



INVESTMENT BANK

# Second quarter economic review

# 2023

# Contents

1. Executive summary	4
2. Interbank market	4
3. Government securities	5
4. Foreign exchange market	7
5. Inflation	9
6. Monetary policy	10
7. Economic growth	10
8. Stock market performance	11
9. Conclusions	13

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## Second quarter economic review

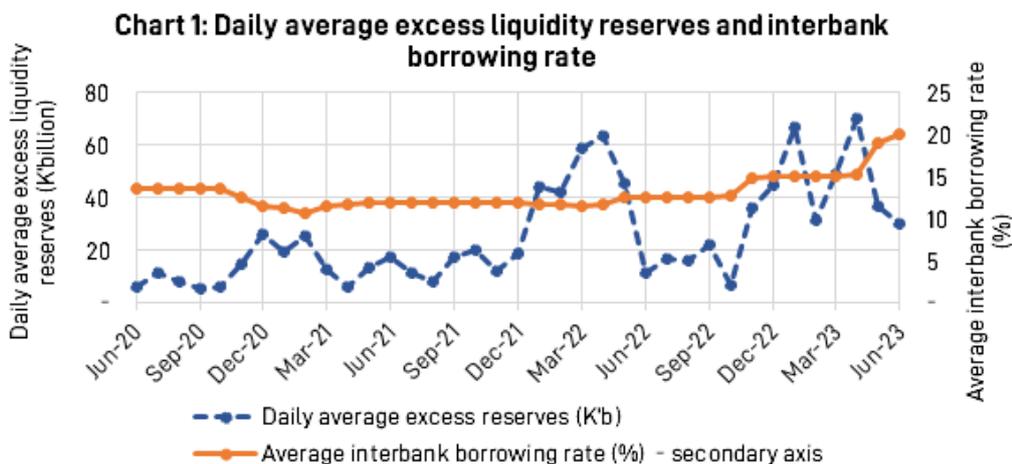
## 1. Executive summary

- 1.1 The Monetary Policy Committee raised the Policy rate to 22.0% from 18.0% and the Liquidity Reserve Requirement (LRR) ratio on domestic currency deposits to 5.75% from 3.75% on 27th April 2023.
- 1.2 Liquidity levels on the interbank market decreased in the second quarter of 2023 (Q2 2023) compared to the first quarter of 2023 (Q1 2023).
- 1.3 Market interest rates and yields on government securities increased in Q2 2023 following the 400 basis points increase in the Policy rate.
- 1.4 The Reserve Bank of Malawi (RBM) held a foreign exchange auction with Authorised Dealer Banks in June 2023 which resulted in the depreciation of the Kwacha against the USD, GBP and EUR in Q2 2023. The Kwacha to US Dollar TT rate lost by 2.42% to close at K1,058.82 per USD during the quarter. However, the Kwacha appreciated against the ZAR during the period.
- 1.5 Headline inflation rate increased to 29.2% in May 2023 from 27.0% in March 2023 due to an increase in food inflation. Government projects an increase in annual average inflation rate to 24.5% in 2023 from 20.9% in 2022, while the Economist Intelligence Unit (EIU) projects an average of 30.6%.
- 1.6 Government projects a real GDP growth rate of 1.9% for 2023 from an estimated 1.1% growth in 2022, while the EIU expects growth to be depressed to 0.7% during the year.
- 1.7 The stock market registered a positive return on the Malawi All Share Index (MASI) of 35.32% in Q2 2023, higher than the return of 29.44% registered in Q1 2023 and 8.00% in Q2 2022.

