



**MINISTRY OF FINANCE AND ECONOMIC
AFFAIRS**

ANNUAL PUBLIC DEBT REPORT

2023/2024

DEBT AND AID MANAGEMENT DIVISION

2024

JUNE

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
ECF	Extended Credit Facility
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
PFMA	Public Finance Management Act of 2022
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

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PREFACE

The analyses contained in the *Annual Public Debt Report* are integral elements of the Government of Malawi (GoM's) surveillance of economic and financial market developments that affect public debt. The Report is one of the key instruments that the GoM applies in order 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 of 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. Stocks are reported as of the end of the fiscal year which is end-March. Cumulative flows are aggregated over the fiscal year which runs from beginning-April to end-March.

This edition highlights debt management operational issues, analyses the drivers of debt growth, outlines efforts to restore debt sustainability, reviews Malawi's external and domestic debt portfolios and performs risk and cost analysis. The public debt portfolio review provides an analysis of 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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EXECUTIVE SUMMARY

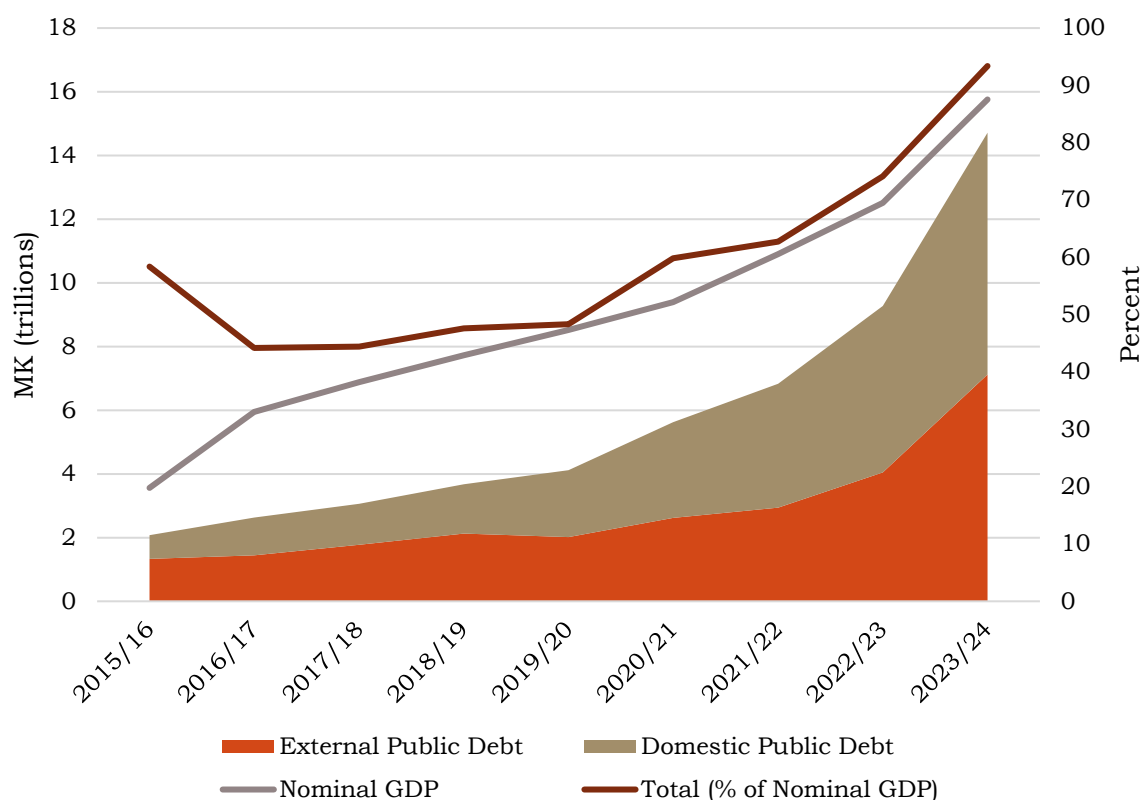
The global economy is slowly recovering from the effects of the COVID-19 pandemic, Russia's invasion of Ukraine, and the cost-of-living crisis. Domestically, Malawi has experienced drought and continued foreign exchange shortages which have hampered recovery.

In November 2023, the International Monetary Fund (IMF) granted Malawi's request for an Extended Credit Facility (ECF). The IMF and World Bank continue to assess Malawi's debt as being in distress and Government continues to engage in debt restructuring negotiations to restore the sustainability of the debt portfolio.

As at end-March 2024, Total Public Debt (TPD) stock stood at MK14.71 trillion (USD8.49 billion), equivalent to 93 percent of FY2023/24 GDP (MK15.76 trillion) and up by 59 percent from MK9.27 trillion (USD9.03 billion at the end-March 2023 exchange rate) or 74 percent of GDP as at end-March 2023. Of the TPD stock, USD4.11 billion (MK7.12 trillion) or 45 percent of GDP was external debt while MK7.59 trillion (USD4.38 billion) or 48 percent of GDP was domestic debt.

As can be seen in Figure 1, both external and domestic public debt have been on an upward trend since FY2015/16 in Malawian Kwacha terms. The debt-to-GDP ratio, however, fell from FY2015/16 to FY2016/17, increased steadily until FY2019/20 and then increased rapidly until FY2023/24.

Figure 1: Evolution of Public Debt Since FY2014/15



Sources: MoFEA staff calculations.

As at end-March 2024, the external debt stock consisted of 74 percent Central Government debt and 26 percent Central Bank debt. The Central Government share has increased by 5 percent and the Central Bank share has decreased by 1 percent since end-March 2023. Multilateral creditors continue to account for the largest proportion of Malawi’s external debt at 72 percent, followed by commercial creditors at 19 percent and bilateral creditors at 9 percent. Since end-March 2023, the total amount owed to multilateral creditors increased by 10 percent, that owed to commercial creditors fell by 7 percent and that owed to bilateral creditors fell by 9 percent.

With a holding of USD1.59 billion or 39 percent of external debt, the International Development Association (IDA) continues to be the largest creditor to the Government of Malawi. The second largest creditor is the African Development Fund (ADF) with a holding of 11 percent of external debt, followed by the IMF also at 11 percent and Africa Export-Import Bank (AFREXIM) and Trade and Development Bank (TDB) both at 9 percent. The

bulk of the creditors cumulatively held the remaining 30 percent of external debt.

Special Drawing Rights (SDR) accounted for 51 percent of the external public debt. After decomposing the SDR basket into its tradable currencies, the USD accounted for the largest proportion of external debt at 58 percent, followed by the EUR and CNY at 21 percent and 11 percent, respectively. Other currencies accounted for the remaining 10 percent.

