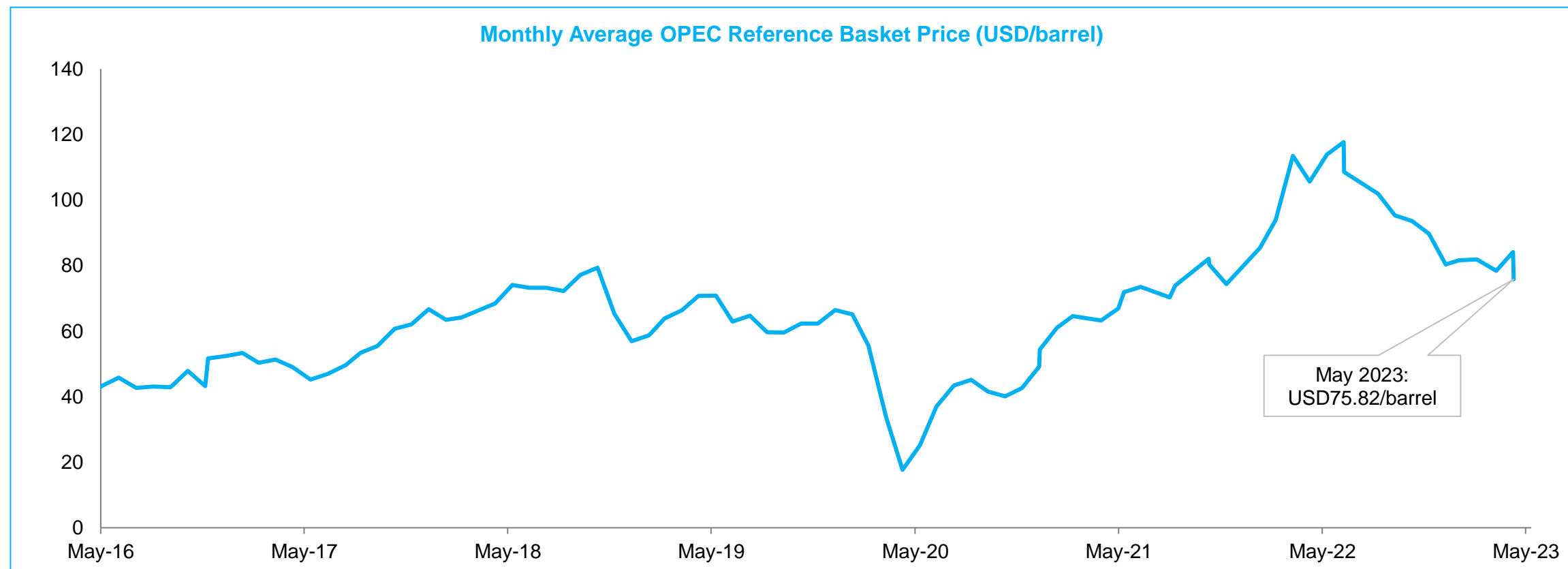
The monthly average OPEC Reference Basket (ORB) price decreased by 9.88% to a monthly average of USD75.82/barrel in May 2023, from USD84.13/barrel in April 2023.

The monthly average OPEC reference basket price decreased to USD75.82/barrel in May 2023 from a monthly average of USD84.13/barrel in April 2023. This represents a decrease of 9.88% month-on-month. Year-on-year, this represents a 33.42% decrease from an average price of USD113.87/barrel as of May 2022.

U.S. President Joe Biden and House of Representatives Speaker Kevin McCarthy on 27 May 2023 forged an agreement to suspend the USD31.4 trillion debt ceiling and cap government spending for the next two years. Additionally, expectations are for U.S. interest rates to rise further, potentially crimping economic growth and therefore oil demand.

Saudi Arabia will make a deep cut to its output in July on top of a broader OPEC+ deal to limit supply into 2024 as the group seeks to boost flagging oil prices. Saudi Arabia's energy ministry said the country's output would drop to 9 million barrels per day (bpd) in July from around 10 million bpd in May.

As of 11 May 2023, OPEC maintained its forecast for world oil demand growth at 2.3 million barrels per day (mb/d), with the Organisation for Economic Co-operation and Development (OECD) projected to grow by 0.01 mb/d and non-OECD growth at 2.3 mb/d. Minor upward adjustments were made due to the better-than-expected performance in China's economy, while other regions are expected to see slight declines, due to economic challenges that are likely to weigh on oil demand. Total world oil demand is anticipated to reach 101.9 mb/d in 2023. However, this forecast is subject to many uncertainties, including global economic developments and ongoing geopolitical tensions.



A brief on the World Bank's Assessment of Malawi's Transport Infrastructure

Introduction

The current National Transport Master Plan (NTMP) sets a 20-year investment horizon (2017-2037) that identifies funding requirements of USD9.15 billion (approximately MK9 trillion), financed through a combination of public and private resources, with roads and rail infrastructure among the dominant beneficiaries.

To this end, the Ministry of Transport and Public Works (MTPW) has developed a Comprehensive Medium Term Investment Framework (CMTIF) for 2020-2025 that lays out the priorities to inform Malawi's Public Sector Investment Plan (PSIP). For the 2022-2023 period, transport represents around 16% of the PSIP, with foreign borrowing and grants from multilateral and bilateral agencies representing about 70% of the total transport financing.

