# MINISTRY OF FINANCE AND ECONOMIC AFFAIRS

## ANNUAL PUBLIC DEBT REPORT

## 2021/2022

**DEBT AND AID MANAGEMENT DIVISION**

**2022**

**JUNE**

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# EXECUTIVE SUMMARY

The World is facing formidable convergence of disease, food insecurity and war fuelled by climate change and geopolitical rivalry. No sooner had economies started showing signs of recovery from the effects of the COVID-19 pandemic than Russia launched a war on Ukraine. The war has renewed uncertainty around the world and is threatening food security in poor countries, pushing energy prices up and increasing inflationary pressures across the globe. Further, lockdowns in China are causing supply chain disruptions. Once again growth prospects are tilted towards the downside and the risk of stagflation is higher.

On the back of these imported global risks, Malawi is reeling from the effects Tropical Storms Anna and Gombe which caused infrastructure damage in the southern parts of Malawi in early 2022, particularly in the energy and transport sectors. Gross Domestic Product growth rate in 2021 was estimated at 3.9 percent and 4.1 percent in 2022. However, these estimates are likely to be revised downwards given the significant changes in the international and domestic economic climate.

Malawi's overall public and external debt is unsustainable over the medium term. The county's risk of debt distress rating has moved from moderate to high.

As at end-March 2022, Total Public Debt stock stood at MK6.38 trillion, equivalent to 62 percent of FY2021/22 GDP, up by 13 percent from MK5.65 trillion or 61 percent of GDP, in June 2021. Of the TPD stock, USD3.64 billion or 29 percent of GDP was external debt while MK3.41 trillion or 33 percent of GDP was domestic debt.

The External debt stock consisted of 72 percent central government debt and 28 percent central bank debt in March 2022 as compared to 68 percent and 32 percent in June 2021, respectively. Multilateral creditors continue to account for the largest proportion of Malawi's external debt. Their share increased marginally by 1 percent in March 2022. Commercial creditors followed albeit having reduced their holdings by 21 percent. Bilateral creditors were the least, despite having increased their holdings by 4 percent.

With a holding of USD1,182.21 million (32 percent of total external debt), the International Development Association continues to be the largest creditor to the Government of Malawi. The second largest creditor is AFREXIM Bank with a holding of USD460.68 million (13 percent of total external debt) followed by African Development Fund at 12 percent, International Monetary Fund at 11 percent and Export-Import Bank of China at 7 percent. The bulk of the creditors cumulatively held the remaining 25 percent.

Special Drawing Rights (SDR) accounted for 48 percent of the total external public debt. After decomposing the SDR basket into its tradable currencies, the USD accounted for the largest proportion of external debt at 56 percent followed by the EUR and CNY at 19 percent and 13 percent, respectively. Other currencies accounted for the remaining 12 percent.

As for public guarantees, there were no called guarantees in the reporting period.

The domestic debt stock, comprised 84 percent (MK2,868.81 billion), Treasury Notes, 12 percent (MK399.99 billion) Treasury Bills, and 4 percent (MK136.72 billion) Promissory Notes. The Promissory Notes were issued to clear audited arrears under the arrears clearance program. In terms of holdings, commercial banks remained the biggest holders of domestic debt and held MK1,411.93 billion. They were followed by the Reserve Bank of Malawi at MK1,103.42 billion. The insurance sector came third with a holding of MK333.52 billion. The rest was held by other players, including the household sector.

Overall, yields on Treasury securities on the primary market continue to edge upwards on the back of continued increase in domestic financing needs and rising geopolitical risks due to Russia-Ukraine war which is increasing inflationary pressures across the globe.

Major risks concerning the Malawian public debt status include refinancing risk, interest rate risk and exchange rate risk. The Average Time to Maturity (ATM), an indicator of refinancing risk, is measured at 7.7 years, a decrease from 7.8 years in the course of the FY2021/22 due to the increased share of Domestic Debt, which has a lower ATM of 2.5 years as well as commercial external debt with lower maturity period. In terms of exposure to exchange rate risk, 39.8 percent of the Present Value of debt was denominated in foreign currency, implying significant exchange rate risk.

# PREFACE

The analysis contained in the *Annual Public Debt Report* are integral elements of the Government's surveillance of economic and financial market developments that affect public debt. The Report helps Government and other stakeholders to monitor the evolution of the public sector's debt liabilities and its debt-service obligations over time. Statistics in the Report provide early warning signals of possible debt vulnerabilities.

This Report covers loans and debt securities under Budgetary Central Government (BCG) and Central Bank. It also covers publicly guaranteed debt to State-Owned Enterprises (SOEs). In terms of valuation, unless otherwise stipulated, domestic debt is reported at Face Value and external debt is Disbursed Outstanding Debt. In keeping with international standards as stipulated in the Public Sector Debt Statistics Guide, future debt reports will adopt nominal valuation and continue to extend institutional, and debt instrument coverage.

This edition highlights debt management operations issues, Malawi's external and domestic debt portfolios, risk and cost analysis for the period July 2021-March 2022. The public debt portfolio review provides analysis on the public debt composition. The external debt portfolio review focuses on the evolution and composition of debt by holder, creditor and currency. The domestic debt portfolio review focuses on the main instruments and holders of debt. The risk and cost analysis assesses the risks and costs associated with the external and domestic debt portfolios.

An electronic version of this report is available on the Ministry's website: www.finance.gov.mw.

