Annual economic review

2022

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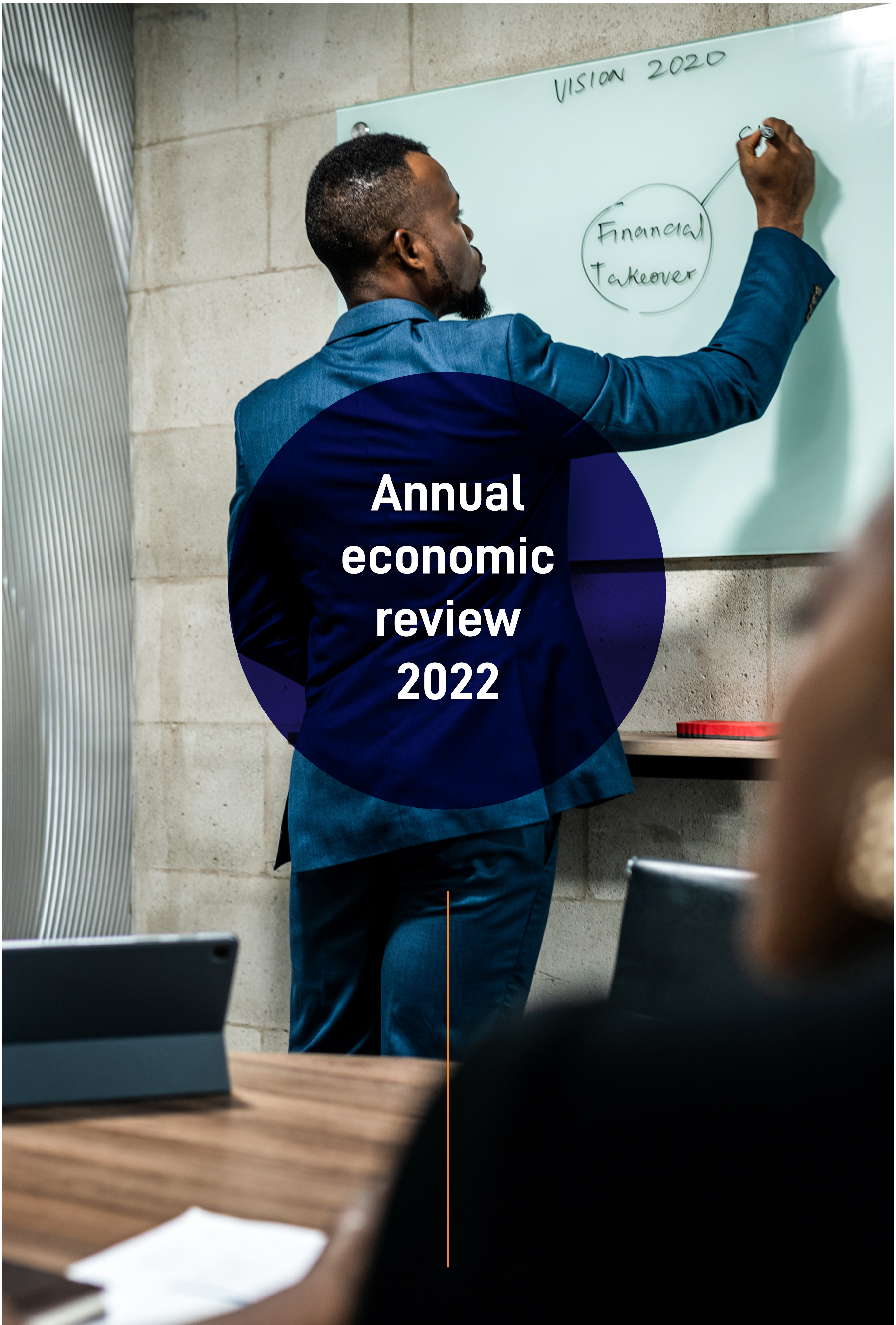
Contents



Annual economic review 2022

1. Executive summary

1.1 Malawi's economic environment was dominated by the following during the year 2022:

1.1.1 Relatively higher levels of liquidity on the interbank market compared to the previous year, indicated by an increase in banks' excess reserves held with the Reserve Bank of Malawi (RBM) to an average of K34.20 billion per day in 2022 compared to the average of K15.08 billion per day in 2021.

1.1.2 Persistent shortage of foreign currency which resulted in further weakening of the Kwacha. The Reserve Bank of Malawi (RBM) devalued the Kwacha by 25% on 26th May 2022.

