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Economic review

First quarter 2022



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Contents

1. Executive summary	5
2. Interbank market	5
3. Government securities	6
4. Foreign exchange market	7
5. Inflation	9
6. Monetary policy	10
7. Economic growth	10
8. Stock market performance	12
9. Fiscal policy	13
10. Conclusions	15



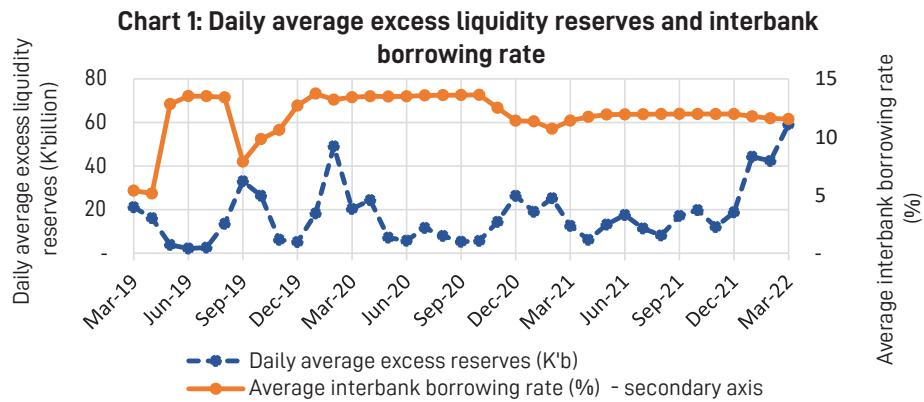
Economic review First quarter 2022

1. Executive summary

- 1.1 The following economic environment prevailed during the first quarter (Q1) of 2022:
 - 1.1.1 Relatively higher levels of liquidity on the interbank market.
 - 1.1.2 Continued shortage of forex and depreciation of the Kwacha.
 - 1.1.3 Rising inflationary pressures emanating largely from a rise in prices of imports and a seasonal rise in food prices. The Reserve Bank of Malawi (RBM) revised upwards its projection for annual average inflation for 2022 to 10.4% from an earlier forecast of 8.9%.
 - 1.1.4 Relatively steady market interest rates on account of a stable policy rate at 12.0%.
 - 1.1.5 An improvement in return and trading activity on the stock market compared to the same period in the previous year.
 - 1.1.6 Continued improvement in economic activity as the threat of the Coronavirus (COVID-19) pandemic dissipated.
- 1.2 The country's economic growth outlook for 2022 remains positive with real GDP growth rate projected at 4.1% from 3.9% in 2021.

2. Interbank market

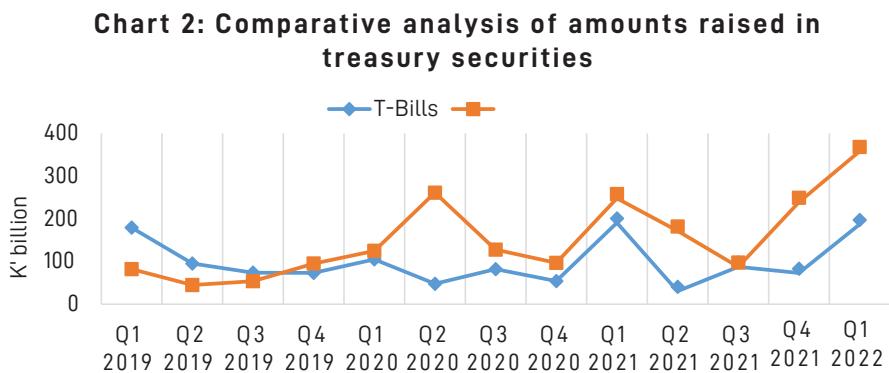
- 2.1 Liquidity conditions in the banking system significantly improved in Q1 2022 compared to the levels registered in Q4 2021 and in Q1 2021. The banks' daily excess liquidity reserves held with RBM averaged K48.60 billion in Q1 2022 compared to the average of K16.86 billion in Q4 2021 and K18.95 billion in Q1 2021.
- 2.2 Due to higher liquidity levels, the interbank borrowing rate decreased slightly to an average of 11.64% in Q1 2022 from the average of 11.98% in Q4 2021 (11.15% in Q1 2021). The volume traded among banks on the interbank market increased in nominal terms to the average of K17.05 billion per day in Q1 2022 from the daily average of K13.93 billion during Q4 2021 and K11.23 billion in Q1 2021.
- 2.3 Further, funds accessed through the Lombard Facility of the RBM decreased to the average of K18.72 billion per day in Q1 2022 from K93.10 billion in Q4 2021 (K17.37 billion in Q1 2021). The Lombard rate was stable at 12.20% as the Monetary Policy Committee (MPC) kept the rate unchanged during the period.
- 2.4 Chart 1 shows that liquidity levels significantly improved in Q1 2022 compared to the levels registered in several preceding quarters.



