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# Malawi Monthly Economic Report and an Overview of the IMF Malawi Country Report

August 2023

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## Inflation

The headline inflation rate increased to 28.4% in July 2023 from 27.3% in June 2023 due to a rise in food inflation to 39.3% from 37.2% during the period, while non-food inflation maintained at 16.0%. According to the Reserve Bank of Malawi (RBM), headline inflation is now projected to average 29.5% in 2023 compared to an average of 20.9% in 2022. This is attributed to rising food inflation, elevated public sector financing requirements as well as exchange rate developments.

The Economist Intelligence Unit (EIU) expects inflation to average 30.5% in 2023 and 22.8% in 2024 while the International Monetary Fund (IMF) expects inflation to average 24.8% in 2023 and 18.3% in 2024. Finally, the World Bank projects inflation to average 25.7% in 2023 and 20.8% in 2024. The primary drivers of 2024 inflation expectations include lower input costs, fiscal consolidation, tight monetary policy stance and better global and local economic prospects.

## Exchange Rates and Foreign Currency Reserves

Following a foreign exchange auction held on 29 August 2023, the maximum selling price per USD increased to MK1,126.77/USD from MK1,095.32/USD. This represents a 2.87% depreciation.

Based on closing middle rates, the Malawi Kwacha traded at MK1,094.74/USD as of 31 August 2023, a depreciation of 3.1% from MK1,061.67/USD as of 31 July 2023. Year-to-date, the Kwacha has depreciated against the USD by 5.8% as it traded at MK1,034.67/USD as of 31 December 2022. In August 2022, the Kwacha had depreciated against the USD by 26.4%.

As of 31 July 2023, the country's gross official foreign exchange reserves decreased by 16.7% to USD267.91 million from USD321.53 million in June 2023. The import cover for gross official foreign exchange reserves decreased by 17.1% to 1.07 months in July 2023 from 1.29 months in June 2023.

## Government Securities

The amount sought by government through Treasury Bills (TBs) and Treasury Notes (TNs) auctions decreased by 32% to MK176.4 billion in August 2023 from MK259.0 billion in July 2023. The total amount awarded from TBs and TNs auctions increased by 17% to MK129.4 billion in August 2023 from MK110.8 billion in July 2023. The 91 and 364-days TBs yields increased to 14.70% and 24.00% from 13.00% and 22.50%, respectively in August 2023. Similarly, the 2, 3, 5, 7 and 10-year TNs yields increased to 26.75%, 28.00%, 30.00%, 30.46% and 32.83% from 24.75%, 26.00%, 28.00%, 29.50% and 31.25% respectively. As a result, the average TB and TN yields increased to 18.90% and 29.61% from 17.83% and 27.90%, respectively in August 2023.

## Stock Market

The stock market was bullish over the period as the Malawi All Share Index (MASI) increased to 119,077.99 points in August 2023 from 112,497.02 points in July 2023, representing a 5.85% increase. The year-to-date return on the MASI was 91.95%. It was 20.03% during the same period in the previous year. The increase in the MASI resulted from share price gains for FMBCH, FDH Bank, OMU STANDARD and NBM. There were also marginal share price gains for SUNBIRD, AIRTEL, NITL and ILLOVO. The share price gains offset marginal share price losses by TNM, ICON, NBS and NICO. In August 2023, FMBCH was the largest share price gainer as its share price increased by 33.33% to MK400.00 per share from MK300.01 per share. In contrast, TNM was the largest share price loser as its share price marginally decreased by 0.13% to MK29.95 per share from MK29.99 per share in July 2023.

## Fiscal and Monetary Policy

In an official statement dated 24 August 2023, the RBM stated that several negotiations have been held with creditors both to the Malawi government and RBM. The negotiations have been very positive, and creditors have shown willingness to assist the country to reach debt sustainability. According to the IMF, fiscal sustainability and the completion of the Staff-Monitored Program with Executive Board involvement (PMB) relies on a successful conclusion of the government's external debt restructuring process in the near future. The IMF further stated that it would be challenging to close financing gaps the longer debt restructuring negotiations go on.

Regarding monetary policy, the RBM will maintain a tight monetary policy stance in Malawi due to persistent inflationary pressure resulting from the influence of food insecurity on rising food prices. The current Monetary Policy rate is 24%. However, the EIU expects further tightening of the policy rate to 26% to contain inflation.

The commercial bank reference rate is now 23.4%, effective 5 September 2023, from 22.7% in August 2023.

## Commodity Market

Total cumulative national value of tobacco sold stood at USD283.76 million (approximately MK283 billion) after 17 weeks of sales in the 2023 season.

The monthly average OPEC Reference Basket (ORB) price increased by 7.7% to a monthly average of USD87.33/barrel in August 2023, from USD81.06/barrel in July 2023.

## Economic Growth

The gross domestic product (GDP) growth rate projections for Malawi from various published sources range between 0.7% and 2.0%, bringing the projected average GDP growth rate for 2023 to 1.4%. According to the EIU, real GDP growth in 2023 will be undermined by weather shocks, huge funding gaps and a severe monetary tightening shock, depressing real GDP growth to 0.7%. A rebound to 2.0% is expected in 2024.

The World Bank GDP growth projection for 2023 is 1.4% and is expected to increase to 2.4% in 2024. Over the medium term, economic growth is forecast to increase moderately, underpinned by gradual macroeconomic stabilization and a recovery across all sectors. According to Oxford Economics, economic growth is forecasted at 1.7% for 2023 compared to 1.3% estimate of 2022. However, real GDP growth is expected to rebound to 3.4% in 2024 due to stronger private consumption and exports.

The Monetary Policy Committee (MPC) observed that limited supply of foreign exchange, the impact of adverse weather conditions, as well as the lingering effects of the Russia-Ukraine war, has weakened the initial prospects of a stronger real GDP growth to 1.9% from 2.7% in 2023.

The African Development Bank (AfDB) expects Malawi's real GDP growth to be 2.0% in 2023 and 3.5% in 2024. The IMF projects real GDP growth of 1.7% for Malawi in 2023 and 3.3% in 2024. Cyclone Freddy has weighed on the outlook for 2023 and led to a lower growth forecast. Key downside risks include slippages in program implementation, delays in the ongoing external debt restructuring process, and further external shocks.

### IMF country report overview

The Executive Board of IMF discussed the first review of the 12-month Staff-Monitored Program with Executive Board involvement (PMB) for Malawi. The review was approved by the management of the IMF on 13 July 2023. Based on the review, program performance was mixed due to a series of shocks including an outbreak of Cholera and Cyclone Freddy. In this context, economic growth has been weaker and inflation higher than expected.

The IMF noted that the RBM has accrued losses due to its net foreign exchange liability position, putting pressure on the fiscal balance. In addition, the RBM has committed to reverse this vicious circle by purchasing foreign exchange, limiting foreign exchange sales to the market and mitigating foreign exchange swap rollover risks. The IMF stated that the authorities remain committed to hold foreign exchange auctions monthly.

The IMF's view is that Malawi's external debt is currently assessed to be unsustainable but would be considered sustainable on a forward-looking basis if the government is successful in its restructuring strategy.

According to the IMF, the authorities are taking corrective actions to establish a track record of policy implementation, possibly paving the way to an Extended Credit Facility (ECF) arrangement. Key downside risks include slippages in program implementation, delays in the ongoing external debt restructuring process, and further external shocks.

The Executive Board agreed with IMF staff that Malawi is on track to achieve the objectives of the PMB.

### Opportunities in Malawi

**Agriculture:** The agriculture sector employs a significant proportion of the country's workforce and represents about 80% of the country's exports. According to the World Bank, the sector contributed 21.8% to the country's GDP in 2022. A few examples of opportunities in the agricultural sector include; large scale commercial fishing, cannabis production and processing, large scale production of sugarcane in the areas under the Green Belt Initiative (GBI) and processing factories for value addition to make puree, spices, paste and juices.

**Manufacturing:** A majority of Malawi's industrial activity comes from manufacturing. Manufacturing in Malawi involves various aspects such as agricultural processing, textiles, clothing and footwear production. There are several opportunities for investors to partake in production of high value finished products. Specific opportunities lie in; fertilizer production, pharmaceuticals manufacturing, textile and garment manufacturing as well as light goods manufacturing (steel products, electrical fittings, plastics).

**Tourism:** In recent years, Malawi has become a popular destination for meetings, conferences and events both locally and internationally. The sector offers various opportunities in investment such as; hotels and conference facilities in major towns and cities, cable car and associate facilities on Mount Mulanje, entertainment centers and casinos.

### 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, inflation and reliance on aid. 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. In addition, Malawi is among the 53 countries expected to experience El Niño-induced dry weather in the upcoming crop-growing season. These conditions may likely have a severe impact on cereal production in Sub-Saharan Africa. Conditions in which the country experiences below-average rainfall in the growing season could lead to crop failure and insufficient grazing, affecting agricultural yield. Moreover, frequent natural disasters with severe damages to infrastructure can amplify supply chain disruptions, inflationary pressures, and water and food shortages.

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. Moreover, Malawi has struggled to attract foreign investment, which is critical for economic growth and job creation. Without sufficient foreign investment, the country is expected to continue to face limitations in its capacity to develop infrastructure, create jobs, and support economic growth.

Furthermore, Malawi faces inflation risk, which has the potential to diminish the purchasing power of individuals, increase the cost of living and create instability within the economy. Rising food prices on account of food insecurity contributes to this risk. The average inflation rate for the first seven months of 2023 is 27.6%.

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.

Lastly, a potential concern involves the depreciation of the domestic currency, particularly if the risk of decreased exports and the resultant decline in export earnings materializes. This situation could expose the domestic currency to depreciation risk, exacerbating the cost of importing goods and services. Simultaneously, it could erode the value derived from the export of domestically crafted products and services, thereby contributing to a widening gap between imports and exports, potentially leading to current account deficits. This interplay may consequently exert pressure on inflation levels, subsequently influencing the country's fiscal deficit

## Economic overview

### Inflation (Source: NSO, RBM)

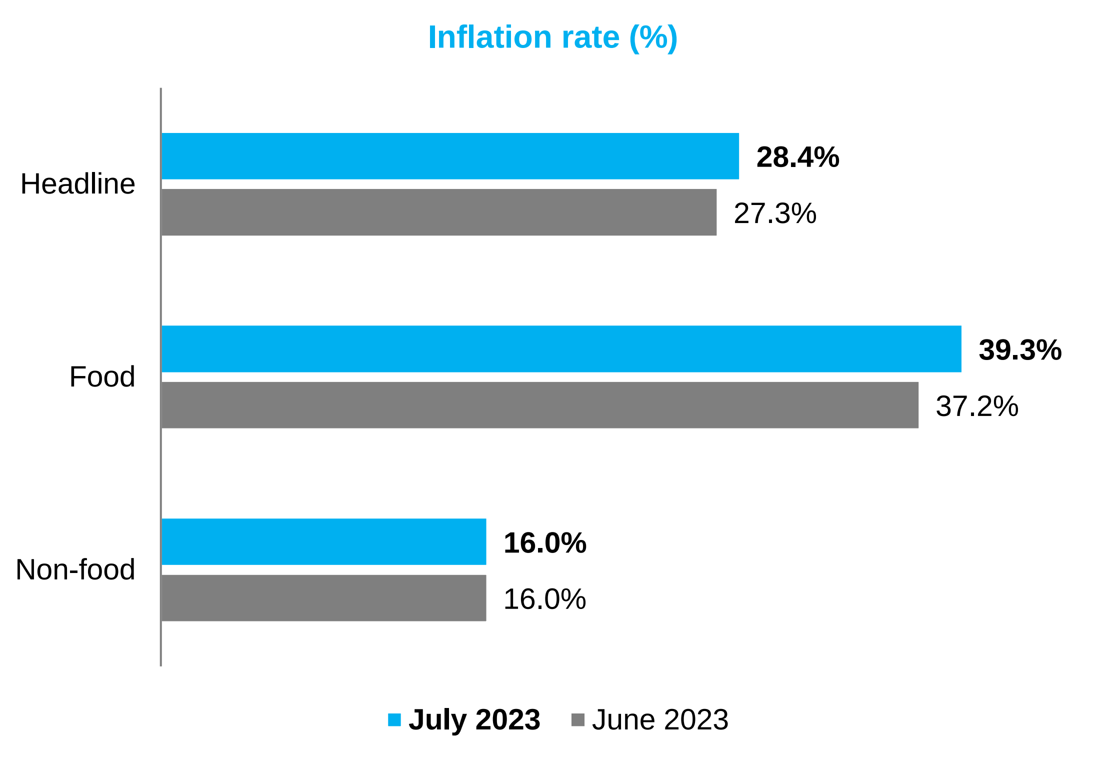
*The headline inflation rate for July 2023 increased by 1.1 percentage points to 28.4% from 27.3% in June 2023. The increase was due to a rise in food inflation to 39.3% from 37.2% during the period under review.*

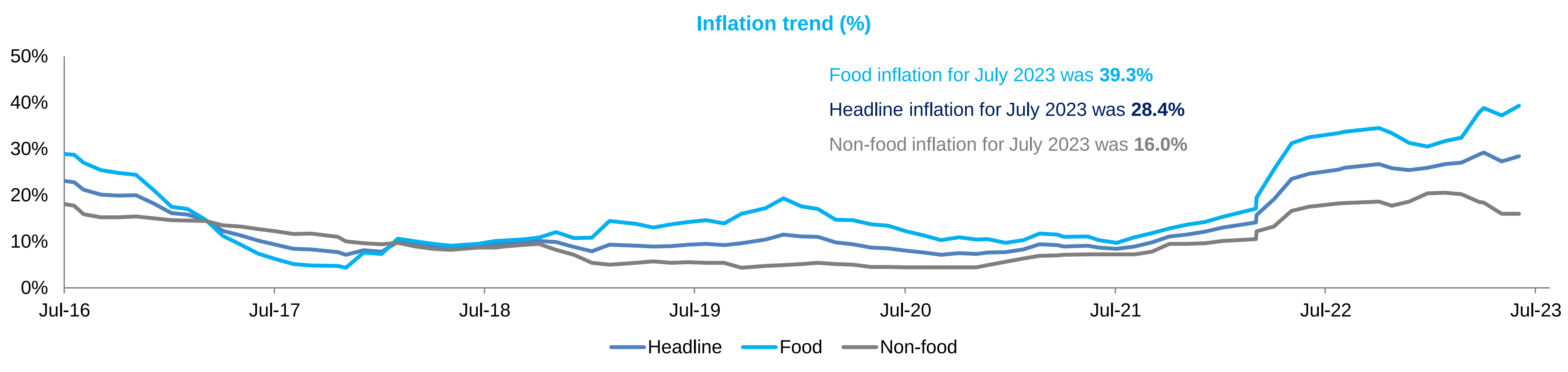
*According to the Reserve Bank of Malawi, headline inflation is now projected to average 29.5% in 2023 compared to an average of 20.9% in 2022.*

The headline inflation rate increased by 1.1 percentage points to 28.4% in July 2023 from 27.3% in June 2023. The increase was due to a rise in food inflation to 39.3% in July 2023 from 37.2% in June 2023. In contrast, the non-food inflation rate maintained its position at 16.0% in July 2023. During this same period in 2022, headline inflation was 24.6%, driven by food inflation of 32.5% and non-food inflation of 17.5%.