1.1.3 High inflation pressures emanating from persistent rise in prices of food and imports. Headline inflation rate averaged 21.0% in 2022, up from the average of 9.3% in 2021.

1.1.4 A rise in yields of Government securities necessitated by high Government borrowing and persistent inflation pressures. The all-type average Treasury bill yield increased to 14.14% in 2022 from 12.19% in 2021.

1.1.5 The Monetary Policy Committee (MPC) raised the Policy rate from 12.0% to 14.2% in April and to 18.0% in October 2022.

1.1.6 The Malawi Stock Exchange registered a positive return on index of 36.74% (8.76% in US$ terms), an increase in traded volume of 7.82% and an increase in traded value of 37.22% (23.63% in US$ terms) during the year.

1.2 The challenging domestic and global economic environment affected the country's economic growth for 2022, with the RBM estimating a real growth rate of 1.2% for the year, down from the growth rate of 4.6% registered in 2021. An improvement is expected in 2023, with the RBM, projecting a growth rate of 2.7%.

2. Interbank market

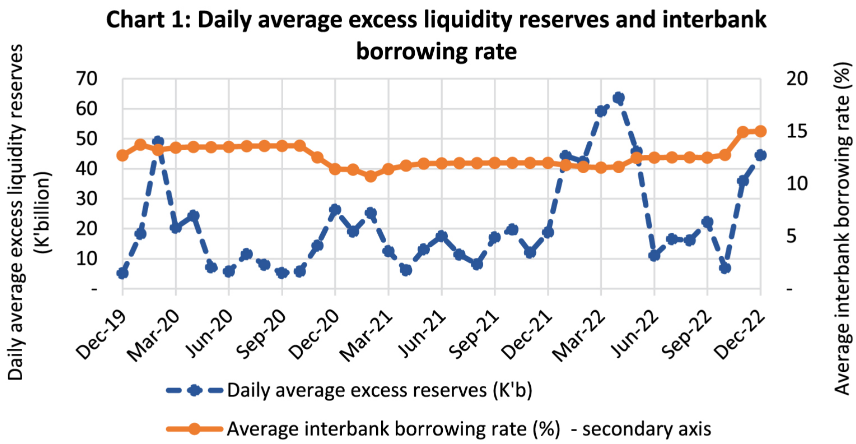
2.1 The level of liquidity on the interbank market, indicated by banks' excess reserves held with the Reserve Bank of Malawi (RBM), was higher in 2022 relative to 2021, increasing by 126.81% to an average of K34.20 billion per day in 2022 compared to the average of K15.08 billion per day in 2021. As in the previous year, liquidity levels in the interbank market were highest in the first quarter of 2022 when excess liquidity reserves averaged K48.60 billion per day and were lowest in the third quarter when excess liquidity reserves averaged K18.29 billion per day.

2.2 In line with high liquidity levels, the volume of borrowing among banks on the interbank market increased by 30.24% in nominal terms to a total of K4.19 trillion in 2022 from K3.22 trillion in 2021. However, the interbank borrowing rate increased to the average of 12.64% during the year from the average of 11.74% in 2021.

2.3 Funds accessed through the Lombard Facility of the RBM decreased to K6.60 trillion in 2022 compared to K13.00 trillion in 2021. The Lombard rate increased to 18.20% as at the end of the year 2022 from 12.20% as at the end of 2021 following upward adjustments of the Policy rate in April and October 2022.

2.4 Further, the RBM injected liquidity in the banking system through issuance of OMO reverse repos which amounted to K241.63 billion (K700.59 billion in 2021); through conducting outright purchase of securities that amounted to K443.86 billion (K72.83 billion in 2021); and through the Rediscounting Standing Facility on which K103.71 billion was accessed. To mop up liquidity, the RBM issued OMO repos that amounted to K46.66 billion and conducted outright sale of securities that amounted to K90.72 billion during the year.

2.5 Chart 1 provides a summary of excess liquidity reserves and interbank rate movements over the immediate past three years. The Chart shows that the interbank borrowing rate increased in 2022 and that liquidity levels were generally high in nominal terms in 2022 compared to 2021.



