



INVESTMENT BANK

# Economic review

Third  
quarter 2022

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# Economic review Third quarter 2022

## 1. Executive summary

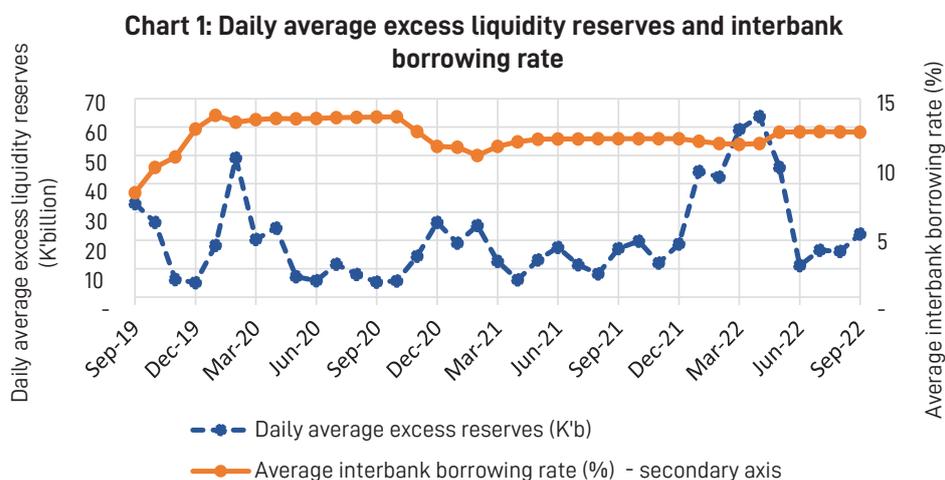
- 1.1 Malawi's economic environment was dominated by the following during the third quarter (Q3) of 2022:
  - 1.1.1 Relatively lower levels of liquidity on the interbank market compared to the previous quarter.
  - 1.1.2 Continued shortage of foreign currency which resulted in further weakening of the Kwacha. The Kwacha to US Dollar TT rate lost by 0.04% to close at K1,033.7944 per USD, and the bureaux USD cash exchange rate lost 7.69% to close at K1,357.8750 per USD.
  - 1.1.3 Persistent inflation pressures emanating from continued rise in prices of food and prices of imports. The average headline inflation rate increased to 25.3% in Q3 2022 from 19.4% in Q2 2022.
  - 1.1.4 Continued rise in yields of Government securities necessitated by high Government borrowing and persistent inflation pressures.
  - 1.1.5 Stable monetary policy rate at 14.0% during the quarter. The Monetary Policy Committee (MPC), however, increased the Policy rate to 18% on 26th October 2022.
  - 1.1.6 A positive return and an increase in trading activity on the stock market compared to the previous quarter.
- 1.2 The challenging domestic and global economic environment has affected the country's economic growth for 2022, with the Reserve Bank of Malawi (RBM), the International Monetary Fund (IMF) and the Economist Intelligence Unit (EIU) projecting growth rates of 1.7%, 0.9% and 1.8%, respectively, compared to the growth rate of 3.9% registered in 2021. An improvement is expected in 2023, with the RBM, IMF and EIU projecting growth rates of 2.6%, 2.5% and 3.0%, respectively.

## 2. Interbank market

- 2.1 Liquidity conditions in the banking system decreased in Q3 2022 compared to the levels registered in Q2 2022. The banks' daily excess liquidity reserves held with RBM averaged K18.29 billion in Q3 2022 compared to the average of K40.20 billion in Q2 2022. However, the daily average for Q3 2022 was higher than the average of K12.22 billion registered in Q3 2021.
- 2.2 The volume traded among banks on the interbank market increased in nominal terms to the average of K21.58 billion per day in Q3 2022 from the daily average of K12.75 billion during Q2 2022 (K12.95 billion in Q3 2021). Funds accessed through the Lombard Facility of the RBM decreased to the average of K25.70 billion per day in Q3 2022 from K27.48 billion in Q2 2022 (K58.82 billion in Q3 2021).
- 2.3 The interbank borrowing rate increased to an average of 12.49% in Q3 2022 from the average of 12.19% in Q2 2022 (11.97% in Q3 2021). The Lombard rate increased to 14.20% in Q3 2022 from the average of 13.49% in Q2 2022. The increase in interbank

rates followed an upward adjustment of the Policy rate to 14.00% from 12.00% by the MPC on 29th April 2022.