(Data source: Reserve Bank of Malawi)

3. Government securities

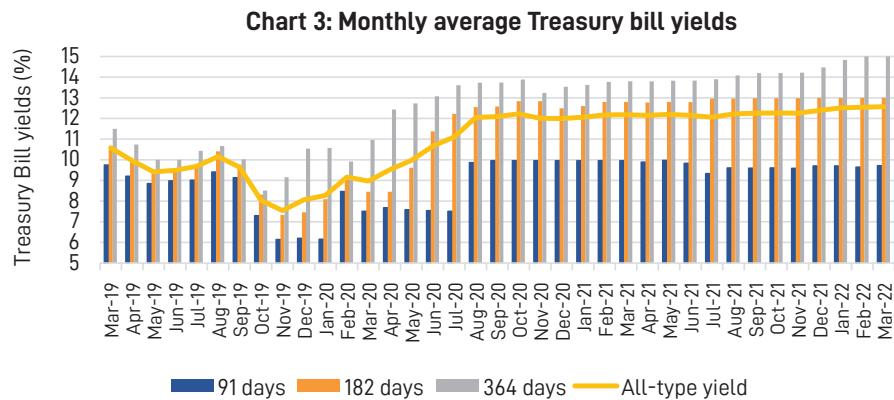
- 3.1 The Government raised K187.02 billion in auctions of Treasury Bills (TB) during Q1 2022, representing an increase of 156.16% from K73.01 billion raised in Q4 2021, and a decrease of 1.89% when compared to K190.63 billion raised in Q1 2021. Rejection rate was at 0.46%.
- 3.2 K358.02 billion was raised in auctions of Treasury Notes (TNs) in Q1 2022, compared to K238.92 billion in Q4 2021, representing a nominal increase of 49.85% (K247.83 billion in Q1 2021).
- 3.3 Overall, Government domestic borrowing (TBs and TNs combined) increased in Q1 2022 (K545.04 billion) relative to Q4 2021 (K311.93 billion) and Q1 2021 (K438.50 billion) as shown in Chart 2:



(Data source: Reserve Bank of Malawi)

- 3.4 Yields on Government securities slightly increased during Q1 2022 relative to the levels registered in Q4 2021. The all-type average TB yield increased slightly to 12.54% in Q1 2022 from 12.30% in Q4 2021 (12.14% in Q1 2021). The 364-day yield increased to an average of 14.96% in Q1 2022 from 14.30% in Q4 2021 (13.73% in Q1 2021). The 182-day yield averaged 13.00% in Q1 2022, marginally up from 12.99% in Q4 2021 (12.73% in Q1 2021); while the 91-day yield marginally increased to 9.68% in Q1 2022 from 9.63% in Q4 2021 (9.95% in Q1 2021).

3.5 Chart 3 and Table 1 indicate that yields have been relatively stable since Q4 2020, and increased slightly in Q1 2022.



(Data source: Reserve Bank of Malawi)

Table 1: Quarterly average yields of Treasury Notes					
Description	2 years	3 years	5 years	7 years	10 years
Q1 2022 yield	16.82%	19.41%	20.89%	22.05%	22.98%
Q4 2021 yield	16.65%	19.03%	20.57%	20.94%	22.50%
Q1 2021 yield	16.50%	18.61%	19.97%	20.25%	22.50%
2021 average	16.58%	18.87%	20.17%	20.77%	22.57%
2020 average	15.00%	16.29%	18.49%	19.85%	20.95%
%pt. increase: Q1 2022 vs Q4 2021	0.17	0.38	0.32	1.11	0.48
%pt. increase: Q1 2022 vs Q1 2021	0.32	0.80	0.92	1.80	0.48

(Data source: Reserve Bank of Malawi)

3.6 Looking ahead, upside risks on yields on Government securities are high emanating from rising domestic and global inflationary pressures.