77 percent (MK5.84 trillion) of domestic debt was held as Treasury Notes, 10 percent (MK745.66 billion) as Treasury Bills, 11 percent (MK872.42 billion) as Promissory Notes and 2 percent as domestic loans. 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 MK2.81 trillion. They were followed by the Reserve Bank of Malawi (RBM) at MK2.80 trillion. The insurance sector came third with a holding of MK709.67 billion. Cumulatively, the rest of the market held MK1.27 trillion.

Overall, yields on Treasury securities on the primary market continue to edge upwards on the back of the continued increases in domestic financing needs and from geopolitical risks due to the Russia-Ukraine war which is increasing inflationary pressures across the globe. Domestic headline (end-period) inflation has also risen from 27.0 percent as at end-March 2023 to 31.8 percent as at end-March 2024,¹ driven by both food and non-food items.

Major risks facing the Malawian public debt portfolio include refinancing risk, interest rate risk and exchange rate risk. The Average Time to Maturity (ATM), an indicator of refinancing risk, is measured at 9.1 years. This has increased from 6.9 years as at end-March 2023 partly due to the increased share of external debt, which has a higher ATM of 13.3 years. In terms of exposure to exchange rate risk, 48.6 percent of the present value of debt was denominated in foreign currency, implying significant exchange rate risk.

¹ Source: National Statistics Office

SECTION I: RECENT DEVELOPMENTS THAT HAVE AFFECTED PUBLIC DEBT MANAGEMENT

1.1 Macroeconomic Developments

The global economy is slowly recovering from the effects of the COVID-19 pandemic, Russia's invasion of Ukraine, and the cost-of-living crisis. As a result, global economic growth is projected to be 3.1 percent in 2024 and 3.2 percent in 2025,² which are below the historical average (from 2000 to 2019) of 3.8 percent.

After several years of poor economic performance, the outlook for Sub-Saharan Africa is gradually improving. Economic growth for the Region is projected to rise from 3.4 percent in 2023 to 3.8 percent in 2024, with nearly two thirds of countries anticipating higher economic growth. Inflation has almost halved, public debt ratios have broadly stabilised, and several countries have recently issued Eurobonds, ending a two-year hiatus from international capital markets. The funding squeeze persists as the region's governments continue to grapple with financing shortages, high borrowing costs, and impending debt repayments.

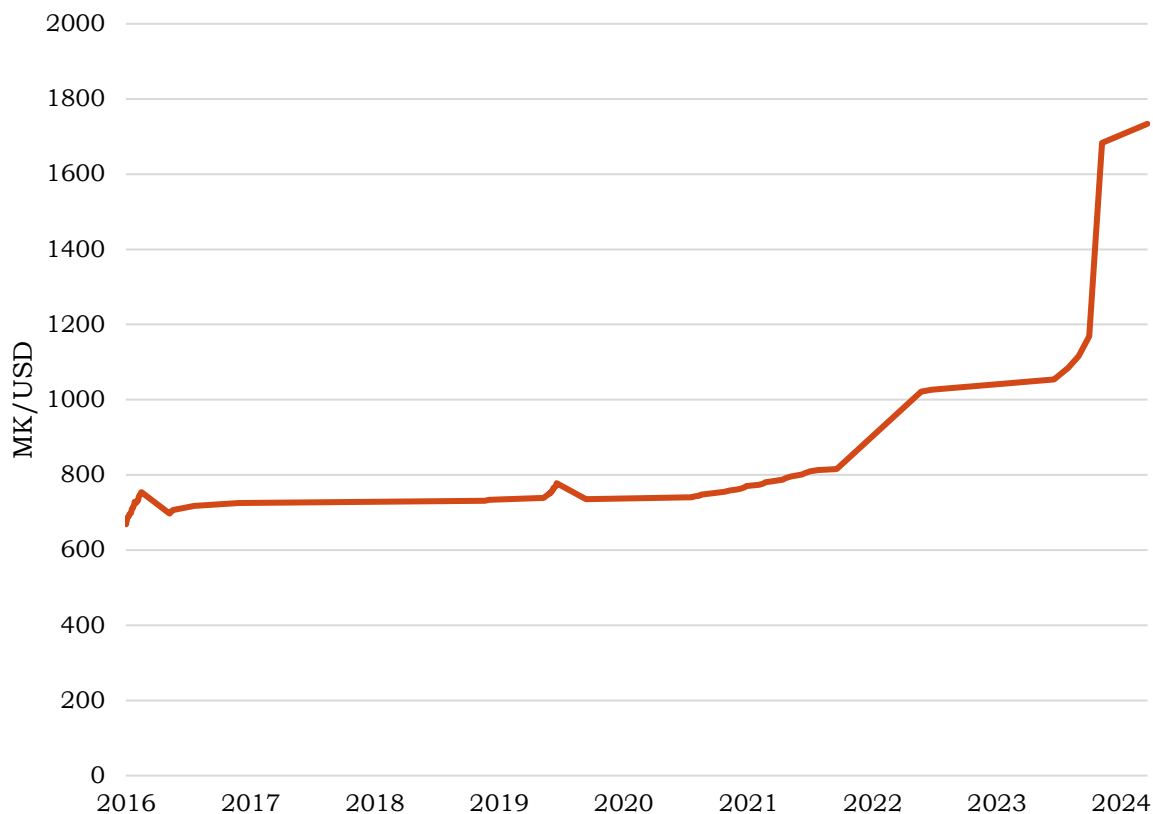
The economic challenges facing Malawi in 2022 persisted into 2023 with further shortages of foreign exchange, high inflation and high borrowing costs. Malawi's economic growth rate for 2023 was estimated at 1.9 percent, an increase from 0.9 percent for 2022. Economic growth in 2024 is projected at 2.3 percent.

Inadequate foreign exchange reserves affected the performance of the manufacturing, wholesale and retail trade industries due to a lack of intermediary inputs. The foreign exchange crisis prompted the RBM to realign the Malawi Kwacha by 44 percent in November 2023 and this worsened the position of foreign denominated public debt as stated earlier. This sharp rise

² According to estimates by the IMF.

in the Malawi Kwacha to United States Dollar exchange rate is shown in Figure 2 which plots this series since 2016.

Figure 2: Monthly Average Exchange Rate, MK per USD, Midrate



Source: MoFEA staff calculations based on RBM data

Inflation (end-period) continued to be elevated in FY2023/24, reaching an estimated 31.8 percent as at end-March 2024 as compared to 27.0 percent as at end-March 2023. In FY2023/24, inflation was driven by an increase in both food and non-food inflation arising from, among other things, Cyclone Idai and the aftermath of Tropical Cyclone Freddy, which caused damage to food crops mostly located in southern Malawi, and a drought in northern Malawi.

In addition, the realignment of the Malawi Kwacha by 44 percent in November 2023 increased inflationary pressures on both food and non-food commodities. The devaluation caused an average of 40 percent increase in the price of non-food commodities during FY2023/24. For example, fuel prices increased by an average of 44 percent whilst electricity tariffs increased by an average of 40.9 percent.