The Malawi Transport Infrastructure Sector Assessment Program diagnostic aims to analyze the country's transportation infrastructure and service delivery through three key pillars: **connectivity, finance, and governance**

Connectivity Overview

The main road network is in relatively good condition for both local and regional connectivity; however, the remaining network is mostly in poor condition due to inadequate funds and maintenance. Integrated approaches to urban land use and planning, particularly for urban mobility, have not been explored or developed to accommodate rapid urbanization, while public transport service coverage remains informal, self-regulated, and fragmented. Inter-modal connectivity for inland water transport, rail, and airports is hampered by deteriorated asset quality and market factors.

Governance Overview

Political economy, weak financial management controls, and inadequate capacity has stifled transport investment efficiency and generated direct and contingent liabilities.

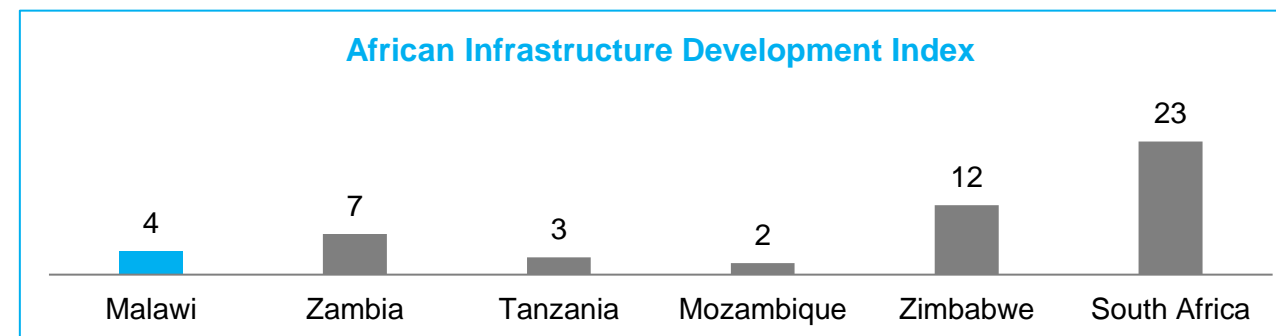
There is need for strengthening governance, accountability and commercial autonomy of the sector's state-owned enterprises (SOEs). There are challenges with the regulation, management, and performance monitoring of existing concessions, leading to their underperformance and challenges potential private sector participation. This in turn contributes to macroeconomic instability and low capital stock.

Finance Overview

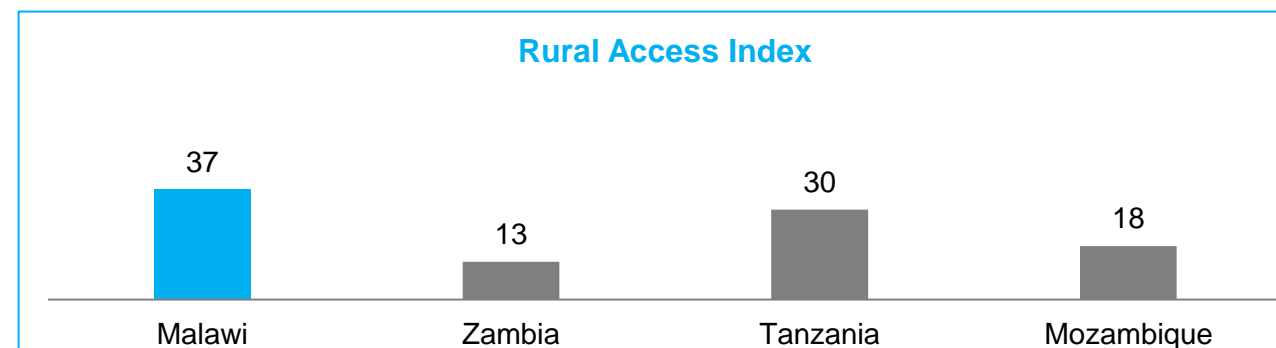
The investments in the road sector were higher than those identified in the NTMP's first five-year investment scenario, where actual funding amounted to more than USD820 million (approximately MK820 billion) compared to about USD300 million (approximately MK300 billion) for rural road upgrades, reconstruction, and major works commitments.

Though the execution rate for investment expenditure has been low for several years, recent commitments of MK200 billion cleared accumulated contractual arrears in 2021 and 2022.

In addition, sector revenue generation, retention, and reinvestment remain suboptimal, particularly for waterway and air transport.



The African Infrastructure Development Index principally monitors and evaluates the status and progress of infrastructure development across Africa.



The Rural Access Index measures the proportion of the rural population who live within 2 km of an all-season road.

The World Bank's Assessment of the Malawi Transport Infrastructure (continued)