## 2. Interbank market

- 2.1 Liquidity conditions in the banking system decreased in Q2 2023 compared to the levels registered in Q1 2023 and in Q2 2022. The banks' daily excess liquidity reserves held with the RBM averaged K45.72 billion in Q2 2023 compared to the average of K49.22 billion in Q1 2023 and K40.20 billion in Q2 2022.
- 2.2 The volume traded among banks on the interbank market increased in nominal terms to the average of K29.29 billion per day in Q2 2023 from the daily average of K21.25 billion per day in Q1 2023 and K12.75 billion in Q2 2022. Funds accessed through the Lombard Facility of the RBM increased to the average of K90.78 billion per day in Q2 2023 from K72.14 billion per day in Q1 2023 (K27.48 billion in Q2 2022).
- 2.3 The interbank borrowing rate increased to an average of 18.10% in Q2 2023 from the average of 15.01% in Q1 2023 (12.19% in Q2 2022). The Lombard rate increased to the average of 20.87% in Q2 2023 from 18.20% in Q1 2023 and was at 22.20% as at the end of the quarter. The increase in interbank rates followed an upward adjustment of the Policy rate to 22.00% from 18.00% by the MPC on 27th April 2022.

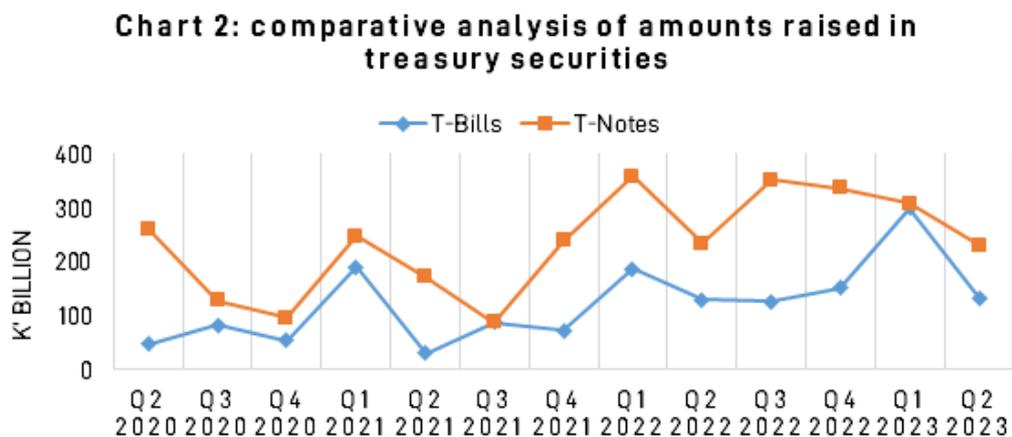
2.4 Chart 1 shows the decrease in liquidity levels and the increase in the interbank rate in Q2 2023 relative to previous quarter.



(Data source: Reserve Bank of Malawi)

### 3. Government securities

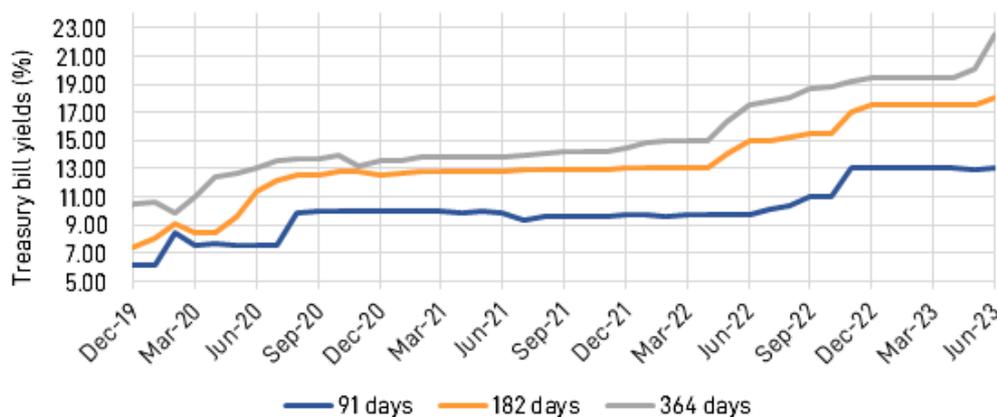
- 3.1 The Government raised K133.73 billion in auctions of Treasury Bills (TB) during Q2 2023, representing a decrease of 55.40% from K299.87 raised in Q1 2023, and an increase of 5.57% when compared to K130.38 billion raised in Q2 2022. Rejection rate was at 16.62%.
- 3.2 K231.18 billion was raised in auctions of Treasury Notes (TNs) in Q2 2023, representing a nominal decrease of 24.99% when compared to K308.18 billion raised in Q1 2023, and a decrease of 1.32% from K234.27 billion raised in Q2 2022.
- 3.3 Overall, the total amount raised by Government in the domestic market through issuance of Treasury securities (TBs and TNs combined) decreased to K364.91 billion in Q2 2023 from K608.06 billion in Q1 2023 (representing a decrease of 39.99%), and K364.65 billion in Q2 2022 (representing a slight increase of 0.07%) as shown in Chart 2:



(Data source: Reserve Bank of Malawi)

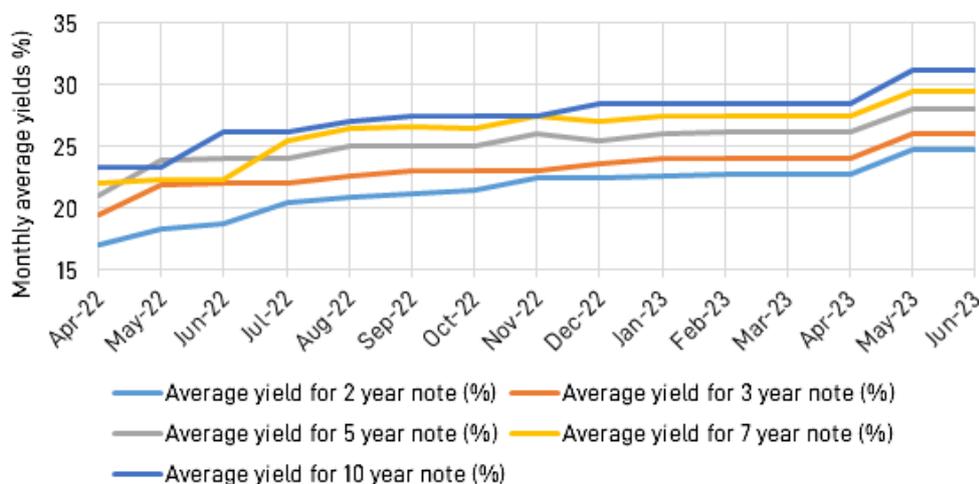
- 3.4 Yields on Government securities increased during Q2 2023 relative to the levels registered in Q1 2023 and Q2 2022. The all-type average TB yield increased to 17.12% in Q2 2023 from 16.67% in Q1 2023 and 13.35% in Q2 2022. The 364-day yield increased to an average of 20.69% in Q2 2023 from 19.50% in Q1 2023 and 16.28% in Q2 2022. The 182-day yield averaged 17.67% in Q2 2023, up from 17.50% in Q1 2023 and 14.03% in Q2 2022. The 91-day yield averaged 12.99% in Q2 2023 compared to 13.00% in Q1 2023 and 9.72% in Q2 2022.
- 3.5 Charts 3 and 4 and Table 1 indicate that yields of Treasury securities increased in Q2 2023 relative to the previous quarter, reflecting the upward adjustment of the Policy rate in April 2023.

**Chart 3: Monthly average Treasury bill yields**



(Data source: Reserve Bank of Malawi)

**Chart 4: Monthly average Treasury Note yields**



(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
Q2 2023 average yield	24.08%	25.33%	27.42%	28.83%	30.31%
Q1 2023 average yield	22.72%	24.00%	26.18%	27.50%	28.50%
Q4 2022 average yield	22.17%	23.49%	25.66%	26.99%	28.16%
Q3 2022 average yield	20.88%	22.58%	24.67%	26.18%	26.88%
Q2 2022 average yield	18.54%	21.13%	23.98%	22.33%	24.75%
2022 average yield	19.60%	21.65%	23.80%	24.39%	25.69%
2021 average yield	16.58%	18.87%	20.17%	20.77%	22.57%
2020 average yield	15.00%	16.29%	18.49%	19.85%	20.95%
%opt. increase: Q2 2023 vs Q1 2023	1.37%	1.33%	1.24%	1.33%	1.81%
%opt. increase: Q2 2023 vs Q2 2022	5.54%	4.20%	3.44%	6.50%	5.56%

(Data source: Reserve Bank of Malawi)

- 3.6 Looking ahead, upward risks on yields of Government securities are expected to remain high emanating from elevated inflation risks, a tight monetary policy and prevailing fiscal pressures.

