



INVESTMENT BANK

First quarter economic review

2023



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First quarter economic review



1. Executive summary

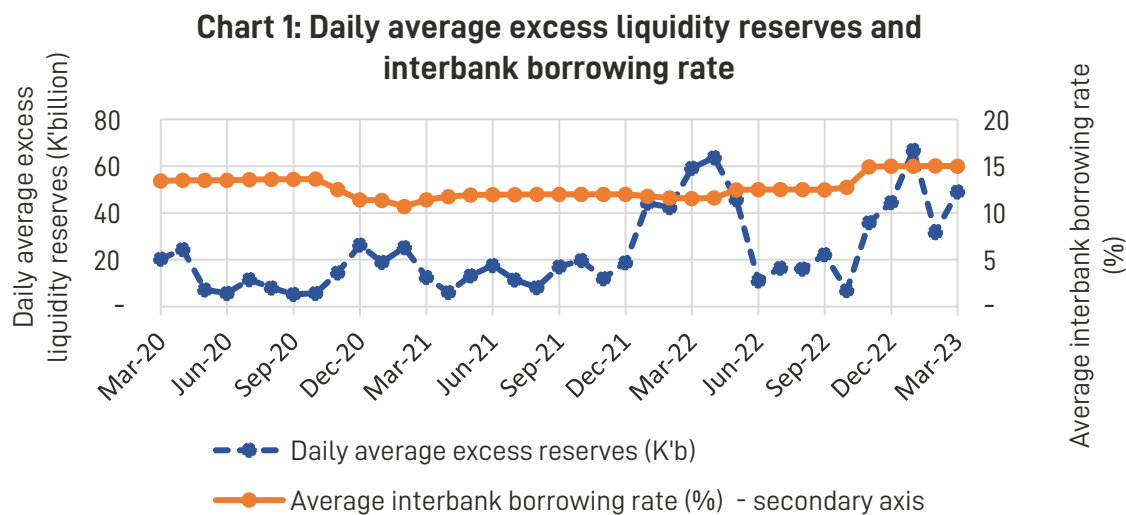
- 1.1 Malawi's economic environment was dominated by the following during the first quarter (Q1) of 2023:
 - 1.1.1 Relatively higher levels of liquidity on the interbank market compared to the previous quarter.
 - 1.1.2 A relatively stable Kwacha/USD TT exchange rate despite the continued shortage of foreign currency. The Kwacha to US Dollar TT rate marginally gained by 0.08% to close at K1,033.80 per USD, while the bureaux Kwacha/USD cash exchange rate lost by 4.5% to close at K1,491.98 per USD at the end of the quarter.
 - 1.1.3 Persistent inflation pressures emanating from continued rise in prices of both food and non-food items. The year-on-year headline inflation rate rose to 27.0% in March 2023 from 25.4% in December 2022 and the average headline inflation rate increased to 26.5% in Q1 2023 from 26.0% in Q4 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 18.0% during the quarter. The Monetary Policy Committee (MPC), however, increased the Policy rate to 22% and the Liquidity Reserve Requirement (LRR) ratio to 5.75% from 3.75% on 27th April 2023.
 - 1.1.6 A positive return and an increase in trading activity on the stock market compared to the previous quarter.
- 1.2 The government's earlier projection of 2.7% for real GDP growth rate is expected to be revised downwards largely to reflect the impact of Cyclone Freddy on the economy as well as protracted foreign exchange shortages and electricity power cuts.

2. Interbank market

- 2.1 Liquidity conditions in the banking system increased in Q1 2023 compared to the levels registered in Q4 2022 and in Q1 2022. The banks' daily excess liquidity reserves held with the Reserve Bank of Malawi (RBM) averaged K49.22 billion in Q1 2023 compared to the average of K29.74 billion in Q4 2022 and K48.60 billion in Q1 2022.
- 2.2 The volume traded among banks on the interbank market increased in nominal terms to the average of K21.25 billion per day in Q1 2023 from the daily average of K17.24 billion during Q4 2022 and K17.05 billion in Q1 2022. Funds accessed through the Lombard Facility of the RBM increased to the average of K72.14 billion per day in Q1 2023 from K41.02 billion in Q4 2022 (K18.72 billion in Q1 2022).
- 2.3 The interbank borrowing rate increased to an average of 15.01% in Q1 2023 from the average of 14.23% in Q4 2022 (11.64% in Q1 2022). The Lombard rate increased to 18.20% from the average of 17.01% in Q4 2022. The increase in interbank rates followed an upward adjustment of the Policy rate to 18.00% from 14.00% by the MPC in October 2022.