2.4 Chart 1 shows the decrease in liquidity levels and the increase in the interbank rate in Q3 2022 relative to previous quarters.



(Data source: Reserve Bank of Malawi)

### 3. Government securities

3.1 The Government raised K126.78 billion in auctions of Treasury Bills (TB) during Q3 2022, representing a decrease of 2.76% from K130.38 billion raised in Q2 2022, and an increase of 44.74% when compared to K87.59 billion raised in Q3 2021. Rejection rate was at 10.00%.

3.2 K351.78 billion was raised in auctions of Treasury Notes (TNs) in Q3 2022, compared to K234.27 billion in Q2 2022, representing a nominal increase of 50.16% (K87.44 billion in Q3 2021).

3.3 Overall, the total amount raised by Government in the domestic market through issuance of Treasury securities (TBs and TNs combined) increased to K478.56 billion in Q3 2022 from K364.65 billion in Q2 2022 (K175.03 billion in Q3 2021) as shown in Chart 2:

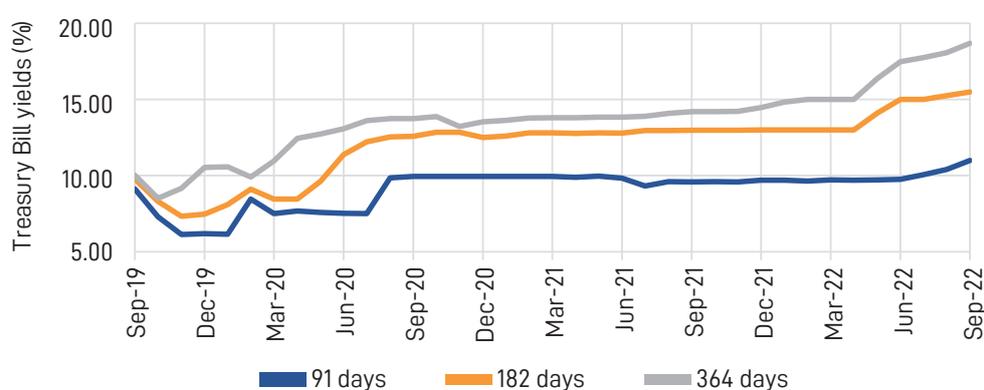
**Chart 2: Comparative analysis of amounts raised in treasury securities**



(Data source: Reserve Bank of Malawi)

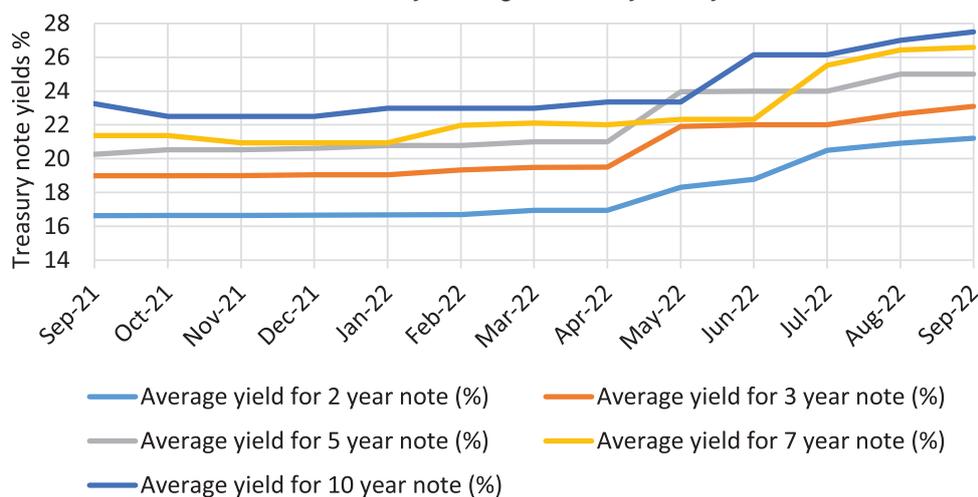
- 3.4 Yields on Government securities increased during Q3 2022 relative to the levels registered in Q2 2022. The all-type average TB yield increased to 14.63% in Q3 2022 from 13.35% in Q2 2022 (12.18% in Q3 2021). The 364-day yield increased to an average of 18.16% in Q3 2022 from 16.28% in Q2 2022 (14.06% in Q3 2021). The 182-day yield averaged 15.24% in Q3 2022, up from 14.03% in Q2 2022 (12.97% in Q3 2021); while the 91-day yield increased to 10.49% in Q3 2022 from 9.72% in Q2 2022 (9.51% in Q3 2021).
- 3.5 Charts 3 and 4, and Table 1 indicate that yields of Treasury securities continued to rise in Q3 2022, largely reflecting rising inflation pressures, increased Government borrowing, the upward adjustment of the Policy rate in April 2022 and the devaluation of the Kwacha.