In 2024, inflation is expected to slowly decline with the annual average inflation rate for 2024 projected at 29.2 percent. The anticipated decline in inflation is on account of a number of factors such as an improvement in agricultural production and the resumption of the IMF’s ECF which is expected to unlock donor inflows and help address forex challenges.

Cyclone Idai, Tropical Cyclone Freddy and the dry spells which hit the country also exerted pressure on the fiscal budget through reduced revenues and high expenditures as Government strived to rehabilitate damaged infrastructure and provide relief services to victims of the natural disasters.

Selected macroeconomic indicators from 2018 to 2023 are shown in Table 1.

Table 1: Selected Macroeconomic Indicators

Year	2019/20	2020/21	2021/22	2022/23	2023/24
Real GDP growth*	5.7	0.8	4.6	0.9	1.9
Inflation rate (average yearly)	9.9	8.1	10.4	24.3	30.4
Exchange rate, MK/USD (end of period)	736.0	771.0	816.0	1,026.0	1,683.4
Primary deficit (percent of GDP)	-3.6	-3.1	-3.7	-5.7	-2.2

Source: MoFEA staff calculations

***Figures reported for the calendar year ending in December of the corresponding FY**

1.2 Legal Framework for Debt Management in Malawi

The primary legislation governing debt management in Malawi is the Public Finance Management Act, 2022, which sets out how the activities and procedures relating to debt contraction and management must be undertaken. The Act requires Government to publish a Medium-Term Debt Management Strategy (MTDS) and an Annual Borrowing Plan (ABP).

To strengthen adherence to the PMFA, Government in the reporting year introduced the Public Finance Management (Debt and Aid Management) Regulations, 2023, which operationalise the provisions of the Public Finance Management Act, 2022, relating to public debt management. The Government

of Malawi is currently in the process of finalising its Debt Management Policy to help guide debt management in Malawi.

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

1.2.1 Medium-Term Debt Management Strategy

Section 71 of the Public Finance Management Act, 2022, mandates the Ministry of Finance and Economic Affairs (MoFEA) to develop a MTDS. In keeping with this requirement, the Ministry developed a MTDS covering the years 2022-2026,³ which was approved by Cabinet in January 2023. The MTDS outlines Government's plans to achieve the optimal debt portfolio, grounded in a ranking of the risk and cost trade-offs of alternative debt management strategies.

The MTDS considered four strategies as follows:

- *Strategy 1:* assumed status quo. This was the preferred strategy under the previous MTDS. It maintains the existing instrument mix and is aimed at lengthening the domestic debt maturities by issuing 2 and 3-year Treasury Notes (T-Notes) while increasing the proportion of 5 and 7-Year T-Notes;
- *Strategy 2:* assumes a moderate increase in external financing whilst domestic financing is similar to Strategy 1;
- *Strategy 3:* assumes more external financing from the issuance of a USD100 million Diaspora Bond (commercial borrowing) in 2023; and
- *Strategy 4:* aligned to the programming of the IMF under the proposed four-year ECF which focuses on maximising concessional financing.

³ Available at <http://www.finance.gov.mw/index.php/our-documents/annual-debt-reports>

Out of the four strategies, Strategy 4 was the most preferred as it provides lower re-financing and re-fixing risks compared to the other strategies albeit with a higher foreign exchange risk.

The MTDS also sets out key targets Government intends to use in the reference period as follows:

- Given the high debt burden, Government will only borrow from concessional external sources to secure the necessary financing for its development objectives;
- Government will continue to develop the domestic debt market to improve its depth, liquidity and efficiency; and
- to minimise the impact of costs and risks to Government, the indicators in Table 2 shall be used as a guide to provide measurable and quantifiable targets for monitoring purposes.

Table 2: Key Targets for 2022-2026

Indicator	Figure as at end-March 2024	Target
Domestic debt ATM (years)	2.9 years	Above 3 years
Implied interest rates (%)	11.7 percent	Below 11 percent
FX debt (% of total debt)	48.6 percent	Below 60 percent

Source: Government of Malawi MTDS (2022)

1.2.2 Annual Borrowing Plan

To operationalise the MTDS, Section 72 of the Public Finance Management Act, 2022, requires the MoFEA to develop an ABP for each fiscal year. The ABP outlines how the aggregate borrowing requirements for the year will be met and includes details on planned borrowing operations over the year, borrowing instruments to be used and, under domestic debt, the indicative timing of borrowings. It also includes information on preferred tenors of domestic instruments and projected disbursements for external financing.

1.3 Newly Signed Loans

During FY2023/24, Government signed new loans totalling USD77.90 million from the Saudi Fund for Development and the International Fund for Agricultural Development (IFAD). The largest of these loans was Financial Access for Rural Markets, Smallholders and Enterprise (FARMSE) under IFAD at USD30.00 million followed by Programme for Rural Irrigation Development (PRIDE) also under IFAD at USD27.89 million. Table 3 contains a full list of newly signed loans in FY2023/24.

Table 3: Newly Signed Loans During FY2023/24

Loan/Project Name	Creditor	Signed Date	Grace Period (Years)	Repayment Period (Years)	Interest Rate (%)	Original Amount (Million)
Financial Access for Rural Markets, Smallholders and Enterprise – Additional Loan 1	IFAD	5-Oct-23	10	40	0.3	USD24.0
Financial Access for Rural Markets, Smallholders and Enterprise – Additional Loan 2	IFAD	5-Oct-23	10	30	1.23	USD6.0
Programme for Rural Irrigation Development – Additional Loan 1	IFAD	5-Oct-23	10	40	0.1	XDR16.9
Programme for Rural Irrigation Development – Additional Loan 2	IFAD	5-Oct-23	10	30	0.75	XDR4.2
Mangochi-Makanjira Road	Saudi Fund for Development	11-Nov-23	5	15	1	SAR75.0

Source: MoFEA

1.4 Communication and Investor Awareness

Treasury, in conjunction with the 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 and creating a platform for introducing new debt instruments that align with the changing economic landscape.

1.5 Infrastructure Bond Projects

Government continues to raise resources for the Local Currency Infrastructure Development Bond (LCIDB) programme to finance 15 high-value and high-impact projects, helping to ensure borrowing is for the purpose of investment rather than solely consumption.

During the reporting period, Government raised MK34.71 billion against a planned MK60.49 billion for the programme. The proceeds have financed (i) construction of the houses for security institutions, (ii) construction of the Nsanje-Marka railway line, (iii) rehabilitation of the Kaphatenga-Benga section of the M5 Road, (iv) upgrading of the Dzaleka-Mpalo-Ntchisi-Malamo Road, (v) upgrading of the Rumphi-Nyika-Chitipa-Ilomba Road and (vi) construction of the Multipurpose (Kholongo) Dam in Mponela, Dowa District.

Going forward, Government will continue issuing the infrastructure bonds to finance the ongoing projects as well as, when ready, the remaining projects under the program.