- 2.4 Chart 1 shows the increase in liquidity levels and the increase in the interbank rate in Q1 2023 relative to previous quarter.

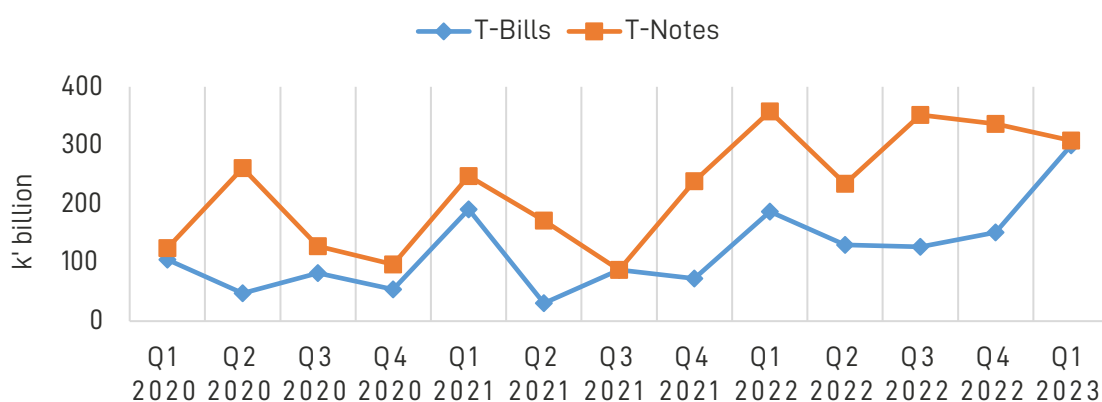


(Data source: Reserve Bank of Malawi)

3. Government securities

- 3.1 The Government raised K299.87 billion in auctions of Treasury Bills (TB) during Q1 2023, representing an increase of 97.96% from K151.48 billion raised in Q4 2022, and an increase of 60.34% when compared to K187.02 billion raised in Q1 2022. Rejection rate was at 10.20%.
- 3.2 K308.18 billion was raised in auctions of Treasury Notes (TNs) in Q1 2023, representing a nominal decrease of 8.54% when compared to K336.97 billion raised in Q4 2022, and a decrease of 13.92% from K358.02 billion raised in Q1 2022.
- 3.3 Overall, the total amount raised by Government in the domestic market through issuance of Treasury securities (TBs and TNs combined) increased to K608.06 billion in Q1 2023 from K488.45 billion in Q4 2022 (representing a 24.49% increase), and K545.04 billion in Q1 2022 (representing an 11.56% increase) as shown in Chart 2:

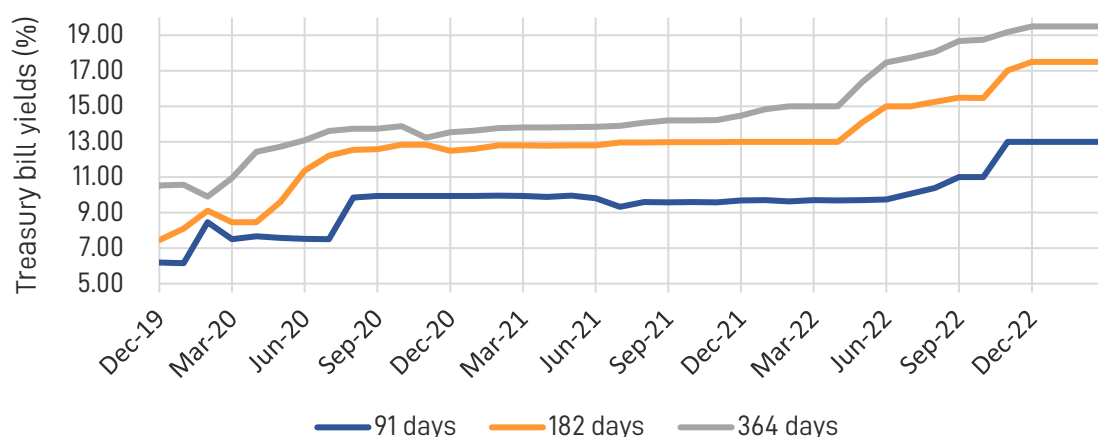
Chart 2: Comparative analysis of amounts raised in treasury securities