(Data source: Reserve Bank of Malawi)

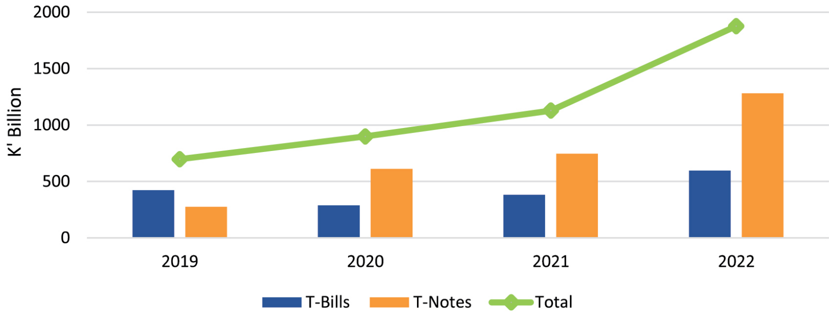
3. Government securities

3.1 The Government raised K595.66 billion in auctions of Treasury Bills (TB) in 2022, representing an increase of 55.99% from K381.86 billion raised in 2021. The rejection rate was at 10.04% in 2022 compared to 4.57% in 2021.

3.2 K1,281.04 billion was raised in auctions of Treasury Notes (TNs) during 2022, compared to K745.86 billion raised in 2021, representing a nominal increase of 71.75%. Rejection rate for TNs was at 9.07% in 2022 compared to 5.16% in 2021.

3.3 Overall, Government domestic borrowing (TBs and TNs combined) increased in nominal terms in 2022 (K1,876.70 billion) relative to 2021 (K1,127.72 billion) as shown in Chart 2:

Chart 2: Comparative analysis of amounts raised in Treasury securities



(Data source: Reserve Bank of Malawi)

3.4 Yields on Government securities increased in 2022, reflecting an increase in the Policy rate. The 91-day, 182-day and 364-day TB yields averaged 10.56%, 14.73% and 17.13%, respectively, increasing from 9.73%, 12.87% and 13.98% in 2021. The all-type average TB yield, consequently, increased to 14.14% in 2022 from 12.19% in 2021. Average yields for TNs also increased across all tenors as shown in the Table 1 below:

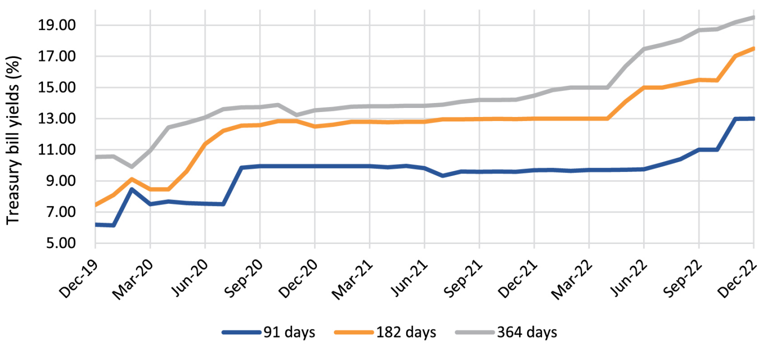
Table 1: Annual average yields of Treasury Bills and Notes

Tenor	2022 average yields	% points change	2021 average yields
91-days	10,56%	⬆ 0,81	9,74%
182-days	14,73%	⬆ 1,87	12,87%
364-days	17,13%	⬆ 3,16	13,98%
2- years	19,60%	⬆ 3,02	16,58%
3-years	21,65%	⬆ 2,78	18,87%
5-years	23,80%	⬆ 3,63	20,17%
7-years	24,39%	⬆ 3,62	20,77%
10-years	25,69%	⬆ 3,12	22,57%

(Data source: Reserve Bank of Malawi)

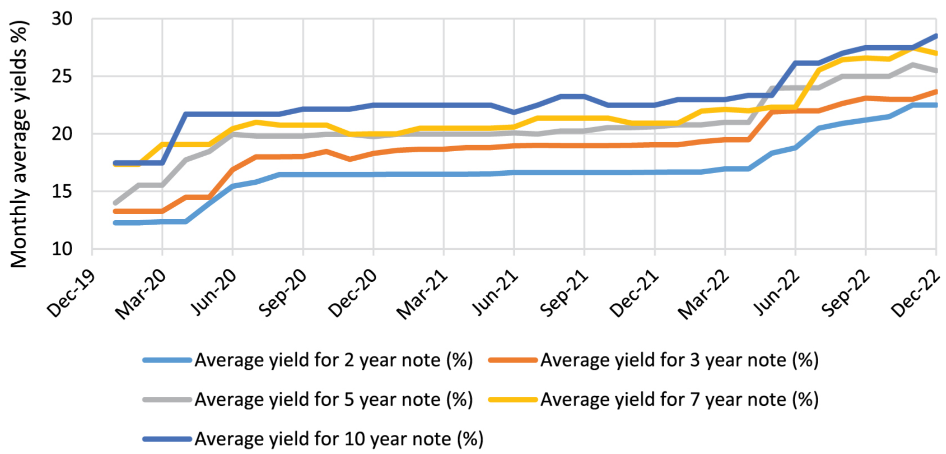
3.5 Chart 3a and 3b below depict the above trend.