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## ACCRONYMS AND ABBREVIATIONS

| | |
|---|---|
| ADF | African Development Fund |
| ADMARC | Agricultural Development and Marketing Corporation |
| AfDB | African Development Bank |
| AFREXIM | Africa Export Import Bank |
| ATM | Average time to Maturity |
| ATR | Average time to Re-fixing |
| CNY | Renminbi, official currency of the People's Republic of China |
| COVID-19 | An infectious disease caused by the SARS-CoV-2 virus |
| DAD | Debt and Aid Management Division |
| EIB | European Investment Bank |
| ESCOM | Electricity Supply Corporation of Malawi |
| EUR | Euro, official currency of European Union member states |
| FDI | Foreign Direct Investment |
| FX | Foreign Exchange, currencies other than the Malawi Kwacha |
| FY | Financial Year of Malawi |
| GBA | Green Belt Authority |
| GBP | Pound sterling, official currency of the United Kingdom |
| GDP | Gross Domestic Product |
| IDA | International Development Association |
| IFAD | International Fund for Agricultural Development |
| IMF | International Monetary Fund |
| OPEC Fund | Opec Fund for International Development |
| IR | Interest Rate |
| JPY | Japanese Yen, official currency of Japan |
| MK | Malawi Kwacha, official currency of Malawi |
| MoFEA | Ministry of Finance and Economic Affairs |
| MTDS | Medium-Term Debt Management Strategy |
| NEEF | National Economic Empowerment Fund Limited |
| PV | Present Value |
| RBM | Reserve Bank of Malawi |
| SDR | Special Drawing Rights, unit of account based on five currencies- United States Dollar, EURO, CNY, JPY and GBP |
| TDB | Trade and Development Bank |
| TPD | Total Public Debt |
| USD | United States Dollar, official currency of the United States of America |

# SECTION I: RECENT PUBLIC DEBT MANAGEMENT OPERATIONS ISSUES

## *1.1 Debt Management Policy Objective*

The primary objective of debt management is to ensure that financing needs and debt service obligations of the Government are met adequately and at the lowest possible cost and a reasonable level of risk. The secondary objective is to support the development of a vibrant domestic debt market.

The Government continues with its policy of contracting external loans on concessional terms and restructuring of the domestic debt from predominantly short-term treasury bills to medium and long term papers.

## *1.2 Legal Developments*

In March 2022, the National Assembly enacted the Public Finance Management Act (2022) which replaces a similar Act of 2003. The new Act has provisions with direct bearing on debt management, including the preparation of annual borrowing plans, Medium-Debt Management Strategy and the creation of Debt Retirement Fund for servicing public debt.

## *1.3 Macro-economic Developments*

The World is facing formidable convergence of disease, food insecurity and war fuelled by climate change and geopolitical rivalry. No sooner had economies started showing signs of recovery from the effects of the COVID-19 pandemic than Russia launched a war on Ukraine. The war has renewed uncertainty around the world and is threatening food security in poor countries, pushing energy prices up and increasing inflationary pressures across the globe. Further, lockdowns in China are causing supply chain disruptions. Once again growth prospects are tilted towards the downside and the risk of stagflation is higher.

On the back of these imported global risks, Malawi is rearing from the effects Tropical Storms Anna and Gombe which caused infrastructure damage in southern parts of Malawi in early 2022, particularly in the energy and transport sectors. Gross Domestic Product (GDP) growth rate in 2021 was estimated at 3.9 percent and 4.1 percent in 2022. However, these estimates are likely to be revised downwards given the significant changes in domestic and international economic climate. Mirroring the international scene, inflation for 2022 is also likely going to be revised upwards from the estimated 14 percent. Interest rate increases needed to rein in inflation, will result in elevated debt positions during the course of FY2022/23 and beyond.

### *1.4 Medium-Term Debt Management Strategy*

The period under review, was the last FY for the implementation of the Medium-Term Debt Management Strategy (MTDS) approved by the Minister of Finance in December 2018 covering the FYs 2018/19 to 2021/22. As reported in the previous editions, to reduce re-financing and re-fixing risks of the public domestic debt stock, four strategies were considered as follows:

- Strategy 1: status quo whereby Government will continue borrowing from concessional and, where necessary, semi-concessional external sources and maintain the current composition of domestic debt;
- Strategy 2: lengthening of the domestic debt maturities through the issuance of 2- and 3-year Treasury Notes;
- Strategy 3: lengthening of the domestic debt maturities by issuing 2- and 3-year Treasury Notes while increasing the proportion of 5- and 7-Year Treasury Notes (T-Notes); and
- Strategy 4: increased net domestic borrowing to substitute slow or non-disbursing amounts of concessional and non-concessional loans.

Out of the four strategies, Strategy 3 was the most preferred as it provided the lowest debt maturing in one year, thus demonstrating the lower re-financing and re-fixing risks relative to the other strategies.

Treasury is now in the process of reviewing the expired Strategy and will come up with a new MTDS that will guide debt management in the medium-term.

### *1.5 Newly Signed Loans*

During FY2021/22, Government signed new loans totalling USD95.10 million from the International Development Association (IDA) of the World Bank and OPEC Fund for International Development (OPEC Fund). Under IDA, the loans were for the (a) Malawi Skills for a Vibrant Economy Project (USD 50.00 million); (b) Malawi Education Reform Program Project (USD 18.70 million); and (c) Additional Financing for the Southern Africa Trade and Transport Facilitation Program (USD 11.14 million). There was one loan from OPEC Fund to finance the Dowa Town Water Supply and Sanitation Project (USD 15.00 million).

The loans will finance education, the transport and water sectors (Refer to Annex 1).

### *1.6 Communication and Investor Awareness*

Treasury, in conjunction with the Reserve Bank of Malawi (RBM), continued to interface with various domestic debt market players to get input in the formulation of debt issuance calendars, structuring of debt securities as well as get insights on general market developments. Going forward, it is Treasury's intention to continue with these important engagements with the view of improving the transparency and predictability in the issuance of Government debt securities.

### *1.7 Infrastructure Bond Projects*

In August 2021 Government rolled out the Local Currency Infrastructure Development Bond (LCIDB) Programme with the intention of raising resources for some fifteen (15) high value and high impact projects. At that time, only five of the 15 projects were deemed ready for implementation and these are: Construction of the Kaphatenga-Dwangwa Section of the M5 Lakeshore Road; Construction of the Ntcheu –Tsangano-Neno-Mwanza Road; Construction of the Acquatic Complex at the Kamuzu Institute for Sports; Construction of the Jenda-Edingeni-Engalaweni Road; and last but not least, Construction of the Dzaleka-Ntchisi-Mpalo-Malomo Road.