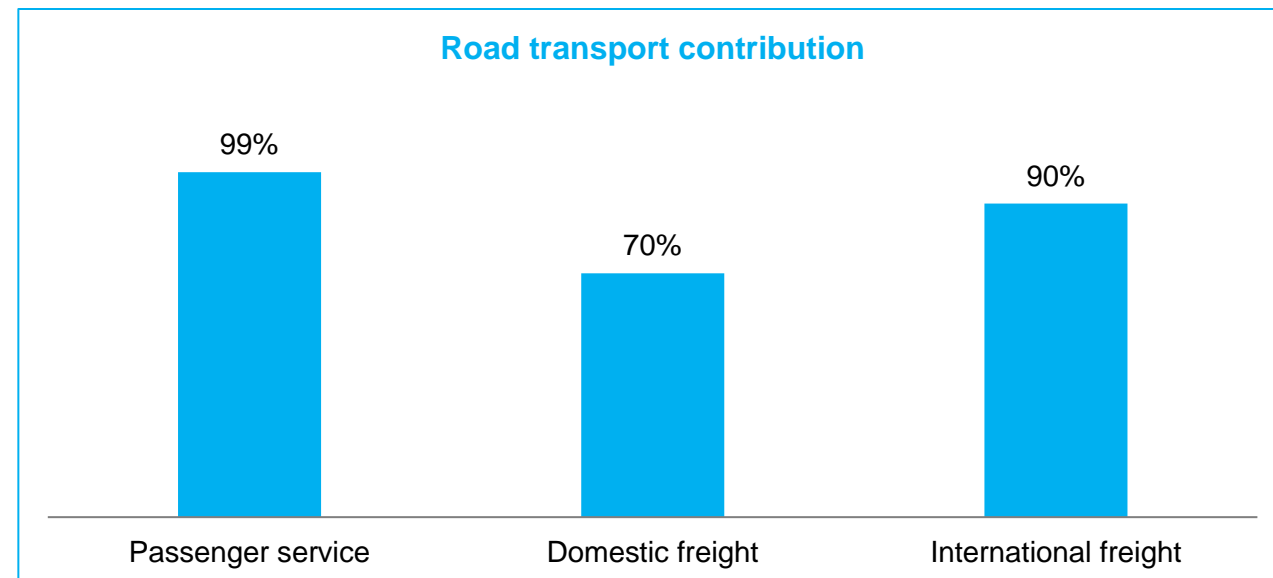
Road transport

Malawi is served by a relatively extensive and coherent road network that comprises links ranging from paved main roads to narrow unpaved tracks and trails. The previous classified network comprised 15,451km of roads, which included:

- Main roads (3,357km)
- Secondary roads (3,125km)
- Tertiary roads (4,121km)
- District roads (3,500km)
- Urban roads (1,348km)

In 2022, the country formally added 9,478km of undesigned community roads to its classified network, some of which are considered part of the core network. In functional terms, the main, secondary, and tertiary roads effectively make up the country's primary network, with district, urban, and other roads acting as a feeder system to the primary network.

Road transport accounts for 99% of passenger service, 70% of domestic freight and 90% of international freight.

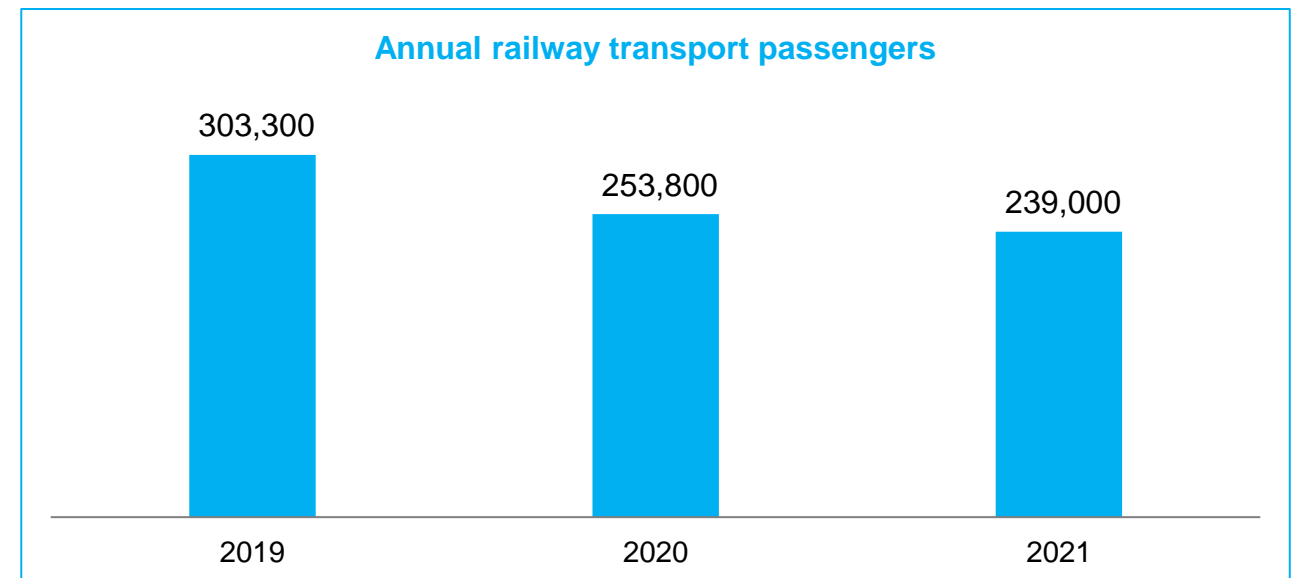


Railway transport

The railway network in Malawi is an unelectrified and totals 932.5km. Rail connections are underutilized largely due to infrastructure constraints at Nacala and network restrictions or gaps with Beira.

The southern rail section runs through Nkaya-Limbe–Marka (297km) but almost 200km is currently non-operational south of Limbe. Railway currently carries less than 7% of freight of which coal accounts for more than 90% of the freight traffic. Only the Limbe-Nkaya-Nayuchi section offers both freight and passenger services of approximately 239,000 passengers as of 2021.

Rail transport investments are channeled towards restoring both the Sena line access to Beira and connecting the Nacala corridor at Limbe to improve domestic and international trade. The government is committed to funding the rehabilitation and reconstruction of the 130km Sena corridor through a combination of public resources, concessionaire investments, and local infrastructure bonds, at an estimated MK287 billion.