4. Foreign exchange market

4.1 The Kwacha continued to depreciate against major trading currencies on account of the persistent shortage of forex, although the RBM official USD/MWK middle exchange rate showed some stability around K823/USD in Q1 2022. However, there is a large spread between the telegraphic transfer rates and USD cash exchange rates, which is indicative of potential devaluation risks that are being controlled by the Reserve Bank.

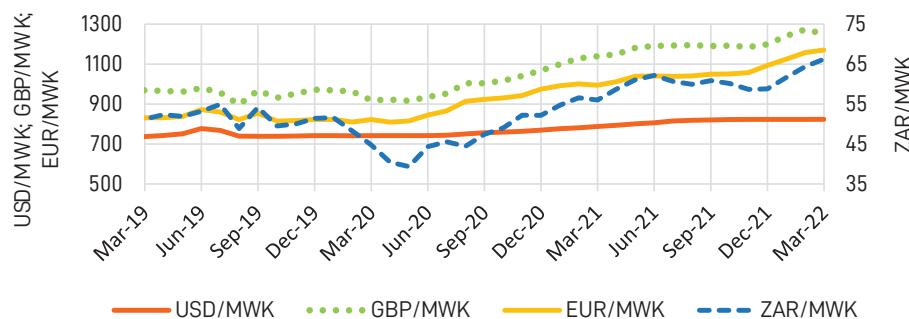
4.2 Table 2 and Chart 4 shows that the Kwacha has consistently depreciated against USD, GBP, EUR and ZAR since the second half of the year 2020 and that the rate of depreciation has been more pronounced against GBP, EUR and ZAR than against USD.

Currency	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q1 2022 - Q4 2021 Change	Q1 2022 - Q1 2021 Change
						Change	Change
USD/MWK	823.45	822.98	818.15	800.42	782.05	⬇ 0.06%	⬇ 5.29%
GBP/MWK	1254.88	1192.31	1192.71	1173.53	1122.55	⬇ 5.25%	⬇ 11.79%
EUR/MWK	1150.84	1066.91	1042.75	1030.45	995.57	⬇ 7.87%	⬇ 15.60%
ZAR/MWK	64.09	59.21	60.49	60.67	55.76	⬇ 8.25%	⬇ 14.95%

(Data source: Reserve Bank of Malawi)

(Downward and upward arrows represent depreciation and appreciation of the Kwacha, respectively)

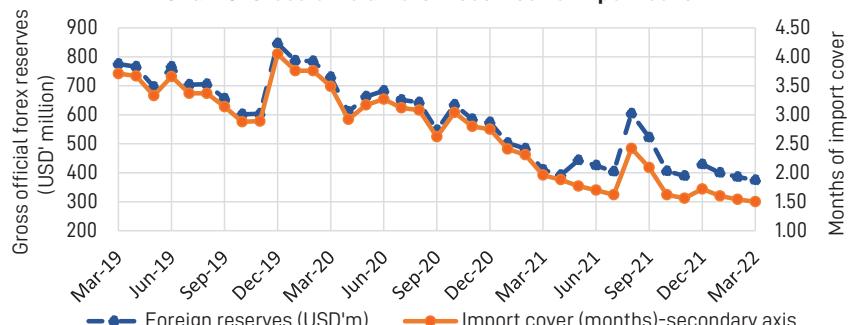
Chart 4: Monthly average middle exchange rates



(Data source: Reserve Bank of Malawi)

4.3 Gross official forex reserves fell to USD374.48m (1.50 months of import cover) as at 31st March 2022 from USD429.17m (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.

