MINISTRY OF FINANCE

ANNUAL PUBLIC DEBT REPORT

2020/2021

DEBT AND AID MANAGEMENT DIVISION

2021

NOVEMBER

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Like many countries across the globe, the COVID-19 pandemic has negatively affected Malawi's economic growth prospects. Nevertheless, the economy has started to show signs of recovery. Gross Domestic Product (GDP) growth rebounded to an estimated growth rate of 3.8 percent in 2021 from a subdued growth rate of 0.9 percent in 2020.

As at end-June 2021, Total Public Debt (TPD) stock stood at MK5.5 trillion, equivalent to 59 percent of Fiscal Year (FY) 2020/21 GDP, up by 32 percent from MK4.1 trillion or 48 percent of GDP, in June 2020. Of the TPD stock, USD3.6 billion were external debt or 31 percent of GDP and MK2.6 trillion or 28 percent of GDP were domestic debt. External debt grew by 14 percent during the period under review lower than the 42 percent acceleration in domestic debt.

The External debt stock consisted of 73 percent central government debt and 27 percent central bank debt in June 2021 as compared to 87 percent and 13 percent in June 2020, respectively. Multilateral creditors continued to account for the largest proportion of Malawi's external debt and the share increased by 17 percent in June 2021. Commercial creditors followed and increased holdings by 8 percent. Bilateral creditors were the least and increased their holdings by 10 percent. At a holding of USD1, 161.78 million or 32 percent of total external debt, the International Development Association remains the largest creditor to the Government of Malawi. The second largest creditor is the Africa Export Import Bank with a holding of USD644.62 million or 18 percent of total external debt followed by African Development Fund and International Monetary Fund at 12 percent each. The Export-Import Bank of China and Export-Import Bank of India accounted for 7 percent and 4 percent, respectively. This ranking has largely remained the same compared to June 2020. After decomposing SDR into its tradable currencies, the USD accounted for the largest proportion of external debt at 42 percent followed by the EUR and CNY at 25 percent and 13 percent, respectively. Other currencies accounted for the remaining 20 percent. As for guarantees, there were no called guarantees in the reporting period. However, Government guaranteed MK119.4 billion in debt held by state-owned enterprises, representing 1.3 percent of GDP.

The domestic debt stock, comprised 82 percent (MK2, 099.52 billion), Treasury Notes, 13 percent (MK346.20 billion) Treasury Bills, and 5 percent (MK119.76 billion) Promissory Notes. The Promissory Notes were issued to clear audited arrears. In terms of holdings, commercial banks remained the biggest holders of domestic debt and increased their holdings from MK798.98 billion in June 2020 to MK1, 357.74 billion in June 2021. They were followed by the Reserve Bank of Malawi, which marginally increased its holdings from MK621.30 billion to MK628.64 billion during the same period. The insurance sector also increased its holdings from MK210.38 billion to MK250.57. Notable during the same period, holdings by the household sector increased from MK0.94 billion to MK4.63 billion indicating an active participation of households in the domestic debt market.

Yields on Treasury securities on the primary market became steeper as shorter-dated to medium-dated yields increased whilst yields on long-term papers relatively remained the same in the period under review.

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, decreased from 8.3 years to 7.8 years in the course of the FY2020/21 due to the increased share of Domestic Debt, which has a lower ATM of 2.7 years as well as commercial external debt with lower maturity period. In terms of exposure to exchange rate risk, 45.3 percent of the Present Value of debt was denominated in foreign currency, implying significant exchange rate risk.

High budget deficits and high real interest rate on domestic debt are the key drivers of debt dynamics in Malawi.

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 and central bank. It also covers publicly guaranteed debt to state-owned enterprises. In terms of valuation, unless 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, extending 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 2020-June 2021. It also decomposes the drivers of debt to GDP ratio as well as interest payments in Malawi overtime. 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, holders of debt and yield curve analysis. 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
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 Commission 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
ICT	Information and communications technology
IDA	International Development Association
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
IR	Interest Rate
JPY	Japanese Yen, official currency of Japan
MK	Malawi Kwacha, official currency of Malawi
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
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 to long term papers.