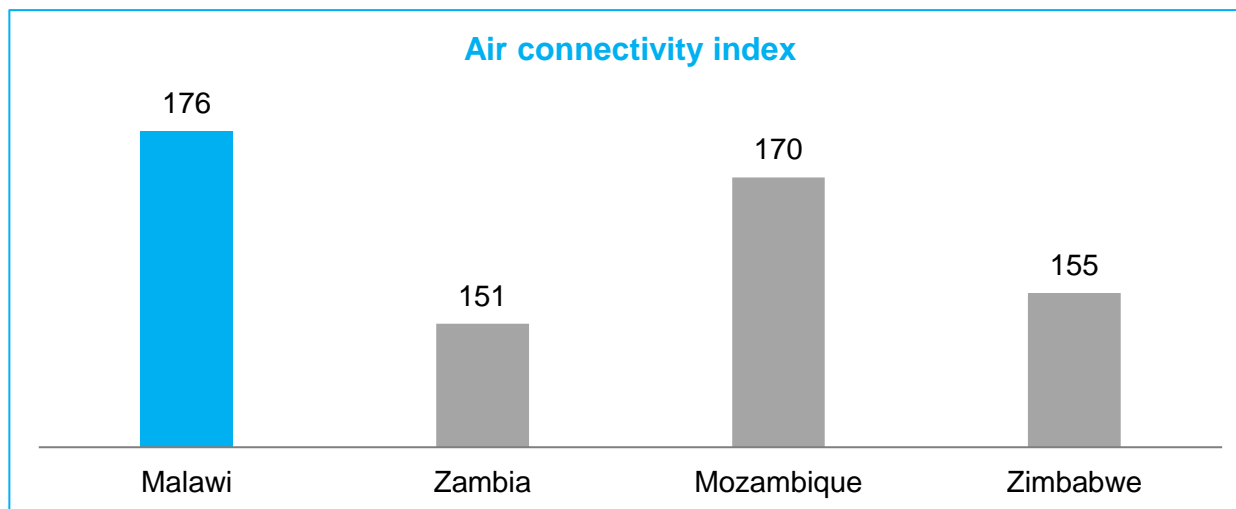
The World Bank’s Assessment of the Malawi Transport Infrastructure (continued)

Air transport

The market for scheduled air services within Malawi is small, as a direct consequence of low income and insufficient economic wealth. Available seats are among the lowest in the region with 0.046 seats per capita, compared to Africa’s 1.22 seats per capita.

Absence of critical infrastructure, including navigation aids (at Chileka International Airport), and limited funds for infrastructure maintenance hamper the segment. There are also low safety standards, and poor implementation of critical elements due to technical capacity constraints of the Department of Civil Aviation (DCA).

In 2019, the total passenger traffic at Malawi’s airports reached 510,000 passengers (excluding transit passengers). Kamuzu International Airport accounted for 71% of the traffic, and Chileka International Airport 28%. The remaining 1% was shared among Likoma, Mzuzu, Club Makokola, while Liwonde, Karonga, Salima and Mangochi showed no traffic according to the DCA and Ulendo Airlink records.



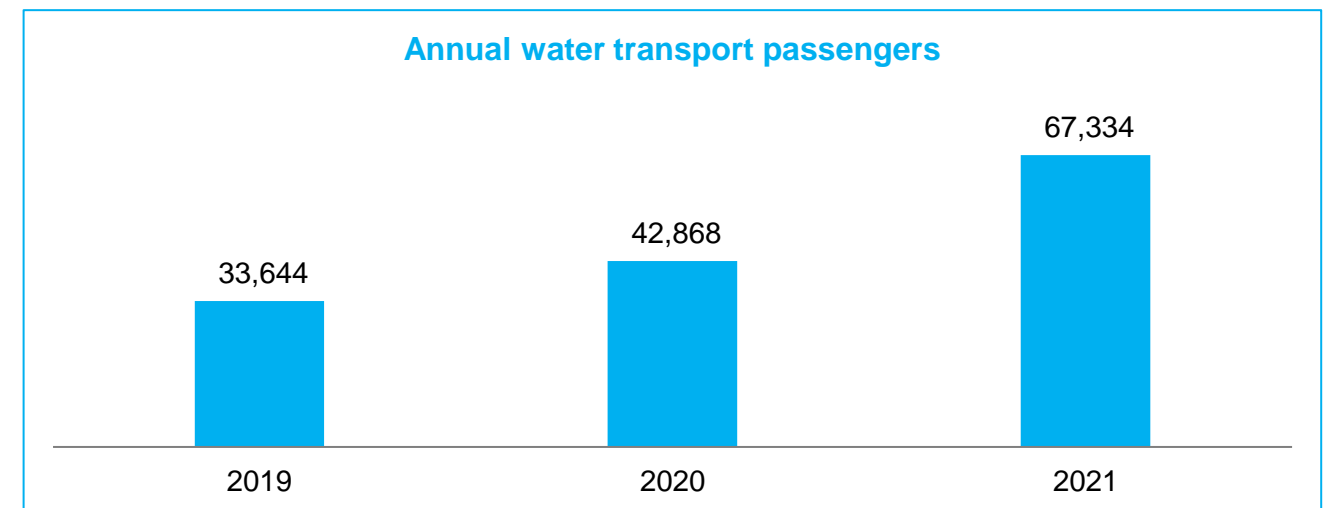
Air connectivity is broadly defined as ability and ease with which passengers and freight can reach destinations by air.