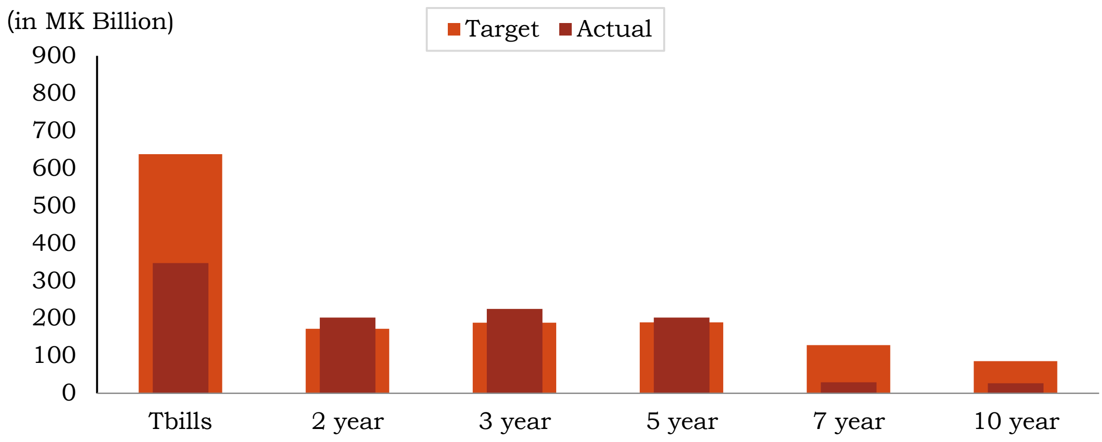
Since August 2021, Government has undertaken three auctions of the Infrastructure Bond: one in August 2021, another in March 2022 and most recently in April 2022. From these three auctions, Government raised a combined total of K22.48 billion from a planned K50.02 billion. This implies Government only managed to raise 45 percent of the resources needed for the selected bond financed projects. This is in light of the tight liquidity conditions that the market has been experiencing.

Going forward, Government will continue issuing the infrastructure bonds. It is also worth mentioning that some additional projects (from the remaining 10) are now ready for implementation and that Government will include them in upcoming issuances/auctions.

### *1.8 Performance of Debt Securities Issuance Calendar*

During the FY2021/22, Government in collaboration with RBM, issued quarterly Treasury Securities Issuance Calendars, which were published on both Ministry of Finance and Economic Affairs (MoFEA) and RBM websites, including indicative amounts. The 2019-2022 MTDS guided the development of the Issuance Calendars. Overall, actual performance was not as planned as only 74 percent of the target amount was raised. This is as result of liquidity challenges faced by market players. Treasury Bills recorded an under issuance of around MK290.47 billion while Treasury Notes issuances underperformed by MK79.70 billion, largely driven by under issuances of 7-year and 10-year Notes.

**Figure 1: Issuance Calendar Performance FY2021/22**

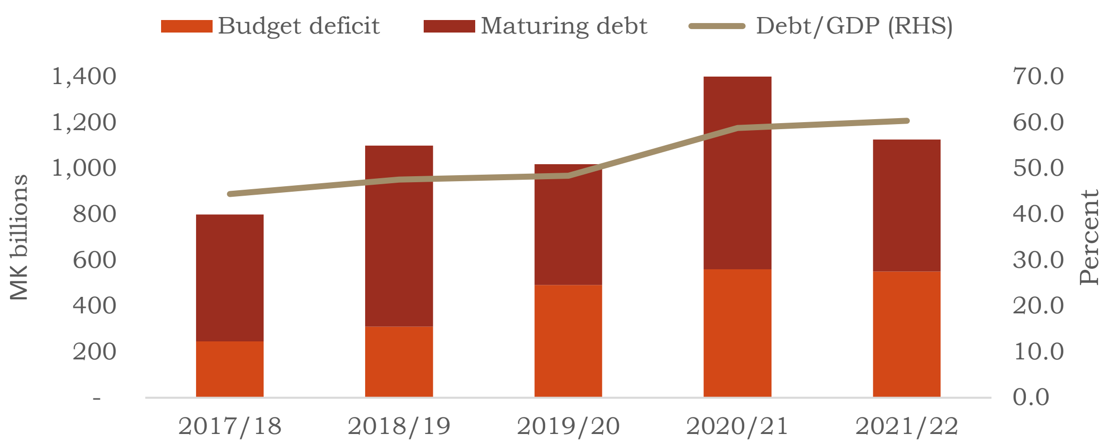



**Sources: MoFEA staff calculations.**

## *1.9 Gross Financing Needs and Debt*

Financing needs for the government have been on an upward trend for the past four FYs[1] with the largest increase registered in FY2020/21 at the height of the COVID-19 pandemic. The increase has been driven by high deficits and debt repayments. Both external and domestic financing needs have pushed debt to unstainable levels. Government has since moved in to reign in deficits and over the medium term, fiscal deficits are projected to shrink as fiscal adjustments resume.

**Figure 2: Increasing financing needs**




**Source: MoFEA staff calculations.**

[1] It should be noted that FY 2021/22 was a transitional year with only 9 months compared to the normal 12 months.

### *1.10 Debt Sustainability*

A joint World Bank and IMF Debt Sustainability Analysis (DSA) done under Article IV consultations in November 2021 assessed overall public and external debt as unsustainable over the medium term. The country's risk of debt distress rating has moved from moderate, based on a similar assessment done in September 2020, to high. The change in the rating is due protracted threshold breaches on one of the solvency indicators (present value of external debt as a percentage of exports) and the liquidity indicators (debt service to exports and debt service to revenue) as presented in table 1.