1.2 Macro-economic Developments

During the period under review, the continued increase in COVID-19 infections and accompanying measures to mitigate its impact disrupted economic activity, with consequent impacts on exports, trade transit costs, and tourism. At the same time, the economic outlook of Malawi's main trading partners further deteriorated, and oil prices rose. Weak global demand hurt Malawi's tobacco and other agricultural exports, and inflows of foreign direct investment (FDI). Notwithstanding a bumper harvest, Gross Domestic Product (GDP) growth sharply declined from a pre-pandemic projection of 5.5 percent to an estimated realized value of 0.9 percent in 2020. The economy rebounded to an estimated growth rate of 3.8 percent in 2021. The rebound is still marginal given that the economy is emerging from a low base.

Year-on-year headline inflation remained within single digits in the period under review. Nevertheless, it increased by 0.6 percentage points from 8.5 percent in June 2020 to 9.1 percent in June 2021. Monetary policy was accommodative to support recovery from the pandemic during the period. The Reserve Bank of Malawi maintained a policy rate of 12 percent since its reduction to this level in November 2020. The foreign exchange market experienced pressures caused by COVID–19- related importations and the need for essential importations like fertilizers.

In line with the reduced economic activity during the period, the overall balance of payments deficit persisted in the first half of 2021. These developments continued to weigh on Malawi's growth prospects and continued to have significant fiscal impact. Revenue shortfalls emanating from low economic activity, significant increases in critical COVID-19-related health and social spending worsened the domestic primary deficit in FY2020/21.

Going forward, Government has moved to safeguard debt sustainability and is formulating measures to reduce debt over the medium term, including implementing a comprehensive domestic revenue mobilization strategy, expenditure management, targeted borrowing under the infrastructure development bond programme towards productive projects that generate sufficient growth and complementarities to pay off the debt in future. Government is also working on modalities of a Debt Retirement Fund. Further, with the new Integrated Financial Management System in place, it is envisaged that commitment controls will be greatly enhanced to tame the growth in arrears.

1.3 Medium-Term Debt Management Strategy

Treasury continues to implement a 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 edition, 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.

1.4 Newly Signed Loans

Government signed eight loans in the FY2020/21 totalling USD319.77 million. The loans were from the International Development Association (IDA) of the World Bank, African Development Fund (ADF) of the African Development Bank (AfDB), International Fund for Agricultural Development (IFAD), OPEC Fund for International Development (OPEC Fund), European Investment Bank (EIB) and Export–Import (EXIM) Bank of China. The loans will finance COVID-19- related responses, Information Communications and Technology development, financial inclusion, tourism, water and agriculture sectors (Refer to Annex 1).

Of the eight newly signed loans, Government on-lent the Malawi National Fibre Backbone Phase II loan from EXIM Bank of China to Electricity Supply Commission of Malawi.

1.5 Communication and Investor Awareness

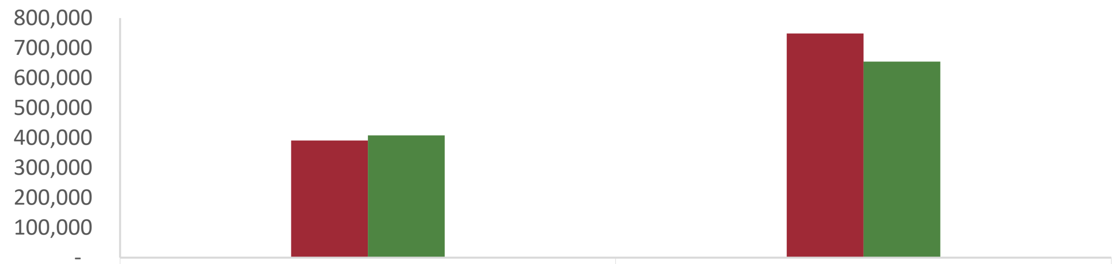
On a regular basis, Treasury in conjunction with the Reserve Bank of Malawi (RBM) conduct interface meetings with the various domestic debt market players. The objective of these meetings is to get input in the formulation of debt issuance calendars as well as get insights on market developments. Furthermore, through these meetings, Treasury gets insight on what the market expects from Treasury vis-à-vis issuance of debt securities. Going forward, Treasury will sustain these meetings as they have proved to be very crucial in as far as domestic debt issuance is concerned.

1.6 Performance of Debt Securities Issuance Calendar

During the FY2020/21, Government in collaboration RBM, issued quarterly Treasury Securities Issuance Calendars, which were published on both Ministry of Finance (MoF) 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 Treasury Bills recorded an over issuance of around MK17.32 billion while Treasury Notes issuances underperformed by MK93.32 billion.