Chart 3a: Monthly average Treasury bill yields



(Data source: Reserve Bank of Malawi)

3b: Monthly average Treasury Note yields



(Data source: Reserve Bank of Malawi)

4. Foreign exchange market

4.1 In the year 2022, the Kwacha weakened against major trading currencies, especially after the RBM devalued the Kwacha by 25% against the United States Dollar (USD) on 26th May 2022, in a bid to realign the exchange rate with economic fundamentals. The devaluation followed prevalence of imbalances between supply and demand of forex in the country, evidenced by low foreign exchange supply, declining official foreign reserves, and widening spreads of exchange rates on the market.

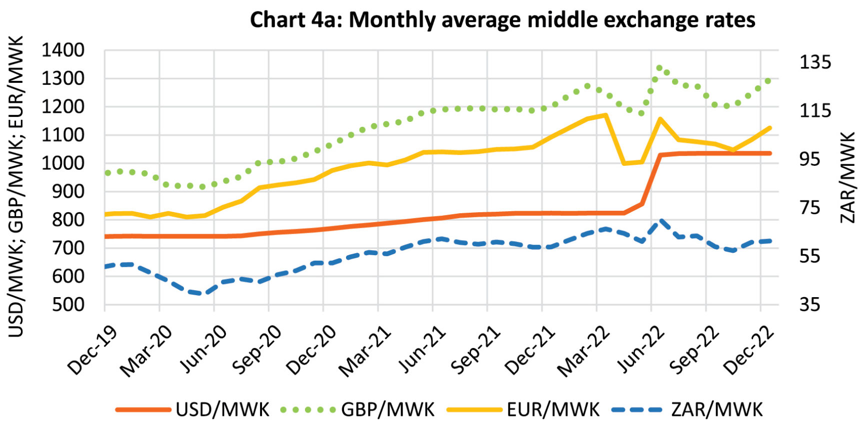
4.2 The Malawi Kwacha to USD TT middle exchange rate averaged K949.04 per USD in 2022, up by 17.76% from the average of K805.90 per USD in 2021. The Malawi Kwacha to GBP TT average middle exchange rate increased by 6.68% to K1,248.47 per GBP from K1,170.28 per GBP; the Malawi Kwacha to EUR TT average middle exchange rate increased by 5.55% to K1,091.31 per EUR from K1,033.92 per EUR; and the Malawi Kwacha to ZAR TT average middle exchange rate increased by 6.23% to K62.71 per ZAR from K59.03 per ZAR.

4.3 Table 2a and Chart 4a show that the Kwacha has significantly depreciated against USD, GBP, EUR and ZAR since the second half of the year 2020. (Note: Downward arrows represents depreciation of the Kwacha).

Table 2a: TT exchange rates

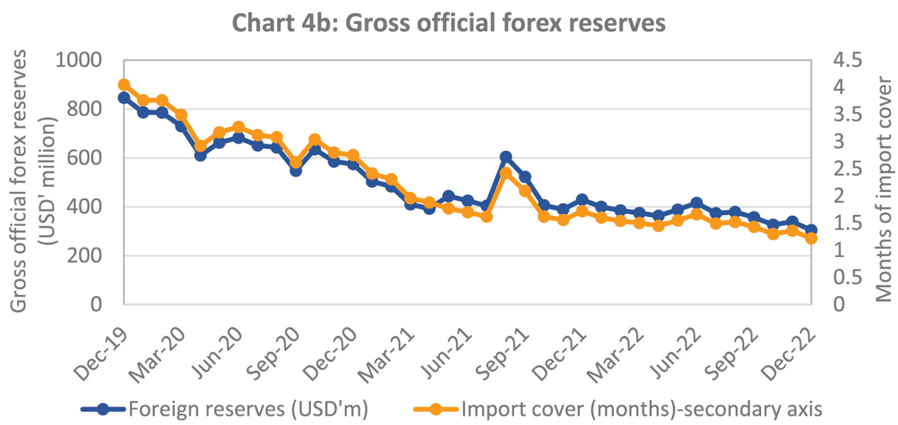
Currency	Annual average			End-year		
	2022	2021	Change	31-Dec-22	31-Dec-21	Change
USD/MWK	949,04	805,90	⬇ 17,76%	1034,67	819,44	⬇ 26,27%
GBP/MWK	1248,47	1170,28	⬇ 6,68%	1282,60	1208,01	⬇ 6,18%
EUR/MWK	1091,31	1033,92	⬇ 5,55%	1130,92	1138,41	⬆ -0,66%
ZAR/MWK	62,71	59,03	⬇ 6,23%	62,69	57,68	⬇ 8,68%