**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
<b>Q3 2022 yield</b>	20.88%	22.58%	24.67%	26.18%	27.17%
<b>Q2 2022 yield</b>	18.54%	21.13%	23.98%	22.33%	24.75%
<b>Q1 2022 yield</b>	16.82%	19.41%	20.89%	22.05%	22.98%
<b>Q3 2021 yield</b>	16.63%	18.99%	20.12%	21.36%	23.00%
<b>2021 average</b>	16.58%	18.87%	20.17%	20.77%	22.57%
<b>2020 average</b>	15.00%	16.29%	18.49%	19.85%	20.95%
<b>%pt. increase: Q3 2022 vs Q2 2022</b>	2.33	1.45	0.69	3.85	2.42
<b>%pt. increase: Q3 2022 vs Q3 2021</b>	4.25	3.59	4.55	4.82	4.17

(Data source: Reserve Bank of Malawi)

- 3.6 Looking ahead, yields on Government securities could continue to be high due to high domestic and global inflationary pressures, high Government borrowing, as well as the recent Kwacha devaluation. The local debt issuance calendar published by RBM indicates that the Government plans to raise a total of K630.71 billion from Treasury bills (K276.82 billion) and Treasury notes (K356.89 billion) in Q4 2022.

## 4. Foreign exchange market

- 4.1 Foreign exchange supply-demand imbalances persisted in Q3 2022, resulting in further weakening of the Kwacha.
- 4.2 The Malawi Kwacha to USD TT exchange rate lost by 0.04% to close at K1,033.79 per USD, while the bureaux USD cash exchange rate lost 7.69% to close at K1,357.88 per USD.
- 4.3 The Kwacha, however, appreciated against GBP, EUR and ZAR by 8.45%, 3.65% and 9.59%, respectively, between the end of Q2 2022 and the end of Q3 2022, as shown in Table 2a below.
- 4.4 In terms of TT quarterly averages, as Table 2b indicates, the Kwacha depreciated against USD, GBP and EUR by 14.55%, 1.02% and 2.12%, respectively, but appreciated against ZAR by 5.34% in Q3 2022 compared to averages for Q2 2022.
- 4.5 Chart 4 shows that while the Kwacha was relatively stable against the USD during the Q3 2022, it strengthened against GBP, EUR and ZAR during the period.

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

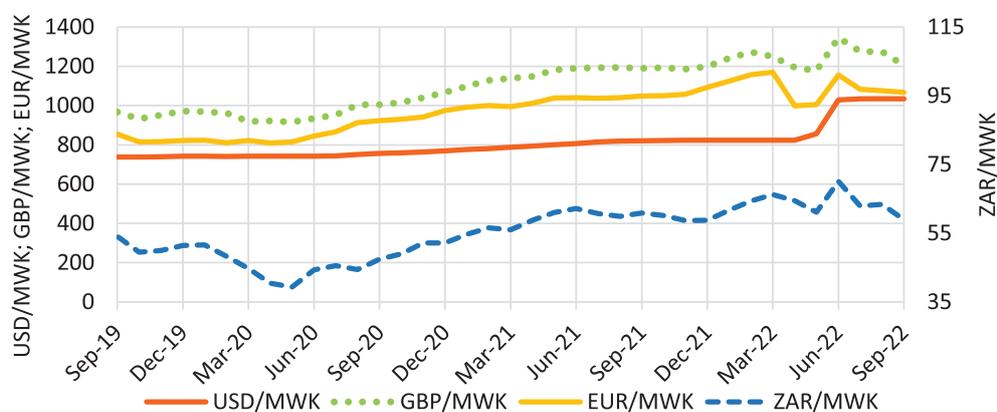
Currency	Sep-22	Jun-22	Mar-22	Dec-21	Sep-21	Sep 2022 - Jun 2022 Change	Sep 2022 - Sep 2021 Change
USD/MWK	1033.79	1033.36	823.60	819.44	822.17	↑ 0.04%	↓ 25.74%
GBP/MWK	1180.36	1289.26	1214.22	1208.01	1170.47	↑ -8.45%	↓ 0.84%
EUR/MWK	1068.06	1108.47	1031.32	1138.41	1026.14	↑ -3.65%	↓ 4.09%
ZAR/MWK	58.78	65.02	66.90	57.68	58.89	↓ -9.59%	↑ -0.19%