Figure 1: Aggregated Issuance Calendar vs Actual FY2020/21

(in MK Million)



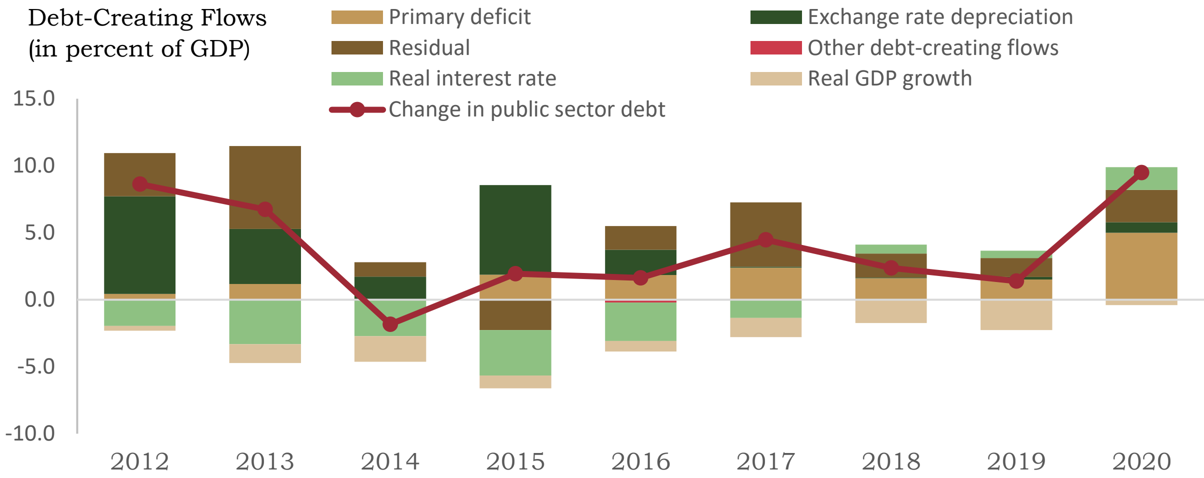
	Treasury Bills	Treasury Notes
Calendar	391,364	748,339
Actual	408,681	655,023

Sources: MoF staff calculations.

1.7 Decomposition of Public Debt Drivers

Historically, debt decomposition indicates that debt dynamics have been mainly driven by high primary deficits, cumulative exchange rate depreciation while GDP growth and low real interest rate have dampened debt growth. More recently, while high budget deficits continue to contribute to growth in debt, the effect of exchange rate depreciation has waned, as exchange rate remained relatively stable. Further, high interest expense, particularly on domestic debt is increasing debt. Figure 2 decomposes changes in public debt into its key drivers[1].

Figure 2: Contribution to Change in Debt to GDP, by Source

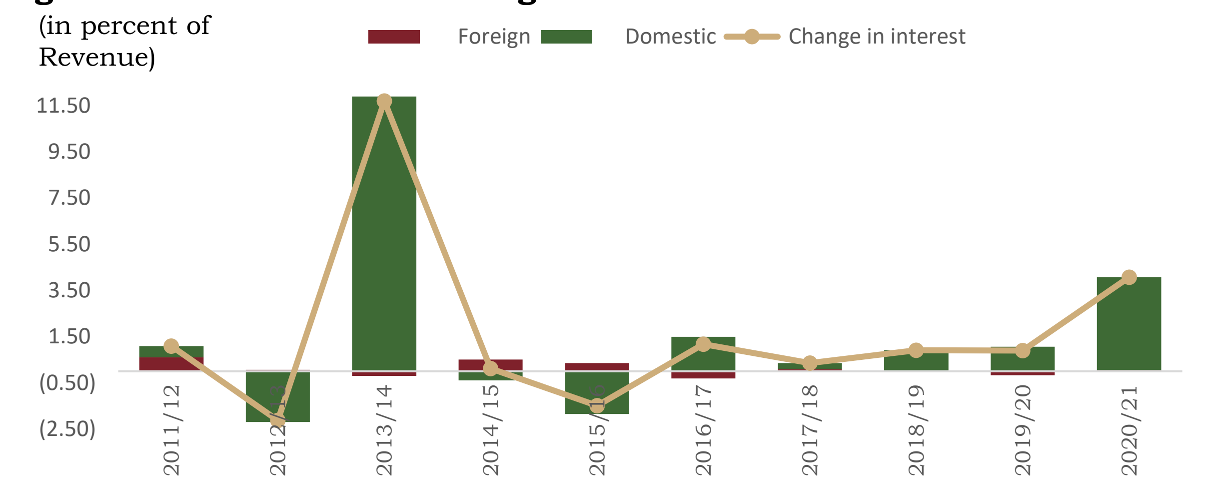


Source: MoF staff calculations.