Chart 5: Gross official forex reserves vs Import cover



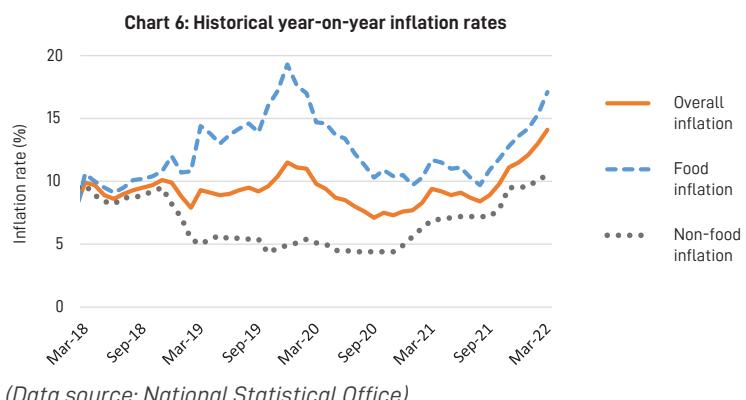
(Data source: Reserve Bank of Malawi)

4.4 Looking forward, the Kwacha depreciation risks are expected to remain elevated in the short to medium term as market supply and the economy's forex reserves remain critically low relative to demand. Agricultural exports from Q2 2022 are expected to somewhat help to improve the situation, although there is an indication that this year's tobacco sales could be lower than last year's. The tobacco market was officially opened on 31st March 2022 and figures from the Tobacco Commission so far indicate a slow start to the season. The IMF's Extended Credit Facility (ECF), currently under negotiation, if approved could also help to improve the situation.

5. Inflation

5.1 Year-on-year headline inflation rate rose from 11.5% in December 2021 to 14.1% in March 2022, the highest level since May 2017 and surpassing the Policy rate of 12.0%. The rise in inflation during the quarter was on account of a seasonal rise in food prices, rising prices of imports including fuel and raw materials as well as depreciation of the Kwacha.

5.2 Chart 6 depicts the trend of inflation rate in the past four years.



5.3 In the ensuing months, inflation risks are expected to remain elevated in the face of continued rise in prices of imports, necessitated by the ongoing Russian/Ukraine war which has disrupted supply chains. On 10th April 2022, the Malawi Energy Regulatory Authority (MERA) adjusted upwards domestic fuel pump prices to reflect rising global oil prices as follows:

Product	Previous pump prices in MWK/Litre	New pump prices in MWK/Litre	% Change
Petrol	1150.00	1380.00	20.00%
Diesel	1120.00	1470.00	31.25%
Kerosene	833.20	956.00	14.74%

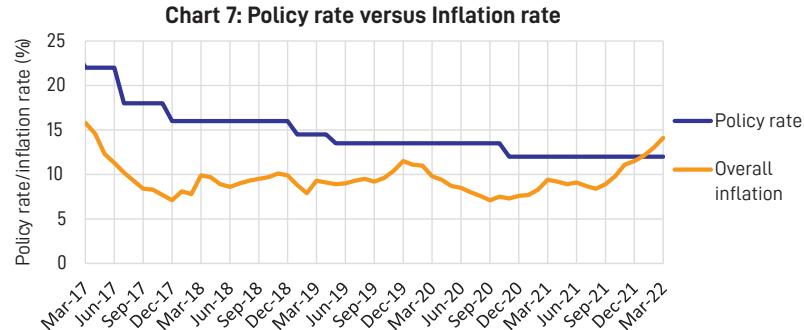
5.4 The inflationary pressures could, however, be moderated by a seasonal decrease in food prices during the harvest period in Q2, although this year's agricultural production has been affected by cyclones and challenges in the implementation of the Affordable Inputs Program (AIP). Food price changes now have a greater impact on headline inflation rate following the rebasing of the Consumer Price Index (CPI) by the National Statistical Office (NSO) in January 2022 to reflect changes in household consumption patterns. The weight of a basket of food items in the CPI now stands at 53.7%, up from 45.2%, whereas the weight of non-food items now stands at 46.3%, down from 54.8%.

5.5 During the first MPC meeting in February 2022, the RBM revised upwards its projection for annual average headline inflation rate for 2022 to 10.4% from an earlier projection of 8.9%. The International Monetary Fund (IMF) forecasts an average of 11.7% while the Economist Intelligence Unit (EIU) in its Q1 2022 Country Report for Malawi forecasted an average inflation rate of 12.4% for 2022, from the average of 9.3% in 2021.

6. Monetary policy

6.1 The Monetary Policy Committee held its first meeting of 2022 on 2nd and 3rd February, during which they maintained the Policy rate at 12.0%, the Liquidity Reserve Requirement (LRR) ratio on domestic and foreign deposits at 3.75% and the Lombard rate at 20 basis points above the Policy rate (12.2%). In arriving at this decision, the Committee noted that, although inflation pressures were mounting, the sources were considered transitory and likely to dissipate after the lean period. At the same time, there was need for policy support to entrench the recovery of the domestic economy from the COVID-19-induced slowdown.