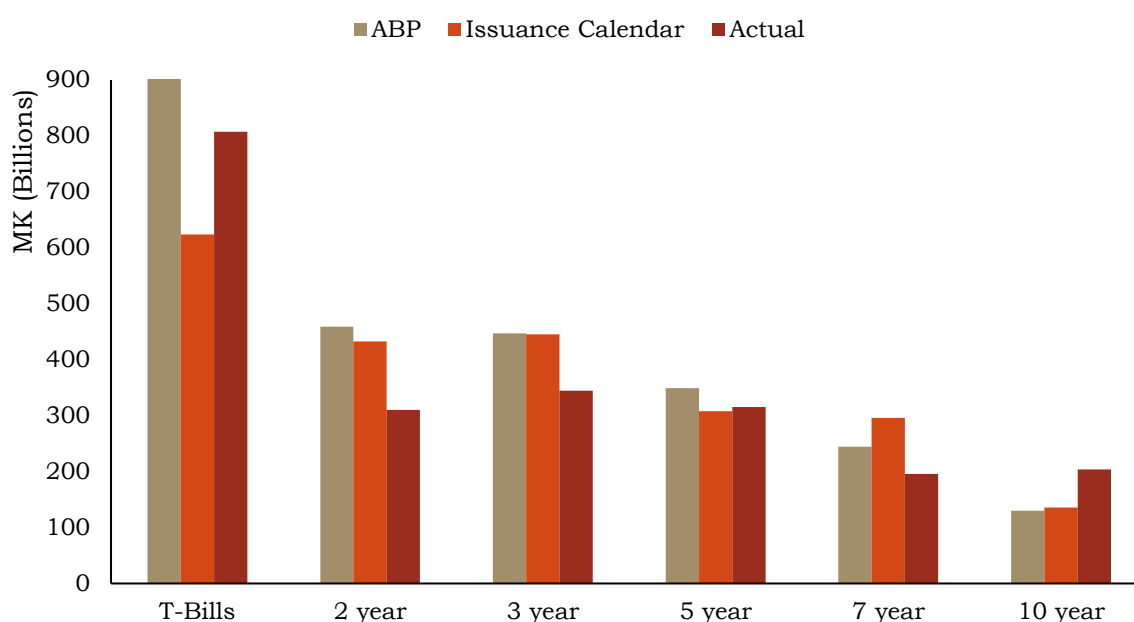
1.5 Performance of Annual Borrowing Plan and Debt Securities Issuance Calendars

The ABP sets out how much Government plans to borrow on the domestic market and which tenors of securities it plans to use. Treasury Securities Issuance Calendars provide more granular information on issuances.

The actual amounts of T-Notes and T-Bills issued was below the amounts announced in the ABP and issuance calendars at 83.88 percent and 97.11 percent of the announced amounts, respectively. Figure 3 compares the actual amounts of issuances for securities of each tenor with the amounts

announced in the ABP and in issuance calendars. Apart from 10-year T-Notes, all tenors observed lower issuances than announced in the ABP. In contrast, T-Bills recorded an over-issuance of MK183.49 billion while T-Notes issuances underperformed by MK248.20 billion as compared to the indicative amounts in the issuance calendars. As per the historical trend, Malawi’s debt market tends to be skewed towards the shorter tenors of securities due to unpredictable macroeconomic prospects.

Figure 3: Annual Borrowing Plan and Issuance Calendar Performance FY2023/24



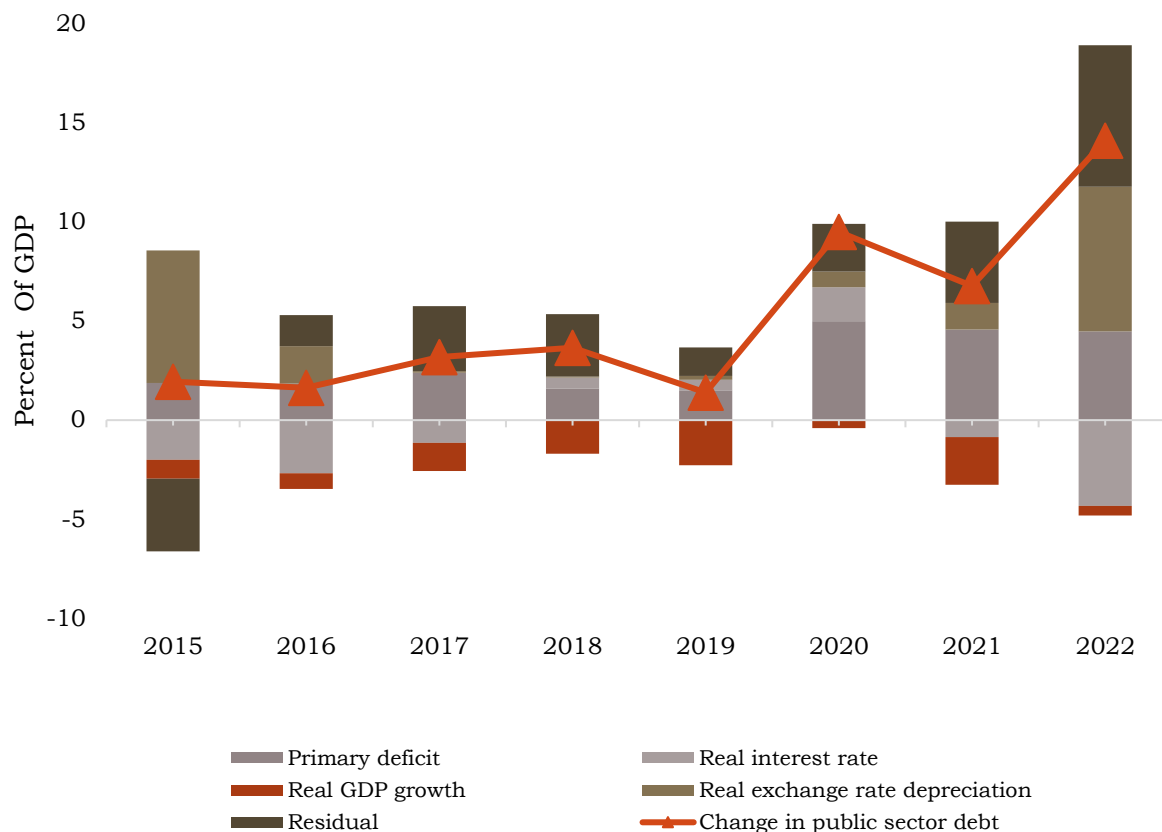
Sources: MoFEA staff calculations.