1.8 Interest Payments burden

In absolute terms, interest to revenue ratio has been increasing overtime.

Figure 3: Contribution to Change in Interest to Revenue Ratio



Source: MoF staff calculations.

In terms of growth, the biggest inter-year growth was observed in FY2013/14 in the wake of the Cashgate scandal through which Government resorted to high-cost domestic borrowing to finance the fiscal gap after major

[1] Unlike the rest of the tables and figures in the report, this figure in based on calendar year data.

Development Partners withheld their budgetary support. The growth in interest briefly went down in FYs 2014/15 and 2015/16. This has since steadily increased beginning FY2018/19 driven by higher domestic interest payments.

SECTION II: TOTAL PUBLIC DEBT PORTFOLIO AS AT 30 JUNE 2021

2.1 Composition of Total Public Debt

Total Public Debt (TPD) stock as at end-June 2021, stood as MK5.5 trillion, equivalent to 59 percent of FY2020/21 GDP, up by 32 percent from MK4.1 trillion or 48 percent of GDP, in June 2020. The jump was reported in both domestic debt and foreign debt. Domestic debt increased from MK1.8 trillion in June 2020 to MK2.6 trillion in June 2021 on account of new issuances to fund the FY2020/21 budget deficit and refinance maturing debt. External debt increased by USD430 million to USD3.6 billion over the same period due to drawdowns from existing loans and new loans.

Table 1: Evolution of Public Debt (in Millions)[2]

	2005	2006 (HIPC)	2017/18	2018/19	2019/20	2020/21
Total Public Debt (MK)	426,592	130,846	3,058,507	3,678,696	4,124,006	5,454,949[3]
External (USD)	2,969	452	2,441	2,747	3,152	3,587
Domestic (MK)	73,337	68,957	1,287,091	1,549,588	1,800,711	2,565,469
Nominal GDP (MK)	326,957	430,522	6,882,262	7,729,106	8,520,572	9,274,071
Revenue	73,337	68,957	1,007,257	1,132,530	1,264,263	1,406,027
Percent of GDP						
Total (%)	130	30	44	48	48	59
External (%)	108	14	26	28	27	31
Domestic (%)	22	16	19	20	21	28

Source: MoF staff calculations.

[2] In an attempt to widen the coverage of public debt and in keeping with international classifications, debt reported previously as domestic debt held by non-residents has been reclassified as external debt. Therefore, debt stocks beginning from FY2017/18 have been re-recorded. Consequently, this table is largely not comparable to similar tables in previous editions.
[3] Exchange rate used US$1=MK805.591.

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 10.52 percent, due to uptake of external non-concessional loans. While domestic securities averaged 10.73 percent for Treasury Bills and 15.32 percent for Treasury-Notes.

Table 2: Implied Interest Rates

External Loan	Implied Interest rate (%)	Securities	Implied Interest rate (%)
Existing and New ADF/ IDA	0.73	T-bills	10.73
Concessional-Others	1.22	T-Notes	15.32
Semi-concessional (USD)	2.89		
Semi-concessional (CNY)	1.81		
Non-Concessional	10.52		