(Data source: Reserve Bank of Malawi)



(Data source: Reserve Bank of Malawi)

4.4 Month end balances of gross official forex reserves averaged USD367.14 million (1.47 months import cover) during 2022, down from the average of USD450.95 million (1.92 month of import cover) in 2021. As at 31st December 2022, the reserves were at USD304.65 million (1.22 months of import cover), decreasing from USD429.17 million (1.72 months of import cover) as at 31st December 2021. The reserves have been below the recommended 3 months of import cover since November 2020.



. (Data source: Reserve Bank of Malawi)

4.5 Looking forward, in the short to medium term depreciation pressures on the Kwacha could remain prevalent as market supply and the economy's forex reserves remain low relative to demand. The external payments position remains weak due to weak exports.

4.6 The country's earnings from tobacco sales, the country's largest forex earner, declined by 7.62% in 2022 compared to 2021 on account of a decrease of 31.20% in sales volume as shown in the Table 2b below:

Table 2b: Cumulative tobacco sales – end of season

	2022	Change	2021
Volume (kg)	85.07 million	⬇ -31,20%	123.65 million
Average price (USD/kg)	2.14	⬆ 34,59%	1.59
Value (USD)	182.04 million	⬇ -7,62%	197.05 million

(Data source: Tobacco Commission (TC)

4.7 The Government was unable to secure an Extended Credit Facility (ECF) from the IMF during the year as discussions were halted to allow the Malawi Government sort out debt issues which has reached unsustainable levels. However, in the last quarter of the year, the country received up to about US$88.3 million in emergency financing through the IMF's new Food Shock Window under the Rapid Credit Facility (RCF) to help address the country's urgent balance of payments needs. The Malawi Government also signed a five-year grant agreement worth US$350 million with the US Government's Millennium Challenge Corporation (MCC). These are expected to provide some relief in the short term but may not be enough to completely solve the forex situation. The RCF will, however, provide a chance for Malawi to gain credibility and eventually an ECF, which the Economist Intelligence Unit (EIU) expects to be agreed by late 2023 at the earliest.

4.8 The Kwacha is also likely to depreciate further as RBM introduces Foreign Exchange Auctions during 2023 which are aimed at facilitating the discovery of prevailing market clearing exchange rates for the Kwacha against major currencies. In these auctions, Authorised Dealer Banks (ADBs) will be submitting bids to sell foreign currencies to RBM at prices freely determined by each participating ADB.

4.9 The EIU projects the following annual Malawi kwacha to USD TT exchange rate averages:

Table 2c: Economist Intelligence Unit forecasts

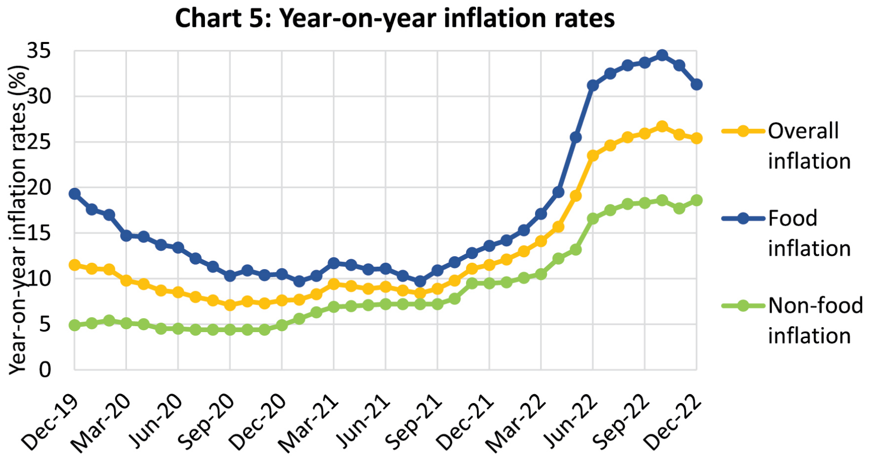
Year	2022	2023	2024	2025	2026	2027
Annual average USD/MWK TT middle exchange rate	949,04	1027,0	1053,8	1107,1	1159,1	1195,1