1.6 Drivers of Debt Dynamics

Malawi’s public debt-to-GDP ratio has been on an upward trajectory since the Heavily Indebted Poor Country (HIPC) and Multilateral Debt Relief Initiatives which occurred in 2006. Increased public debt levels, persistently high fiscal deficits, and the larger share of high-cost domestic debt, in combination with greater risks related to rollovers, interest rates and currency fluctuations, have resulted in unsustainable public finances. The estimated historical drivers of public debt accumulation are presented in Figure 4. In 2022, public sector debt as a percent of GDP increased by 14 percentage points. The exchange rate alignment and primary deficit were the biggest drivers of this

change, contributing 7.30 and 4.46 percentage points to the overall change, respectively.

Figure 4: Drivers of Debt Dynamics



Source: MoFEA staff calculations based on IMF/World Bank DSA data.

1.7 Debt Sustainability

A joint World Bank and IMF Debt Sustainability Analysis (DSA) conducted as part of the Second Review Under the Staff-Monitored Program with Executive Board Involvement and Request for an Arrangement Under the ECF in November 2023 assessed Malawi's external and overall public debt as in distress. The assessment was unchanged from that of a similar exercise conducted as part of the First Review Under the Staff-Monitored Program with Executive Board Involvement conducted in July 2023. The assessment is due to exceeding the IMF's thresholds for the present value of Malawi's overall public debt-to-GDP, present value of external debt-to-exports, external debt service-to-exports and external debt service-to-revenue ratios over the medium term as shown in Table 4.

The assessment has been exacerbated by Malawi’s frequent weather-related shocks, high cost of borrowing and the worsening macroeconomic outlook. Government is currently making efforts to restore debt sustainability as outlined in the following subsection.

Table 4: Public and External Debt Burden Indicators

Indicator	Threshold	2023	2024	2025	2026	2027
PV of total debt (% of GDP)	35%	69%	63%	63%	62%	61%
PV of external debt (% of GDP)	30%	19%	21%	21%	19%	18%
PV of external Debt (% of exports)	140%	179%	155%	143%	131%	119%
External debt service (% of exports)	10%	58%	26%	19%	18%	13%
External debt service (% of revenue)	14%	47%	25%	18%	17%	12%

Source: MoFEA compilation based on IMF/World Bank DSA data, November 2023

1.7.1 Progress on Debt Restructuring

In May 2022, to restore debt sustainability in the medium-term in a credible manner, Government engaged a legal and financial firm, Global Sovereign Advisory, to support the restructuring of Malawi's external debt.

In October 2022, Government finalised its Debt Restructuring Strategy. The Strategy aims at bringing external debt back to a moderate risk of debt distress in the medium term through a combination of policy reforms, debt treatment and maximising external grant financing from development partners.

Cumulatively, these efforts led to IMF board approval for a 48-month arrangement under the ECF for Malawi in an amount equivalent to SDR131.86 million (about USD175 million), with an immediate disbursement of SDR26.37 million (about USD35 million).

As per the strategy, Government is currently negotiating with its official bilateral and commercial creditors to restore debt sustainability in line with IMF lending policies. Government has already reached an agreement with several official creditors on the proposed restructuring terms. Negotiations with the remaining creditors are still underway. Government is working with the debt advisors to bring the debt restructuring to a close within the shortest time frame possible.

SECTION II: TOTAL PUBLIC DEBT PORTFOLIO AS AT END- MARCH 2024

2.1 Composition of Total Public Debt

As at end-March 2024, the TPD stock stood at MK14.71 trillion, which is equivalent to 93 percent of FY2023/24 GDP. It increased by 59 percent from MK9.27 trillion, or 74 percent of FY2022/23 GDP, since end-March 2023. Both domestic and external debt contributed to this increase with domestic debt rising by 45 percent and external debt expressed in Kwacha rising by 76 percent. Domestic debt issuances were used to fund the FY2023/24 budget deficit and refinance maturing debt. The increase in external debt expressed in Kwacha terms was largely driven by realignment of the exchange rate which led to a total fall in the value of the Kwacha in terms of US Dollars by 69 percent during FY2023/24.

Table 5: Evolution of Public Debt (in Millions)

	2005	2006 (HIPC)	2020/21	2021/22	2022/23	2023/24
Total Public Debt (MK)	426,592	130,846	5,622,950	6,835,595	9,270,675	14,714,373
External (USD)	2,969	452	3,250	3,598	3,944	4,107
Domestic (MK)	73,337	68,957	3,004,457	3,897,819	5,221,906	7,593,437
Nominal GDP (MK)	326,957	430,522	9,395,877	10,897,321	12,507,189	15,758,255
Exchange Rate MWK-USD ⁴	119	137	805	816	1026	1734
Percent of GDP						
Total (%)	130	30	60	63	74	93
External (%)	108	14	28	27	32	45
Domestic (%)	22	16	32	36	42	48

Source: MoFEA staff calculations.

2.2 Analysis of Interest Rates

Loans and debt securities in Malawi's public debt portfolio are on fixed interest rates. However, T-Bill rates reset when rolled over. In terms of implied

⁴ These exchange rates are used throughout the report.

interest rates, external loans registered a maximum of 1.85 percent while domestic securities registered a minimum of 19.38 percent and a maximum of 28.30 percent.

Table 6: Implied Interest Rates

External Loans	Implied Interest rate (%)	Securities	Implied Interest rate (%)
Existing and New ADF/ IDA/IFAD	0.77	T-Bills	21.48
Concessional-Others	1.28	2Y & 3YT-Notes	20.71
Semi-concessional (USD)	1.78	5Y & 7YT-Notes	19.38
Semi-concessional (CNY)	1.85	10Y T-Notes	23.52
		Promissory Notes	28.30

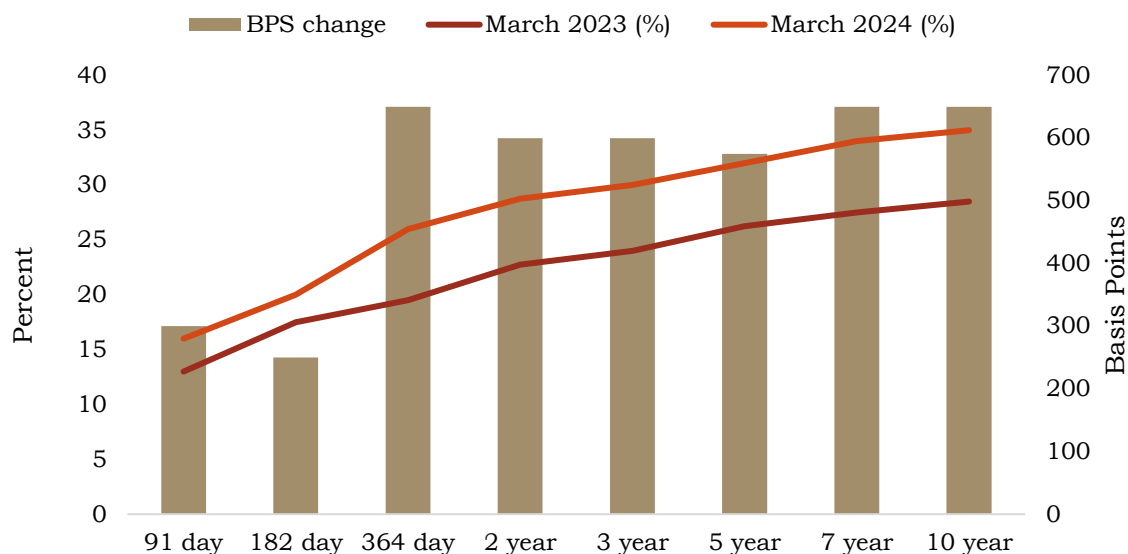
Source: MoFEA staff calculations.