Water transport

The four main lake ports in Malawi include Chilumba, Chipoka, Monkey Bay, and Nkhata Bay. Nkhata Bay, in the middle region of the lake, is the most active port as it mainly serves as the departing point for passengers to Likoma and Chizumulu Islands. Both Chilumba and Chipoka offer the main freight terminals to transfer containers, fuel, and dry bulk cargo via the Dar es Salaam corridor. Monkey Bay is primarily used as a shipyard for shipbuilding and vessel maintenance services.

Vessels are operated at lower speeds due to the high cost of diesel, which accounts for 65% of operating costs per voyage.

In addition, existing vessels are not well fit for purpose. High-speed diesel engines, which are expensive and have short lifespans, also diminish the reliability of services.



Sector Challenges

In connectivity:

- The absence of a functional road asset management system and routine data collection is a challenge as it is critical for prioritizing investment plans based on economic criticality and network resilience. Industry sensitization and the introduction of performance-based contracts on both paved and unpaved roads needs to be championed among government stakeholders.
- Shifting freight operations to rail relies on re-establishing rail network connectivity in the southern region; however, a robust climate risk analysis is a prerequisite.

In financing:

- The current inability of local capital markets to absorb the financial demands of the Government's local infrastructure bond program is likely to worsen the current 'high risk' fiscal outlook on sovereign debt management. The government can lower the risk by tying each bond issuance to specific investments with a clear economic rationale.
- Any railway network expansion to the northern region should be undertaken only after assessing its economic and financial viability, which should primarily depend on private capital mobilization to minimize public sector investment.

In governance:

- Progressive institutional reforms that strengthen both regulatory oversight and rationalize service provider mandates are central to air, railway, and waterway sector development. It is crucial to develop management capacity for performance monitoring of current and future concessions.
- There needs to be greater coordination in the economic and safety regulation of public transport service delivery to improve universal access and mobility demand management at both the central and local levels. There should also be increased focus on the fundamentals for the proper planning of public transport infrastructure and services for both land and lake transport.

Sector Recommendations

Transport connectivity is crucial for Malawi's economic transformation into a lower middle-income economy. Transportation infrastructure and services can be the catalyst for economic by connecting Malawi with the rest of the world. Transport plays a key role in structural transformation and job creation and is a crucial enabler of agricultural commercialization, urbanization, and industrialization..

The core sector indicators are aimed at expanding the coverage of Malawi's paved road network, improving passenger service quality, and increasing ridership levels; and depend on interventions that generate freight modal shift.

In Connectivity:

Develop a National Rural Roads Maintenance Strategy.

- Developing the secondary and tertiary road network to support network resilience.
- Support selective upgrading to gravel or pavement rehabilitation to maximize all-season access among population segments.
- Strengthen low-volume road standards for accessibility and mobility of vulnerable road users, mainly pedestrians and cyclists.

Update or develop urban master plans to improve land use and transport synergies in the largest cities.

- Integrated planning is crucial for preventing spread-out development. Effective zoning must connect central business and residential districts with transport services to improve traffic management for all major and emerging secondary cities.

Sector Recommendations

In financing:

Update feasibility studies for the Sena line rail bridge.

- Detailed economic and financial analysis with robust climate modeling and vulnerability analyses to present all financing instruments and participation parameters can help redefine the roles of both public and private stakeholders for rail connectivity.

Update and adopt a National Road Safety Strategy.

- Prepare a multi-sector, costed, budgeted, and time-bound National Road Safety Action Strategy with specific responsibilities assigned to different stakeholders. Strategic objectives should include introducing road safety audit policies, building audit skills, implementing audit recommendations, providing emergency medical services for post-crash care, and improving the roadworthiness of vehicles through related policies and regulations.

Attract private sector participation in aviation financing.

- Accessing commercial financing for airport development, as well as improving the quality of infrastructure and service delivery for Malawi's airports system can greatly increase segment performance.

In governance:

Define the institutions and mechanisms for regulating urban mobility by empowering a National Urban Areas Transport Authority (UATA).

- Predefined mandates to plan, coordinate, and grant licenses and concessions to appropriate public transport operators. Strengthen municipalities' role in planning and funding urban mobility and enhance interagency coordination for road safety and environmental regulations/vehicle standards.

Align technical and design standards that conform to enacted government policies with legal and regulatory standards.

- Revise road design, construction, and maintenance standards with a focus on resiliency to meet Malawi's geo-technical requirements. Leverage the expertise of the National Construction Industry Council and University research programs