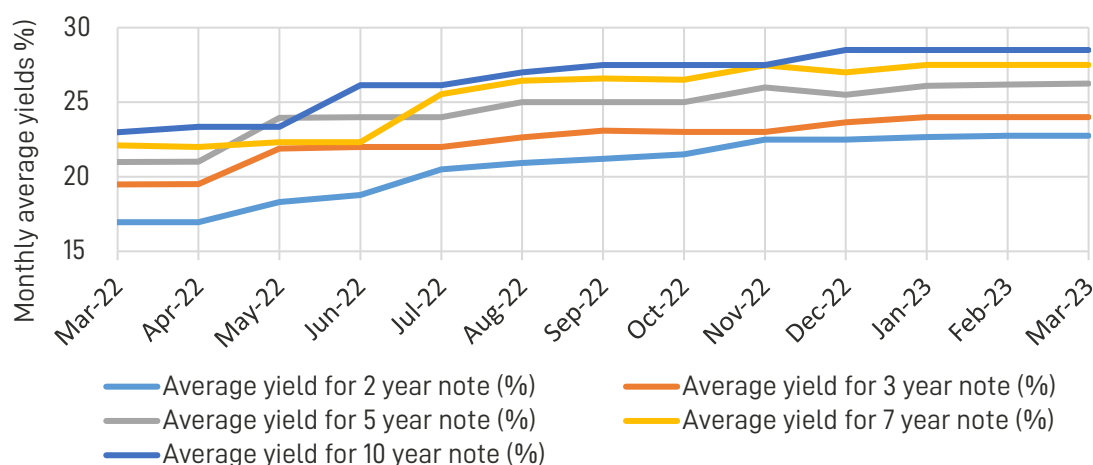
(Data source: Reserve Bank of Malawi)

- 3.4 Yields on Government securities increased during Q1 2023 relative to the levels registered in Q4 2022 and Q1 2022. The all-type average TB yield increased to 16.67% in Q1 2023 from 16.05% in Q4 2022 and 12.54% in Q1 2022. The 364-day yield increased to an average of 19.50% in Q1 2023 from 19.15% in Q4 2022 and 14.95% in Q1 2022. The 182-day yield averaged 17.50% in Q1 2023, up from 16.66% in Q4 2022 and 13.00% in Q1 2022. The 91-day yield increased to 13.00% in Q1 2023 from 12.33% in Q4 2022 and 9.68% in Q1 2022.
- 3.5 Charts 3 and 4 indicate that yields of Treasury securities were more stable in Q1 2023 relative to the previous three quarters. However, the two charts and Table 1 also indicate that the yields in Q1 2023 were higher compared to the yields registered in Q4 2022 and Q1 2022, largely reflecting rising inflation pressures, increased Government borrowing, and the upward adjustment of the Policy rate in October 2022.

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
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%
Q1 2022 average yield	16.82%	19.41%	20.89%	22.05%	22.98%
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%
%pt. increase: Q1 2023 vs Q4 2022	0.55%	0.51%	0.52%	0.51%	0.34%
%pt. increase: Q1 2023 vs Q1 2022	5.90%	4.59%	5.29%	5.45%	5.52%

(Data source: Reserve Bank of Malawi)

- 3.6 Looking ahead, yields on Government securities are expected to rise further due in the short to medium term due to high government borrowing and the 400 basis points increase in the Policy rate in April 2023. The local debt issuance calendar published by RBM indicates that the Government plans to raise a total of K685.09 billion from Treasury bills (K262.93 billion) and Treasury notes (K422.16 billion) in Q2 2023.

4. Foreign exchange market

- 4.1 The Malawi Kwacha to USD telegraphic transfer (TT) exchange rate was relatively stable during Q1 2023, gaining marginally by 0.08% to close at K1,033.80 per USD. The bureaux Malawi Kwacha/USD cash exchange rate, however, registered a depreciation of 4.5% to trade at K1,491.98 per USD at the end of Q1 2023.