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, exchange rate realignment and inflation.

As shown in Figure 6, yields on the 91-day T-Bill went up by 300 basis points during the reporting period, those on the 182-day T-Bill went up by 250 basis points and those on the 364-day T-Bill went up by 650 basis points. For T-Notes, the biggest increase was on the 7-year and 10-year tenors at 650 basis points.

Figure 6: Domestic Yield Curve for end-March 2023 and end-March 2024



Source: MoFEA staff calculations based on RBM data.

2.4 Debt Flows

As shown in Table 7, total debt service in FY2023/24 amounted to MK2.57 trillion. Of this amount, MK1.71 trillion was on account of amortisation (principal repayment) and MK864.78 billion was on account of interest payments.

In FY2023/24, domestic debt interest payments accounted for about 25 percent of the budget; up from the 22 percent recorded for in FY2022/23.

Overall, external debt service increased by MK213.9 billion (about 168 percent) from the FY2022/23. This significant increase is largely attributed to the 44 percent realignment of the exchange rate that took place in November 2023.

Table 7. Debt Service, MK Billions

	Interest Payments		Principal Payments		Total Debt Service	
	2022/23	2023/24	2022/23	2023/24	2022/23	2023/24
Domestic Debt Service	588	820	1070	1410	1660	2230
External Debt Service	39	45	89	296	127	341
Total	627	865	1160	1710	1780	2570

Source: MoFEA calculations.

2.5 Contingent Liabilities

The Government guaranteed debt stock as of end-March 2024 was MK302.54 billion, which represents 2 percent of GDP and is an increase from the MK207.07 billion figure recorded as at end-March 2023. Government partially serviced guaranteed debt on behalf of the National Economic Empowerment Fund, amounting to MK4 billion.

SECTION III: EXTERNAL PUBLIC DEBT PORTFOLIO REVIEW

Malawi's total external public debt stock as at end-March 2024 amounted to USD4.11 billion, a 4 percent increase from the end-March 2023 position of USD3.94 billion. This was on account of an increase in disbursements on project loans and in the RBM's trade-financing facilities.

3.1 External Debt by Holder

As at end-March 2024, Central Government debt accounted for 74 percent of the total external debt, and it increased by 5 percent since end-March 2023. RBM debt accounted for 26 percent of the total external debt, and it increased by 1 percent since end-March 2023.

Table 8: External Debt Stock, by Holder (USD Millions)

Category	Mar-23	Mar-24	(%) Change
(1) Central Government	2,895.27	3,051.02	5.38
(%) of total	73.40	74.29	
(2) Central Bank	1,049.23	1,055.95	0.64
(%) of total	26.60	25.71	
Total External (1+2)	3,944.50	4,106.97	4.12

Sources: MoFEA staff calculations.

3.2 External Debt by Creditor

With a holding of USD1,585.75 million (38 percent of total external debt), IDA continues to be the largest creditor to the Government of Malawi. The second largest creditor is the ADF with a holding of USD467.11 million (11 percent of total external debt), followed by the IMF at 11 percent, AFREXIM at 9 percent and TDB at 9 percent, respectively. The bulk of the creditors cumulatively held the remaining 22 percent.

Table 9: External Debt Stock by Creditor and Creditor Category (USD Millions)

Creditor	Mar-23	Mar-24	(%) Change
1. Bilateral	417.71	379.01	-9.27
Export-Import Bank of China (Main-Land)	223.01	197.27	-11.54
Export-Import Bank of India	111.07	100.40	-9.61
Kuwait Fund for Arab Economic Development	48.04	49.46	2.96
Saudi Fund for Development	29.65	29.45	-0.69
Abu Dhabi Fund for Development (ADFD)	2.14	1.47	-31.21
Government of Belgium	1.06	0.96	-9.44
Compania Espanola De Seguros de Credito	2.74	0.00	
2. Multilateral	2,697.00	2,958.91	9.71
International Development Association	1,414.34	1,585.75	12.12
African Development Fund	449.16	467.11	4.00
International Monetary Fund	439.53	438.08	-0.33
European Investment Bank	118.43	167.42	41.37
International Fund For Agricultural Development	108.89	125.21	14.99
OPEC Fund for International Development	80.49	88.17	9.54
Arab Bank for Economic Development in Africa (BADEA)	69.99	72.24	3.22
Nordic Development Fund	16.18	14.92	-7.79
3. Commercial	829.79	769.05	-7.32
Africa Export Import Bank	454.34	376.84	-17.06
Trade and Development Bank	323.70	356.22	10.05
Baobab Securities	51.74	35.99	-30.45
Total	3,944.50	4,106.97	4.12

Source: MoFEA staff calculations.

3.3 External Debt by Creditor Category

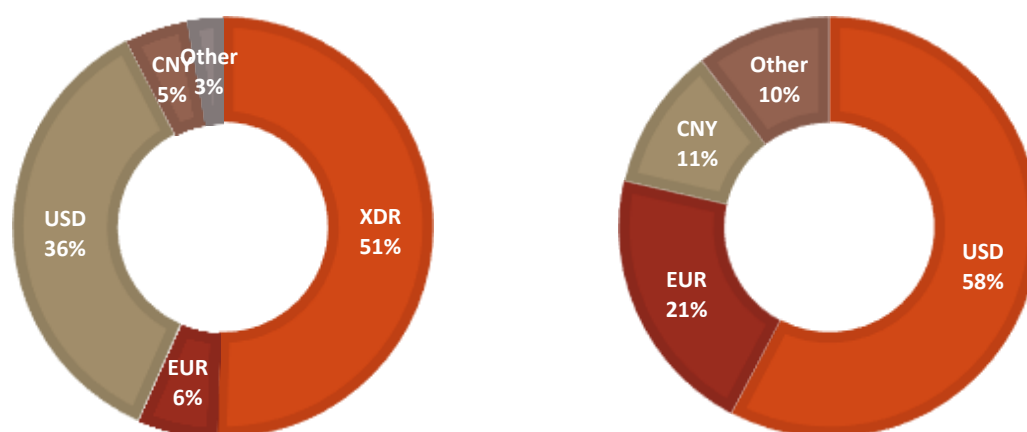
The external debt portfolio comprises multilateral, bilateral and commercial creditors. As shown in Table 9, multilateral creditors continue to account for the largest proportion of Malawi's external debt at 72 percent, followed by

commercial creditors at 19 percent and bilateral creditors at 9 percent. Since end-March 2023, the total amount owed to multilateral creditors increased by 10 percent, that to commercial creditors fell by 7 percent and that to bilateral creditors fell by 9 percent.