5. Inflation

5.1 The rate of inflation significantly increased in 2022, relative to 2021. Year-on-year headline inflation rate stood at 25.4% as at the end of the year from 11.5% as at the end of 2021. The rate averaged 21.0% in 2022, up from the average of 9.3% in 2021.

5.2 Inflationary pressures during the year emanated from both food and non-food factors. Food inflation rate increased to the average of 26.8% in 2022 from 11.2% in 2021, while non-food inflation rate increased to the average of 15.1% in 2022 from 7.4% in 2021. Contributing factors include the Russia-Ukraine invasion which exacerbated the impact COVID-19 on global supply chains and prices of imported goods, including commodities. The 25% devaluation of the Kwacha that was effected in May 2022 and prolonged forex shortages added pressure on prices of imports. Weather-related shocks reduced agricultural production and electricity generation, leading to high domestic food prices and prices of other non-food items.

5.3 Chart 5 depicts the trend of inflation rate in the past three years.



(Data source: National Statistical Office)

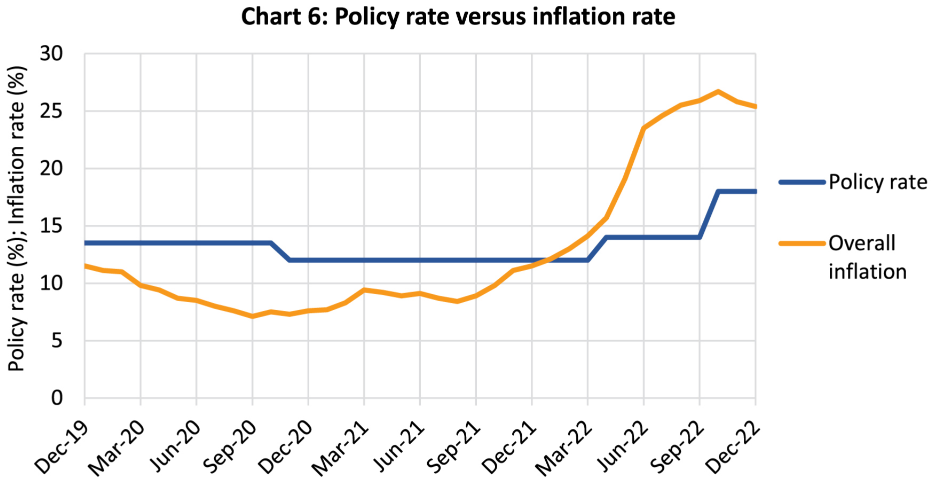
5.4 In 2023 inflation pressures could remain high, emanating from high food prices as the implementation of the Affordable Inputs Program (AIP) for the 2022/2023 agricultural season faced some challenges, expected increase in electricity tariffs, further depreciation of the Kwacha, and prolonged forex shortages, among other factors. However, the rate of inflation could slightly slowdown in 2023 as global prices fall.

5.5 The RBM projects a decrease in annual average inflation rate from 21.0% in 2022 to 18.2% in 2023 and the Economist Intelligence Unit (EIU) forecasts a rate of 17.3% for 2023 owing to the expected fall in imported inflation. On the other hand, the International Monetary Fund (IMF) and the World Bank both project a rise in domestic annual average inflation rate to 22.7% and expect the slowdown from 2024.

6. Monetary policy

6.1 The RBM pursued a tight monetary policy in 2022, focusing mainly on containing inflation. The Monetary Policy Committee (MPC) raised the Policy rate from 12.0% to 14.0% in April 2022 and to 18.0% in October 2022. The Lombard rate was maintained at 0.2 percentage points above the Policy rate; effectively it was increased from 12.2% to 14.2% in April 2022 and to 18.2% in October 2022. The Liquidity Reserve Requirement (LRR) ratio was maintained at 3.75% throughout the year.