According to the RBM, the increase in food inflation was mainly a result of rising prices of maize and the subsequent spillover effect to related commodities. According to the International Food Policy Research Institute (IFPRI), maize retail prices increased by 27% to average MK650 per kilogram (Kg) in July 2023, from MK512/Kg in June 2023. Non-food inflation moderation has been supported by the impact of tightening the monetary policy stance, in addition to continued weakening of global demand which has helped to suppress imported non-food inflation pressures.

According to the RBM, headline inflation is now projected to average 29.5% in 2023 compared to an average of 20.9% in 2022 and is attributed to rising food inflation, elevated public sector financing requirements as well as exchange rate developments. Similarly, the Economist Intelligence Unit expects inflation to average 30.5% in 2023 owing to high domestic fuel and food prices. Oxford Economics expects inflation to average 27.8% in 2023 due to rising food inflation and exchange rate developments. Following the effects of Tropical Cyclone Freddy, the IMF expects inflation to average 24.8% in 2023. Finally, the World Bank expects inflation to average 25.7% in 2023 and is attributed to rising food prices, pressure from anticipated lower agricultural yield as well as money supply growth.



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# Economic overview (Continued)

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

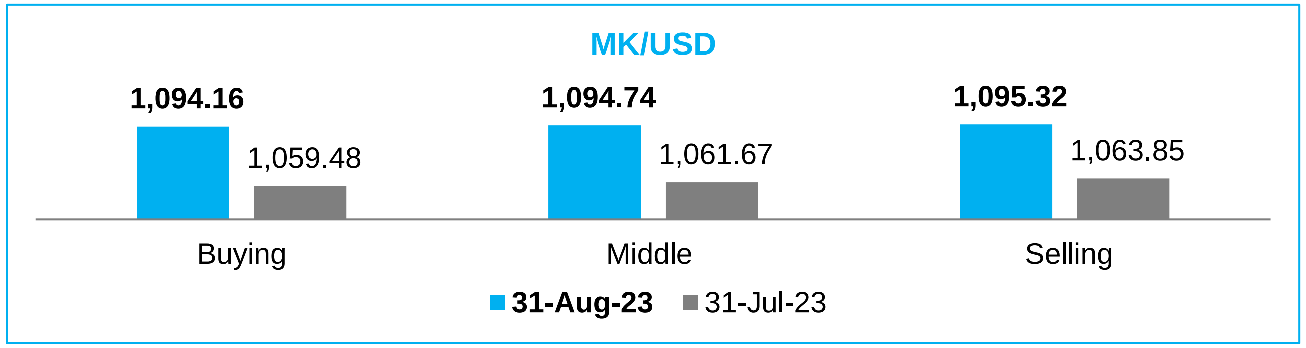
*Following a foreign exchange auction held on 29 August 2023, the maximum selling price per USD increased to MK1,126.77/USD from MK1,095.32/USD. This represents a 2.87% depreciation.*

*The gross official foreign exchange reserves decreased by 17% to USD267.91 million as of 31 July 2023, from USD321.53 million in June 2023. The gross official import cover by 17% to decreased by 17% to 1.07 months from 1.29 months during the period under review.*

### Foreign currency market

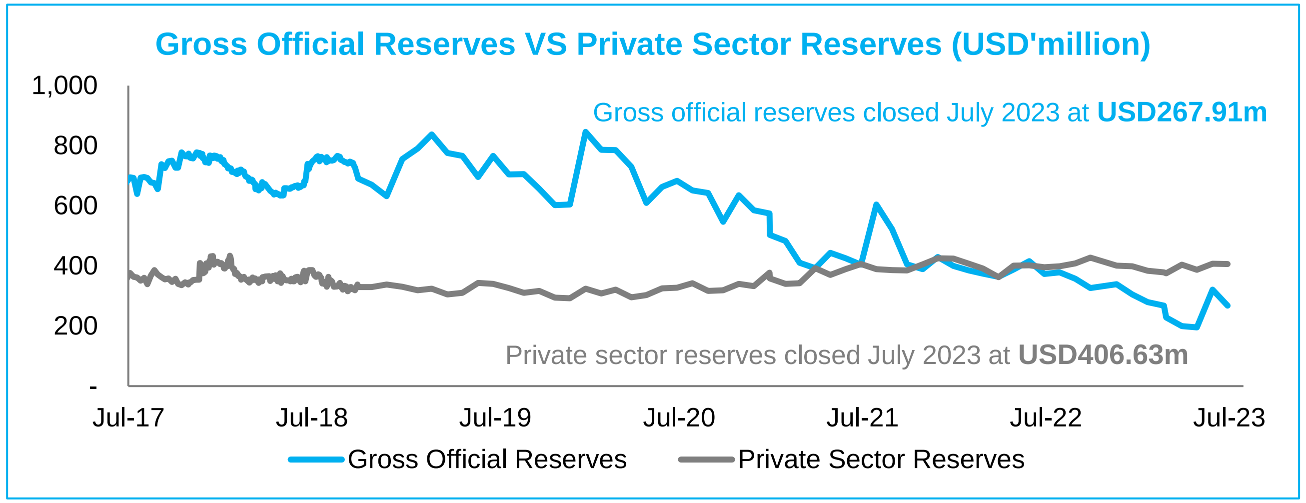
Based on closing middle rates, the Kwacha depreciated against the United States Dollar (USD) by 3.1% as it traded at MK1,094.74/USD as of 31 August 2023, from MK1,061.67/USD as of 31 July 2023. Year-to-date, the Kwacha has depreciated against the USD by 5.8% as it traded at MK1,034.67/USD as of 31 December 2022. During the same period in the previous year, the Kwacha had depreciated against the USD by 26.4%.

The RBM held a foreign exchange auction on 29 August 2023 and the maximum selling price per USD is MK1,126.77/USD effective on 1 September 2023. This represents a 2.87% depreciation from the previous maximum selling price of MK1,095.32/USD.

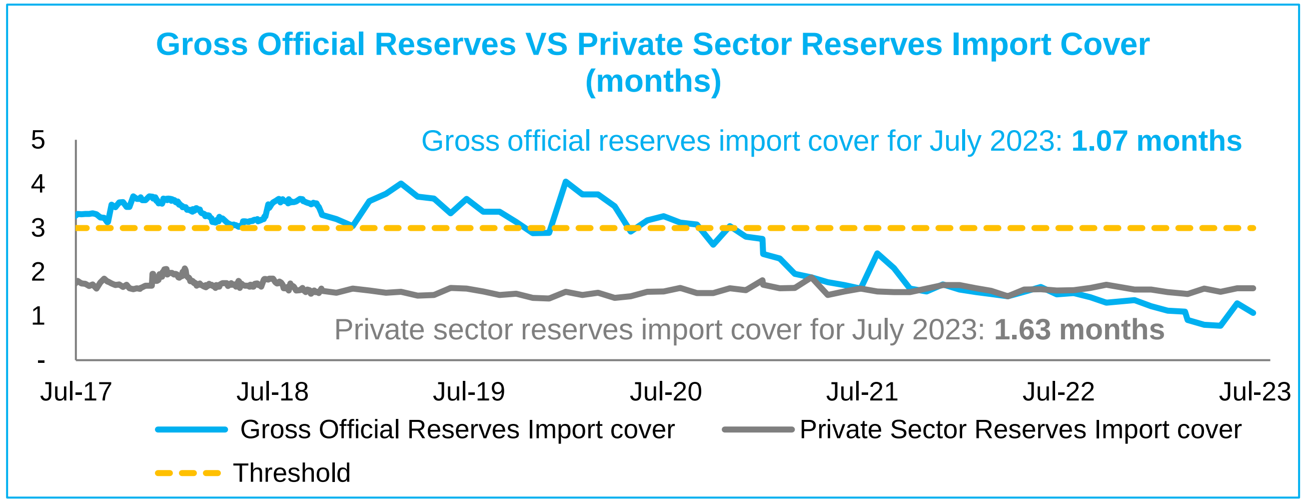



### Foreign Exchange Reserves Position

As of 31 July 2023, the country's gross official foreign exchange reserves decreased by 17% to USD267.91 million from USD321.53 million in June 2023. The import cover for gross official foreign exchange reserves decreased by 17% to 1.07 months in July 2023 from 1.29 months in June 2023. The import cover for gross official foreign exchange reserves remained below the required threshold of 3 months.




| | July 2023 | June 2023 | Month-on-month change (%) |
|---|---|---|---|
| Gross Official (USD'million) | 267.91 | 321.53 | -17% |
| Private Sector (USD'million) | 406.63 | 407.47 | 0% |
| **Total Reserves (USD'millions)** | **674.54** | **729.00** | -7% |
| Gross Official import cover (months) | 1.07 | 1.29 | -17% |
| Private sector import cover (months) | 1.63 | 1.63 | 0% |
| **Total import cover (months)** | **2.70** | **2.92** | -8% |




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 91.95% in August 2023. It was 81.34% in the previous month and 20.03% in August 2022.*

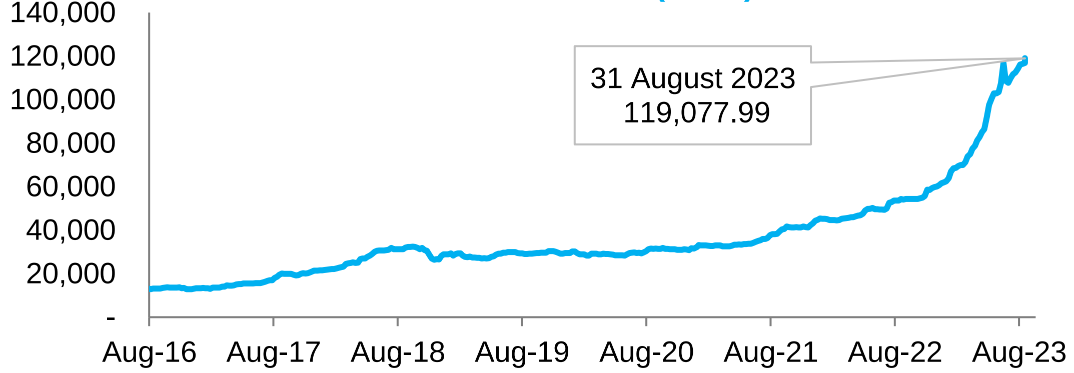
*The increase in the MASI was largely driven by share price gains for FMBCH, FDH Bank and OMU. The share price gains offset marginal share price losses for TNM, ICON, NBS and NICO.*

The stock market was bullish over the period as the Malawi All Share Index (MASI) increased to 119,077.99 points in August 2023 from 112,497.02 points in July 2023, representing a 5.85% increase. The MASI year-to-date return was 91.95% in August 2023. It was 81.34% in the previous month and 20.03% in August 2022.

In August 2023, FMBCH was the largest share price gainer as its share price increased by 33.33% to MK400.00 per share from MK300.01 per share in July 2023. Other counters with share price gains were FDH Bank, OMU, STANDARD and NBM. There were also marginal share price gains for SUNBIRD, AIRTEL, NITL and ILLOVO

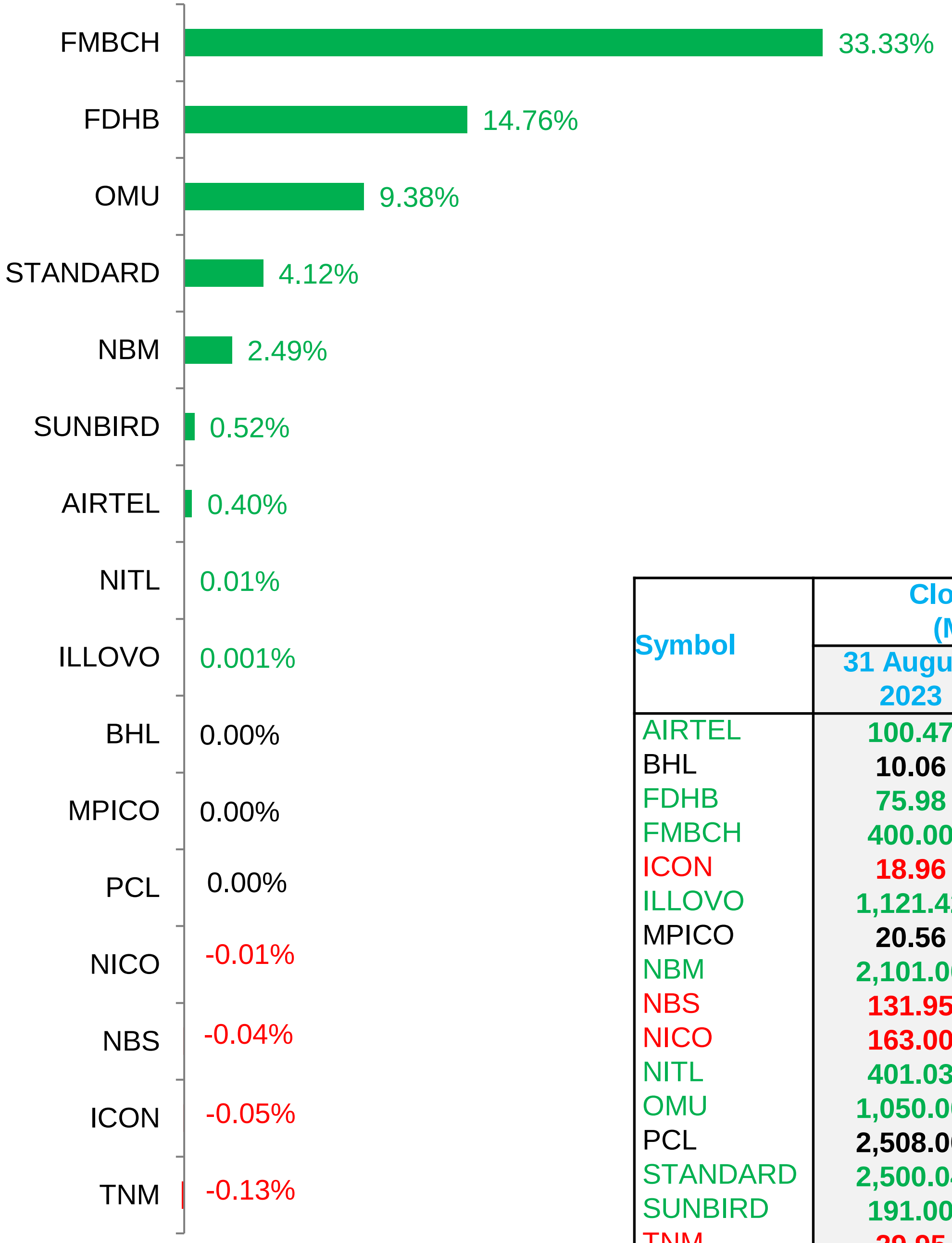
In August 2023, TNM was the largest share price loser as its share price marginally decreased by 0.13% to MK29.95 per share from MK29.99 per share in July 2023. There were also marginal share price losses for ICON, NBS and NICO.