**Table 1: External Debt Burden Indicators**

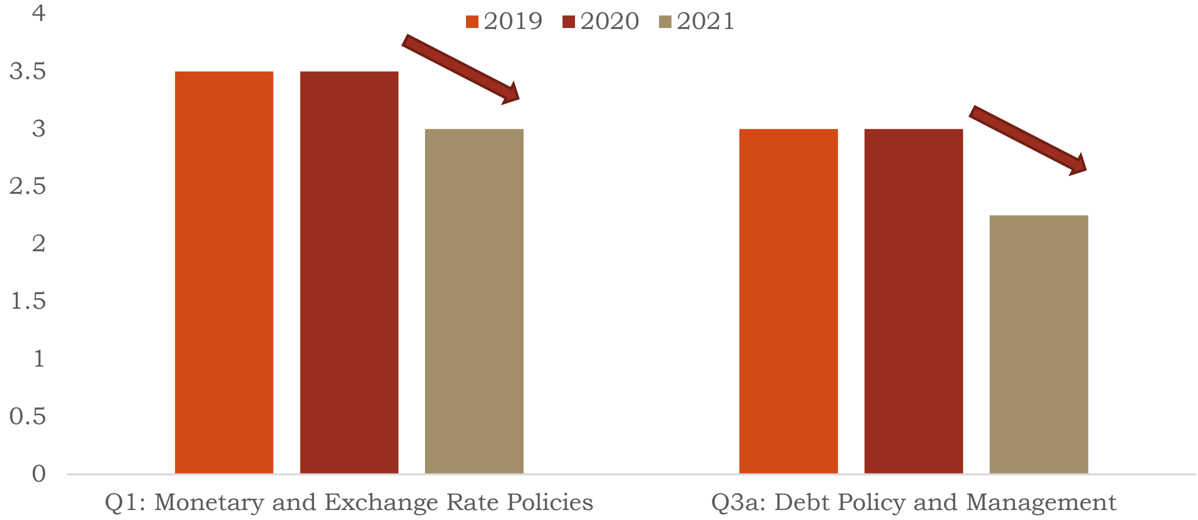
| Indicator | Threshold | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|---|
| PV of total debt (% of GDP) | **35%** | 49% | 53% | 58% | 63% | 68% |
| PV of external debt (% of GDP) | **30%** | 21% | 22% | 24% | 25% | 27% |
| PV of external Debt (% of exports) | **140%** | 233% | 236% | 230% | 215% | 208% |
| Debt service (% of exports) | **10%** | 47% | 44% | 41% | 36% | 28% |
| Debt service (% of revenue) | **14%** | 31% | 32% | 32% | 31% | 26% |

**Source: MoFEA compilation based on IMF/World Bank DSA**

Debt burden indicators have worsened due to reclassifying of some debt held by non-residents from domestic to external debt; and conversion of the Reserve Bank of Malawi' s short-term reserve management liabilities to medium-term external debt.

Further, Malawi's debt carrying capacity represented by the World Bank's Country Policy and Institutional Assessment (CPIA) has been downgraded from medium to weak. This has resulted in lower thresholds for debt burden indicators. Notable weak performance has been registered in the Economic Management Clusters, particularly Monetary and Exchange Rate Policies and Debt Policy and Management (figure 3).

**Figure 3: Weak performance in the CPIA Economic Management Clusters**




**Source: MoFEA compilation based on World Bank data**

## SECTION II: TOTAL PUBLIC DEBT PORTFOLIO AS AT MARCH 2022

### *2.1 Composition of Total Public Debt*

As at end-March 2022, Total Public Debt (TPD) stock stood at MK6.38 trillion, equivalent to 62 percent of FY2021/22 GDP[2], up by 13 percent from MK5.65[3] trillion or 61 percent of GDP, in June 2021. The increase in domestic debt from MK2.56 trillion in June 2021 to MK 3.41 trillion or 33 percent led to this increase. Domestic debt issuances were used to fund the FY2021/22 budget deficit and refinance maturing debt. External debt reduced by 5 percent over the same period due to less drawdowns from existing loans as compared to repayments.

**Table 2: Evolution of Public Debt (in Millions)**

| | 2005 | 2006 (HIPC) | 2018/19 | 2019/20 | 2020/21 | 2021/22 |
|---|---|---|---|---|---|---|
| **Total Public Debt (MK)** | 426,592 | 130,846 | 3,678,696 | 4,124,006 | 5,653,084 | 6,380,737 |
| **External (USD)** | 2,969 | 452 | 2,747 | 3,152 | 3,833 | 3,644 |
| **Domestic (MK)** | 73,337 | 68,957 | 1,549,588 | 1,800,711 | 2,564,937 | 3,405,518 |
| **Nominal GDP (MK)** | 326,957 | 430,522 | 7,729,106 | 8,520,572 | 9,274,071 | 10,279,00 |
| **Percent of GDP** | | | | | | |
| **Total (%)** | 130 | 30 | 48 | 48 | 61 | 62 |
| **External (%)** | 108 | 14 | 28 | 27 | 33 | 29 |
| **Domestic (%)** | 22 | 16 | 20 | 21 | 28 | 33 |

**Source: MoFEA staff calculations.**

[2] FY2021/22 was a short financial year with nine months. Thus, the GDP figure has been annualized to make it comparable to previous years.
[3] The June 2021 position of MK5.5 trillion reported in the previous edition has been revised upwards to capture debt owed to Trade and Development Bank previously not captured.

## *2.2 Analysis of Interest rates*

Loans and debt securities in Malawi's public debt portfolio are on fixed interest rates. However, Treasury Bills rates reset when rolled over. In terms of implied interest rates, external loans registered a maximum of 11.14 percent, due to uptake of external non-concessional loans. While domestic securities registered a minimum of 0.88 percent and a maximum of 28.83 percent.