- 4.2 The stability of the Kwacha against the USD (TT) allowed it to replicate the performance of the USD against other currencies during the quarter. Specifically, between the end of Q4 2022 and the end of Q1 2023, the Kwacha appreciated against ZAR by 4.67% but depreciated against GBP and EUR by 2.55% and 2.28%, respectively, as shown in Table 2a below.
- 4.3 In terms of TT quarterly averages, as Table 2b indicates, the Kwacha marginally appreciated against USD and ZAR by 0.02% and 0.03%, respectively, but depreciated against GBP and EUR by 3.63% and 5.21%, respectively, in Q1 2023 compared to averages for Q4 2022.
- 4.4 Chart 4 shows that while the Kwacha was relatively stable against the USD during the Q1 2023, it strengthened against ZAR but lost value against GBP and EUR during the period.

Table 2a: End period TT middle exchange rates

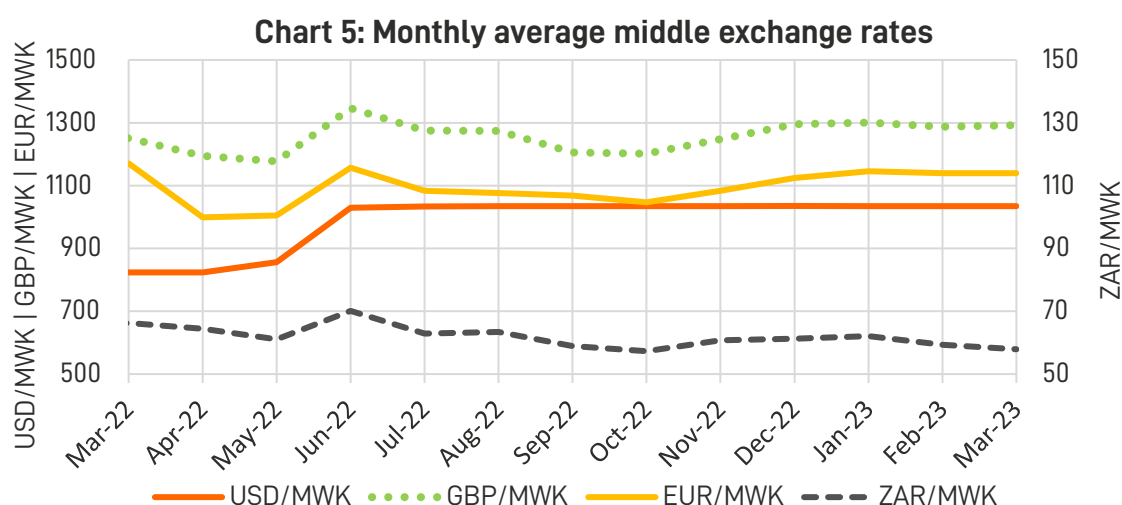
Currency	Mar-23	Dec-22	Sep-22	Jun-22	Mar-22	Mar 2023 - Dec 2022 Change	Mar 2023 - Mar 2022 Change
USD/MWK	1033.80	1034.67	1033.79	1033.36	823.60	▲ -0.08%	▼ 25.52%
GBP/MWK	1315.33	1282.60	1180.36	1289.26	1214.22	▼ 2.55%	▼ 8.33%
EUR/MWK	1156.66	1130.92	1068.06	1108.47	1031.32	▼ 2.28%	▼ 12.15%
ZAR/MWK	59.76	62.69	58.78	65.02	66.90	▲ -4.67%	▲ -10.67%

Table 2b: Average TT middle exchange rates

Currency	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q1 2023 - Q4 2022 Change	Q1 2023 - Q1 2022 Change
USD/MWK	1034.77	1035.01	1034.56	903.13	823.45	▲ -0.02%	▼ 25.66%
GBP/MWK	1293.52	1248.25	1251.70	1239.05	1254.88	▼ 3.63%	▼ 3.08%
EUR/MWK	1141.60	1085.05	1075.83	1053.51	1150.84	▼ 5.21%	▲ -0.80%
ZAR/MWK	59.75	59.76	61.74	65.23	64.09	▲ -0.03%	▲ -6.78%