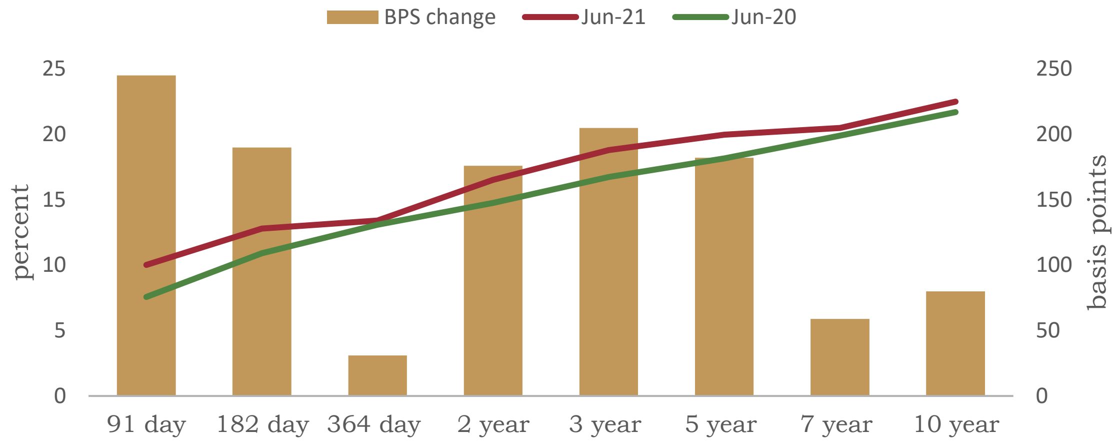
Source: MoF staff calculations.

2.3 Treasury Securities Yield Curve

Overall, yields on Treasury securities on the primary market shifted upwards. Specifically, shorter-dated to medium-dated yields became steeper whilst yields on long-term papers relatively remained the same in the period under review. Under Treasury Bills, the biggest increase was recorded for the 91-day Treasury Bill which increased by 245 basis points from June 2020. While the 364-day tenor saw a marginal increase of 31 basis points. For Treasury Notes, the biggest leap was under the 3-year tenor at 205 basis point increase.

The increase in yields reflected increase in inflation, ongoing risks associated with the COVID-19 pandemic, and the resultant high fiscal financing needs.

Figure 4: Domestic Yield Curve for June 2020 and 2021



Source: MoF staff calculations based on RBM data.

2.4 Debt Flows

Without payments to the International Monetary Fund (IMF), amortisation under External Debt amounted to MK42.4 billion, with interest payment of MK16.8 billion. Compared to the approved budget, amortisation was within the approved budget of MK42.7 billion and interest cost was in excess of the approved budget of MK11.9 billion and revised budget of MK15.4 billion. As for domestic debt, interest amounted to MK378.4 billion against approved and revised budget of MK364.2 billion. Repayment on securities amounted to MK762.0 billion.

SECTION III: EXTERNAL PUBLIC DEBT PORTFOLIO REVIEW

Malawi's total external public debt stock at end-June 2021 amounted to USD3, 587 million, a 14 percent increase compared to the USD 3,152 million at end-June 2020. Increases in disbursements from Malawi's leading multilateral and bilateral creditors, such as, IMF, EXIM Bank of China and ADF drove much of the growth in external public debt. The bulk of the borrowings were project loans and loans obtained by the government and on-lent to public corporations. In addition, USD-MK swap arrangements by RBM also resulted in the increase in total external debt.

3.1 External Debt by Holder

As at end June 2021, central government debt accounted for 73 percent of the total external debt. This was a decrease from 87 percent in June 2020. The central government debt includes debt contracted for infrastructure projects and loans on lent to state owned enterprises for different projects.

Debt under RBM accounted for 27 percent of the total external debt in June 2021 up from 13 percent in June 2020. This debt includes various USD-MK currency swap arrangements with different creditors, including Africa Export Import (AFREXIM) Bank.

Table 3: External Debt Stock, by Holder (USD Million) as at end-June 2020 and 2021

Category	Jun-20	Jun-21	(%) Change
(1) Central Government	**2,735.06**	**2,617.62**	**-4.29**
(%) of total	86.78	72.98	
(2) Central Bank	**416.72**	**969.16**	**132.57**
(%) of total	13.22	27.02	
Total External (1+2)	**3,151.78**	**3,586.78**	**13.80**

Sources: MoF staff calculations.

3.2 External Debt by Creditor

At a holding of USD1,161.78 million (32 percent of total external debt), the International Development Association (IDA) continues to be the largest creditor to the Government of Malawi. The second largest creditor is AFREXIM Bank with a holding of USD 644.62 million (18 percent of total external debt) followed by African Development Fund (ADF) and International Monetary Fund (IMF) at 12 percent. The Export-Import Bank of China and Export-Import Bank of India accounted for 7 percent and 4 percent, respectively. This ranking has largely remained the same compared with June 2020.