**Table 3: Implied Interest Rates**

| External Loan | Implied Interest rate (%) | Securities | Implied Interest rate (%) |
|---|---|---|---|
| Existing and New ADF/ IDA/IFAD | 0.73 | T-bills | 11.87 |
| Concessional-Others | 1.22 | 2Y T-Notes | 14.12 |
| Semi-concessional (USD) | 1.77 | 3Y T-Notes | 11.48 |
| Semi-concessional (CNY) | 1.67 | 5Y T-Notes | 15.23 |
| Non-Concessional | 11.14 | 7Y T-Notes | 28.83 |
| | | 10Y T-Notes | 17.05 |
| | | Promissory Notes | 0.88 |

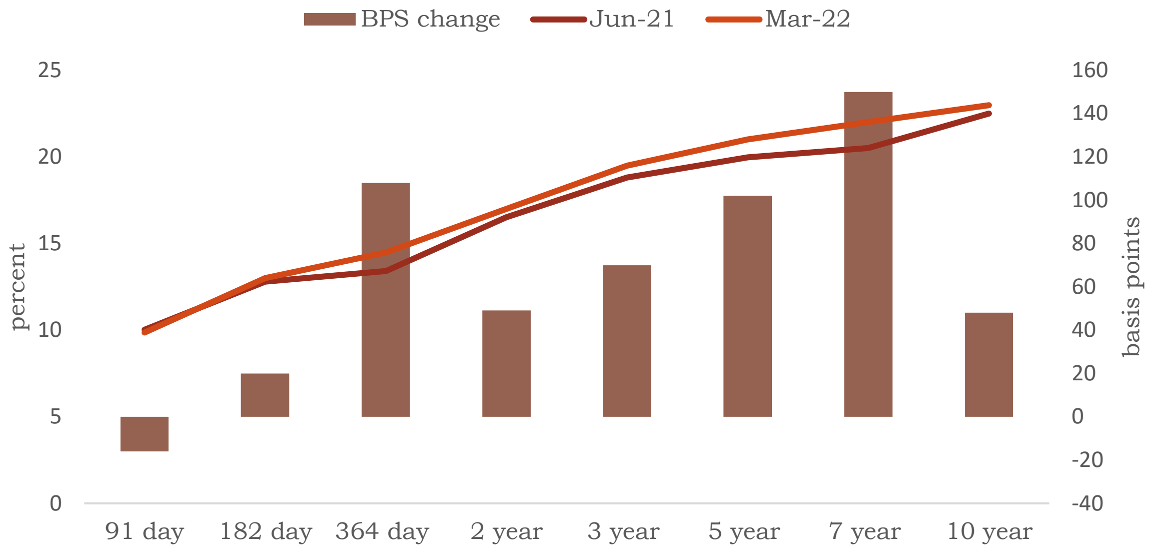
**Source: MoFEA staff calculations.**

## *2.3 Treasury Securities Yield Curve*

Overall, yields on Treasury securities on the primary market continue to edge upwards on the back of continued increases in fiscal financing needs and rising geopolitical risks due to Russia-Ukraine war which is increasing inflationary pressures across the globe.

Yields on the 91-day Treasury Bill went down by 16 basis points during the reporting period; while yields on the 182-day and 364-day tenors went up by 20 and 108 basis points, respectively. For Treasury Notes, the biggest leap was on the 7-year tenor at 150 basis points increase.

**Figure 4: Domestic Yield Curve for June 2021 and March 2022**




**Source: MoFEA staff calculations based on RBM data.**

## *2.4 Debt Flows*

Amortisation under External Debt amounted to MK34.80 billion which was within the approved budget figure of MK46.20 billion. At MK12.60 billion, interest to non-residents was also within the approved budget of MK14.30 billion. MK258.50 billion was interest on domestic debt[4]. This amount was also within approved budget of MK285.60 billion. Repayment on securities amounted to MK576.20 billion.

[4] In the budget, interest to AFREXIM Bank was considered under domestic debt.

## SECTION III: EXTERNAL PUBLIC DEBT PORTFOLIO REVIEW

Malawi's total external public debt stock as at end-March 2022 amounted to USD3,644.31 million, a 5 percent decrease from the end-June 2021 position of USD3,833.39 million. A reduction in Reserve Bank of Malawi's currency swap arrangements and trade facilities resulted in the decrease.

### *3.1 External Debt by Holder*

As at end March 2022, central government debt accounted for 72 percent of the total external debt, an increase by 1 percent in June 2021. The marginal increase in central government external debt is as a result of slower disbursements on the back of sluggish project implementation in the wake of the COVID-19 pandemic and resultant supply chain disruptions.

RBM holdings reduced from 32 percent of the total external debt in June 2021 to 28 percent in March 2022. This is because of reduced currency swap undertakings and trade financing arrangements.

**Table 4: External Debt Stock, by Holder (USD Million)**

| Category | Jun-21 | Mar-22 | (%) Change |
|---|---|---|---|
| **(1) Central Government** | **2,617.62** | **2,641.26** | **0.90** |
| (%) of total | 72.98 | 76.79 | |
| **(2) Central Bank** | **1215.77** | **1,003.05** | **-17.50** |
| (%) of total | 27.02 | 23.21 | |
| **Total External (1+2)** | **3,833.39** | **3,644.31** | **-4.93** |

**Sources: MoFEA staff calculations.**

### *3.2 External Debt by Creditor*

At a holding of USD1,182.21 million (32 percent of total external debt), IDA continues to be the largest creditor to the Government of Malawi. The second largest creditor is AFREXIM Bank with a holding of USD460.68 million (13 percent of total external debt) followed by African Development Fund (ADF) at 12 percent, International Monetary Fund at 11 percent, Export-Import Bank of China at 7 percent. The bulk of the creditors cumulatively held the remaining 25 percent.