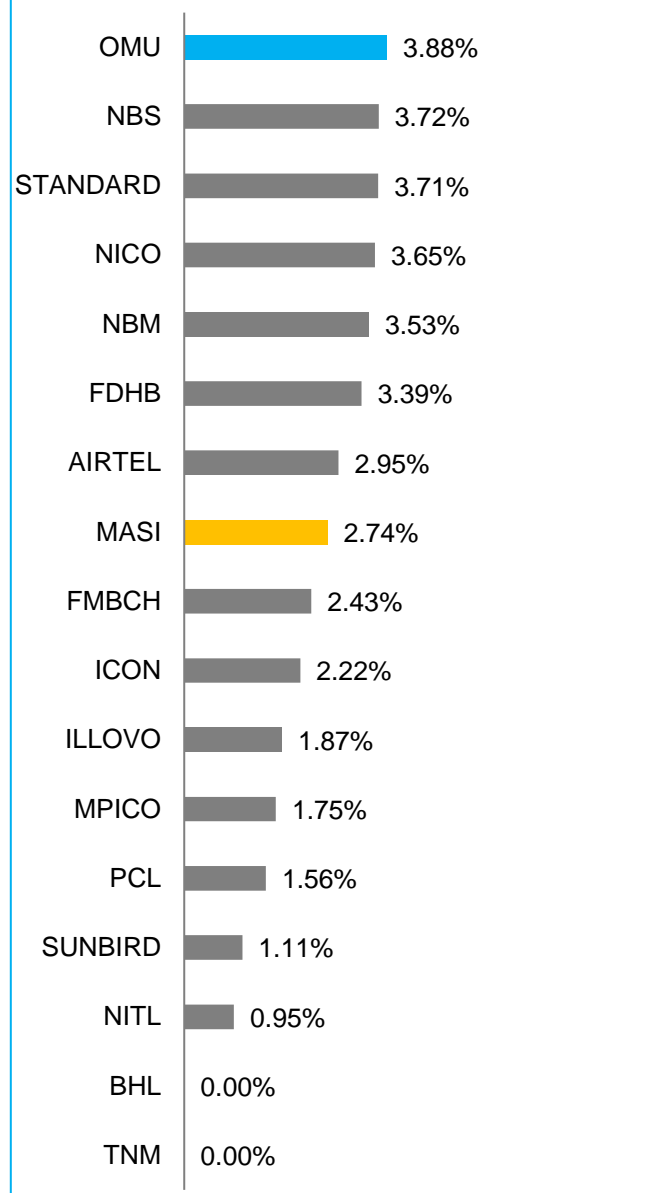
Appendix

Appendix 1: Historical Monthly Economic Indicators

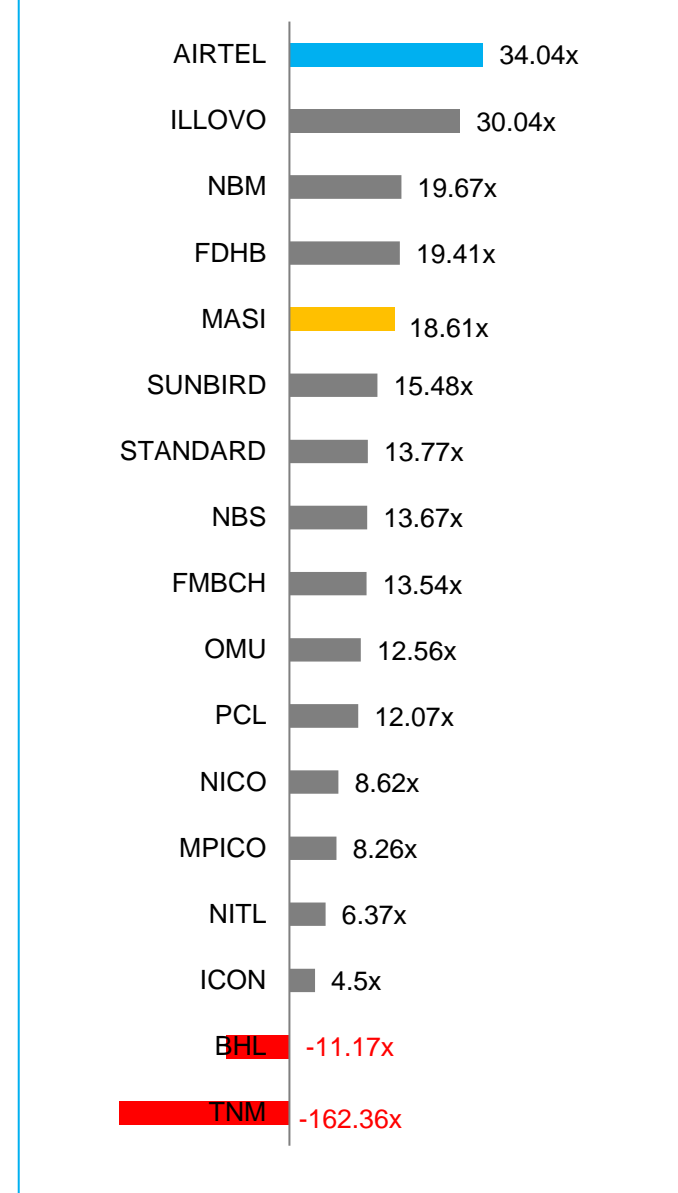
	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23
Exchange rates (middle rates)																		
MK/USD	818.44	822.81	822.10	823.60	823.67	1,029.90	1,033.36	1,035.03	1,035.42	1,033.79	1,032.88	1,034.42	1,031.87	1,031.87	1,033.68	1,033.80	1,034.86	1,034.46
MK/GBP	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	1,317.23
MK/EUR	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	1,135.21
MK/ZAR	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	53.58
Foreign Exchange Reserves																		
Gross Official Reserves (USD'mn)	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	268.10	216.70	N/A	N/A
Private Sector Reserves (USD'mn)	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	375.40	N/A	N/A
Total reserves (USD'mn)	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	592.10	N/A	N/A
Gross Official Reserves Import cover (months)	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	0.87	N/A	N/A
Inflation																		
Headline	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%	28.8%	N/A
Food	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%	37.9%	N/A
Non-food	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%	18.5%	N/A
Interest Rates																		
Monetary Policy rate	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%	22.00%
Average Interbank rate	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%	15.19%
Average base lending rate	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%	18.44%
Bank reference rate	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%	20.00%
Government Securities Yields																		
91-days Treasury Bill	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%	13.00%
182-days Treasury Bill	13.00%	13.00%	12.99%	13.00%	13.00%	15.00%	15.00%	15.00%	15.50%	15.50%	15.50%	17.50%	17.50%	17.50%	17.50%	17.50%	17.50%	17.50%
364-days Treasury Bill	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%	22.49%
2-year Treasury Note	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%	24.75%
3-year Treasury Note	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%	26.00%
5-year Treasury Note	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%	28.00%
7-year Treasury Note	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%	29.50%
10-year Treasury Note	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%	31.19%
Stock Market Indices																		
MASI	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	102,837.75
DSI	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	83,365.40
FSI	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	10,396.15