6.2 Chart 7 depicts the trend of the Policy rate relative to inflation rate over the past three years. The chart shows that both the inflation rate and the Policy rate significantly increased in 2022 and that the Policy rate was consistently below inflation rate throughout the year, signaling prevalence of negative real interest rates in the market.



(Data source: Reserve Bank of Malawi, National Statistical Office)

6.3 Following the upward adjustment of the Policy rate, the Market Reference Rate (MRR) for commercial bank increased from the average of 12.1% in 2021 to the average of 13.8% in 2022 and closed the year at 17.3%.

7. Economic growth

7.1 The Russia-Ukraine invasion was a major risk to economic growth across the world in 2022. Its negative effects on global supply chains of commodities, inflation and financial conditions, reversed some of the COVID-19 recovery gains that economies registered in 2021. The IMF estimates that global growth slowed down from 6.2% in 2021 to 3.4% in 2022 and that the Emerging Market and Developing Economies growth slowed down from 6.7% in 2021 to 3.9% in 2022, while the Sub-Saharan Africa region growth slowed down from 4.7% in 2021 to 3.8% in 2022 (World Economic Outlook Update, January 2023).

7.2 For Malawi, the RBM estimates that economic growth slowed sharply from 4.6% in 2021 to 1.2% in 2022. In addition to the impact of the Russia-Ukraine invasion, Malawi's economic growth in 2022 was negatively impacted by a contraction of the agricultural sector and low electricity generation caused by weather-related shocks.

7.3 In 2023, the IMF projects a further slowdown in global real GDP growth to 2.9%, reflecting the rise in central bank rates to fight inflation, especially in advanced economies, as well as the war in Ukraine.

7.4 The emerging market and developing economies are projected to register a modest increase in real growth to 4.0% in 2023, largely due to easing of COVID-19 restrictions in China. However, about half of the countries in this grouping are expected to experience slower growth in 2023 than in 2022.

7.5 As for the Malawi economy, the RBM projects that in 2023 growth will pick up to 2.7%, conditional on a recovery in the agricultural sector and improved policy environment.

Table 3: Real GDP growth projections

Institution	Region	2020	2021	2022e	2023f	2024f
RBM/Government	Malawi	0,8%	4,6%	1,2%	2,7%	
IMF	World	-3,0%	6,2%	3,4%	2,9%	3,1%
	Malawi	**0,9%**	**2,2%**	**0,8%**	**2,4%**	**3,2%**
	Sub-Saharan Africa	-1,6%	4,7%	3,8%	3,8%	4,1%
World Bank	World	-3,2%	5,9%	2,9%	1,7%	2,7%
	Malawi	**0,8%**	**2,8%**	**1,5%**	**3,0%**	**3,4%**
	Sub-Saharan Africa	-2,0%	4,3%	3,4%	3,6%	3,9%
EIU	Malawi	0,8%	5,8%	1,8%	1,6%	3,0%

e Estimate; f Forecast
RBM: Monetary Policy Statement, January 2023
IMF: Malawi Country Report, November 2022; World Economic Outlook, January 2023
World Bank: Global Economic Prospects – January 2023
EIU: Fourth Quarter Malawi Country Report, December 2022

8. Stock market performance

8.1 In 2022, the Malawi Stock Exchange (MSE) registered a year-on-year return on index of 36.74% (8.76% in US$ terms). This is compared to an annual return of 40.05% (33.92% in US$ terms) registered in 2021. The Domestic Share Index (DSI) registered a return of 37.08% (9.03% in US$ terms) in 2022 compared to 33.53% (28.56% in US$ terms) in 2021. The Foreign Share Index (FSI) registered a return of 32.94% (5.74% in US$ terms) in 2022 compared to 209.64% (151.46% in US$ terms) in 2021.

8.2 11 companies registered price gains during the year, while 5 registered declines. Top gainers were NBM (90.35%), ILLOVO (80.00%), NBS (48.47%), STANDARD (42.87%) and AIRTEL (41.60%). Top losers were OMU (-53.10%), TNM (-38.92%), ICON (-7.29%), BHL (-0.36%) and MPICO (-0.29%).

8.3 The market registered an increase of 7.82% in total traded volume to 1,402,901,021 in 2022 from 1,301,122,424 in 2021. It also registered an increase of 37.22% (23.63% in US$ terms) in traded value of shares during the year to K51.72 billion ($43.75 million) in 2022 from K37.69 billion ($43.75 million) in 2021.