## 4. Foreign exchange market

- 4.1 The Malawi Kwacha to USD telegraphic transfer (TT) exchange rate increased during Q2 2023 to close at K1058.52 per USD from K1033.80 as at the end of Q1 2023, representing a Kwacha depreciation of 2.42%.
- 4.2 During the same period, the Kwacha also depreciated against GBP and EUR by 4.75% and 2.29%, respectively, but appreciated against ZAR by 3.08%, as shown in Table 2a below.
- 4.3 In terms of TT quarterly averages, as Table 2b indicates, In Q2 2023 the Kwacha depreciated against USD, GBP and EUR by 0.28%, 3.24% and 1.74%, respectively, but appreciated against ZAR by 4.63%, compared to averages for Q1 2023.
- 4.4 The depreciation of the Kwacha during the quarter followed a foreign exchange auction the Reserve Bank of Malawi held with Authorised Dealer Banks in June 2023 aimed at facilitating the discovery of prevailing market clearing exchange rates for the Kwacha against major currencies.

**Table 2a: End period TT middle exchange rates**

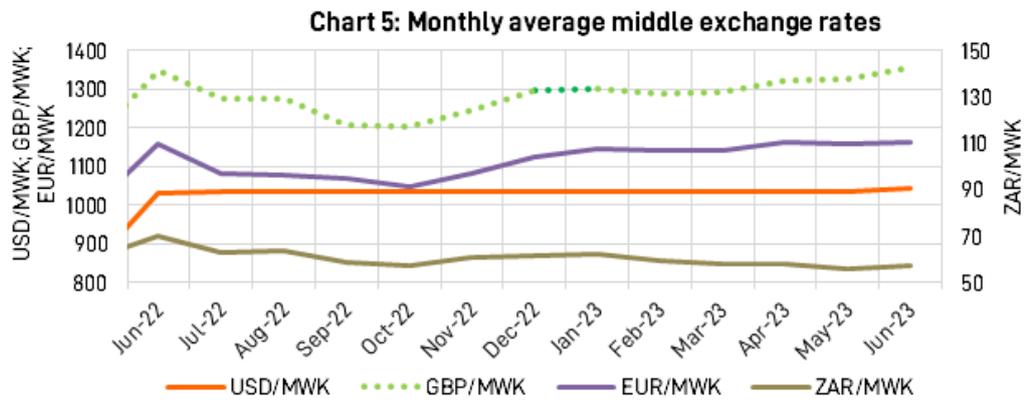
Currency	Jun-23	Mar-23	Dec-22	Sep-22	Jun-22	Jun 2023 - Mar 2023 Change	Jun 2023 - Jun 2022 Change
USD/MWK	1058.82	1033.80	1034.67	1033.79	1033.36	▼ 2.42%	▼ 2.46%
GBP/MWK	1377.77	1315.33	1282.60	1180.36	1289.26	▼ 4.75%	▼ 6.87%
EUR/MWK	1183.15	1156.66	1130.92	1068.06	1108.47	▼ 2.29%	▼ 6.74%
ZAR/MWK	57.92	59.76	62.69	58.78	65.02	▲ -3.08%	▲ -10.92%

Table 2b: Average TT middle exchange rates

Currency	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q2 2023 - Q1 2023 Change	Q2 2023 - Q2 2022 Change
USD/MWK	1037.70	1034.77	1035.01	1034.56	903.13	0.28%	14.90%
GBP/MWK	1335.37	1293.52	1248.25	1251.70	1239.05	3.24%	7.77%
EUR/MWK	1161.46	1141.60	1085.05	1075.83	1053.51	1.74%	10.25%
ZAR/MWK	56.98	59.75	59.76	61.74	65.23	-4.63%	-12.64%