**Table 5: Total External Debt Stock, by Creditor and Creditor Category (USD Million)**

| Creditor | Jun-21 | Mar-22 | (%) Change |
|---|---|---|---|
| **1.Bilateral** | **445.46** | **464.63** | **4.30** |
| Export-Import Bank of China (Main-Land) | 233.74 | 253.97 | 8.65 |
| Export Import Bank of India | 128.29 | 124.21 | -3.18 |
| Kuwait Fund for Arab Economic Develop. | 45.16 | 46.62 | 3.24 |
| Saudi Fund for Development | 25.25 | 30.05 | 19.02 |
| Compania Espanola De Seguros de Credito | 8.22 | 5.48 | -33.31 |
| Abu Dhabi Fund for Development | 3.47 | 3.14 | -9.63 |
| Government of Belgium | 1.33 | 1.15 | -13.43 |
| **2. Multilateral** | **2318.16** | **2330.71** | **0.54** |
| International Development Association | 1161.78 | 1182.21 | 1.76 |
| International Monetary Fund | 417.12 | 389.70 | -6.57 |
| African Development Fund | 415.22 | 428.24 | 3.14 |
| International Fund for Agricultural Development | 90.66 | 97.55 | 7.60 |
| European Investment Bank | 75.35 | 69.14 | -8.24 |
| OPEC Fund for International Development | 72.22 | 77.15 | 6.82 |
| Arab Bank for Economic Development in Africa | 66.16 | 69.47 | 5.00 |
| Nordic Development Fund | 19.65 | 17.25 | -12.22 |
| **3. Commercial** | **1069.77** | **848.98** | **-20.64** |
| Africa Export Import Bank | 644.62 | 460.68 | -28.53 |
| Trade and Development Bank | 246.61 | 174.69 | -29.16 |
| Bank One | 112.89 | 131.71 | 16.67 |
| ICBC London | 61.18 | 47.48 | -22.39 |
| Arab Bank for Economic Development in Africa | | 30.00 | |
| Standard Bank Joburg | 4.47 | 4.41 | -1.35 |
| **Total Public External Debt Stock (1+2+3)** | **3833.39** | **3644.31** | **-4.93** |

**Source: MoFEA staff calculations.**

## *3.3 External Debt by Creditor Category*

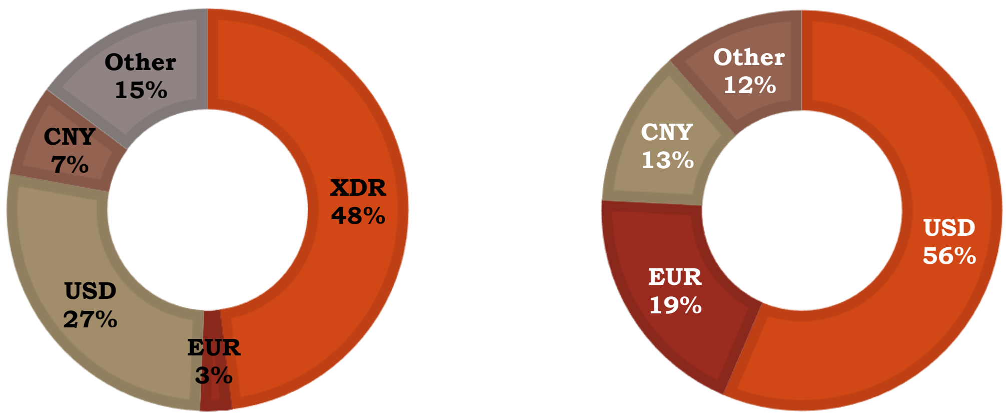
The external debt portfolio comprises multilateral, bilateral and commercial creditors.

As depicted in Table 4, multilateral creditors continue to account for the largest proportion of Malawi's external debt. Their share increased marginally by 1 percent in March 2022. Commercial creditors followed and reduced holdings by 21 percent at end-March 2022. Bilateral creditors were the least, but increased their holdings by 4 percent.

### *3.4 External Public Debt by Currency*

As at end-March 2022, Special Drawing Rights (SDR) accounted for 48 percent of the total external public debt. After decomposing the SDR basket into its tradable currencies[5], the USD accounted for the largest proportion of external debt at 56 percent followed by the EUR and CNY at 19 percent and 13 percent, respectively. Other currencies accounted for the remaining 12 percent.

**Figure 5: External Debt Stock, by Currency as at end-March 2022[6]**




**Source: MoFEA staff calculations.**

Compared to June 2021, the share of SDR has reduced from 60 percent. The largest gain was registered by the USD which increased from 42 percent to 56 percent in March 2022. Other currencies registered decreases.

[5] USD (41.73%), EUR (30.93%), CNY (10.92%), JPY (8.33%) and GBP (8.09%).
[6] Other currencies in the external public debt include British Pound, Kuwait Dinar, Saudi Riyal, Japanese Yen and Dirham.

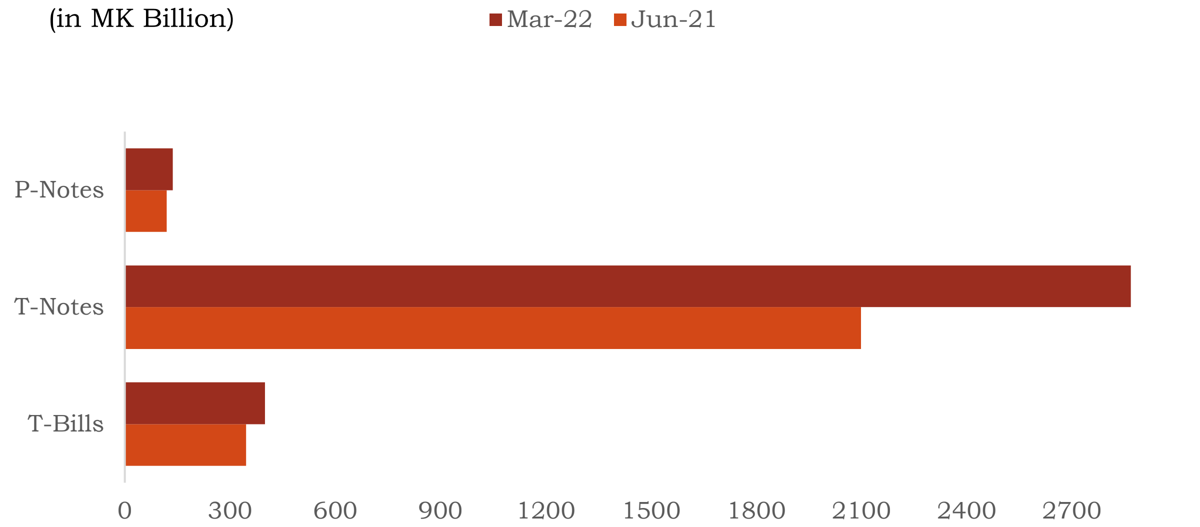
# SECTION IV: DOMESTIC PUBLIC DEBT PORTFOLIO REVIEW

At end- March 2022, total domestic public debt amounted to MK3.41 trillion, up by 33 percent from MK2.56 trillion registered as at end-June 2021. The increase is due to the significantly high deficit financing and debt refinancing requirements during the period.