Table 4: Total External Debt Stock, by Creditor and Creditor Category as at end-June 2020 and 2021

Creditor	Jun-20	Jun-21	(%) Change
1.Bilateral	**406.82**	**445.46**	**9.50**
Export-Import Bank of China (Main-Land)	197.07	233.74	18.61
Export Import Bank of India	139.35	128.29	-7.94
Kuwait Fund for Arab Economic Develop.	43.08	45.16	4.83
Saudi Fund for Development	21.84	25.25	15.61
Compania Espanola De Seguros de Credito[4]	-	8.22	-
Abu Dhabi Fund for Development	4.14	3.47	-16.18
Government of Belgium	1.34	1.33	-0.75
2. Multilateral	**1981.41**	**2318.16**	**17.00**
International Development Association	1014.90	1161.78	14.47
International Monetary Fund	323.36	417.12	29.00
African Development Fund	364.37	415.22	13.96
International Fund for Agricultural Development	85.30	90.66	6.28
European Investment Bank	43.05	75.35	75.03
OPEC Fund for International Development	70.48	72.22	2.47
Arab Bank for Economic Development in Africa	60.38	66.16	9.57
Nordic Development Fund	19.57	19.65	0.41
3. Commercial	**763.55**	**823.16**	**7.81**
Africa Export Import Bank	691.97	644.62	-6.84
Bank One	-	112.89	-
ICBC London	61.27	61.18	-0.15
Standard Bank Joburg	4.88	4.47	-8.40
Stanbic Bank ITF Joburg	5.43	-	-
Total Public External Debt Stock (1+2+3)	**3151.78**	**3586.78**	**13.80**

Source: MoF staff calculations.

[4]Debt owed to Spain relates to a contract that was signed in 2003 by the Ministry of Health of Malawi for medical equipment. The debt was not considered under Debt Relief Initiative.

3.3 External Debt by Creditor Category

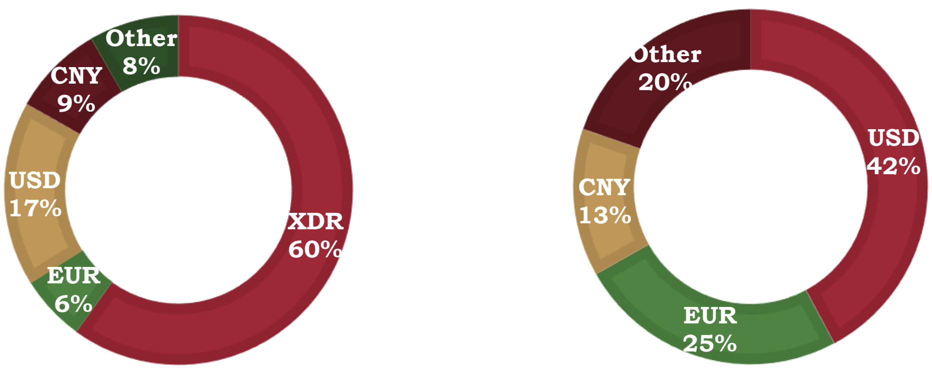
The external debt portfolio comprises multilateral, bilateral and commercial creditors. RBM holds the bulk of debt owed to commercial creditors.

As depicted in Table 4, multilateral creditors continue to account for the largest proportion of Malawi's external debt. Their share increased by 17 percent between the two periods. Commercial creditors followed and increased holdings by 8 percent at end-June 2021. Bilateral creditors were the least and increased their holdings by 10 percent

3.4 External Public Debt by Currency

As at end-June 2021, Special Drawing Rights (SDR) accounted for 60 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 42 percent followed by the EUR and CNY at 25 percent and 13 percent, respectively. Other currencies accounted for balance of 20-percent. The ranking in external debt by currency has largely remained the same during the period under review.

Figure 5: External Debt Stock, by Currency as at end-June 2021[6]



Source: MoF staff calculations.

[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.