**Malawi All Share Index (MASI)**




**MASI year-to-date return**


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




| Symbol | Closing prices (MK/share) | |
|---|---|---|
| | 31 August 2023 | 31 July 2023 |
| AIRTEL | **100.47** | 100.07 |
| BHL | **10.06** | 10.06 |
| FDHB | **75.98** | 66.21 |
| FMBCH | **400.00** | 300.01 |
| ICON | **18.96** | 18.97 |
| ILLOVO | **1,121.42** | 1,121.41 |
| MPICO | **20.56** | 20.56 |
| NBM | **2,101.00** | 2,050.00 |
| NBS | **131.95** | 132.00 |
| NICO | **163.00** | 163.01 |
| NITL | **401.03** | 401.00 |
| OMU | **1,050.00** | 960.00 |
| PCL | **2,508.00** | 2,508.00 |
| STANDARD | **2,500.04** | 2,401.05 |
| SUNBIRD | **191.00** | 190.01 |
| TNM | **29.95** | 29.99 |

# Economic overview (Continued)

## Stock market (Source: MSE)

*FDH Bank had the highest value of shares traded in August 2023 at MK2.42 billion.*

*Standard Bank disclosed a 2023 half-year (2023H1) profit after tax (PAT) of MK26.9 billion, up 70% from MK15.8 billion in 2022.*

*TNM disclosed a recovery in 2023H1 PAT to MK0.8 billion from a loss after a tax of MK1.3 billion in 2022.*

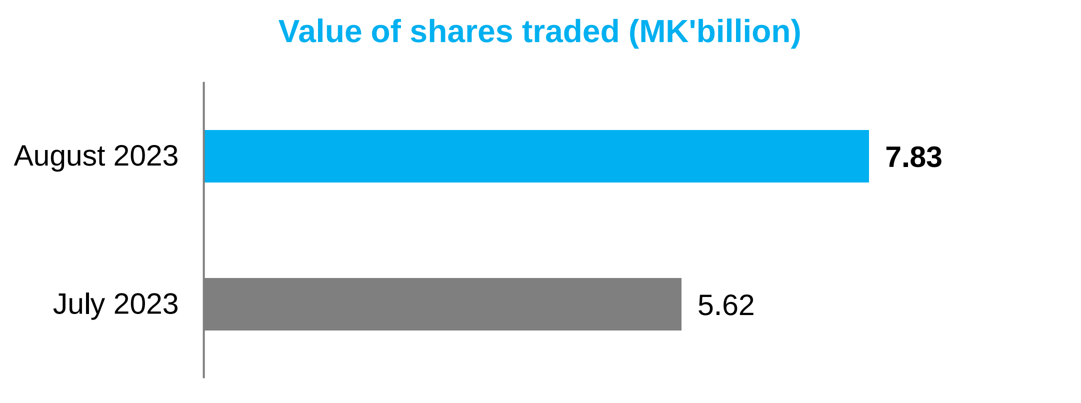
*AIRTEL posted a 113% increase in 2023H1 PAT to MK19.0 billion from MK8.9 billion in 2022.*

*FMBCH also posted an increase in 2023H1 PAT to USD42.0 million from USD25.2 million in 2022.*

### MSE Traded Values

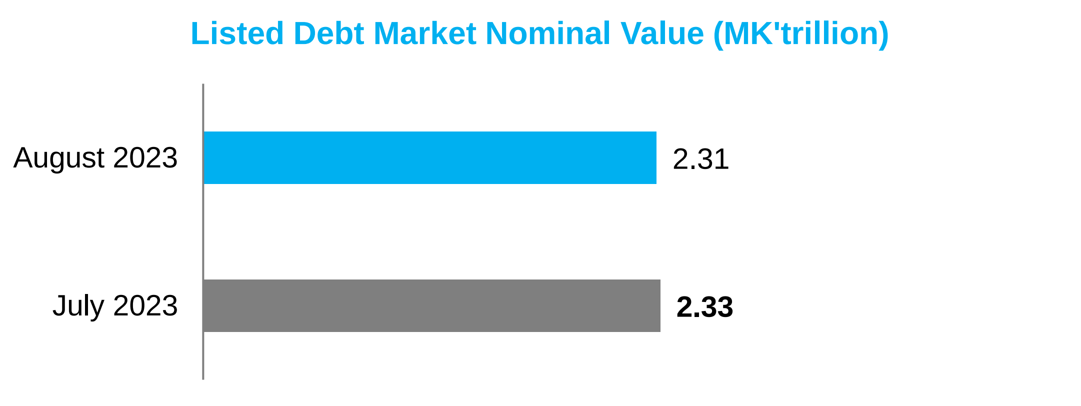
A total of MK7.83 billion worth of shares was traded on the Malawi Stock Exchange (MSE) in August 2023. This represented a 39.3% increase from MK5.62 billion worth of shares traded in July 2023. FDH Bank had the highest value of shares traded in August 2023 at MK2.42 billion.

The total number of trades increased to 1,274 in August 2023, from 947 in July 2023.




### Listed Debt market

The total number of instruments listed on the debt market decreased to 56 in August 2023 from 57 in July 2023. There were no trades on the debt market in August 2023. The nominal value of all listed debt securities decreased to MK2.31 trillion in August 2023 from MK2.33 trillion in July 2023.




### Corporate Announcements

#### Published half year financial results

*Amounts in billions of Malawi Kwacha unless specified otherwise.*

| Counter | Profit after tax (MK'billions) Half year 2023 | Half year 2022 | Change (%) |
|---|---|---|---|
| TNM | 0.8 | (1.3) | -158% |
| MPICO | 5.1 | 3.2 | 61% |
| NBS | 12.2 | 5.1 | 139% |
| FDHB | 15.0 | 8.7 | 72% |
| NITL | 16.5 | 1.5 | 1027% |
| AIRTEL | 19.0 | 8.9 | 113% |
| STANDARD | 26.9 | 15.8 | 70% |
| NICO | 30.8 | 11.8 | 160% |
| ILLOVO* | 33.7 | 9.2 | 266% |
| PCL | 34.3 | 16.0 | 115% |
| NBM | 35.5 | 22.1 | 60% |
| FMBCH** | 42.0 | 25.2 | 67% |

** : Financial half-year end for Illovo is 28 February*
*** : FMBCH profit after tax is in USD millions*

#### Dividends

| Counter | Dividend type | Proposed/Declared | Dividend per share (MK) | Last day to register | Payment date |
|---|---|---|---|---|---|
| NBS | Final | Declared | 0.90 | 18-Aug-23 | 1-Sep-23 |
| ICON | Final | Declared | 0.13 | 8-Sep-23 | 22-Sep-23 |
| NBM | Interim | Declared | 23.50 | 15-Sep-23 | 29-Sep-23 |
| NBS | Interim | Declared | 1.20 | 22-Sep-23 | 6-Oct-23 |
| NITL | Interim | Declared | 1.50 | 20-Oct-23 | 27-Oct-23 |
| FMBCH | Interim | Declared | USD0.21 | 10-Nov-23 | 15-Nov-23 |

# Economic overview (Continued)

## Government securities (Source: RBM)

*The government awarded a total of MK129.4 billion through Treasury Bills (TBs) and Treasury Notes (TNs) auctions in August 2023, a 17% increase from MK110.8 billion awarded in July 2023.*

*The 91 and 364-days TBs increased their yields to 14.70% and 24.00% from 13.00% and 22.50%, respectively in August 2023.*

*The 2, 3, 5, 7 and 10-year TNs all increased their yields to 26.75%, 28.00%, 30.00%, 30.46% and 32.83% respectively in August 2023.*

### Treasury Bills (TBs)

In August 2023, the government sought to borrow MK30.9 billion through Treasury Bills (TBs) auctions. This represents a 45% decrease from MK55.8 billion sought in July 2023. Participants applied to place an amount MK58.2 billion through TBs auctions in August 2023. This represents a 3% increase from MK56.7 billion that was applied for in July 2023. The government awarded a total of MK58.0 billion in August 2023, an 2% increase from MK56.7 billion that was awarded in July 2023. The TBs auction had a 0.30% rejection rate in August 2023 compared to a nil rejection rate in July 2023.

### Treasury Notes (TNs)

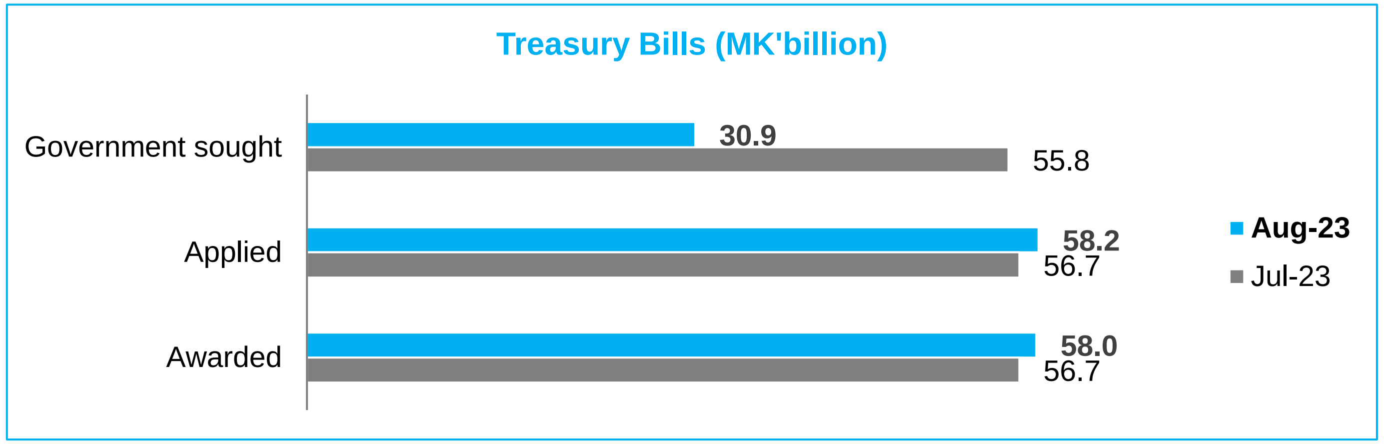
The government sought to borrow MK145.5 billion through Treasury Notes (TNs) auctions in August 2023. This represents a 28% decrease from MK203.2 billion that was sought in July 2023. Total participant applications stood at MK72.0 billion in August 2023. This represents a 32% increase from MK54.4 billion which was applied for in July 2023. A total of MK71.4 billion was awarded in the TNs auctions in August 2023. This entailed a 32% increase from MK54.1 billion, awarded in July 2023. The TNs auction had a 0.89% rejection rate in August 2023 compared to 0.50% rejection rate in July 2023.

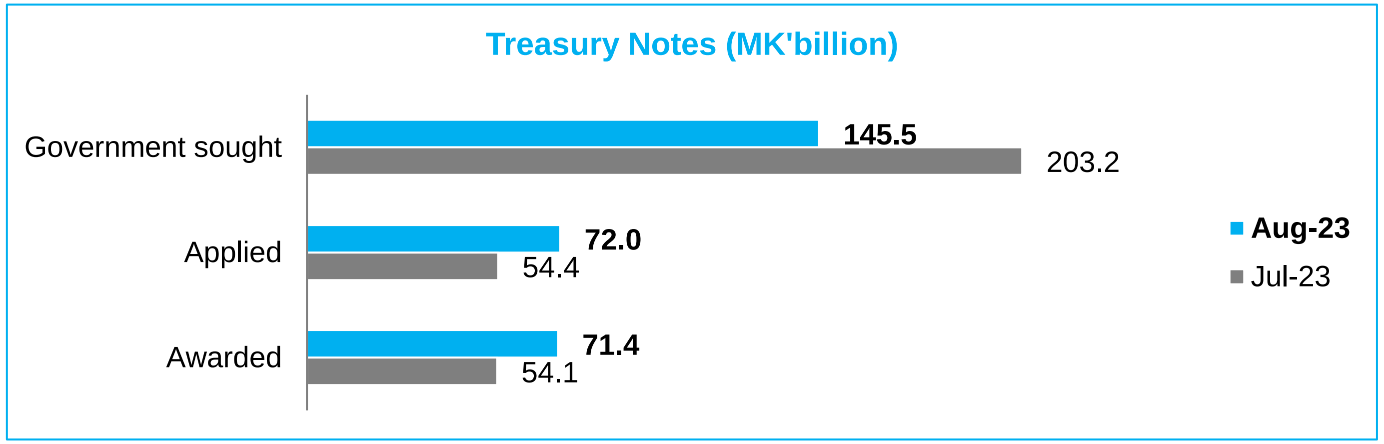
All in all, the government sought to raise MK176.4 billion in TBs and TNs auctions in August 2023.This represents a 32% reduction from MK259.0 billion sought in July 2023. A total of MK129.4 billion was awarded, up 17% from MK110.8 billion awarded in July 2023.