**Table 2b: Average middle exchange rates**

Currency	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q3 2022 - Q2 2022 Change	Q3 2022 - Q3 2021 Change
USD/MWK	1034.56	903.13	823.45	822.98	818.15	↓ 14.55%	↓ 26.45%
GBP/MWK	1251.70	1239.05	1254.88	1192.31	1192.71	↓ 1.02%	↓ 4.95%
EUR/MWK	1075.83	1053.51	1150.84	1066.91	1042.75	↓ 2.12%	↓ 3.17%
ZAR/MWK	61.74	65.23	64.09	59.21	60.49	↑ -5.34%	↓ 2.07%

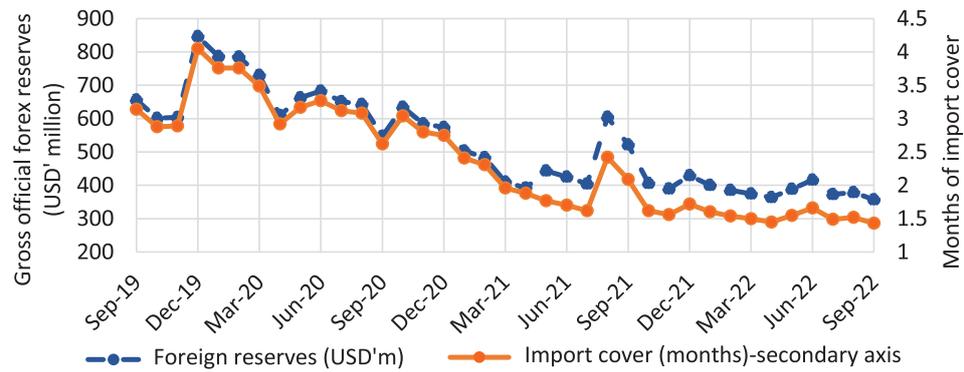
(Data source: Reserve Bank of Malawi)

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

**Chart 5: Monthly average middle exchange rates**

(Data source: Reserve Bank of Malawi)

- 4.6 Gross official forex decreased to USD357.18m (1.43 months of import cover) as at 30th September 2022 from USD415.73m (1.66 months of import cover) as at 30th June 2022. The reserves have been below the recommended 3 months of import cover since November 2020.

**Chart 6: Gross official forex reserves vs Import cover**

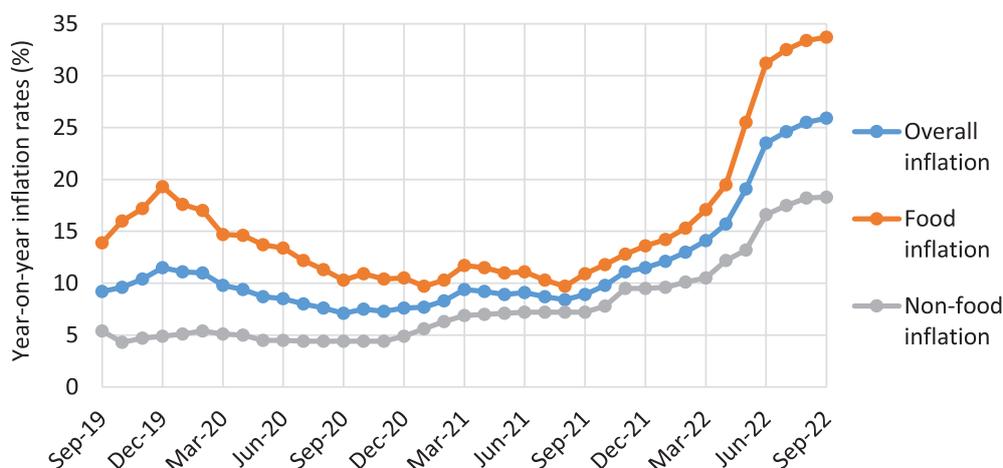
(Data source: Reserve Bank of Malawi)

- 4.7 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 high import bill and weak exports. The IMF and Malawi Government discussions on the extended credit facility were halted to allow the Malawi Government sort out debt issues which has reached unsustainable levels. However, the IMF and Malawi recently reached a staff level agreement for Malawi to receive up to about US\$88.3 million in emergency financing through the IMF's new Food Shock Window under the Rapid Credit Facility 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.