Appendix 2: Selected stock market statistics as of 31 May 2023

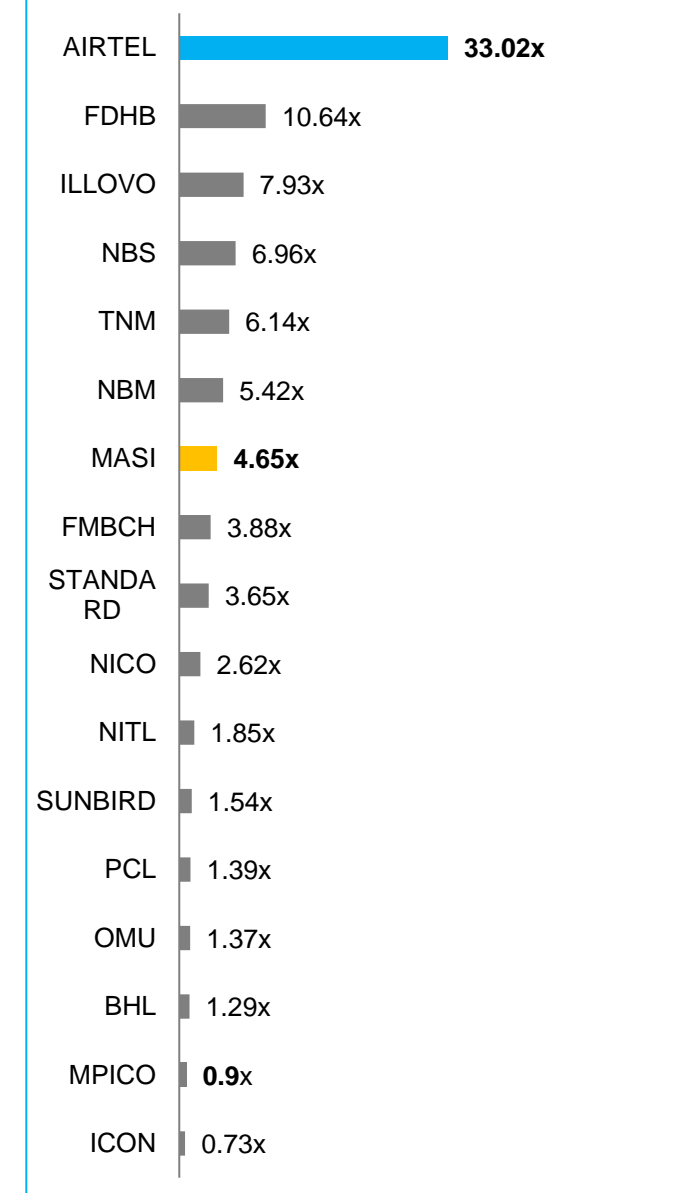
Dividend Yield (%) - the weighted average dividend yield on the MSE was 2.74% in May 2023. The counter with the highest dividend yield was OMU at 3.88%.



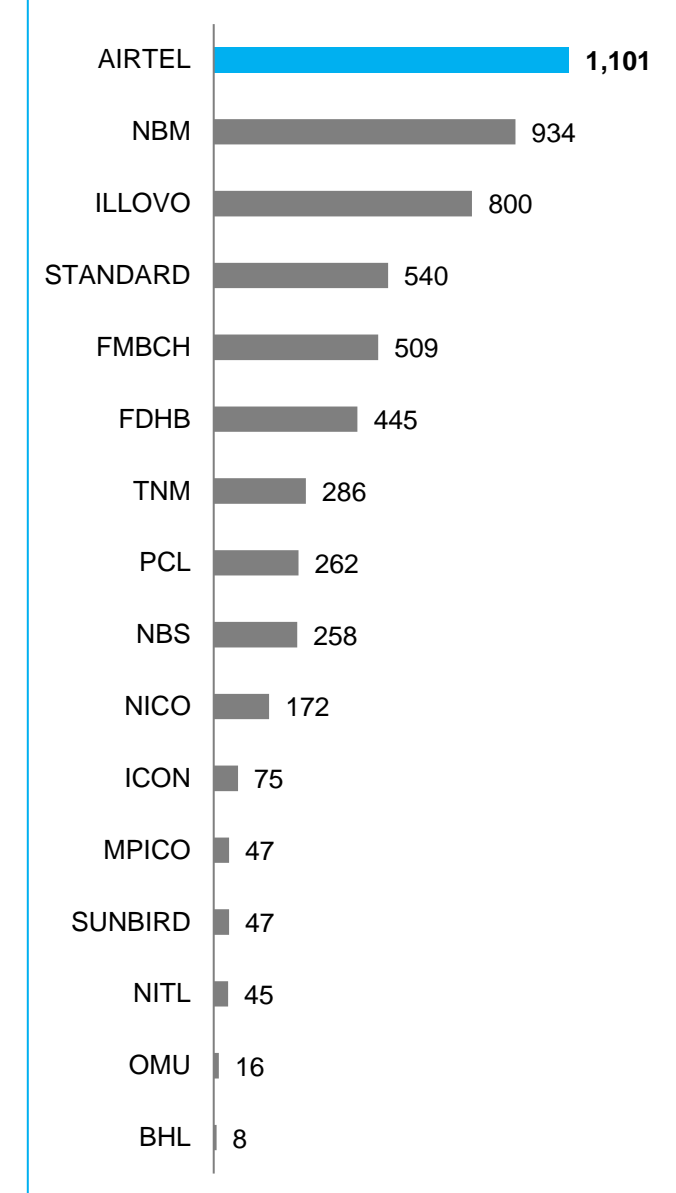
P/E Ratio - the weighted average price to earnings on the MSE was 18.61x in May 2023. The counter with the highest ratio was AIRTEL at 34.04x.