8.4 On the Debt market, the MSE registered the first trade on one of the debt securities issued by the Malawi Government and also listed 21 Government of Malawi Treasury Notes, bringing the total number of listed debt securities to 62.

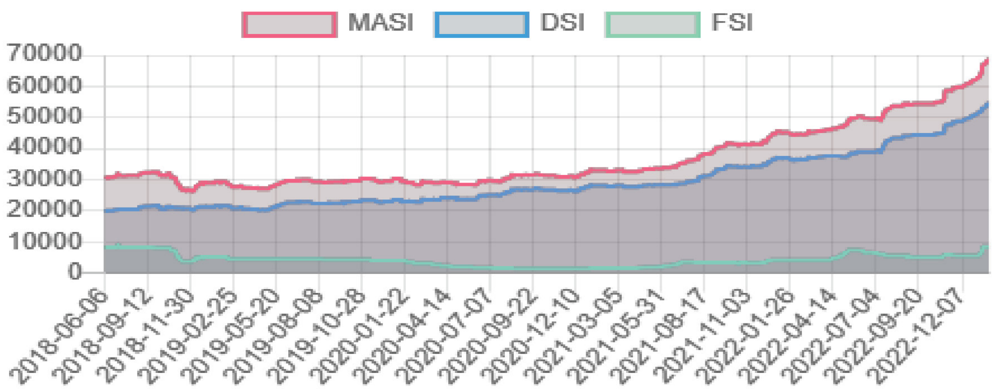
8.5 Table 4 shows performance of individual companies in 2022 relative to 2021. Chart 8 shows a graphical analysis of the MASI, DSI and FSI over the past three years.

Table 4: Share trading summary

	30-Sep-22	30-Jun-22	31-Dec-21
Market indices			
MASI	62 036,05	45 367,68	⬆ 36,74%
DSI	50 804,03	37 061,70	⬆ 37,08%
FSI	5 614,30	4 223,15	⬆ 32,94%
Gainers			
NBM	1542,05	810,12	⬆ 90,35%
ILLOVO	540,00	300,00	⬆ 80,00%
NBS	34,00	22,90	⬆ 48,47%
STANDARD	2000,16	1400,00	⬆ 42,87%
AIRTEL	56,64	40,00	⬆ 41,60%
FMBCH	110,86	80,00	⬆ 38,58%
NITL	124,99	94,98	⬆ 31,60%
PCL	2181,37	1900,00	⬆ 14,81%
FDHB	17,37	15,81	⬆ 9,87%
NICO	60,00	55,00	⬆ 9,09%
SUNBIRD	92,06	90,01	⬆ 2,28%
Losers			
MPICO	20,64	20,70	⬇ -0,29%
BHL	10,97	11,01	⬇ -0,36%
ICON	11,95	12,89	⬇ -7,29%
TNM	14,00	22,92	⬇ -38,92%
OMU	985,00	2 099,99	⬇ -53,10%

(Data source: Malawi Stock Exchange)

Chart 7: Malawi Stock Exchange share price indices



Data source: Malawi Stock Exchange)

9. Conclusions

9.1 2022 was challenging in terms of economic management for Malawi.

9.2 Foreign exchange reserves remained critically low, with gross official reserves at 1.22 months of import cover as at the end of the year. The RBM devalued the Kwacha by 25% on 26th May 2022.

9.3 Inflation pressures were persistently high owing to prolonged rise in domestic and global prices of both food and non-food items.

9.4 The RBM raised the Policy rate from 12.0% as at the beginning of the year to 18.0% as at the end of the year, resulting in a general rise in market interest rates and yields.

9.5 The Stock market remained vibrant, registering positive return and an increase in trading activity, despite the challenging economic environment.

9.6 Malawi's economic growth slowed down to 1.2% in 2022 from 4.6% in 2021 on account of the challenging economic environment. An improvement is expected in 2023 (2.7%) as the domestic and external economic environment improves. However, the above risks are expected to remain high.

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Lead arranger
2022
CDH Investment Bank

AHL GROUP PLC
Medium term note
Lead arranger
2020
CDH Investment Bank

SALIMA SUGAR CO. LTD
Medium term note
Lead arranger & local agent bank
2020
CDH Investment Bank

MAIIC Malawi Agricultural & Industrial Investment Corporation plc
Establishment of a national development finance institution In Malawi
Lead arranger
2019
CDH Investment Bank

AFREXIMBANK
Trade finance intermediary Malawi
2019
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