## *4.1 Domestic Debt by Instrument*

Of the K3.41 trillion domestic debt stock, MK 2,868.81 billion, (84 percent were Treasury Notes, MK399.99 billion (12 percent) Treasury Bills, and remaining 4 percent were Promissory Notes. Holdings of these securities have increased in March 2022.

**Figure 6: Domestic Debt Stock, by Instrument Type**

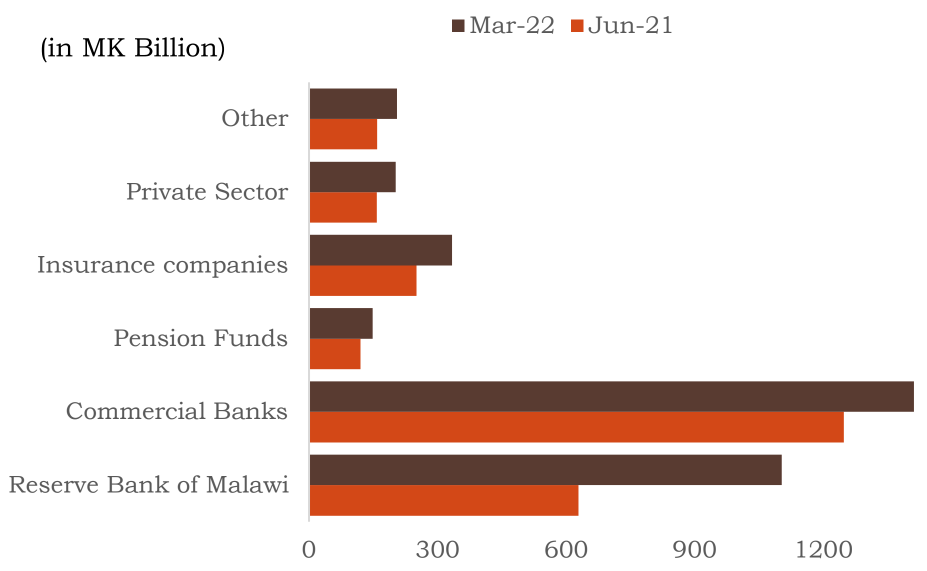



**Source: MoFEA staff calculations.**

## *4.2 Domestic Debt by Holder*

In terms of holdings, commercial banks remained the biggest holders of domestic debt and held MK1,411.93 billion. They were followed by the Reserve Bank of Malawi at MK1,103.42 billion. The insurance companies, private sector and pension funds held MK333.52 billion, MK202.46 billion, MK146.66 billion, respectively. The rest of the holders, in aggregate, held MK205.52 billion. All holders increased their holdings in March 2022.

**Figure 7: Domestic Debt Stock, by Holder**




**Source: MoFEA staff calculations.**

## *4.3 Domestic Contingent Liabilities*

During the period under review, no contingent liabilities materialised. MoFEA presented a report to the National Assembly on the list of Guarantees (Refer to Annex 2).

## SECTION V:  RISK AND COST ANALYSIS

In this section, debt figures only cover Budgetary Central Government (BCG). Domestic debt is reported on cost value basis whilst external debt is maintained at disbursed outstanding debt basis.

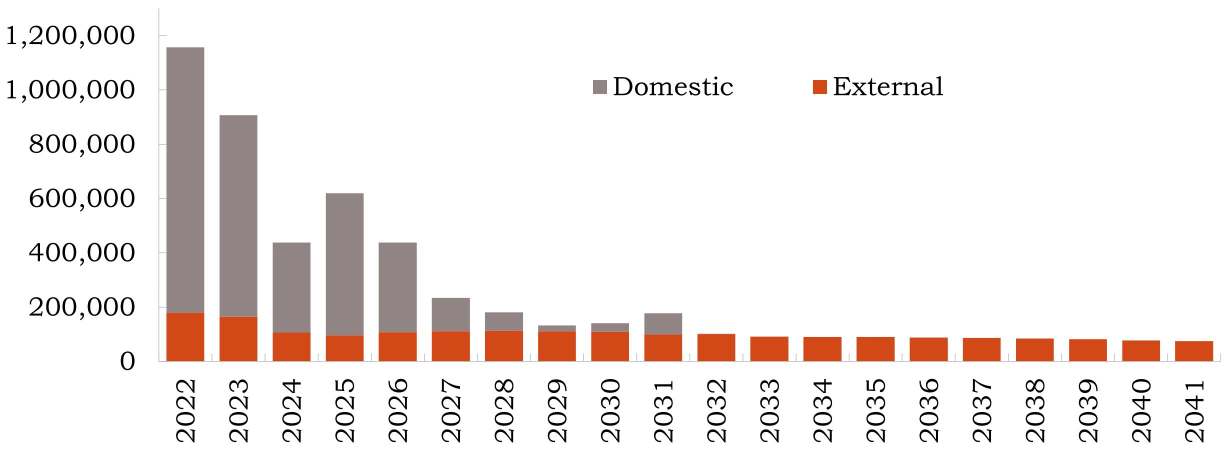
In terms of risk, Malawi's public debt is exposed to significant refinancing, interest and exchange rate risks. The high refinancing (and/or roll-over) risk and interest rate risk is largely on account of the short-term nature of the domestic debt portfolio.

### 5.1 Refinancing Risk Analysis using Redemption Profile

The redemption profile captures the amount of debt that is falling due in a given period. This indicator shows the specific points of a country's debt vulnerability, which is manifested by high debt service payments in the debt repayment schedule. The profile shows that domestic debt is characterised by maturity spikes whilst external debt is smoother with maturities going as far as 2064 (not shown).