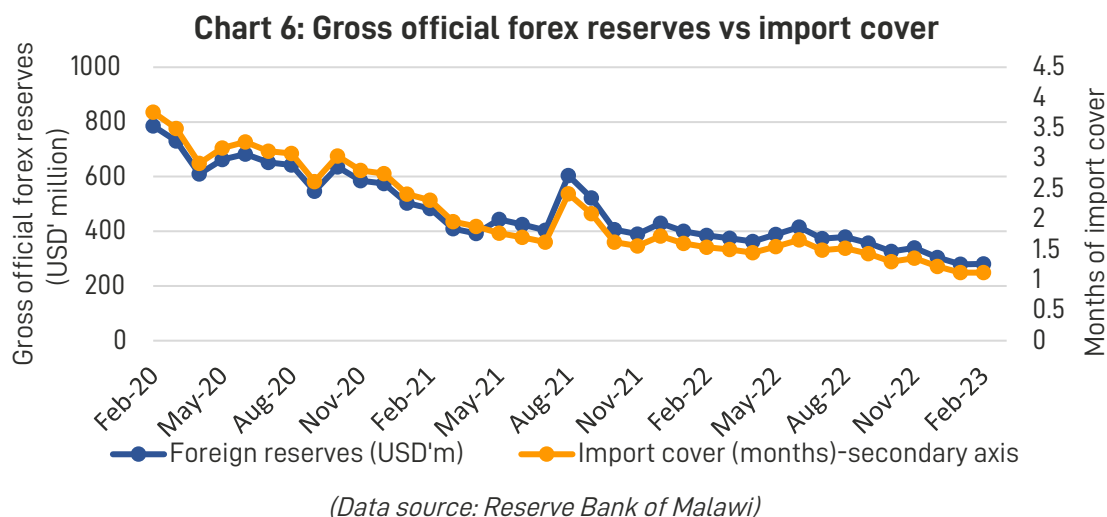
(Data source: Reserve Bank of Malawi)

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



(Data source: Reserve Bank of Malawi)

- 4.5 Forex supply remained low during the quarter. Gross official forex reserves decreased to USD280.66m (1.12 months import cover) as at 28th February 2023 from USD304.65m (1.22 months import cover) as at 31st December 2022. The reserves have been below the recommended 3 months of import cover since November 2020.

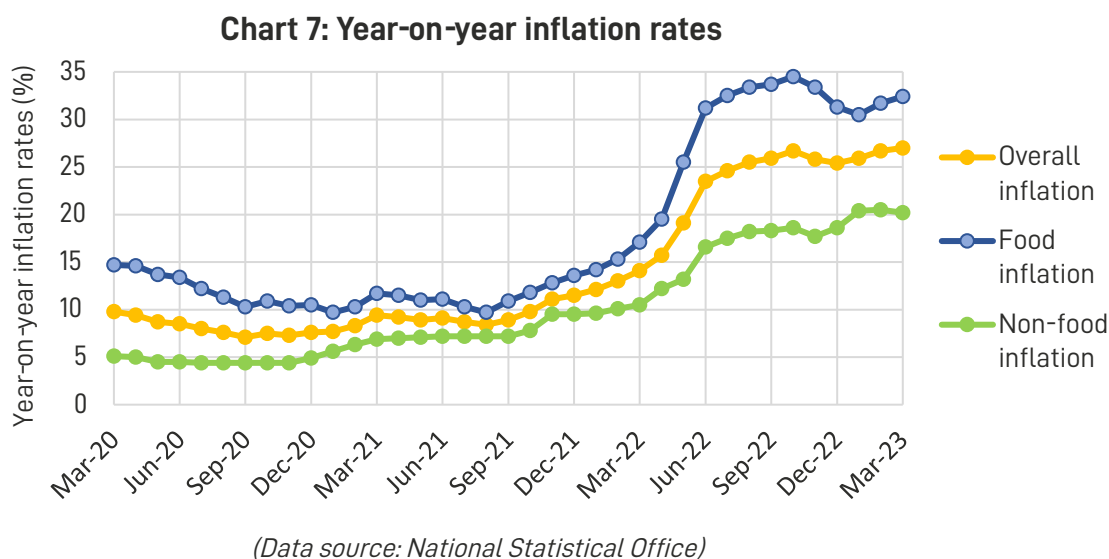


- 4.6 The RBM introduced periodic Foreign Exchange Auctions in January 2023 which are aimed at facilitating the discovery of prevailing market clearing exchange rates for the Kwacha against major currencies. In these auctions, Authorised Dealer Banks (ADB) submit bids to sell foreign currencies to RBM at prices freely determined by each participating ADB. The first auction which was held on 13th January 2023 did not produce the intended results as only 3 banks participated out of 8. Nevertheless, RBM remains committed to continue with the auctions and has been engaging banks to get them to participate.
- 4.7 Looking forward, in the short-term the supply of forex is expected to improve with the opening of the 2023 tobacco marketing season on 12th April 2023. However, in the medium to long term, depreciation risks are expected to remain high as supply of foreign exchange in the country is expected to remain low relative to demand.