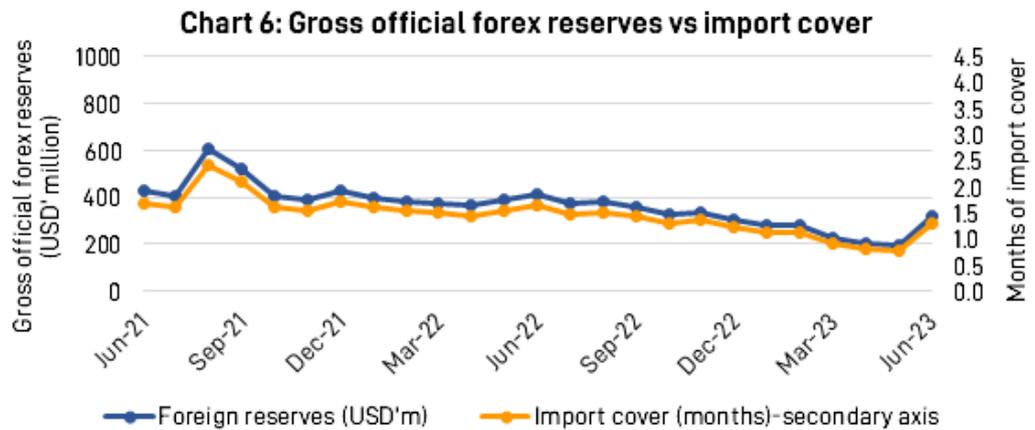
(Data source: Reserve Bank of Malawi)

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



(Data source: Reserve Bank of Malawi)

4.5 Forex exchange shortages remained prevalent during the quarter, However, gross official forex reserves increased to \$321.53m (1.29 months of import cover) in June 2023 from \$228.49m (0.91 month of import cover) in March 2023, on account of inflows from agricultural exports and disbursement of project funds from development partners. The reserves have been below the recommended 3 months of import cover since November 2020.



(Data source: Reserve Bank of Malawi)

4.6 The tobacco market has been registering better performance in 2023 compared the same period in 2022, as shown in Table 2c below:

Table 2c: Cummulative tobacco sales			
Date	Week 12 2023 as at 30 June	% Δ	Week 12 2022 as at 17 June
Volume (million kg)	103.21	↑ 99.25%	51.80
Value (USD'million)	240.75	↑ 123.54%	107.70
Average price (USD/Kg)	2.33	↑ 12.02%	2.08

(Data source: AHL Limited)

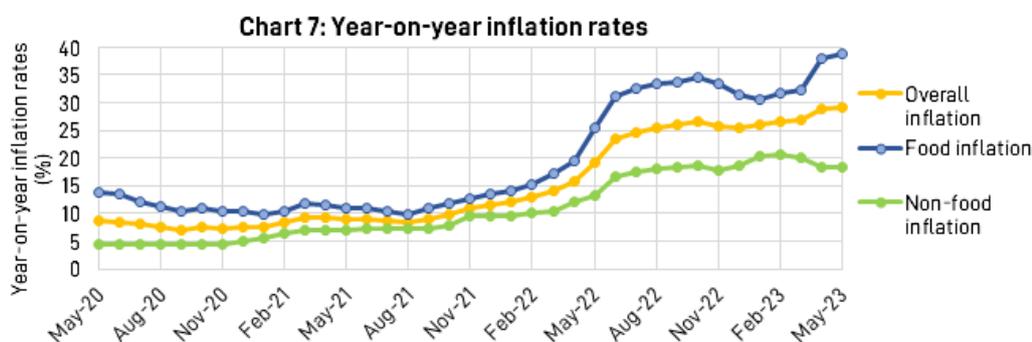
4.7 Looking forward, the Kwacha is expected to continue depreciating in the short to medium term as the forex supply/demand imbalance remains high, and the pressure to further realign the official exchange rate to the cash market rate also remains high.