6.2 The policy rate has been stable at 12.0% since November 2020.



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

6.3 With a stable Policy rate, the Market Reference Rate (MRR) for commercial bank has been steady at 12.2% since June 2021.

6.4 Looking ahead, in the face of existing pressures on inflation and the exchange rate, the RBM will have little room to hold the Policy rate at current levels in the near term.

7. Economic growth

7.1 Although the Coronavirus (COVID-19) pandemic remains a key risk to economic activity across the world, the vaccination programs have improved global economic activity. In February 2022, the Government of Malawi removed most restrictions related to COVID-19, including travel, gatherings and public transport.

7.2 According to the World Economic Outlook Report for January 2022 by the IMF, global economic growth is estimated to have recovered to 5.9% in 2021 from -3.1% in 2020 and is expected to slow down to 4.4% in 2022. The Sub-Saharan African Region is estimated to have grown by 4.0% in 2021 from -1.7% in 2020 and is expected to grow by 3.7% in 2022. Growth for the SADC Sub-region is estimated at 2.7% for 2021 and 2.9% for 2022.

7.3 For Malawi, the Government estimates real economic growth rate of 3.9% in 2021 and projects a growth rate of 4.1% for 2022. The IMF's estimate for 2021 is 2.2% and projection for 2022 is 3.0%. The Economic Intelligence Unit's (EIU) estimate is 2.7% for 2021 and 2.8% for 2022.

7.4 Key growth sectors for 2022 include Information and communication, Construction, Financial and insurance activities, Electricity, gas and water supply, Manufacturing, Mining and quarrying, Real estate activities, Professional and support services, Public administration and defense, and Transport and storage, among others.

Sector	2019	2020	2021*	2022*	2023*
Agriculture, forestry and fishing	5.9	3.4	3.2	3.0	2.9
Crop and animal production	6.1	4.5	3.9	3.6	3.3
Forestry and logging	0.4	-2.6	-1.2	2.9	3.0
Fishing and aquaculture	3.5	-13.6	-11.3	-10.2	-6.6
Mining and quarrying	7.4	3.1	4.5	4.6	5.0
Manufacturing	7.6	4.2	4.3	4.7	5.0
Electricity, gas and water supply	7.9	4.7	3.6	4.9	3.4
Construction	7.8	3.7	4.8	5.5	4.5
Wholesale and retail trade	6.0	-0.1	2.1	2.7	3.2
Transport and storage	8.7	-6.9	2.9	4.1	5.0
Accommodation and food services	3.4	-23.4	1.3	2.6	3.1
Information and communication	9.3	5.9	5.6	6.3	4.6
Financial and Insurance services	5.1	4.8	4.9	5.1	5.6
Real estate activities	2.8	3.1	4.1	4.4	4.2
Professional and support services	9.5	-3.6	3.3	4.4	4.2
Public administration and defense	6.1	4.2	3.6	4.3	5.1
Education	4.7	-4.7	3.1	3.9	4.2
Health and social work activities	0.8	-2.8	2.7	3.7	3.3
Other services	15.0	-0.9	1.6	2.3	2.4
GDP at constant market prices (2017)	5.6	0.8	3.9	4.1	4.0

Source: Malawi Government Annual Economic Report 2022
 e Estimate; f Forecast

Table 3b: Real GDP growth projections				
Institution	Region	2020	2021e	2022f
Government	Malawi	0.8%	3.9%	4.1%
IMF	World	-3.1%	5.9%	4.4%
	Malawi	0.9%	2.2%	3.0%
	Sub-Saharan Africa	-1.7%	4.0%	3.7%
World Bank	World	-3.4%	5.5%	4.1%
	Malawi	0.8%	2.4%	3.0%
	Sub-Saharan Africa	-2.0%	3.5%	3.6%
EIU	Malawi	0.8%	2.7%	2.8%

e Estimate; f Forecast
 Malawi Government: Annual Economic Report 2022 / IMF: World Economic Outlook Update - January 2022
 World Bank: Global Economic Prospects – January 2022 / EIU: Country Report Malawi – First Quarter 2022

8. Stock market performance

8.1 The Malawi Stock Exchange (MSE) registered a better return in Q1 2022 relative to Q1 2021. The Malawi All Share Index (MASI) registered a return of 1.22% (1.22% in USD terms) in Q1 2022, compared to 0.53% (-1.25% in USD terms) in Q1 2021. The Domestic Share Index (DSI) registered a return of 1.41% in Q1 2022 compared to -0.16% in Q1 2021. The Foreign Share Index (FSI) registered a return of -0.91% in Q1 2022 compared to a return of 18.36% in Q1 2021.