5. Inflation

- 5.1 Inflation pressures remained high during the quarter under review. The year-on-year headline inflation rate rose to 27.0% in March 2023 from 25.4% in December 2022 (14.1% in March 2022). The average headline inflation rate increased to 26.5% in Q1 2023 from 26.0% in Q4 2022.
- 5.2 Food inflation rate increased to 32.4% in March 2023 from 31.3% in December 2022, while non-food inflation rate increased to 20.2% in March 2023 from 18.6% in December 2022. In terms of averages, the average food inflation rate decreased to 31.5% in Q1 2023 from 33.1% in Q4 2022, partly reflecting the impact of opening of some of ADMARC's maize markets which helped to stabilize prices during Q1 2023 and the seasonal increase in vegetables which constitute 12% of the food basket. The average non-food inflation rate increased to 20.4% in Q1 2023 from 18.3% in Q4 2022 due to high costs of items under the transportation, hospitality services, as well as alcohol and tobacco categories.

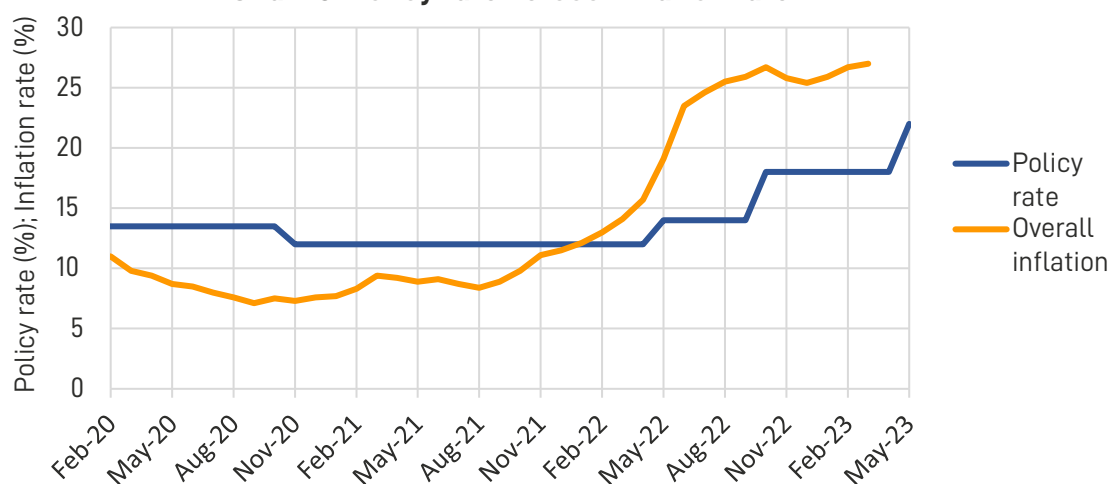
5.3 Chart 6 depicts the trend of inflation rate in the past three years.



5.4 Looking ahead, the onset of the agricultural harvesting period in Q2 2023 is expected to result in a slowdown in food inflation. However, the lean period could set in earlier than normal as this year's food harvest is expected to be relatively low on account of the crop damage caused by Cyclone Freddy in the southern region and a dry spell in the northern region. Non-food inflation could also face pressure from high fiscal risks, exchange rate pressures, second-round effects of the cyclone and possible increases in prices of utilities, among other factors. Consequently, the average overall inflation rate is expected to remain elevated in 2023. The RBM projects an increase in the average headline inflation rate to 24.5% in 2023 from 20.9% in 2022. The IMF, in the World Economic Outlook for April 2023, projects an average inflation rate of 24.7% for 2023 and 18.3% for 2024 for Malawi.

6. Monetary policy

- 6.1 The Monetary Policy Committee (MPC) held its first meeting of 2023 on 1st and 2nd February 2023 during which they decided to hold the Policy Rate at 18.0%, the Liquidity Reserve Requirement (LRR) ratio at 3.75% and the Lombard Rate at 18.2%. The decision was necessitated by the need to allow more time for the impact of the October 2022 Policy rate increase from 14.0% to 18.0% to transmit through the economy.
- 6.2 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.
- 6.3 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 banks was stable at 17.3% during the quarter. However, the MRR increased to 20.0% in May 2023 following the increase in the Policy rate.
- 6.5 Looking ahead, with the 400 basis points increase in the Policy rate and the 200 basis points increase in the LRR, market interest rates are expected to increase significantly in the short to medium term.