## 5. Inflation

5.1 Inflation pressures remained high during the quarter under review.

5.2 The year-on-year inflation rate increased to 29.2% in May 2023 from 27.0% in March 2023 (19.1% in May 2022) due to an increase in food inflation rate to 38.8% in May 2023 from 32.4% in March 2023, while non-food inflation rate decreased to 18.4% in May 2023 from 20.2% in March 2023.

5.3 Chart 7 depicts the trend of inflation rate in the past three years.



(Data source: National Statistical Office)

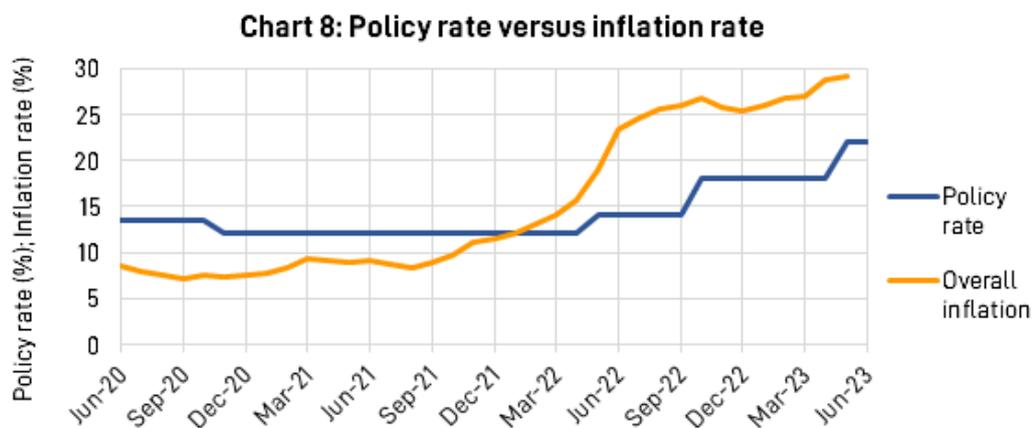
5.4 Looking ahead, Inflation is expected to remain elevated in the short to medium term due to continued foreign exchange shortages and the resultant depreciation of the Kwacha, relatively lower food harvest in 2023 compared to 2022, and high fiscal pressures, among other factors.

5.5 The EIU projects an average inflation rate of 30.6% and expect a year-end inflation rate of 35.4% in 2023.

5.6 The RBM projected an average headline inflation rate of 24.5% in 2023 from 20.9% in 2022 in their Q2 monetary policy statement.

## 6. Monetary policy

- 6.1 The MPC held its second meeting on 26th and 27th April 2023 during which they increased the Policy rate from 18.0% to 22.0% and effectively the Lombard rate from 18.2% to 22.2%. The MPC also raised the LRR on domestic currency deposits from 3.75% to 5.75% but maintained the LRR on foreign currency deposits at 3.75%. The MPC tightened the monetary policy stance in order to address inflationary pressures which are expected to remain elevated in 2023.
- 6.2 Chart 8 indicates that the Policy rate has been below headline inflation rate since January 2022.



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

- 6.3 The Market Reference Rate (MRR) for commercial banks increased to 21.0% in June 2023 from 17.3% in March 2023 following the increase in the Policy rate.
- 6.4 Looking ahead, upward risks for interest rates are expected to remain high emanating from elevated inflation risks.
- 6.5 The next Monetary Policy Committee (MPC) meeting is scheduled for 26 and 27 July 2023.

## 7. Economic growth

- 7.1 The Government projects a real GDP growth rate of 1.9% for 2023 from an estimated 1.1% growth in 2022, anchored on expected growth in manufacturing (1.0%), utilities (5.1%) and wholesale and retail trade (0.6%) which in 2022 registered negative growth rates.
- 7.2 Other industries including construction; mining and quarrying; accommodation and food services; transport and storage; real estate and agriculture sectors are also forecasted to register notable growth rates of 4.0%, 3.3%, 3.3%, 3.2%, 2.2% and 1.0 %, respectively.
- 7.3 The EIU projects a real GDP growth rate of 0.7% for 2023. They expect growth to be undermined by weather shocks (Cyclone Freddy), huge funding gaps and a severe

- 7.3 monetary tightening shock. Consumer spending will also be hit hard by high inflation and high borrowing costs.
- 7.4 Higher growth is expected from 2024 supported by improved funding brought about by a possible three-year Extended Credit Facility (ECF), alongside gradual monetary policy loosening.