P/BV Ratio - the weighted average price to book value on the MSE was 4.65x in May 2023. The counter with the highest ratio is AIRTEL at 33.02x.



Market Capitalization (MK'billion) – AIRTEL had the highest market capitalization at MK1.10 trillion in May 2023.



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, AfDB and World Bank Projections

IMF projections

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

AfDB projections

Annual percentage change (unless otherwise indicated)				
	2021	2022	2023	2024
Real GDP growth	2.2	0.8	2.0	3.5
Consumer price index inflation	9.3	15.0	22.8	15.4

World Bank projections

Annual percentage unless indicated otherwise						
	2020	2021	2022	2023	2024	2025
Real GDP growth, at constant market prices	0.8	2.8	0.9	1.4	2.4	3.0
Private Consumption	0.8	2.6	0.6	3.5	3.6	3.5
Government Consumption	0.8	-1.1	4.3	3.5	-0.5	5.7
Gross Fixed Capital Investment	0.8	-0.2	-6.5	-7.3	1.4	1.7
Exports, Goods and Services	0.8	2.9	3.6	4.6	5.8	5.9
Imports, Goods and Services	0.8	0.4	0.1	5.8	5.9	6.0
Inflation (Consumer Price Index)	8.6	9.2	21.8	19.7	16.8	14.3
Current Account Balance (% of GDP)	-13.8	-14.3	-3.2	-11.3	-11.3	-11.7
Net Foreign Direct Investment Inflow (% of GDP)	3.5	0.8	1.3	1.3	1.4	1.4
Fiscal Balance (% of GDP)	-6.4	-7.1	-10.4	-8.9	-8.8	-8.9
Revenues (% of GDP)	14.7	14.1	13.0	14.7	14.5	14.6
Debt (% of GDP)	53.4	60.5	76.5	74.6	75.3	76.1
Primary Balance (% of GDP)	-3.4	-3.3	-5.2	-2.3	-2.3	-2.3
International poverty rate (\$2.15 in 2017 PPP)	70.7	70.6	71.3	71.7	71.8	71.7

Appendix 5: List of Acronyms and Abbreviations

AfDB:	African Development Bank	NICO:	NICO Holdings Plc	ZAR:	South African Rand
BHL:	Blantyre Hotels Plc	NITL:	National Investment Trust Limited Plc		
CMTIF	Comprehensive Medium Term Investment Framework	NSO:	National Statistical Office		
CPI:	Consumer Price Index	OMU:	Old Mutual Limited Plc		
DCA:	Department of Civil Aviation	OPEC:	Organization of the Petroleum Exporting Countries		
DSI:	Domestic Share Index	ORB:	OPEC Reference Basket		
EIU:	Economist Intelligence Unit	PSIP	Public Sector Investment Plan		
EUR:	Euro	P/BV:	Price to book value		
FDHB:	FDH Bank Plc	PCL:	Press Corporation Limited Plc		
FMBCH:	FMB Capital Holdings Plc	P/E:	Price to earnings		
FSI:	Foreign Share Index	OECD	Organisation for Economic Co-operation and Development		
GBP:	Great British Pound	RBM:	Reserve Bank of Malawi		
GDP:	Gross Domestic Product	SADC:	Southern Africa Development Community		
IMF:	International Monetary Fund	SOE	State-owned enterprises		
LRR:	Liquidity Reserve Requirement	SUNBIRD:	Sunbird Tourism Plc		
MASI:	Malawi All Share Index	TB:	Treasury Bill		
Mb/d:	Million barrels per day	TN:	Treasury Note		
MK:	Malawi Kwacha	TNM:	Telekom Networks Malawi Plc		
M-O-M:	Month-on-month	TT:	Telegraphic Transfer		
MPC:	Monetary Policy Committee	UATA:	National Urban Areas Transport Authority		
MSE:	Malawi Stock Exchange	USA:	United States of America		
MTPW	Ministry of Transport and Public Works	USD:	United States Dollar		
NBM:	National Bank of Malawi Plc	Y-O-Y:	Year-on-year		
NTMP	National Transport Master Plan	YTD:	Year-to-date		

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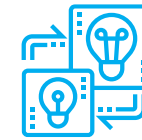
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