7. Economic growth

- 7.1 The IMF, as indicated in the World Economic Outlook (WEO) released in April 2023, projects a slowdown in global real Gross Domestic Product (GDP) growth to 2.8% in 2023 from 3.4% in 2022, reflecting largely the impact of continued tight monetary and financial conditions particularly in the advanced economies. In 2024 global growth is projected to rebound to 3.0%.
- 7.1.1 Advanced economies are projected to register real output growth of 1.3% in 2023, over half below the 2.7% achieved in 2022. In 2024, growth rate for the advanced economies is projected at 1.4%.
- 7.1.2 In the Sub-Saharan Africa (SSA) region, the 2023 growth is projected at 3.6%, a slowdown from 3.9% in 2022, but could recover to 4.2% in 2024.
- 7.2 For Malawi, prior to the occurrence of Cyclone Freddy in March 2023, the Government projected an annual growth rate of 2.7% for 2023 from an estimated growth rate of 1.2% in 2022. However, the RBM in the Second 2023 Monetary Policy Statement release in April 2023, indicated that the projection of 2.7% is likely to be revised downwards following the impact of the Cyclone Freddy in the southern region and localized drought in the northern region which are expected to yield a lower-than-initially projected agricultural output, in addition to the impact of limited access to fertilizers during the 2022/2023 crop production season; and prolonged electricity power cuts at the beginning of 2023 as well as protracted foreign exchange supply shortages which are expected to dampen non-agricultural output.

Table 3: Annual average real GDP growth projections for Malawi

	2021	2022e	2023f	2024f
Government	4.6%	1.2%	2.7%	3.2%
International Monetary Fund (IMF)	4.6%	0.8%	2.4%	3.2%
World Bank (WB)	2.8%	1.5%	3.0%	3.4%
Economist Intelligence Unit (EIU)		1.7%	2.0%	3.0%

Sources: *Government: 2023-2024 National Budget, March 2023*

IMF: World Economic Outlook, April 2023

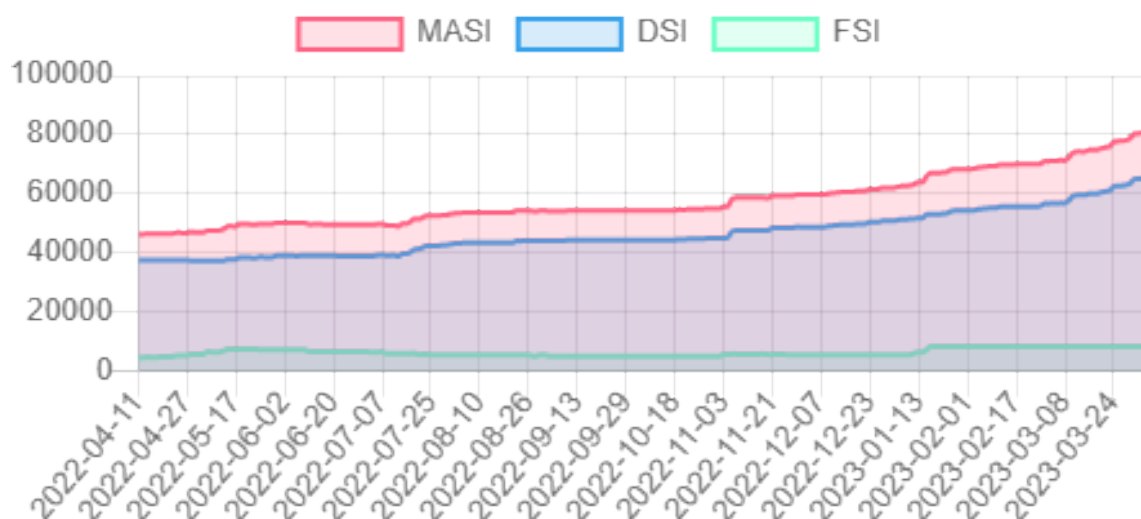
World Bank: Global Economic Prospects, January 2023