Table 3a: Annual real output growth rates by typ of activity (at 2017 prices)					
Sector	2019	2020	2021	2022*	2023*
Agriculture	5.9	3.4	3.8	0.9	1.0
Mining and quarrying	7.4	3.1	-3.6	2.5	3.3
Manufacturing	7.6	4.2	4.1	-1.9	1.0
Utilities	7.6	4.7	-1.8	-2.8	5.1
Construction	7.8	3.7	2.8	3.4	4.0
Wholesale and retail trade	6.0	-0.1	3.3	-2.1	0.6
Transport and storage	8.8	-6.9	5.7	2.1	3.2
Accommodation and food service activities	3.4	-23.4	1.7	6.5	3.3
Information and communication	9.3	5.9	6.9	1.5	3.2
Financial and Insurance services	5.1	4.8	6.3	5.4	3.7
Real estate activities	2.8	3.1	4.5	1.5	2.2
Public administration and defense	9.5	4.2	3.6	4.9	3.6
<b>GDP in 2017 constant prices</b>	<b>5.4</b>	<b>0.8</b>	<b>4.6</b>	<b>1.1</b>	<b>1.9</b>

Source: RBM Financial and Economic Review, published on 1 June 2023  
\* Projections

Table 3b: Projections by the Economist Intelligence Unit						
	2022e	2023f	2024f	2025f	2026f	2026f
<b>GDP at constant market prices (% change)</b>	<b>1.1</b>	<b>0.7</b>	<b>2.0</b>	<b>2.5</b>	<b>3.2</b>	<b>3.5</b>
Agriculture	1.1	1.0	1.3	1.5	2.2	2.6
Industry	1.7	0.2	1.6	2.3	2.6	3.0
Services	1.0	0.7	2.5	3.1	3.9	4.1

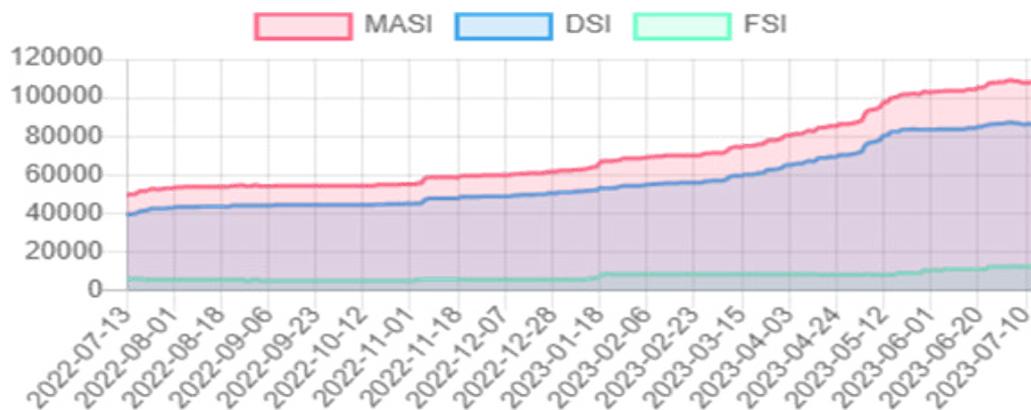
Source: Malawi Country Report - Q2 2023

## 8. Stock market performance

- 8.1 In Q2 2023, the Malawi Stock Exchange (MSE) registered a positive return on index of 35.32% (31.85% in US\$ terms), higher than 29.44% (29.44% in US\$ terms) registered in Q1 2023 and 8.00% (-14.10% in US\$ terms) registered in Q2 2022. The Foreign Share Index registered a higher return (46.47%) than the Domestic Share Index (34.19%).
- 8.2 The Year-to-date (YTD) return on the MASI stood at 75.15% as at the end of June 2023, compared to the YTD return of 9.32% during the same period in 2022.
- 8.3 13 companies registered share price gains, 1 company registered no share price movement and 2 companies registered share price losses during the quarter.
- 8.4 The market also registered an increase in both total volume and total value of shares traded during Q2 2023 compared to the volume and value traded in Q2 2022. The market