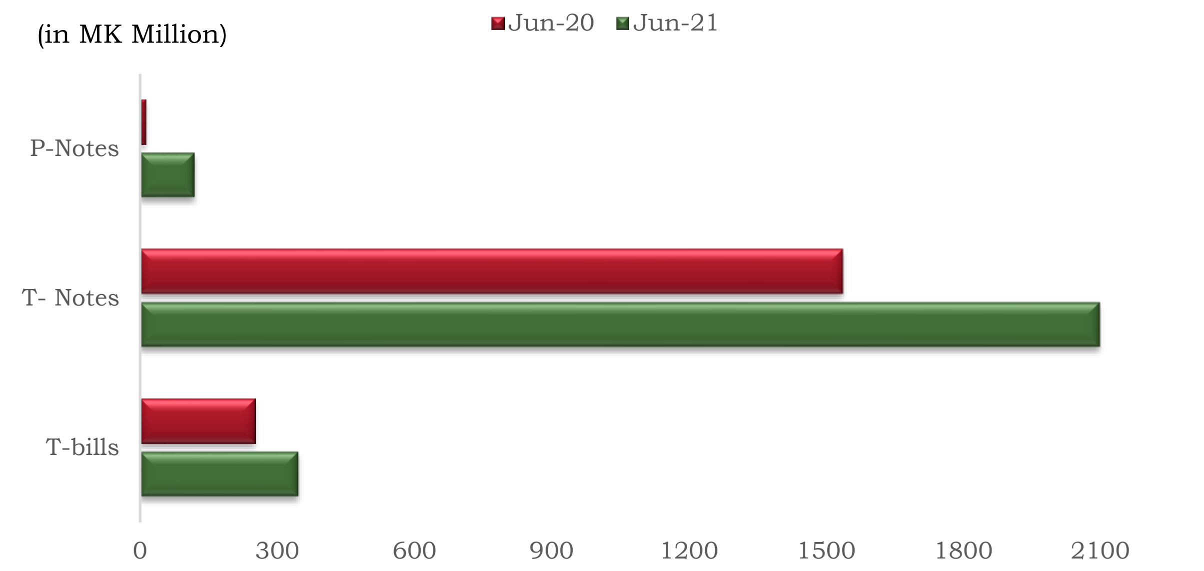
SECTION IV: DOMESTIC PUBLIC DEBT PORTFOLIO REVIEW

At end- June 2021, total domestic public debt amounted to MK2.6 trillion up by 42 percent from MK1.8 trillion as at end-June 2020. 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 K2.6 trillion domestic debt stock, 82 percent (MK2,099.52 billion) were Treasury Notes, 13 percent (MK346.20 billion) Treasury Bills, and 5 percent (MK119.76 billion) Promissory Notes. Holdings of these securities have increased over the two periods.

Figure 6: Domestic Debt Stock, by Instrument Type as at end-June 2020 and 2021



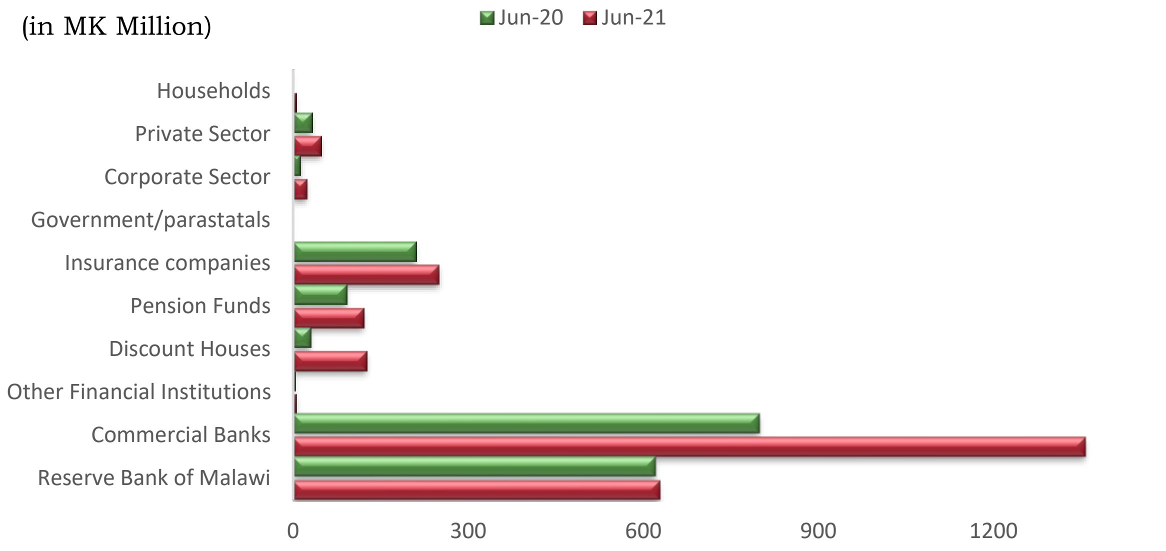
Source: MoF staff calculations.