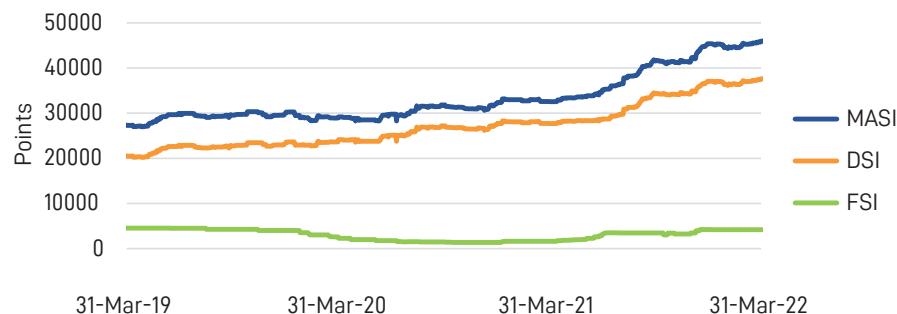
8.2 The market registered a significant increase in both total value and volume of shares traded. The value of shares traded increased by 271.51% (255.55% in USD terms) to K4.42 billion (US\$5.42 million) in Q1 2022 from K1.19 billion (US\$1.52 million) in Q1 2021. The volume of shares traded increased by 247.81% to 112,057,459 in Q1 2022 from 32,218,071 in Q1 2021.

8.3 7 counters registered capital gains (5 in Q1 2021), 5 counters registered losses (11 in Q1 2021) while 4 counters registered no share price movement (0 in Q1 2021).

8.4 There was neither any listing nor a trade on the debt market during Q1 2022.

8.5 Chart 8 shows a graphical analysis of the MASI, DSI and FSI over the past three years and Table 4 shows performance of individual companies in Q1 2022.

Chart 8: Malawi Stock Exchange share price indices



(Data source: Malawi Stock Exchange)

Table 4: Share trading summary						
	31-Mar-22	31-Dec-21	31-Mar-21	Q1 2022 - Q4 2021 (Year-to-date) price change (%)	Year-on-year price change (%)	
Market indices						
MASI	45,921.23	45,367.68	32,562.96	▲ 1.22%	▲	41.02%
DSI	37,584.34	37,061.70	27,710.72	▲ 1.41%	▲	35.63%
FSI	4,184.71	4,223.15	1,614.33	▼ -0.91%	▲	159.22%
Gainers						
NBM	948.01	810.12	650.05	▲ 17.02%	▲	45.84%
AIRTEL	42.00	40.00	27.95	▲ 5.00%	▲	50.27%
ILLOVO	305.42	300.00	80.46	▲ 1.81%	▲	279.59%
NITL	95.00	94.98	94.94	▲ 0.02%	▲	0.06%
FMBCH	80.01	80.00	27.12	▲ 0.01%	▲	195.02%
SUNBIRD	90.02	90.01	90.00	▲ 0.01%	▲	0.02%
STANDARD	1400.09	1400.00	1,200.12	▲ 0.01%	▲	16.66%
No movement						
PCL	1900.00	1900.00	1,199.94	➡ 0.00%	▲	58.34%
MPICO	20.70	20.70	20.89	➡ 0.00%	▼	-0.91%
BHL	11.01	11.01	11.00	➡ 0.00%	▲	0.09%
NICO	55.00	55.00	51.93	➡ 0.00%	▲	5.91%
Losers						
NBS	22.79	22.90	23.00	▼ -0.48%	▼	-0.91%
ICON	12.69	12.89	12.18	▼ -1.55%	▲	4.19%
FDHB	15.56	15.81	16.49	▼ -1.58%	▼	-5.64%
OMU	1785.00	2,099.99	2,190.00	▼ -15.00%	▼	-18.49%
TNM	17.40	22.92	16.39	▼ -24.08%	▲	6.16%