**Figure 8: Malawi's Debt Redemption Profile, By FY**

(in MK Billion)




**Source: MoFEA staff calculations.**

## *5.2 Refinancing Risk Using Average Time Maturity*

The Average Time to Maturity (ATM) of the debt portfolio indicates that the average holding needs to be repaid in 7.7 years. This is driven by a high proportion of domestic debt, which has original, and remaining maturity periods that are lower as compared to external debt. Specifically, the ATM for domestic debt is 2.5 years whilst external debt is 13.6 years. The ATM for domestic debt has gone down from 2.7 years recorded in June 2021 due to increasing issuances of domestic debt whilst the ATM for external debt has gone up from 13.5 years reported in previous year due to the reduction in external non-concessional debt.

**Table 6: Cost and Risk Indicators for Existing Debt (end-March 2022)**

| Risk Indicators | | External debt | Domestic debt | Total debt |
|---|---|---|---|---|
| Amount (in millions of MWK) | | 2,136,317.6 | 3,228,490.6 | 5,364,808.3 |
| Amount (in millions of USD) | | 2,616.8 | 3,954.5 | 6,571.3 |
| Nominal debt as percent of GDP | | 20.8 | 31.4 | 52.2 |
| PV as percent of GDP | | 13.5 | 31.4 | 44.9 |
| Cost of debt | Interest payment (% of GDP) | 0.4 | 4.9 | 5.3 |
| | Weighted Av. IR (%) | 2.1 | 15.7 | 10.2 |
| Refinancing risk | ATM (years) | 13.6 | 2.5 | 7.7 |
| | Debt maturing in 1yr (% of total) | 6.4 | 30.3 | 19.2 |
| | Debt maturing in 1yr (% of GDP) | 1.7 | 9.5 | 11.3 |
| Interest rate risk | ATR (years) | 13.6 | 2.5 | 7.7 |
| | Debt refixing in 1yr (% of total) | 6.4 | 30.3 | 19.2 |
| | Fixed rate debt incl T-bills (% of total) | 100.0 | 100.0 | 100.0 |
| FX risk | FX debt (% of total debt) | | | 39.8 |
| | ST FX debt (% of reserves) | | | 47.1 |

**Source: MoFEA staff calculations**

## *5.3 Interest Rate Risk*

With all of Malawi's debt being fixed interest rate debt, all interest charges are updated upon roll-over. Thus, the Average Time to Refixing (ATR) is the same as the ATM at 7.7 years.

## *5.4 Exchange Rate Risk*

As for foreign exchange risk, 39.8 percent of the debt stock was denominated in foreign currency at the end of March 2022. This compared to 45.3 percent in June 2021. This proportion implies that a sizeable amount of Malawi's debt is susceptible to exchange rate movements. Exchange rate shocks can substantially contribute to higher debt service payments in local currency terms, thereby leading to higher payments in the budget than projected.

## Annex 1: Newly Signed Loans as at end-March 2022

| Loan | Creditor | Signing Date | Grace Period (Years) | Repayment Period (Years) | Interest/ Annum (%) | Other Loan Terms | Original Amount | Equiv in USD | Grant[7] Element (%) |
|---|---|---|---|---|---|---|---|---|---|
| Malawi Skills for a Vibrant Economy Project | IDA | 19-July-21 | 6 | 32 | 0.75 | Commitment fee 0.5% | XDR35.3 | 50.00 | 53 |
| Malawi Education Reform Program Project | IDA | 15-Dec-21 | 6 | 32 | 0.75 | Commitment fee 0.5% | XDR13.2 | 18.70 | 53 |
| Additional Financing for the Southern the Southern Africa Trade and Transport Facilitation Program | IDA | 15-Dec-21 | 6 | 32 | 0.75 | Commitment fee 0.5% | XDR7.8 | 11.14 | 53 |
| Dowa Town Water Supply and Sanitation Project | OFID | 31-Mar-22 | 5 | 15 | 1.50 | Commitment fee 0.25% | US$15.0 | 15.00 | 29.4 |
| **Total** | | | | | | | | **95.10** | |

**Source: MoFEA staff calculations.**

[7] Measures the concessionality of a loan. A loan is considered concessional if its grant element is at least 35 percent.

**Annex 2: Loan Guarantees as at end-March 2022**

| Creditor | Beneficiary | Amount (MK Million) | Issue date |
|---|---|---:|---:|
| NBS Bank Plc | Northern Region Water Board | 12,600.00 | 7th December 2021 |
| NBS Bank Plc | Agricultural Development and Marketing Corporation | 25,000.00 | 27th July 2021 |
| National Bank of Malawi | | 10,000.00 | 27th July 2021 |
| MyBucks Banking Corporation | | 5,000.00 | 27th July 2021 |
| CDH Investment Bank (CDHIB) | | 12,000.00 | Nov-17 |
| Export Development Fund (EDF) | | USD14.50 | Jul-18 |
| CDHIB | | 22,200.00 | 1st October 2020 |
| CDHIB | Auction Holdings Limited | 15,000.00 | 7th December 2018 |
| CDHIB | Umodzi Holdings Limited | USD3.12 | 6th December 2019 |
| NBS Bank Plc | Electricity Supply Corporation of Malawi | 15,000 | Feb-19 |
| FDH Bank | | 15,000 | Feb-19 |
| CDHIB | Salima Sugar Company Limited | USD7.00 | 11th March 2016 |
| CDHIB | | USD12.00 | 16th April 2018 |
| | | USD6.00 | 20th October 2019 |

**Loan Guarantees as at end-March 2022 *(Continued)***

| Creditor | Beneficiary | Amount (MK Million) | Issue date |
|---|---|---|---|
| EDF | National Economic Empowerment Fund Limited | 8,000.00 | 8th March 2020 |
| FDH Bank | | 5,000.00 | 28th June 2020 |

**Source: MoFEA staff calculations.**