## 5. Inflation

- 5.1 Inflation continued to increase during the quarter under review. The year-on-year headline inflation rate rose to 25.9% in September 2022 from 23.5% in June 2022 (8.9% in September 2021). The average headline inflation rate increased to 25.3% in Q3 2022 from 19.4% in Q2 2022.
- 5.2 Food inflation rate increased to 33.7% in September 2022 from 31.2% in June 2022, while non-food inflation rate increased to 18.3% in September 2022 from 16.6% in June 2022.
- 5.3 The contributing factors to the rise in inflation remain the 25% devaluation of the Malawi Kwacha effected in May 2022 and forex shortages, which continue to push up prices of imports, as well as rising food prices.
- 5.4 Chart 6 depicts the trend of inflation rate in the past four years.

Chart 7: Year-on-year inflation rates



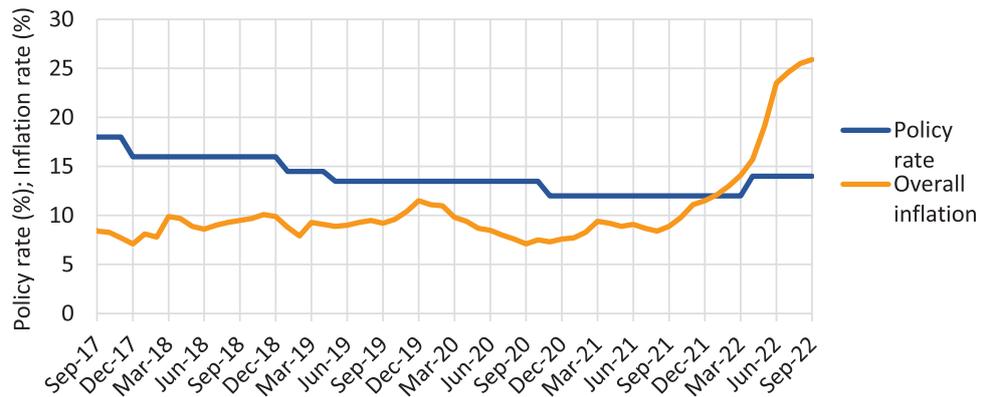
(Data source: National Statistical Office)

- 5.5 Looking ahead, inflation could remain elevated in the short to medium term. Key contributing factors include an expected large increase in electricity tariffs, high prices of agricultural inputs, continued shortage of forex, and continued rise in global commodity prices.
- 5.6 The RBM projects a rise in annual average inflation from 9.3% in 2021 to 21.5% in 2022 and 21.8% in 2023.
- 5.7 The Economist Intelligence Unit (EIU) in its Q3 2022 Country Report for Malawi forecasted an average inflation rate of 22.0% in 2022, from the average of 9.3% in 2021, and expect an average of 17.6% in 2023.

## 6. Monetary policy

- 6.1 The Monetary Policy Committee (MPC) held its third meeting of 2022 on 27th July during which they decided to hold the Policy Rate at 14%, the Liquidity Reserve Requirement Ratio at 3.75% and the Lombard Rate at 14.2%. The decision was necessitated by the need to allow more time for the impact of the April 2022 policy rate increase from 12.0% to 14.0% to transmit through the economy.
- 6.2 The MCP held its fourth meeting on 25th and 26th October 2022 during which they increased the Policy rate from 14% to 18% and effectively the Lombard rate from 14.2% to 18.2%. The decision was deemed necessary to restore price stability, which is essential for reviving and sustaining high economic growth.
- 6.3 Chart 8 indicates that the Policy rate has been below headline inflation rate since January 2022.

Chart 8: Policy rate versus Inflation rate



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

- 6.4 The Market Reference Rate (MRR) for commercial bank was largely stable during the quarter, rising slightly to 13.9% in September 2022 from 13.8% in June 2022.
- 6.5 Looking ahead, with the 400 basis points increase in the Policy rate, market interest rates are expected to increase significantly in the short to medium term.