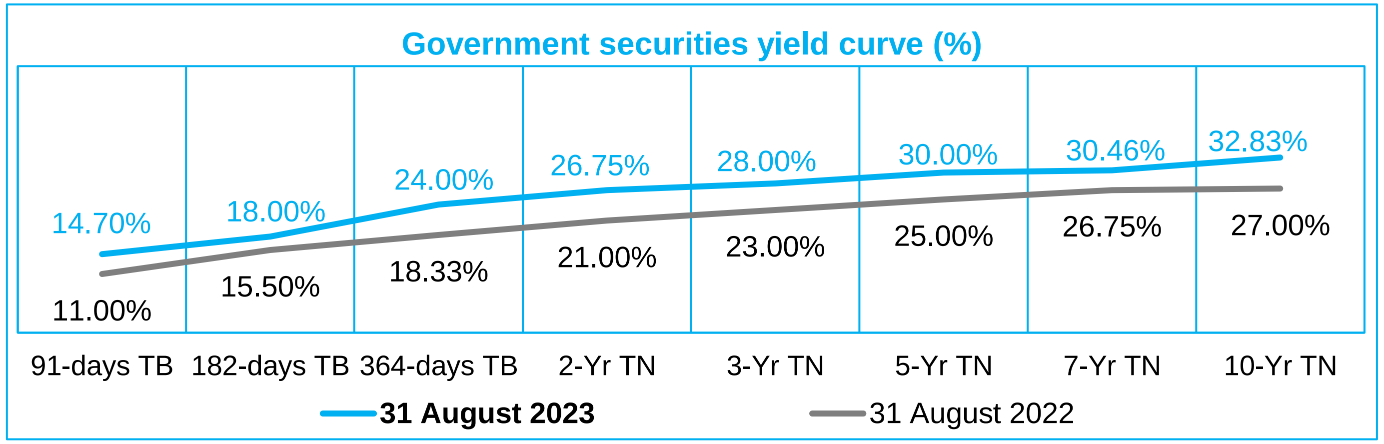
### Government Securities Yield Curve

From July 2023 to August 2023, the 91 and 364-days TBs yields increased to 14.70% and 24.00% from 13.00% and 22.50%, respectively. The 182-days TB maintained its yield at 18.00%. As such, the average TB yield increased to 18.90% in August 2023 from 17.83% in July 2023. The average TB yield was 14.94% in August 2022.

From July 2023 to August 2023, the 2, 3, 5, 7 and 10-year TNs yields increased to 26.75%, 28.00%, 30.00%, 30.46% and 32.83% from 24.75%, 26.00%, 28.00%, 29.50% and 31.25% respectively. As a result, the average TN yield increased to 29.61% from 27.90% during the period under review. The average TN yield was 24.55% in August 2022.



# Fiscal and Monetary Policy Developments

*According to the IMF, fiscal sustainability and the completion of the Staff-Monitored Program with Executive Board involvement relies on a successful conclusion of the government's external debt restructuring process.*

*The Reserve Bank of Malawi has stated that the era of tight monetary policy stance will be longer in developing than advanced economies.*

## Fiscal Policy (Source: RBM, IMF, Various Published Media)

In an official statement dated 24 August 2023, the RBM disclosed that it contracted several foreign currency denominated facilities with different external creditors between 2012 and 2020. Total debt amounted to USD1.2 billion (approximately MK1.2 trillion). Of this amount, USD800 million (approximately MK800 billion) was contracted from Afreximbank, of which USD350 million (approximately MK350 billion) was contracted by the RBM on behalf of the Malawi Government while USD450 million (approximately MK450 billion) was contracted by the RBM for its own books.

The RBM also stated that several negotiations have been held with creditors both to the Malawi government and RBM. The negotiations have been very positive, and creditors have shown willingness to assist the country to reach debt sustainability. The Malawi government remains optimistic that the discussions will conclude with acceptable terms for both the government and the creditors.

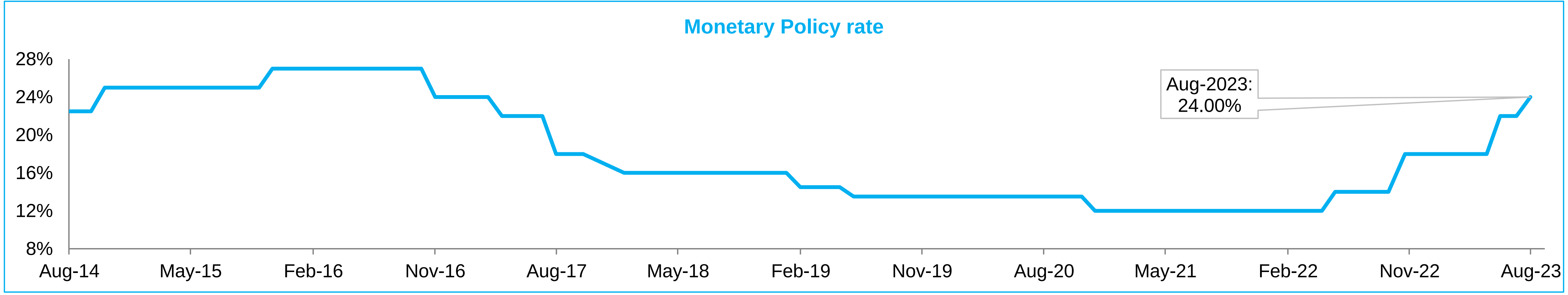
According to the IMF, fiscal sustainability and the completion of the Staff-Monitored Program with Executive Board involvement (PMB) relies on a successful conclusion of the government's external debt restructuring process in the near future. The successful completion of negotiations would provide debt relief and open a pathway to an Extended Credit Facility (ECF) arrangement, which would mobilize much-needed grant financing. The IMF further stated that it would be challenging to close financing gaps the longer debt restructuring negotiations go on. The EIU expects debt restructuring to be successful, alongside ongoing reform progress under the Staff Monitored Program, and this will culminate in a three-year ECF in 2024, which is expected to support access to other critical multilateral and bilateral funding.

## Monetary Policy (Source: RBM, EIU)

In its July 2023 market intelligence report, the RBM stated that the sustained declining trend in inflation which advanced economies have been experiencing signals that central banks in these economies could trigger the relaxation of the tight monetary policy stance in the short-run. The RBM observed that materialization of this could help to ease pressures on currencies for developing economies and contribute to subdued inflation. However, these benefits could be eroded by the lingering effects of adverse climatic shocks which are currently manifesting through rising food prices in developing economies, on account of food insecurity. This therefore implies that the era of tight monetary policy stance will be longer in developing than advanced economies.

The next MPC meeting is scheduled for 25 and 26 October 2023 with the resulting decision to be announced on 27 October 2023. The current Monetary Policy rate is 24%. However, the EIU expects the MPC to tighten the policy rate further at its next meeting to 26% from 24%, to contain inflation.

The commercial bank reference rate is now 23.4%, effective 5 September 2023, from 22.7% in the August 2023.



# Commodity Market Developments

## Tobacco and oil market developments (Source: AHL, OPEC, Reuters)

*Total cumulative national value of tobacco sold stood at USD283.76 million (approximately MK283 billion) after 17 weeks of sales in the 2023 season.*

*The monthly average OPEC Reference Basket (ORB) price increased by 7.7% to a monthly average of USD87.33/barrel in August 2023, from USD81.06/barrel in July 2023.*

### Tobacco Market Developments (Source: AHL)

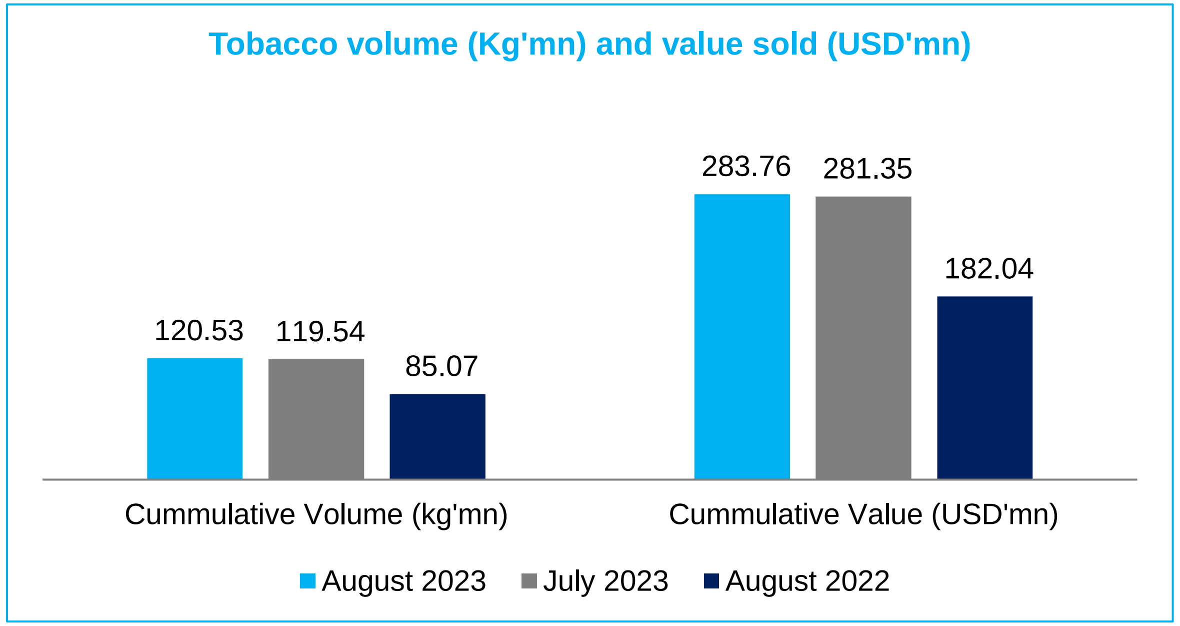
At the end of the 2023 tobacco marketing season, 120.53 million kilograms (Kg) of all tobacco types were sold at an average price of USD2.35/Kg. At the close of the season in the previous year, a total of 85.07 million Kgs of tobacco was sold at an average price of USD2.14/Kg. This entails a 41.7% increase in volume sold in 2023. The total cumulative national value of tobacco sold stood at USD283.76 million (approximately MK283 billion) after 17 weeks of sales in 2023. This represents a 55.9% growth in sales revenue from USD182.04 million (about MK182 billion) recorded in 2022.

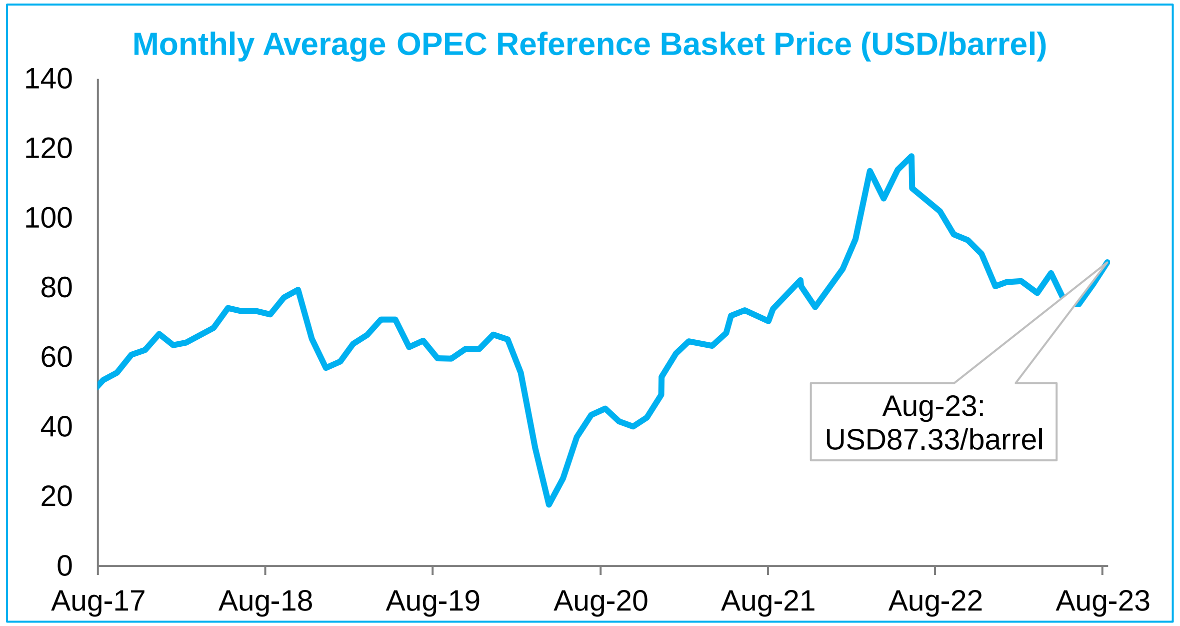
### Global oil price developments (Source: OPEC, Reuters)

The monthly average OPEC reference basket price increased to a monthly average of USD87.33/barrel in August 2023, from a monthly average of USD81.06/barrel in July 2023. This represents an increase of 7.7% month-on-month. Year-on-year, this represents a 14.3% decrease from an average price of USD101.90/barrel as of August 2022.

Saudi Arabia announced that it was extending its voluntary 1 mb/d production cut from July 2023 into August 2023. Simultaneously, Russia announced it would be cutting an additional 500 thousand barrels per day (kb/d) from crude exports in August 2023 and Algeria announced a 20 kb/d cut for the same month. Goldman Sachs expects Saudi Arabia to extend voluntary output cuts into September 2023, further tightening global supply.