3.4 External Public Debt by Currency

As at end-March 2024, Special Drawing Rights (SDR) accounted for 51 percent of 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 58 percent followed by the EUR and CNY at 21 percent and 11 percent, respectively. Other currencies accounted for the remaining 10 percent.⁶

Figure 7: External Debt Stock, by Currency as at end-March 2024



Source: MoFEA staff calculations.

Compared to end-March 2023, the share of SDR has increased from 49 percent to 51 percent. After decomposing the SDR basket into its tradable currencies, the shares of currencies remained relatively stable, with USD decreasing from 59 percent to 58 percent and Euro increasing from 19 percent to 21 percent.

⁵ USD (43.38%), EUR (29.31%), CNY (12.28%), JPY (7.59%) and GBP (7.44%).

⁶ Other currencies in the external public debt include British Pound, Kuwait Dinar, Saudi Riyal, Japanese Yen and Dirham.

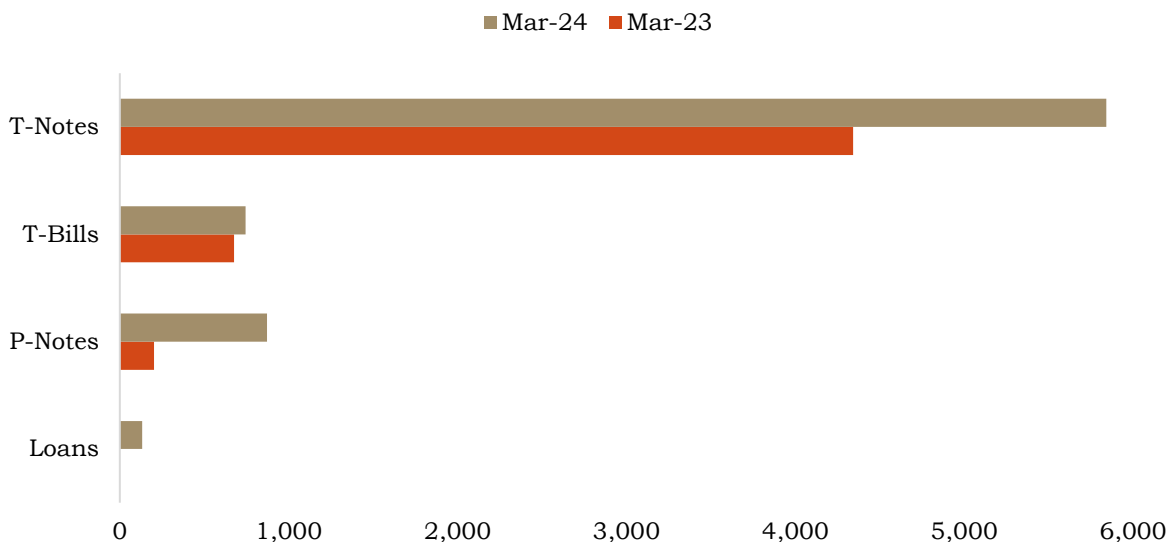
SECTION IV: DOMESTIC PUBLIC DEBT PORTFOLIO REVIEW

As at end-March 2024, total domestic public debt amounted to MK7.59 trillion, up by 45 percent from the MK5.22 trillion registered as at end-March 2023. The increase is due to the significantly high deficit financing and debt refinancing requirements during the period.

4.1 Domestic Debt by Instrument

MK5.84 trillion (77 percent) of the total domestic debt stock was in the form of T-Notes, MK745.66 (10 percent) was in T-Bills, MK872.42 billion (12 percent) in Promissory Notes, and MK132.76 billion (2 percent) in domestic loans. Government contracted two domestic loans in the period, one jointly with NBS Bank and CDH Investment Bank for the Salima-Lilongwe Water Supply Project which had an outstanding amount of MK105 billion as at end-March 2024 and the other with CDH Investment Bank which had an outstanding amount of MK27.76 billion as at end-March 2024. The holdings of all types of securities have shown an upward trend since end-March 2023, with the increase in the amount of Promissory Notes being attributed to a MK704 billion Promissory Note issued to RBM to cover losses from the exchange rate realignment.

Figure 8: Domestic Debt Stock, by Instrument Type

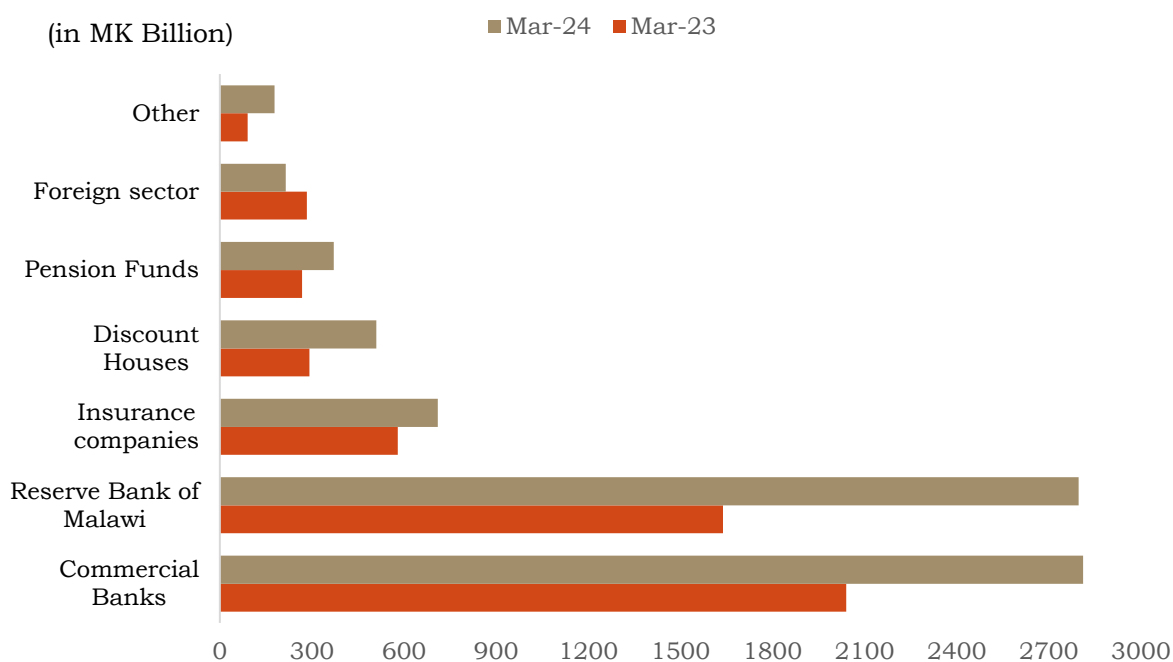


Source: MoFEA staff calculations.