## 7. Economic growth

- 7.1 The Russia-Ukraine war and its unfavorable effects on supply chains, commodity markets, inflation and financial conditions have slowed down global economic recovery since the effects of Covid-19 pandemic began to wane.
- 7.2 According to the World Economic Outlook Report for October 2022 by the IMF, global economic growth rate is expected to slow down to 3.2% in 2022 from 6.0% in 2021. The Sub-Saharan African Region economy is expected to grow by 3.6% in 2022 from 4.7% in 2021. For 2023, the world economy is projected to grow by 2.7% and the Sub-Saharan African region economy is expected to grow by 3.7%.
- 7.3 Malawi's economic growth in 2022 has been negatively impacted by an expected contraction of the agricultural sector caused by weather-related shocks, in addition to the global effects of the Russia-Ukraine invasion which have contributed to the instability in domestic macroeconomic fundamentals. Further, the industry and services sector have been affected by low electricity generation resulting from damaged infrastructure caused by cyclones.
- 7.4 The RBM projects a real growth rate of 1.7% for Malawi in 2022, while the IMF and the EIU project growth rates of 0.9% and 1.8%, respectively. These projections are lower than the growth rate of 3.9% the country registered in 2021.
- 7.5 For 2023, the RBM, IMF and EIU expect Malawi's economic growth rate to improve to 2.6%, 2.5% and 3.0%, respectively, owing to possible improvements in domestic and global macroeconomic conditions and electricity generation, among other factors.

Table 3: Real GDP growth projections					
Institution	Region	2020	2021e	2022f	2023f
RBM/Government	Malawi	0.8%	3.9%	1.7%	2.6%
IMF	World	-3.0%	6.0%	3.2%	2.7%
	<b>Malawi</b>	<b>0.9%</b>	<b>2.2%</b>	<b>0.9%</b>	<b>2.5%</b>
	Sub-Saharan Africa	-1.6%	4.7%	3.6%	3.7%
World Bank	World	-3.3%	5.7%	2.9%	3.0%
	<b>Malawi</b>	<b>0.8%</b>	<b>2.8%</b>	<b>2.1%</b>	<b>4.3%</b>
	Sub-Saharan Africa	-2.0%	4.2%	3.7%	3.8%
EIU	Malawi	-1.0%	5.8%	1.8%	3.0%

*e Estimate; f Forecast*

*RBM: Fourth 2022 Monetary Policy Statement*

*Government: Annual Economic Report 2022*

*IMF: World Economic Outlook - October 2022*

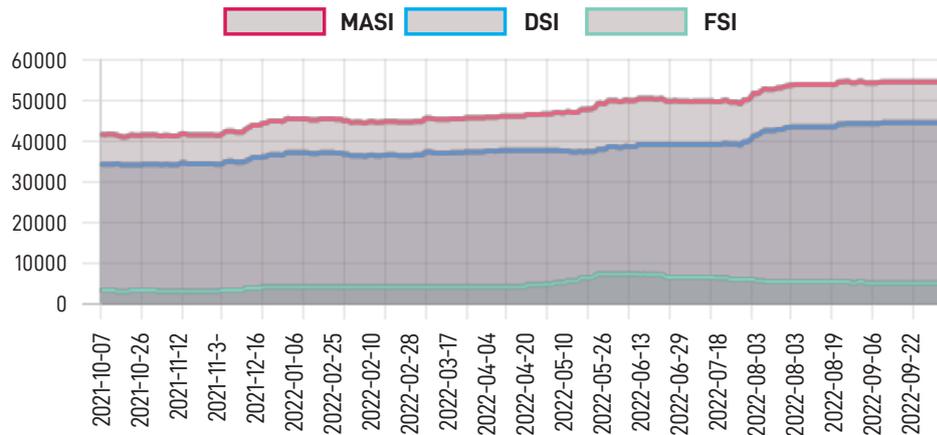
*World Bank: Malawi Economic Monitor - June 2022*

*EIU: Country Report Malawi - Second Quarter 2022*

## 8. Stock market performance

- 8.1 In Q3 of 2022, the market registered a positive return on index of 9.67% (9.67% in US\$ terms), 19.89% YTD, compared to 18.23% (16.79% in US\$ terms) in Q3 2021.
- 8.2 Top gainers during the quarter include Illovo Sugar Company Plc (63.65%), National Bank of Malawi Plc (15.98%), Standard Bank Malawi Plc (15.00%), Press Corporation Plc (14.81%) and Nico Holdings Plc (9.01%).
- 8.3 Top losers include FMB Capital Holdings Plc (-21.82%), Telkom Networks Malawi Plc (-14.21%), NBS Bank Plc (-0.48%), Icon Properties Plc (-0.25%) and Blantyre Hotels Plc (-0.18%).
- 8.4 The market also registered an increase in both total value of shares and total volume of shares traded.
- 8.5 Market liquidity improved, indicated by an increase in turnover velocity (TVT/MCAP) to 0.67% in Q3 2022 compared to 0.49% in Q3 2021.
- 8.6 Chart 8 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 Q3 2022.