In its August 2023 monthly report, OPEC maintained its forecast of world oil demand to rise by 2.4 mb/d to an average of 102.0 mb/d. Total oil demand in 2023 is projected to average 102.0 mb/d. In 2024, solid global economic growth amid continued improvements in China is expected to boost consumption of oil. World oil demand is anticipated to rise by 2.2 mb/d y-o-y, with total world oil demand projected to average 104.25 mb/d.



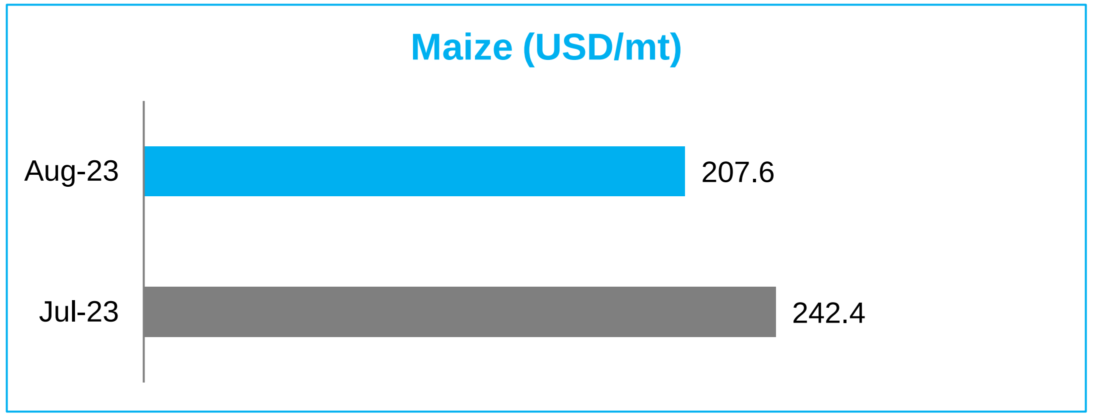
# Commodity Market Developments

*The price of Urea based on spot market prices in Eastern Europe increased by 15% to USD385.6/mt in August 2023 from USD334.6/mt in July 2023. The annual average price for Urea in 2022 was USD700.2/mt.*

## Other market developments (Source: World Bank)

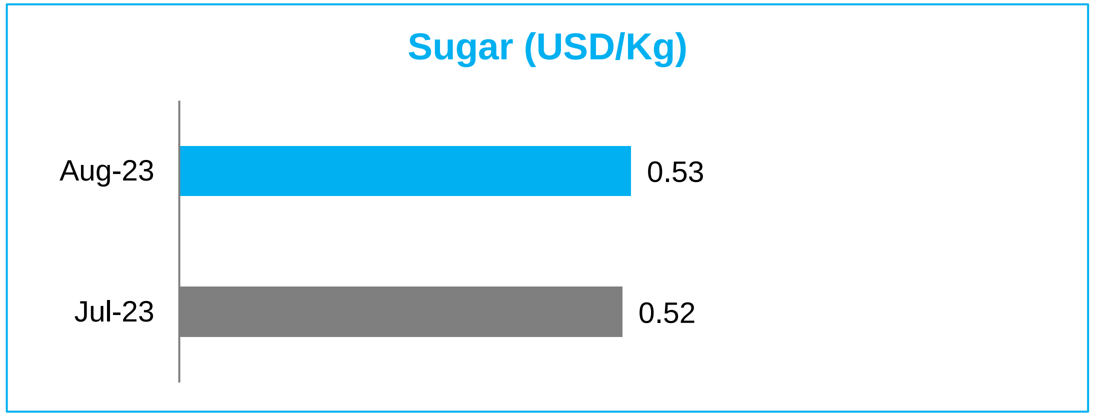
### Maize

In August 2023, the United States (US) based maize prices decreased by 14% to USD207.6/metric tons (mt) from USD242.4/metric in July 2023. The average price for 2022 was USD318.8/mt. In 2023, maize prices are expected to be lower than in 2022, amid weak global demand. At the same time, falling crude oil prices is also expected to reduce demand for maize in ethanol production.




### Sugar

Sugar prices based on the daily prices of the International Sugar Agreement (ISA) increased by 2% to a monthly average price of USD0.53/Kg in August 2023 from USD0.52/Kg in July 2023. The average sugar price was USD0.41/Kg in 2022. The reopening of China's economy is expected to raise demand for sugar from the country's catering sector amid a strong revival of tourism.



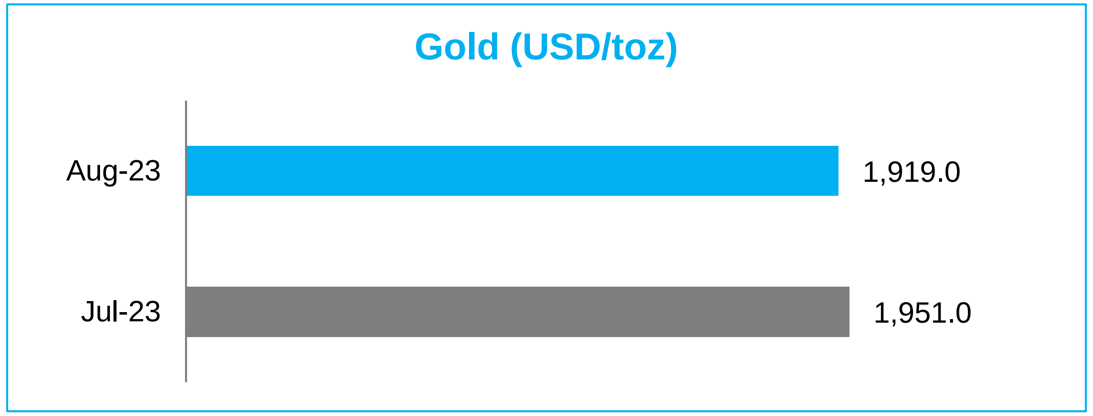

### Fertilizer

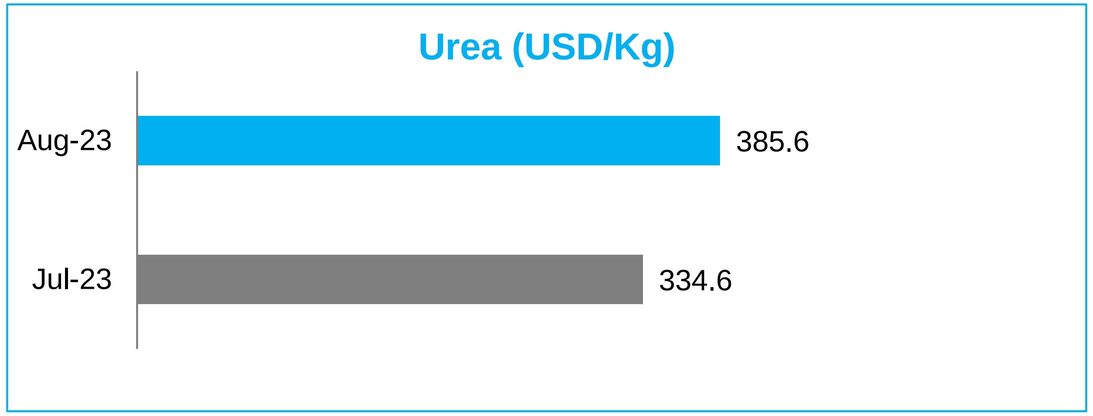
The price of Urea based on spot market prices in Eastern Europe increased by 15% to USD385.6/mt in August 2023 from USD334.6/mt in July 2023. The annual average price for Urea in 2022 was USD700.2/mt.

In August 2023, the price of Diammonium Phosphate (DAP) based on spot market prices in the US increased by 15% to USD528.8/mt from USD458.8/mt. The annual average price for DAP in 2022 was USD772.2/mt.

### Gold

In August 2023, gold price decreased by 2% to USD1,919.0 per troy ounces (toz) from USD1,951.0 in July 2023. In 2022, the average gold price was USD1,801/toz. In 2024, gold prices are projected to decrease as the global economy begins to recover gradually and inflationary pressures recede. The price of gold is based on the afternoon London Gold Fixing price



# An Overview of the International Monetary Fund (IMF) Malawi Country report

# The IMF Country report (continued)

*The IMF noted that despite the reduction in the current account deficit, foreign exchange reserve accumulation has been slower than expected with gross official reserves standing at 1% of GDP as at the end of 2022. The IMF noted that this may be a result of foreign exchange leaving the country through informal imports or other capital outflows.*

*According to the IMF, the key challenge for the authorities will be to execute the FY23/24 budget as passed and avoid fiscal slippages which jeopardize the PMB's objective to reduce domestic financing.*

## Introduction

The IMF Malawi country report looks at the fiscal and monetary policies that support Malawi's economic strategy, with a focus on the 2022/23 fiscal year budget, debt sustainability, currency management, and governance changes. The report also gives recent insight into trends and policies driving Malawi's Program in the context of the first assessment under the Staff-Monitored Program with Executive Finance Board involvement (PMB).

## Context and recent developments

Real GDP growth in 2022 declined to 0.8% from 4.6% in 2021. This was on account of a series of shocks that affected the country. These shocks included two tropical storms in the first quarter of 2022, interrupted electricity supply, shortened 2021/22 agricultural season rains, as well as spillover effects from the Russia-Ukraine war.

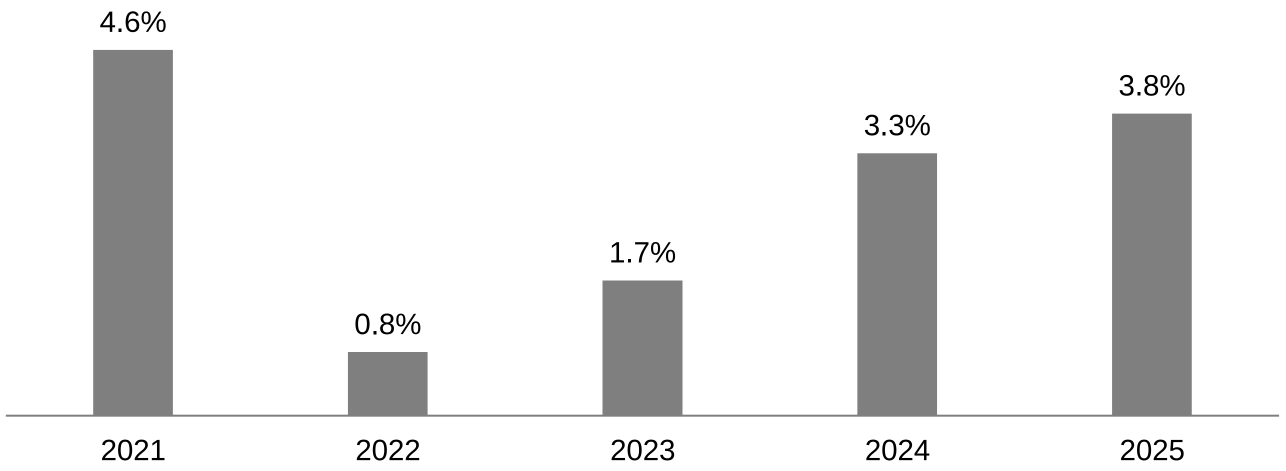
Inflation continues to rise, fueled by both food and non-food items. This partially reflects passthrough of the 25% currency devaluation in May 2022, high global prices of fuel, fertilizer, food, and prolonged supply disruptions. The Reserve Bank of Malawi (RBM) increased the policy rate to 22% in April 2022 to signal its policy stance. Achieving price stability will require reducing the fiscal deficit and related government borrowing.

The fiscal deficit in FY22/23 was larger than expected despite higher-than-expected revenue coming from project grants to help Malawi cope with the series of shocks. This is on account of expenditure overruns being even higher, reflecting the spending needs associated with higher food prices, cholera outbreak, and the tropical storms. Furthermore, the currency devaluation in May 2022 resulted in losses at the RBM due to its net-negative foreign assets position. The requirement that the government recapitalize the RBM at the end of the calendar year, increased government capital transfers by 1.4% of GDP.

There was a contraction of reported imports and subsequent reduction of the current account deficit to 3.2% of GDP in 2022. This was narrower than the 14.8% of GDP projected at the time of the PMB. This is a result of the depreciation of the exchange rate and the associated difficulties in acquiring foreign exchange. It may also indicate an increase in informal imports.

Despite the reduction in the current account deficit, foreign exchange reserve accumulation has been slower than expected with gross official reserves standing at 1% of GDP as at the end of 2022. According to the IMF, this may be a result of foreign exchange leaving the country through informal imports or other capital outflows. The RBM has also faced challenges in accumulating the reserves despite the requirement that exporters sell a portion of their export proceeds to authorized dealer banks. Furthermore, rollover risks for the RBM's foreign currency swaps materialized near the end of 2022, and the stock of foreign exchange reserves therefore remained low.

**Malawi GDP growth rate (%)**




## Outlook and risks

Growth and inflation are expected to be affected by the impact of Cyclone Freddy. Growth projections have been lowered to 1.7% from 2.4% as projected at the time of the PMB. Similarly, average inflation is expected to be impacted and increase to 24.8%, from 22.7% projected at the time of the PMB.

According to the IMF, the key challenge for the authorities will be to execute the FY23/24 budget as passed and avoid fiscal slippages which jeopardize the PMB's objective to reduce domestic financing. It is expected that the promissory note issued by the government in December 2022 for central bank recapitalization will be partially offset in FY23/24 when central bank dividends are posted. Despite this, further capital injections may be required in the medium term as the central bank is likely to retain a net liability position for some time.

*According to the IMF, fiscal sustainability and the completion of the PMB relies on a successful conclusion of the government's external debt restructuring process. It is expected that financing gaps will be challenging to close the longer debt restructuring negotiations go on.*

*Performance on meeting key performance targets and benchmarks as per the program was mixed.*

*The IMF proposes two measures to fill additional financing gaps due to slippages in execution of the budget. Firstly, additional domestic borrowing. Secondly, a further cut in primary expenditure or other expenditure.*

## Outlook and risks (continued)

According to the IMF, fiscal sustainability and the completion of the PMB relies on a successful conclusion of the government's external debt restructuring process. The successful completion of negotiations would provide debt relief and open a pathway to an Extended Credit Facility (ECF) arrangement, which would help mobilize grant financing. It is expected that it will become more challenging to close financing gaps the longer debt restructuring negotiations go on.