EIU: Q1 Malawi Country Report, March 2023

8. Stock market performance

- 8.1 In Q1 2023, the Malawi Stock Exchange (MSE) registered a positive return on index of 29.44% (29.44% in US\$ terms), higher than the return of 1.22% (1.22% in US\$ terms) registered during the same period in 2022. The Foreign Share Index registered a higher return (49.29%) than the Domestic Share Index (27.72%).
- 8.2 The companies that registered price gains during the quarter include NICO (126.67%), FDHB (124.41%), NBS (84.97%), NITL (60.02%), FMBCH (50.62%), ILLOVO (38.89%), AIRTEL (32.43%), SUNBIRD (30.35%), NBM (14.54%), TNM (10.71%) and STANDARD (10.02%), while companies that registered share price losses include OMU (-10.66%), ICON (-0.50%), MPICO (-0.29%), BHL (-0.09%) and PCL (-0.003%).
- 8.3 The market also registered an increase in both total volume and total value of shares traded during Q1 2023 compared to the volume and value traded in Q1 2022. The market transacted a total of 118,816,338 shares at a total consideration of K6.85 billion (US\$6.68 million) in 1,545 trades in Q1 2023. In the corresponding period in 2022, the market transacted a total of 112,057,459 shares at a total consideration of K4.42 billion (US\$5.42 million) in 848 trades. This reflects an increase of 6.03% in terms of share volume and an increase of 54.98% (23.26% in USD terms) in share value.
- 8.4 There was neither any listing nor a trade on the debt market during Q1 2023.
- 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 Q3 2023.

Chart 9: Malawi Stock Exchange share price indices



(Chart source: Malawi Stock Exchange)

Table 4: Share trading summary

	31-Mar-23	31-Dec-22	31-Mar-22		31 Mar 2023 - 31 Dec 2022 (quarterly) price change (%)	31 Mar 2023 - 31 Mar 2022 (year-on-year) price change (%)
Market indices						
MASI	80,298.12	62,036.05	45,921.23	↑	29.44%	↑ 74.86%
DSI	64,886.76	50,804.03	37,584.34	↑	27.72%	↑ 72.64%
FSI	8,381.79	5,614.30	4,184.71	↑	49.29%	↑ 100.30%
Gainers						
NICO	136.00	60.00	55.00	↑	126.67%	↑ 147.27%
FDHB	38.98	17.37	15.56	↑	124.41%	↑ 150.51%
NBS	62.89	34.00	22.79	↑	84.97%	↑ 175.95%
NITL	200.01	124.99	95.00	↑	60.02%	↑ 110.54%
FMBCH	166.98	110.86	80.01	↑	50.62%	↑ 108.70%
ILLOVO	750.00	540.00	305.42	↑	38.89%	↑ 145.56%
AIRTEL	75.01	56.64	42.00	↑	32.43%	↑ 78.60%
SUNBIRD	120.00	92.06	90.02	↑	30.35%	↑ 33.30%
NBM	1766.29	1542.05	948.01	↑	14.54%	↑ 86.32%
TNM	15.50	14.00	17.40	↑	10.71%	↓ -10.92%
STANDARD	2200.60	2000.16	1400.09	↑	10.02%	↑ 57.18%
Losers						
PCL	2181.30	2181.37	1900.00	↓	-0.003%	↑ 14.81%
BHL	10.96	10.97	11.01	↓	-0.09%	↓ -0.45%
MPICO	20.58	20.64	20.70	↓	-0.29%	↓ -0.58%
ICON	11.89	11.95	12.69	↓	-0.50%	↓ -6.30%
OMU	880.04	985.00	1,785.00	↓	-10.66%	↓ -50.70%

(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. A seasonal slowdown in food inflation is expected in Q2 2023, but the lean period is expected to set in earlier than normal due to expected lower harvest.
- 9.2 Interest rates are expected to increase in the short to medium term following the 400 basis points increase in the Policy rate and the 200 basis points increase in the Liquidity Reserve Requirement ratio in April 2023.
- 9.3 Depreciation pressures are also expected to remain high in 2023 as the forex reserves position remains relatively low, although a seasonal improvement in the supply of forex is expected 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's economic growth rate projection for 2023 is expected to be revised downwards from the 2.7% the Government earlier projected, largely reflecting the impact of the expected lower agricultural production caused by Cyclone Freddy and localized drought in the northern region, in addition to intermittent supply of electricity in Q1 2023 and continued low supply of forex.





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intermediary
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2019



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