(Data source: Malawi Stock Exchange)

9. Fiscal policy

- 9.1 Government transitioned to a new set of financial years beginning in April and ending in March.
- 9.2 The budget for the 2022/2023 fiscal year covering a 12-month period from 1st April 2022 to 31st March 2023, was approved by Parliament in March 2022.
- 9.3 The budget was formulated in line with the country's long-term aspirations enunciated in the vision document, the Malawi 2063, and the First Ten -Year Implementation Plan (MIP-1).
- 9.4 The main focus is on recovering the economy from the global slowdown caused by the Covid-19 pandemic. The budget is also intended to start addressing issues of

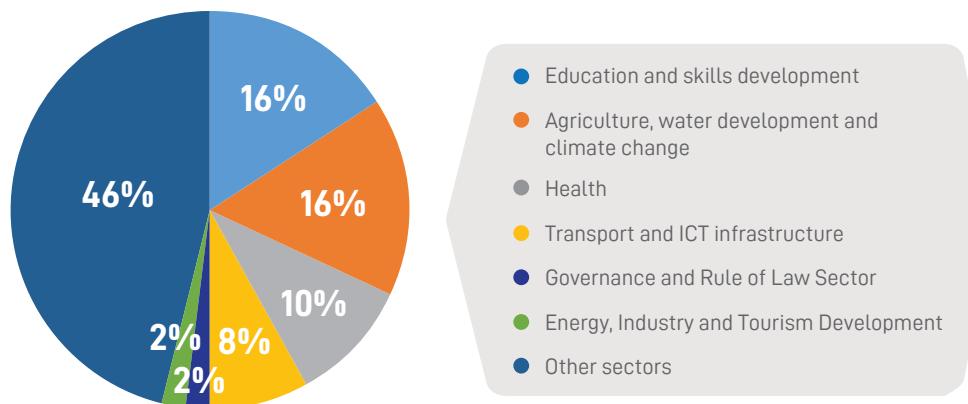
public debt management, export diversification, import substitution, and in turn start confronting issues of balance of payments as a step towards an inclusively wealthy, self-reliant and industrialized nation.

9.5 Below is a summary of the budget:

Category	2021/22 estimated outturn (9 months)	2022/23 proposed estimates (12 months)	% of total budget
Revenue and grants	1,239,907	1,955,848	68.9%
Domestic revenue	1,100,946	1,635,517	57.6%
Grants	138,961	320,331	11.3%
Expenditure	2,064,903	2,839,891	100.0%
Recurrent expenses	1,525,054	2,019,218	71.1%
Net acquisition of non-financial assets	539,849	820,674	28.9%
Deficit	-824,997	-884,044	-31.1%
Net foreign financing	134,774	230,068	8.1%
Net domestic borrowing	690,223	653,976	23.0%

9.6 Key sector allocations include Education and skills development, Agriculture, water development and climate change, Health, Transport and ICT infrastructure, Governance and rule of law and Energy, industry and tourism development.

Chart 9: Key sector allocations (K' billion)



10. Conclusions

- 10.1 In the first quarter of 2022, economic activity continued to pick up as the threat of the COVID-19 pandemic dissipated across the world.
- 10.2 Market interest rates remained relatively stable as the RBM maintained the Policy rate at 12.0% during the first meeting of 2022 of the Monetary Policy Committee held in February.
- 10.3 Inflationary pressures, however, continued to mount during the period largely emanating from a rise in prices of imports in the face of the Russia/Ukraine war which has affected global supply chains.
- 10.4 Local currency depreciation pressures also remained elevated during the period as forex reserves remained critically low.
- 10.5 The inflation and foreign exchange risks are expected to remain prevalent in the quarter ahead, although the onset of the harvest season could somewhat moderate the magnitude of the risks.
- 10.6 Economic growth outlook for 2022 remains positive backed by continued pickup in economic activity in most sectors. Key growth sectors for the year include Information and communication, Construction, Financial and insurance activities, Electricity, gas and water supply, Manufacturing, Mining and quarrying, Real estate activities, Professional and support services, Public administration and defense, and Transport and storage, among others.

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