Chart 9: Malawi Stock Exchange share price indices



(Data source: Malawi Stock Exchange)

Table 4: Share trading summary

	30-Sep-22	30-Jun-22	31-Dec-21	30-Sep-21	30 Sep 22 - 30 Jun 22 (Quarterly) price-change (%)	330 Sep 22 - 31 Dec 21 (Year-to-date) price change (%)	30 Sep 22 - 30 Sep 21 (Year-on-year) price change (%)
<b>Market indices</b>							
MASI	54,389.92	49,596.14	45,367.68	41,550.15	↑ 9.67%	↑ 19.89%	↑ 30.90%
DSI	44,360.30	39,011.21	37,061.70	34,266.54	↑ 13.71%	↑ 19.69%	↑ 29.46%
FSI	5,154.73	6,538.52	4,223.15	3,454.70	↓ -21.16%	↑ 22.06%	↑ 49.21%
<b>Gainers</b>							
ILLOVO	500.01	305.53	300.00	265.00	↑ 63.65%	↑ 66.67%	↑ 88.68%
NBM	1160.04	1000.25	810.12	676.00	↑ 15.98%	↑ 43.19%	↑ 71.60%
STANDARD	1840.10	1600.03	1400.00	1,250.00	↑ 15.00%	↑ 31.44%	↑ 47.21%
PCL	2181.41	1900.00	1900.00	1,494.98	↑ 14.81%	↑ 14.81%	↑ 45.92%
NICO	50.96	46.75	55.00	55.00	↑ 9.01%	↓ -7.35%	↓ -7.35%
FDHB	14.99	13.99	15.81	15.87	↑ 7.15%	↓ -5.19%	↓ -5.55%
AIRTEL	51.18	48.67	40.00	39.99	↑ 5.16%	↑ 27.95%	↑ 27.98%
NITL	112.00	110.03	94.98	80.71	↑ 1.79%	↑ 17.92%	↑ 38.77%
SUNBIRD	80.02	80.01	90.01	90.01	↑ 0.01%	↓ -11.10%	↓ -11.10%
<b>No movement</b>							
OMU	1600.00	1600.00	2,099.99	2,100.00	↑ 0.00%	↓ -23.81%	↓ -23.81%
<b>Losers</b>							
MPICO	20.67	20.70	20.70	21.00	↓ -0.14%	↓ -0.14%	↓ -1.57%
BHL	10.99	11.01	11.01	11.00	↓ -0.18%	↓ -0.18%	↓ -0.09%
ICON	11.97	12.00	12.89	12.11	↓ -0.25%	↓ -7.14%	↓ -1.16%
NBS	22.66	22.77	22.90	25.07	↓ -0.48%	↓ -1.05%	↓ -9.61%
TNM	12.01	14.00	22.92	23.22	↓ -14.21%	↓ -47.60%	↓ -48.28%
FMBCH	100.05	127.98	80.00	64.49	↓ -21.82%	↑ 25.06%	↑ 55.14%

(Data source: Malawi Stock Exchange)

## 9. Conclusions

- 9.1 The Malawian economy remains fragile.
- 9.2 Inflation pressures are expected to remain high in the short to medium term owing to continued rise in domestic and global prices of both food and non-food items.
- 9.3 Interest rates are expected to increase in the short to medium term following the 400 basis points increase in the Policy rate.
- 9.4 Depreciation pressures are also expected to remain high as the forex reserves position remains low.
- 9.5 The stock market remains vibrant, registering positive return and an increase in trading activity, despite the challenging economic environment.
- 9.6 Malawi's economic growth is expected to slow down to 1.7% in 2022 from 3.9% in 2021 on account of the challenging economic environment. An improvement, however, is expected in 2023 (2.6%) as the macroeconomic challenges begin to dissipate.



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**2021**



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AHL GROUP PLC

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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