4.2 Domestic Debt by Holder

In FY2023/24, commercial banks were the largest holder of domestic debt at MK2.81 trillion, followed by the RBM at MK2.80 trillion. Discount houses held MK510.18 billion, which was a 75 percent increase from end-March 2023. Non-bank institutions saw an overall increase in holdings, with insurance companies, pension funds, and the private sector holding MK709.67 billion, MK371.42 billion, and MK133.82 billion, respectively. However, the foreign sector registered a slight decrease in holdings from MK282.96 billion as at end-March 2023 to MK214.36 billion as at end-March 2024. The rest of the holders, in aggregate, held MK44.65 billion.

Figure 9: Domestic Debt Stock, by Holder



Source: MoFEA staff calculations.

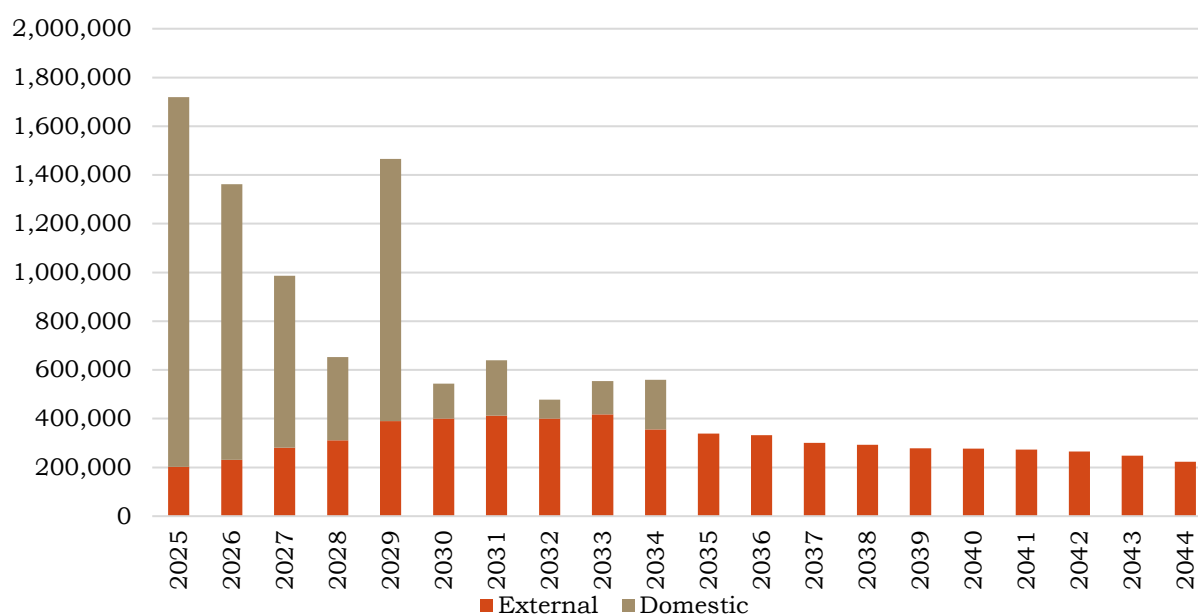
SECTION V: RISK AND COST ANALYSIS

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 are largely on account of the short-term nature of Malawi's domestic debt portfolio.

5.1 Refinancing Risk Analysis using Redemption Profile

The redemption profile, shown in Figure 10, 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 2065 (not shown).

Figure 10: Malawi's Debt Redemption Profile, by FY



Source: MoFEA staff calculations.

5.2 Refinancing Risk Using Average Time Maturity

The ATM of the debt portfolio indicates that the average holding needs to be repaid in 9.1 years. This is driven by a high proportion of domestic debt which has original and remaining maturity periods that are lower than external debt.

Specifically, the ATM for domestic debt is 2.9 years whilst external debt is 13.3 years. The ATM of the debt portfolio has increased from 6.9 to 9.1 years due to an increased proportion of external debt in the total debt portfolio which has a higher ATM. This, in turn, is largely due to the realignment of the exchange rate that took place in FY2023/24.

Table 10: Cost and Risk Indicators for Existing Debt (End-March 2024)

Risk Indicators		External debt	Domestic debt	Total debt
Cost of debt	Interest payment as percent of GDP	0.3	6.7	7.1
	Weighted Av. IR (%)	1.1	21.8	11.7
	ATM (years)	13.3	2.9	9.1
Refinancing risk	Debt maturing in 1yr (% of total)	2.5	27.3	12.6
	Debt maturing in 1yr (% of GDP)	1.1	8.5	9.6
	ATR (years)	13.3	2.9	9.1
Interest rate risk	Debt refixing in 1yr (% of total)	2.5	27.3	12.6
	Fixed rate debt incl T-bills (% of total)	100.0	100.0	100.0
	T-bills (% of total)	0.0	11.5	4.7
FX risk	FX debt (% of total debt)	N/A	N/A	48.6
	ST FX debt (% of reserves)	N/A	N/A	26.2

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 9.1 years.

5.4 Exchange Rate Risk

As for foreign exchange risk, 48.6 percent of the debt stock was denominated in foreign currency as at end-March 2024. This compared to 41 percent as at end-March 2023. This proportion implies that a sizeable amount of Malawi's

debt is susceptible to exchange rate movements. Exchange rate shocks, such as the 44 percent realignment of the Kwacha in November 2023 (as shown in Figure 2), can lead to substantially higher debt service payments in local currency terms, thereby leading to higher debt servicing costs than projected.

Annex 1: Loan Guarantees

Table 11: Loan Guarantees as at End-March 2024

Creditor (Guarantee Recipient)	Guaranteed Entity	Issue Date	Guaranteed Amount (Billions)	
			End-March 2023	End-March 2024
Arab Bank for Economic Development in Africa	National Oil Company of Malawi	October 2022	51.30	84.15
CDH Investment Bank	Agricultural Development and Marketing Corporation	October 2020	15.30	13.18
CDH Investment Bank	Agricultural Development and Marketing Corporation	November 2017	10.21	8.93
CDH Investment Bank	Auction Holdings	December 2018	24.29	29.35
CDH Investment Bank	Greenbelt Authority	October 2019	6.72	8.38
CDH Investment Bank	Salima Sugar	April 2018	16.20	14.48
CDH Investment Bank	Umodzi Holdings	December 2019	2.42	0.64
Export Development Fund	National Economic Empowerment Fund	March 2020	8.78	4.38
NBS Bank	Electricity Supply Company of Malawi	March 2020		4.99
NBS Bank	Electricity Supply Company of Malawi	February 2019	12.65	1.11
Trade and Development Bank	Malawi Leaf		59.20	132.96
Total			207.07	302.54

Source: MoFEA staff compilations.