The balance of risks is tilted to the downside with the risks including differing policy adjustments or prolonged debt restructuring process, weaker-than-expected policy implementation, weather-related shocks, surges in food, fuel or fertilizer prices. Upside risks include faster-than-anticipated macroeconomic impact of policy actions, development of mining projects, successful export diversification and formalization of informal activity, as well as budget overperformance.

## Program performance

Performance on Quantitative Targets (QTs), Indicative Targets (ITs), and Structural Benchmarks (SBs) was mixed. Four out of six end-December and continuous QTs were not met. One out of three end-December ITs was also not met. Moreover, four out of seven SBs were not met.

Contributing factors to not meeting the targets; include difficulties in slowing previously budgeted expenditures and in reducing overreliance on the central bank to supply foreign exchange, delays in the external debt restructuring process, and the unanticipated consequences of the Kwacha devaluation, such as the statutorily required recapitalization of the central bank and higher prices for goods and services purchased by the government.

The IMF noted that the authorities are implementing strong corrective actions. These include committing to adhere to the FY23/24 budget, including through quarterly allotments aligned with realistic revenue projections, rebuilding foreign exchange reserves, enhancing coverage, timeliness, and reporting of the repository of guarantees and underlying contracts to IMF staff, and completing two prior actions for the first review, namely: (i) submitting April and May Integrated Financial Management Information Systems (IFMIS) reports to IMF staff and (ii) restarting foreign exchange auctions to facilitate price discovery in the foreign exchange market. Both prior actions were met.

## Policy discussions

The discussions focused on corrective actions necessary to overcome mixed performance and implementation challenges with the PMB. This allows the authorities to demonstrate their commitment and capacity to implement the agreed macroeconomic adjustment and reforms to build the policy track record needed to support their future request for an ECF arrangement.

### 1. Fiscal Policy

The IMF noted that the FY2023/24 budget incorporates larger expenditure and domestic financing than anticipated at PMB approval. The budget aims to keep other spending within a realistic envelope compared to revenue. The budget is anchored on realistic revenue estimates and a rationalization of expenditure while protecting social spending, to achieve an improvement in the domestic primary balance.

The IMF stated that the authorities have introduced new revenue measures such as an additional 10% tax on bank's profits and introducing new stamp duties on various instruments, including motor vehicles. On the expenditure side, the budget remains tight, with expenditure rationalized as much as possible without cutting into social expenditure. A large interest bill on domestic debt increasingly limits the authorities' room for discretionary or even statutory spending.

According to the IMF, the authorities succeeded in delivering on social spending commitments made at the time of the PMB. Spending on food security met the established targets and is expected to continue into FY23/24, along with heightened health expenditure related to management of the recent cholera outbreak.

Steadfast implementation of the budget, including public finance management (PFM) measures, is now needed to keep the PMB on track. It would be critical to implement PFM commitments, including putting allotments, commitments, and cash outlays through the Integrated Financial Management Information System. In this context, the authorities have committed to announce quarterly allotments aligned with the macroeconomic framework and the outturns for revenue, grants, and expenditure and to allow Ministries, Departments and Agencies to commit only up to their allotment through IFMIS.

In the IMF's view, if there is slippage in the execution of the budget, there are two ways to fill the additional financing gap. Firstly, additional domestic borrowing possibly leading to further pressure on money growth, the exchange rate, and inflation. Secondly, a further cut in primary expenditure or other expenditure are alternative options, including faster rationalization of the wage bill and more aggressive winding down of the Affordable Inputs Program (AIP). The UMF reiterated that none of these are easy options and hence contingency planning is important.

# The IMF Country report (continued)

Bridgepath Capital
Invest to Achieve

*The IMF reports that the further increase in the exposure of the banking sector to the public sector and further increases in interest rates may pose potential risks to the soundness of the banking sector.*

*According to the IMF, the low level of official forex reserves has led to shortages of foreign exchange and trade credit.*

*The IMF's view is that Malawi's external debt is currently assessed to be unsustainable but would be considered sustainable on a forward-looking basis if the government is successful in its restructuring strategy.*

*IMF noted that the domestic debt burden is eroding much-needed fiscal space for maintaining public services, providing social safety nets, and investing in human and physical capital.*

## Policy discussions (continued)

The IMF asserts that the authorities have taken important steps to strengthen the oversight of state-owned enterprises (SOEs). These steps will help prevent fiscal slippages and mitigate fiscal risks stemming from public enterprises, assuming the reports are made available on a timely basis, which will continue to be difficult given staffing and data-complication challenges.

**2. Achieving price stability and maintaining financial soundness**

In the absence of other government financing sources, banks will have to continue increasing their exposure to government securities, posing concentration risks, and squeezing their ability to engage in growth-enhancing lending to the private sector. The banking sector is currently well capitalized, with sufficient profitability but liquidity seems to be at times inadequate. The further increase in the exposure of the banking sector to the public sector and further increases in interest rates may pose potential risks to the soundness of the banking sector. The authorities have committed to remain vigilant to these risks and continue to strengthen financial sector oversight

**3. Rebuilding external buffers**

According to the IMF, the low level of official forex reserves has led to shortages of foreign exchange and trade credit. As a result, the RBM is facing higher demand for foreign exchange sales to secure strategic imports, which in turn is making reserve accumulation more difficult. Moreover, the RBM has accrued losses due to its net foreign exchange liability position, putting pressure on the fiscal balance. The RBM has committed to reverse this vicious circle by purchasing foreign exchange and at the same time limiting foreign exchange sales to the market. The authorities are also mitigating foreign exchange swap rollover risks and decreasing financing costs by winding down foreign exchange swaps with non-residents in accordance with their plan to reduce the open swap position over the medium term.

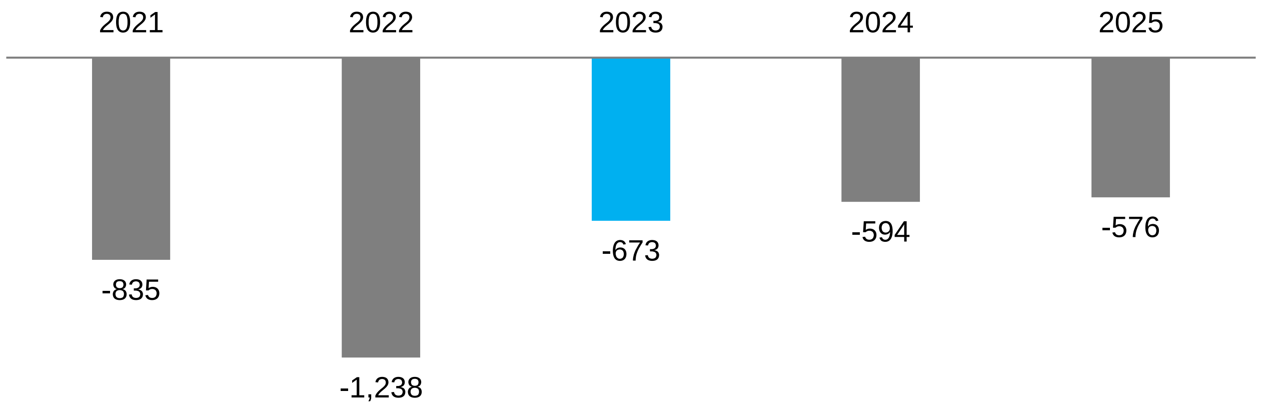
The RBM is also committed to allow greater flexibility and to reduce misalignment in the exchange rate by facilitating the price discovery process through foreign exchange auctions. The first such auction was conducted on June 19, in small size but with high participation by authorized dealer banks. The official exchange rate depreciated 2.7% in response. The authorities published the results and remain committed to continue these auctions on a monthly basis.

**4. Restoring debt sustainability**

The IMF's view is that Malawi's external debt is currently assessed to be unsustainable but would be considered sustainable on a forward-looking basis if the government is successful in its restructuring strategy. The authorities are committed to bringing external public debt back to a moderate risk of debt distress in the medium term through a combination of policy adjustment and debt treatment. The strategy also assumes mobilization of non-debt-creating flows to ensure that external and fiscal financing gaps are closed over the medium term. The authorities continue to engage in negotiations to achieve debt restructuring.

Meanwhile, the IMF noted that domestic debt burden is eroding much-needed fiscal space for maintaining public services, providing social safety nets, and investing in human and physical capital. The interest costs of that debt are projected to remain elevated in the medium term. Malawi is improving debt management, monitoring, recording, and reporting with the support of IMF and World Bank technical assistance. To enhance public debt management, the authorities have updated and published a medium-term debt strategy to consider on-budget externally and domestically financed projects.

**Net international reserves (USD millions)**



# The IMF Country report (continued)

*The IMF noted that the authorities are also making efforts to reduce smuggling by publishing and reconciling strategic import data.*

*According to the IMF, total debt stock for Malawi at the end of 2022 was USD8.64 billion.*

*Commercial creditors, namely, Afreximbank and Trade and Development Bank constitute 13% and 9% of external debt stock respectively. This represents USD495 million and USD337 million respectively.*

*The present value of Malawi's overall public debt-to-GDP was around 67% in 2022 and remains significantly above the threshold through the medium term.*

## Policy discussions (continued)

**5. Tackling governance challenges**

The authorities are taking important steps to improve fiscal transparency and data recording, reporting, and monitoring, at both the Ministry of Finance and Economic Affairs and RBM. The authorities continue to implement corrective actions related to audits of COVID-19 expenditure and the audit of the Export Development Fund (EDF). Preparations are underway for specific follow-up actions needed to implement audit recommendations for EDF and the two tranches of COVID-19 spending.

The authorities are working towards strengthening the anti-corruption agenda. They are also working to digitalize asset declarations and to facilitate lifestyle audits; and to strengthen collaboration among the Financial Intelligence Agency and the Director of Public Prosecutions in tracing, freezing, and confiscating assets. The authorities are also making efforts to reduce smuggling by publishing and reconciling strategic import data.

The IMF stated that the authorities have renewed their commitment that public procurement is conducted transparently and in line with proper procedures and the PFM Act. It was reported in the press that the authorities recently undertook a barter trade deal to secure access to fertilizer in exchange for crops, avoiding the use of scarce foreign exchange. The deal raised several governance concerns, not least because proper procurement and authorization procedures were not followed on the Malawi side, as confirmed in the Attorney General (AG)'s legal opinion on this matter. The IMF noted that the authorities have since undertaken several corrective actions, including taking all the necessary steps to nullify this deal and to avoid recurrence of such incidences in the future.

## Debt sustainability analysis

The IMF noted that Malawi's external and overall public debt is assessed as "in distress". This is unchanged from the previous Debt Sustainability Analysis (DSA) in November 2022, given the deteriorating macroeconomic outlook and lack of progress on debt restructuring. The DSA presents an analysis of Malawi's debt outlook prior to the implementation of the authorities' planned external debt restructuring.

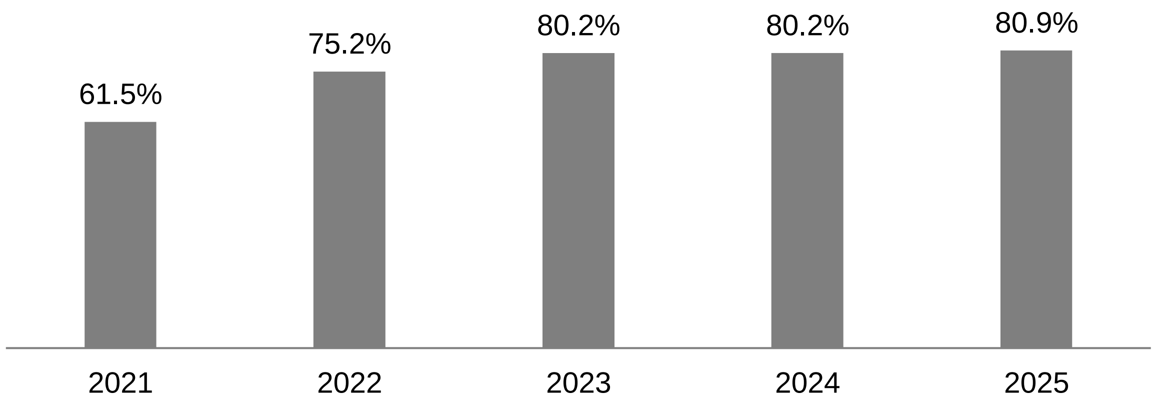
According to the IMF, total debt stock for Malawi at the end of 2022 was USD8.64 billion (approximately MK8 trillion). This represented 75% of GDP. Total external debt stock stood at USD3.95 billion (approximately MK4 trillion) which was 46% of the total debt stock and 34% of GDP.

The primary multilateral creditors of external debt included the World Bank, IMF and AfDB with 33%, 11% and 11% of external debt stock respectively. This represents USD1.32 billion, USD438 million and USD432 million respectively. Commercial creditors, namely, Afreximbank and Trade and Development Bank constitute 13% and 9% of external debt stock respectively. This represents USD495 million and USD337 million respectively.

Total domestic debt stood at USD4.70 billion (approximately MK4.7 trillion) and this represents 54% of total debt stock and 41% of GDP.

The present value of Malawi's overall public debt-to-GDP was around 67% in 2022 and remains significantly above the threshold through the medium term. According to the IMF, Malawi's debt is currently unsustainable. Timely and complete implementation of the authorities' debt restructuring strategy would be required for the external debt burden to be considered sustainable on a forward-looking basis.

### Total public debt (% of GDP)



# The IMF Country report (continued)

*Performance under the PMB has been mixed but the authorities are committed to strengthen policy implementation and establish a strong track record.*

*The IMF noted that successful debt restructuring is vital. In addition, fiscal discipline and rebuilding buffers is critically important to reduce Malawi's vulnerability to external shocks.*

*The IMF assesses that the program remains on track to achieve its objectives.*

## Risks to the program

Policy implementation remains the key risk. A slower- or weaker than-expected implementation would create wider financing gaps, greater monetary financing of fiscal deficits, and further pressure on inflation and the exchange rate, thus undermining efforts to achieve macroeconomic stability.

## Staff appraisal

Performance under the PMB has been mixed but the authorities are committed to strengthen policy implementation and establish a strong track record. Steadfast implementation and unwavering commitment would be critical to restore macroeconomic stability and successfully complete the second review.