- 8.4 transacted a total of 232,382,498 shares at a total consideration of K24.96 billion (US\$24.15 million) in 3,396 trades during Q2 2023. This is compared to 118,816,338 shares traded at a total consideration of K6.85 billion (US\$6.68 million) in 1,545 trades in Q1 2023, and 166,088,409 shares traded at a total consideration of K11.98 billion (US\$14.26 million) in 929 trades in Q2 2022.
- 8.5 Chart 9 shows a graphical analysis of the Malawi All Share Index (MASI), Domestic Share Index (DSI) and Foreign Share Index (FSI) over the past year and Table 4 shows performance of individual companies in Q2 2023.

**Chart 9: Malawi Stock Exchange share price indices**



(Chart source: Malawi Stock Exchange)

**Table 4: Share trading summary**

	30 Jun 2023 - 31 Mar 2023 (quarterly) price change			30 Jun 2023 - 31 Dec 2022 (year to date) price change	
	30-Jun-23	31-Mar-23	31-Dec-22	(%)	(%)
<b>Market indices</b>					
MASI	108,656.97	80,298.12	62,036.05	35.32%	75.15%
DSI	87,071.03	64,886.76	50,804.03	34.19%	71.39%
FSI	12,276.49	8,381.79	5,614.30	46.47%	118.66%
<b>Gainers</b>					
NBS	131.90	62.89	34.00	109.73%	287.94%
TNM	29.97	15.50	14.00	93.35%	114.07%
NITL	350.00	200.01	124.99	74.99%	180.02%
FDHB	63.95	38.98	17.37	64.06%	268.16%
ICON	18.99	11.89	11.95	59.71%	58.91%
SUNBIRD	180.52	120.00	92.06	50.43%	96.09%
ILLOVO	1121.41	750.00	540.00	49.52%	107.67%
FMBCH	245.39	166.98	110.86	46.96%	121.35%
AIRTEL	100.06	75.01	56.64	33.40%	76.66%
NICO	163.04	136.00	60.00	19.88%	171.73%
NBM	2046.71	1766.29	1542.05	15.88%	32.73%
OMU	960.00	880.04	985.00	9.09%	-2.54%
STANDARD	2350.01	2200.60	2000.16	6.79%	17.49%
<b>No price movement</b>					
MPICO	20.58	20.58	20.64	0%	-0.29%
<b>Losers</b>					
PCL	2181.26	2181.30	2181.37	-0.002%	-0.01%
BHL	10.06	10.96	10.97	-8.21%	-8.30%

(Data source: Malawi Stock Exchange)

## 9. Conclusions

- 9.1 Inflation pressures are expected to remain high on average in 2023 owing to persistent pressures on domestic prices of both food and non-food items.
- 9.2 Upward risks on interest rates are expected to remain high in the short to medium term emanating from persistent high inflation pressures.
- 9.3 Currency depreciation pressures are also expected to remain high in 2023 as the forex reserves position remains relatively low, despite the seasonal improvement in the supply of forex observed in Q2 2023.
- 9.4 The stock market remains vibrant, registering positive return in the Malawi All Share Index and an increase in trading activity.
- 9.5 Malawi is expected to register subdued economic growth in 2023, largely reflecting the impact of lower agricultural production during the year caused by weather shocks, in addition to continued low supply of forex.



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**2022**



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Medium term note

Lead arranger

**2020**



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**Medium term note**

Lead arranger & local agent bank

**2020**



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**Establishment of a national development finance institution in Malawi**

Lead arranger

**2019**



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**Trade finance intermediary Malawi**

**2019**



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