Successful debt restructuring is vital as there is no reasonable mix of adjustment and financing alone that can deliver macroeconomic stability. The authorities' external debt restructuring strategy aims to bring external debt service down substantially through a significant treatment of commercial debt and official bilateral debt. Time is of the essence for adjustment, financing, and especially debt relief, as further delays would result in greater financing gaps, which could then only be closed at an undesirably high cost to the people of Malawi.

Fiscal discipline, supported by a robust PFM system and timely production of comprehensive fiscal reports, remains critical. Concerted effort by the authorities and other domestic stakeholders to prepare for fiscal financing challenges is important.

Price stability supported by fiscal consolidation is critical to prevent a further erosion of purchasing power for those living in poverty and food insecurity. The RBM needs to persist in its efforts to reduce inflation and anchor inflation expectations by containing reserve money growth, aligning the policy rate with inflation to ensure positive real costs of borrowing, and raising required reserves if needed. The RBM should also remain vigilant to safeguard financial sector stability, given the banking sector's large exposures to government and associated potential risks.

Rebuilding buffers is critically important to reduce Malawi's vulnerability to external shocks. The RBM's commitment to rebuild its foreign exchange reserves requires implementation of its strategy to wind down unsustainable policies. Quickly rebuilding the RBM's foreign exchange reserve assets will be critical to restoring the normal functioning of trade credit and the steady supply of essential commodities in the country with little foreign exchange intervention by the RBM.

Addressing weakness in governance and institutions should be important priorities. The authorities should press ahead with implementation of their anti-corruption agenda, document progress on recent audits, and publish and reconcile strategic import data.

**Conclusion:** In the light of the above, IMF staff assesses that the program remains on track to achieve its objectives.

# Appendices

# Appendix 1: Historical Monthly Economic Indicators

Bridgepath Capital
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| | 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 | Jun-23 | Jul-23 | Aug-23 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Exchange rates (middle rates)** | | | | | | | | | | | | | | | | |
| MK/USD | 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 | 1,058.82 | 1.061.67 | **1,094.74** |
| MK/GBP | 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 | 1,377.77 | 1,400.92 | **1,429.20** |
| MK/EUR | 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 | 1,183.15 | 1,203.76 | **1,226.61** |
| MK/ZAR | 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 | 57.92 | 61.70 | **60.02** |
| **Foreign Exchange Reserves** | | | | | | | | | | | | | | | | |
| Gross Official Reserves (USD'mn) | 388.22 | 415.73 | 372.99 | 378.89 | 357.18 | 326.06 | 338.87 | 304.65 | 279.22 | 280.66 | 228.49 | 200.08 | 194.82 | 321.53 | 267.91 | N/A |
| Private Sector Reserves (USD'mn) | 401.13 | 401.60 | 396.02 | 398.43 | 408.84 | 427.67 | 400.77 | 399.20 | 384.37 | 378.54 | 375.36 | 403.93 | 386.90 | 407.47 | 406.63 | N/A |
| Total reserves (USD'mn) | 789.35 | 817.33 | 769.01 | 777.32 | 766.02 | 753.73 | 739.64 | 703.85 | 663.59 | 659.20 | 603.85 | 604.01 | 581.72 | 729.00 | 674.54 | N/A |
| Gross Official Reserves Import cover (months) | 1.55 | 1.66 | 1.49 | 1.52 | 1.43 | 1.30 | 1.36 | 1.22 | 1.12 | 1.12 | 0.91 | 0.80 | 0.78 | 1.29 | 1.07 | N/A |
| **Inflation** | | | | | | | | | | | | | | | | |
| Headline | 19.10% | 23.50% | 24.6% | 25.5% | 25.9% | 26.7% | 25.8% | 25.4% | 25.9% | 26.7% | 27.0% | 28.8% | 29.2% | 27.3% | 28.4% | N/A |
| Food | 25.50% | 31.20% | 32.5% | 33.4% | 33.7% | 34.5% | 33.4% | 31.3% | 30.5% | 31.7% | 32.4% | 37.9% | 38.8% | 37.2% | 39.3% | N/A |
| Non-food | 13.20% | 16.60% | 17.5% | 18.2% | 18.3% | 18.6% | 17.7% | 18.6% | 20.4% | 20.5% | 20.2% | 18.5% | 18.4% | 16.0% | 16.0% | N/A |
| **Interest Rates** | | | | | | | | | | | | | | | | |
| Monetary Policy rate | 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% | 22.00% | 24.00% | **24.00%** |
| Average Interbank rate | 11.84% | 12.48% | 12.50% | 12.50% | 12.50% | 15.00% | 15.00% | 15.00% | 15.00% | 15.00% | 15.00% | 15.19% | 19.26% | 20.38% | 20.51% | **22.76%** |
| Lombard rate | 13.50% | 13.80% | 13.90% | 14.20% | 14.20% | 18.20% | 18.20% | 18.20% | 18.20% | 18.20% | 18.20% | 22.20% | 22.20% | 22.20% | 24.20% | **24.20%** |
| Commercial Bank reference rate | 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% | 21.00% | 22.70% | **22.70%** |
| **Government Securities Yields** | | | | | | | | | | | | | | | | |
| 91-days Treasury Bill | 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% | 13.00% | 13.00% | **14.70%** |
| 182-days Treasury Bill | 15.00% | 15.005 | 15.00% | 15.50% | 15.50% | 15.50% | 17.50% | 17.50% | 17.50% | 17.50% | 17.50% | 17.50% | 17.50% | 18.00% | 18.00% | **18.00%** |
| 364-days Treasury Bill | 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% | 22.50% | 22.50% | **24.00%** |
| 2-year Treasury Note | 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% | 24.75% | 24.75% | **26.75%** |
| 3-year Treasury Note | 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% | 26.00% | 26.00% | **28.00%** |
| 5-year Treasury Note | 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% | 28.00% | 28.00% | **30.00%** |
| 7-year Treasury Note | 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% | 29.50% | 29.50% | **30.46%** |
| 10-year Treasury Note | 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% | 31.25% | 31.25% | **32.83%** |
| **Stock Market Indices** | | | | | | | | | | | | | | | | |
| MASI | 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 | 108,656.97 | 112,492.50 | **119,077.99** |
| DSI | 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 | 87,071.03 | 88,364.93 | **90,336.93** |
| FSI | 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 | 12,297.19 | 14,982.64 | **19,947.76** |

# Appendix 2: Selected stock market statistics as of 31 August 2023

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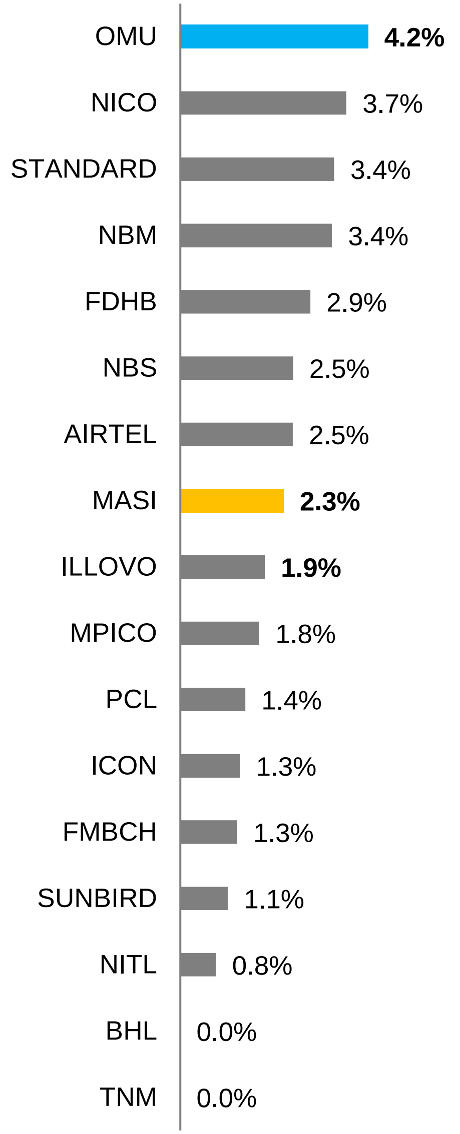
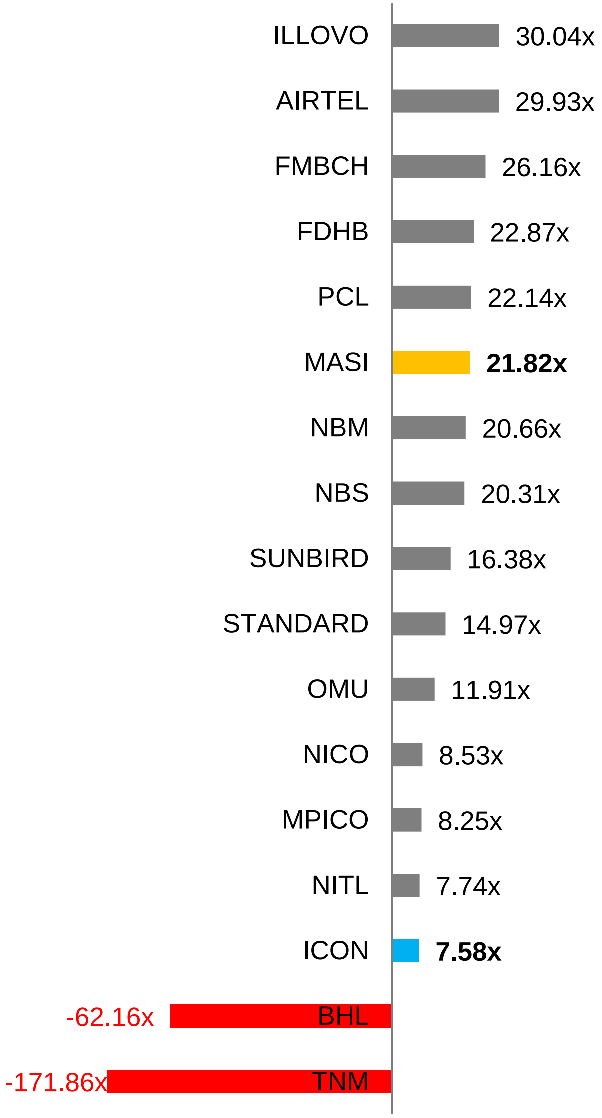
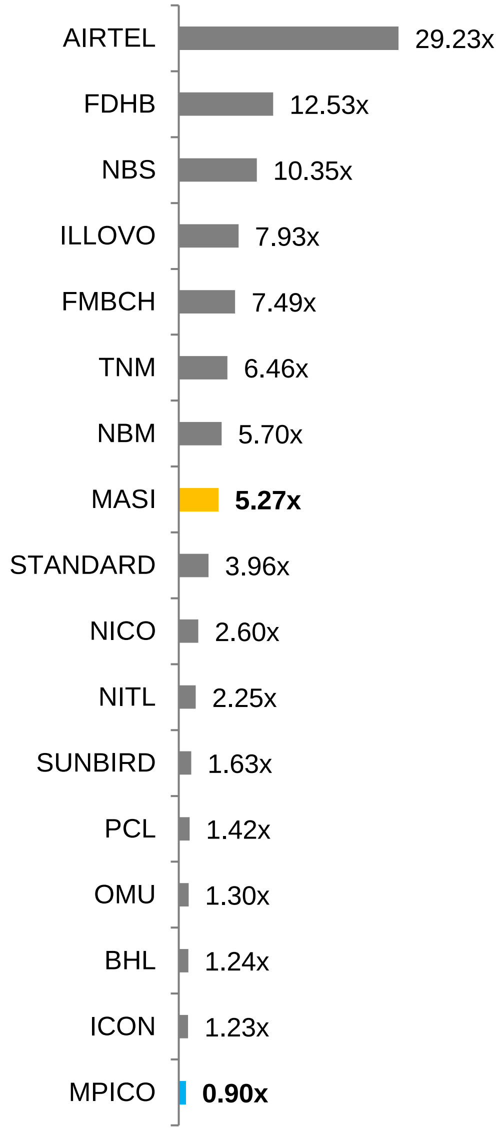
**Dividend Yield (%) -** the weighted average dividend yield on the MSE was 2.3% in August 2023. The counter with the highest dividend yield was OMU at 4.2%.



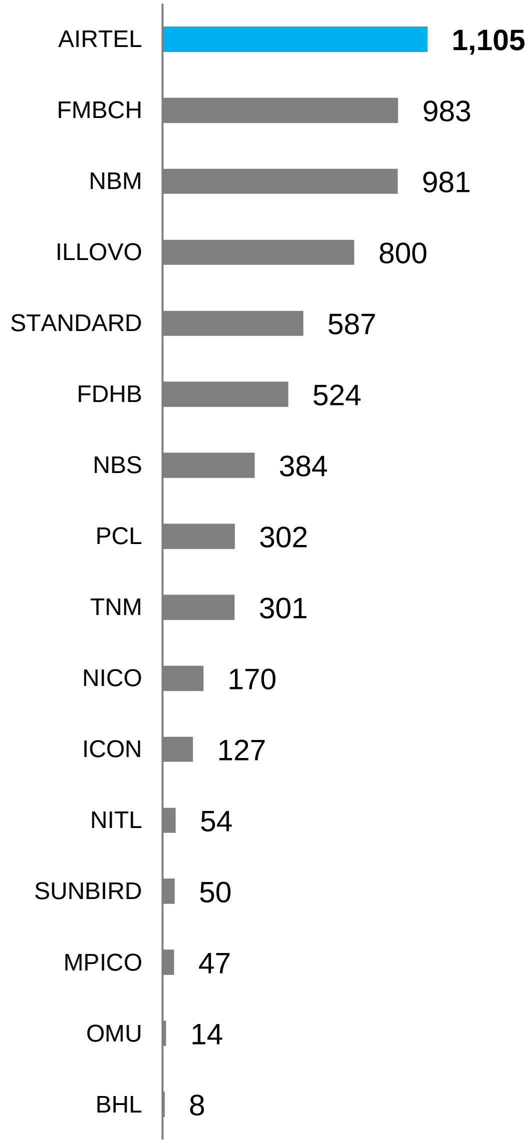

**P/E Ratio -** the weighted average price to earnings on the MSE was 21.82x in August 2023. The counter with the lowest positive ratio was ICON at 7.58x.




**P/BV Ratio -** the weighted average price to book value on the MSE was 5.27x in August 2023. The counter with the lowest ratio was MPICO at 0.90x.




**Market Capitalization (MK'billion) –** AIRTEL had the highest market capitalization at MK1.11 trillion in August 2023.



# Appendix 3: IMF Projections

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## IMF projections

| Annual percentage change (unless otherwise indicated) | 2021 | 2022 | | 2023 | | 2024 | 2025 |
|---|---|---|---|---|---|---|---|
| | Actual | PMB Approval | Est. | PMB Approval | Proj. | Proj. | Proj. |
| GDP at constant market prices | 4.6 | 0.8 | 0.8 | 2.4 | 1.7 | 3.3 | 3.8 |
| Nominal GDP (billions of kwacha) | 10.0 | 11.4 | 11.8 | 14.0 | 14.8 | 17.7 | 20.5 |
| Consumer Prices (annual average) | 9.3 | 20.8 | 20.8 | 22.7 | 24.8 | 18.3 | 12.2 |
| National Savings (% of GDP) | -5.2 | -4.8 | 9.9 | -3.6 | 4.7 | 2.5 | 0.7 |
| Gross Investment (% of GDP) | 8.9 | 9.9 | 13.1 | 10.1 | 12.7 | 11.5 | 9.3 |
| Revenue (percent of GDP on a fiscal year basis) | 14.6 | 15.4 | 14.3 | 15.5 | 17.4 | 17.7 | 19.8 |
| Tax and non-tax revenue (Revenue) (% of GDP on fiscal year basis) | 12.9 | 13.4 | 12.5 | 13.9 | 13.5 | 14.9 | 17.5 |
| Grants (Revenue) (% of GDP on fiscal year basis) | 1.7 | 1.9 | 1.8 | 1.6 | 3.9 | 2.7 | 2.3 |
| Overall balance (including grants) (% of GDP on fiscal year basis) | -7.4 | -9.7 | -9.0 | -9.0 | -11.8 | -10.5 | -9.4 |
| Foreign financing (% of GDP on fiscal year basis) | 1.3 | 2.8 | 2.6 | -0.6 | 3.3 | 0.6 | 0.0 |
| Total domestic financing (% of GDP on fiscal year basis) | 8.0 | 7.4 | 6.9 | 5.6 | 8.5 | 8.4 | 8.6 |
| Credit to the private sector (% change) | 22.2 | 27.9 | 24.1 | 14.7 | 16.0 | 8.2 | 5.1 |
| Exports (goods and services) (USD millions) | 1.2 | 1.3 | 1.1 | 1.4 | 1.3 | 1.5 | 1.6 |
| Imports (goods and services) (USD millions) | 3.3 | 3.4 | 1.8 | 3.2 | 2.5 | 2.6 | 2.7 |
| Gross official reserves (USD millions) | 429.0 | 172.0 | 120.0 | 409.0 | 499.0 | 747.0 | 846.0 |
| Gross official reserves (months of imports) | 1.6 | 0.6 | 0.6 | 1.5 | 2.3 | 3.3 | 3.7 |
| Current account (% of GDP) | -14.1 | -14.8 | -3.2 | -13.6 | -7.9 | -9.0 | -8.6 |
| Overall balance (% of GDP) | 0.0 | -1.7 | -0.1 | -2.4 | -2.6 | 0.1 | -0.2 |
| Financing gap (% of GDP) | 0.0 | 2.8 | 0.0 | 4.9 | 5.8 | 2.6 | 1.6 |
| Terms of trade (% change) | -19.0 | -14.9 | -14.3 | -0.5 | 11.4 | -1.8 | 1.8 |
| External debt (public sector) (% of GDP) | 31.5 | 38.9 | 34.4 | 37.1 | 37.1 | 35.3 | 33.5 |
| NPV of public external debt (% of exports) | 218.6 | 202.3 | 264.7 | 176.6 | 187.1 | 162.3 | 145.9 |
| Domestic public debt (% of GDP) | 30.0 | 37.7 | 40.8 | 37.5 | 43.2 | 44.9 | 47.4 |
| Total public debt (% of GDP) | 61.5 | 76.6 | 75.2 | 74.6 | 80.2 | 80.2 | 80.9 |

## Appendix 4: World Bank Projections

### World Bank projections

| Annual percentage change (unless otherwise indicated) | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|
| GDP at constant market prices (% change) | 0.8 | 2.8 | 0.9 | 1.4 | 2.4 |
| Agriculture | 3.4 | 5.2 | -1.0 | 0.5 | 2.4 |
| Industry | 1.2 | 1.9 | 0.9 | 1.3 | 2.4 |
| Services | -0.5 | 2.0 | 1.8 | 1.8 | 2.5 |
| Consumer prices (annual average) | 8.6 | 9.3 | 21.8 | 25.7 | 20.8 |
| Revenue and grants (FY % of GDP) | 14.6 | 14.3 | 14.1 | 15.9 | 16.0 |
| Domestic revenue - tax and non-tax (FY % of GDP) | 13.1 | 12.8 | 13.0 | 12.6 | 14.1 |
| Grants (FY % of GDP) | 1.5 | 1.5 | 1.1 | 3.2 | 2.0 |
| Expenditure and net lending (FY % of GDP) | 20.9 | 21.4 | 22.5 | 26.8 | 23.8 |
| Overall balance - excluding grants (FY % of GDP) | -7.8 | -8.6 | -9.5 | -10.9 | -9.7 |
| Overall balance - including grants) (FY % of GDP) | -6.3 | -7.1 | -8.4 | -7.7 | -7.7 |
| Foreign financing (FY % of GDP) | 0.8 | 1.0 | 0.9 | 1.9 | 0.8 |
| Domestic financing (FY % of GDP) | 4.9 | 5.9 | 7.7 | 5.3 | 6.9 |
| Money and quasi-money (% change) | 16.7 | 30.0 | 38.5 | 25.0 | 20.2 |
| Credit to the private sector (% change) | 16.1 | 17.8 | 23.2 | 14.7 | 10.9 |
| Exports - goods and services (USD mn) | 1,202 | 1,266 | 1,216 | 1,417 | 1,487 |
| Imports - goods and services (USD mn) | 3,088 | 3,250 | 2,707 | 2,941 | 3,077 |
| Gross official reserves (USD mn) | 566 | 429 | 110 | 379 | 513 |
| Months of import cover | 2.1 | 1.6 | 0.4 | 1.5 | 1.9 |
| Current account (percent of GDP) | -13.8 | -14.3 | -3.2 | -11.3 | -11.3 |
| Exchange rate (MWK per US$ average) | 749.5 | 805.9 | 949.0 | — | — |
| External debt (public sector, % of GDP) | 32.9 | 31.5 | 34.7 | 37.6 | 36.0 |
| Domestic public debt (percentage of GDP) | 21.9 | 30.0 | 40.8 | 42.9 | 44.3 |
| Total public debt (percentage of GDP) | 54.8 | 61.5 | 75.5 | 80.5 | 80.3 |

# Appendix 5: EIU, AfDB and Oxford Economics Projections

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## EIU projections

| Economic growth (%) | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
|---|---|---|---|---|---|---|
| GDP | 0.8 | 0.7 | 2.0 | 2.5 | 3.2 | 3.5 |
| Private consumption | 0.5 | 1.0 | 1.5 | 2.0 | 2.4 | 3.1 |
| Government consumption | 2 | 1.8 | 2.8 | 2.7 | 2.6 | 2.4 |
| Gross fixed investment | 3.5 | 2.0 | 5.0 | 5.7 | 5.8 | 5.9 |
| Exports of goods & services | 3.3 | 4.3 | 4.8 | 5.0 | 5.5 | 5.6 |
| Imports of goods & services | 3 | 4.0 | 4.3 | 4.5 | 4.7 | 5.1 |
| Domestic demand | 1 | 1.2 | 2.1 | 2.5 | 2.9 | 3.4 |
| Agriculture | 0.1 | 1.0 | 1.3 | 1.5 | 2.2 | 2.6 |
| Industry | 1.5 | 0.2 | 1.6 | 2.3 | 2.6 | 3.0 |
| Services | 1 | 0.7 | 2.5 | 3.1 | 3.9 | 4.1 |
| **Key indicators** | | | | | | |
| Consumer price inflation (av; %) | 21 | 30.5 | 22.8 | 10.6 | 12.1 | 12.1 |
| Government balance (% of GDP) | -11.8 | -13 | -8.8 | -6.5 | -4.9 | -4.4 |
| Current-account balance (% of GDP) | -24.9 | -19.4 | -15.1 | -11.4 | -10.3 | -9.4 |
| Short-term interest rate (av; %) | 10.6 | 18.0 | 12.5 | 12.5 | 11.0 | 9.5 |
| Exchange rate MK:US$ (av) | 941.4 | 1,095.9 | 1,251.4 | 1,339.2 | 1,664.4 | 2,000.0 |

## Oxford Economics Projections

| Annual percentage unless indicated otherwise | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|---|
| Real GDP growth | 2.8 | 0.9 | 1.7 | 3.4 | 4.0 | 3.9 |
| CPI inflation | 9.3 | 20.8 | 27.8 | 14.7 | 9.4 | 7.9 |
| Exports of goods | 30.2 | 10.6 | 47.6 | -18.1 | 6.4 | 6.2 |
| Imports of goods | 14 | 5.2 | 5.9 | 5.9 | 5.9 | 5.9 |
| Current account ($ bn) | -1.5 | -1.6 | -1.1 | -1.6 | -1.7 | -1.7 |
| Current account balance (% of GDP) | -17.9 | -17.3 | -10.9 | -14.8 | -14.3 | -14 |
| Exchange rate per USD (year average) | 804.2 | 941.4 | 1,064.6 | 1,166.2 | 1,225.9 | 1,289.4 |
| External debt total ($ bn) | 3.2 | 4.4 | 6.1 | 7.4 | 8.3 | 9.0 |
| Government balance (% of GDP) | -12.4 | -14.1 | -10.4 | -8.9 | -7.5 | -6.4 |
| Government debt (% of GDP) | 88.5 | 98.1 | 88.2 | 87.8 | 86.6 | 85.3 |
| Population (millions) | 19.9 | 20.4 | 20.9 | 21.5 | 22 | 22.6 |
| Nominal GDP ($ bn) | 8.6 | 8.9 | 10.3 | 10.8 | 11.6 | 12.4 |
| GDP per capita ($ current prices) | 433.9 | 438.2 | 491.1 | 501.3 | 527.8 | 547.8 |

## 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 |

## Appendix 6: World Bank commodity market prices

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### World Bank commodity prices

| | Annual averages | | | Monthly averages | | |
|---|---|---|---|---|---|---|
| | | | | June | July | August |
| | 2020 | 2021 | 2022 | 2023 | 2023 | 2023 |
| **Produce (USD/mt)** | | | | | | |
| Soybeans | 407.0 | 583.0 | 675.0 | 592.0 | 634.0 | 584.0 |
| Maize | 165.5 | 259.5 | 318.8 | 266.9 | 242.4 | 207.6 |
| **Sugar & Tea (USD/Kg)** | | | | | | |
| Sugar - EU | 0.4 | 0.4 | 0.3 | 0.4 | 0.4 | 0.4 |
| Sugar - U.S. | 0.6 | 0.7 | 0.8 | 0.9 | 0.9 | 0.9 |
| Sugar - World | 0.3 | 0.4 | 0.4 | 0.5 | 0.5 | 0.5 |
| Tea - average | 2.7 | 2.7 | 3.1 | 2.7 | 2.5 | 2.8 |
| **Fertilizers (USD/mt)** | | | | | | |
| DAP | 312.4 | 601.0 | 772.2 | 454.6 | 458.8 | 528.8 |
| Phosphate rock | 76.1 | 123.2 | 266.2 | 344.5 | 342.5 | 346.3 |
| Potassium chloride | 241.1 | 542.8 | 863.4 | 328.0 | 341.3 | 353.1 |
| TSP | 265.0 | 538.2 | 716.1 | 390.0 | 392.3 | 450.6 |
| Urea, E. Europe | 229.1 | 483.2 | 700.0 | 287.5 | 334.6 | 385.6 |
| **Precious Metals (USD/toz)** | | | | | | |
| Gold | 1,770.0 | 1,800.0 | 1,801.0 | 1,943.0 | 1,951.0 | 1,919.0 |
| Platinum | 883.0 | 1,091.0 | 962.0 | 971.0 | 950.0 | 925.0 |
| Silver | 20.5 | 25.2 | 21.8 | 23.4 | 24.3 | 23.4 |

## Appendix 5: List of Acronyms and Abbreviations

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AfDB: African Development Bank
AHL: Auction Holdings Limited
BHL: Blantyre Hotels Plc
CPI: Consumer Price Index
DSA: Debt Sustainability Analysis
DSI: Domestic Share Index
ECF: Extended Credit Facility
EIU: Economist Intelligence Unit
ESCOM: Electricity Supply Corporation of Malawi
EUR: Euro
EU: European Union
FDHB: FDH Bank Plc
FMBCH: FMB Capital Holdings Plc
FSI: Foreign Share Index
FY: Financial year
GBP: Great British Pound
GDP: Gross Domestic Product
IMF: International Monetary Fund
ITs: Indicative Targets
Kb/d: Thousand barrels per day
MASI: Malawi All Share Index
Mb/d: Million barrels per day
MoE: Ministry of Energy
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
NIR: Net International Reserves
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
PMB: Staff-Monitored Program with Executive Board involvement
PCL: Press Corporation Limited Plc
P/E: Price to earnings
QTs: Quantitative Targets
RBM: Reserve Bank of Malawi
SBs: Structural Benchmarks
SSA: Sub-Saharan Africa
SOE: State-owned enterprise
SUNBIRD: Sunbird Tourism Plc
TB: Treasury Bill
TBA: To be announced
TN: Treasury Note
TNM: Telekom Networks Malawi Plc
TT: Telegraphic Transfer
USD: United States Dollar
Y-O-Y: Year-on-year
YTD: Year-to-date
ZAR: South African Rand

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