4.2 Domestic Debt by Holder

In terms of domestic debt holders, commercial banks remained the biggest holders and increased their holdings of domestic debt securities from MK798.98 billion in June 2020 to MK1, 357.74 billion in June 2021. They were followed by RBM, which marginally increased its holdings from MK621.30 billion to MK628.64 billion during the same period. The Insurance sector also increased its holdings from MK210.38 billion to MK250.57. Holdings by the Households increased from MK0.94 billion to MK4.63 billion.

Figure 7: Domestic Debt Stock, by Holder as at end-June 2020 and 2021

(in MK Million)



Source: MoF staff calculations based on RBM data.

4.3 Domestic Contingent Liabilities

As at end-June 2021, a total of MK119.4 billion was outstanding under the guaranteed loans. This fiscal exposure represents 1.3 percent of the FY2020/21 GDP. The guarantees were issued in favour of NBS Bank, CDH Investment Bank, Export Development Fund and FDH Bank (Refer to Annex 2). The beneficiary institutions include Agricultural Development and Marketing Corporation (ADMARC), Electricity Supply Commission of Malawi(ESCOM), Umodzi Holdings Limited, Salima Sugar Company, Green Belt Authority (GBA) and National Economic Empowerment Fund Limited (NEEF). Of the MK119.4 billion, MK22.2 billion was approved during FY2020/21. The guarantee was to CDH Investment Bank in favour of ADMARC for the purposes of crop purchasing. During the period under review, two guarantees totalling MK32 billion were expected to mature. However, they have since been rolled-over and the maturity dates have been extended to FY2022/23. Government also verified and securitised K119.76 billion arrears during the same period.

SECTION V: RISK AND COST ANALYSIS

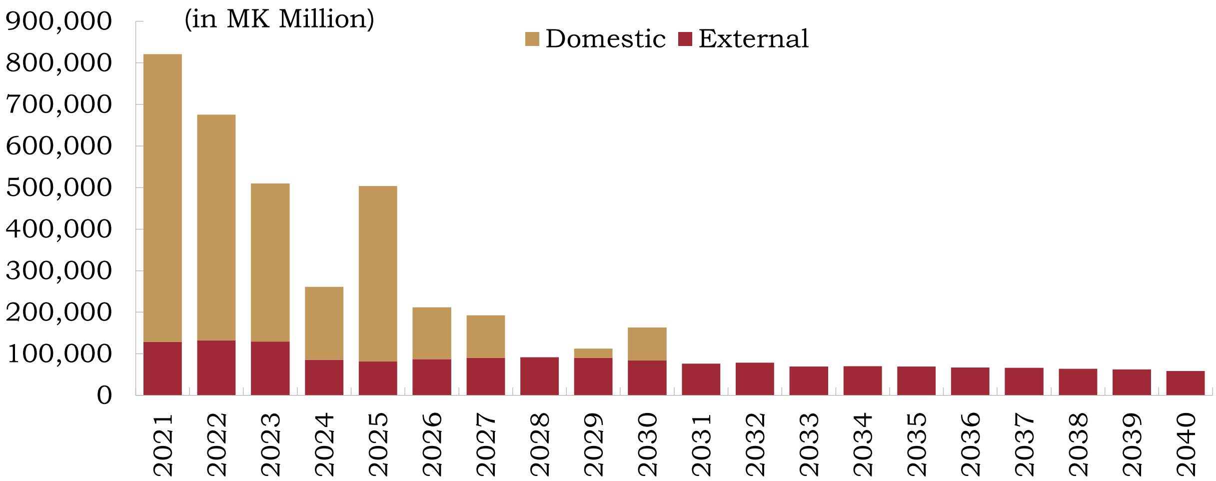
In this section, Debt figures only cover budgetary central government. Domestic debt is reported on Cost Value basis whilst external debt is maintained at Disbursed Outstanding Debt basis.

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 are 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 2063 (not shown).

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



Source: MoF 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 7.8 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. The ATM for domestic debt is 2.7 years whilst external debt is 13.5 years. The ATM for external debt has gone down from 14.8 years reported in previous year due to the reclassification of some domestic debt to external debt and inclusion of Spain in the portfolio, all provided under non concessional terms.

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 7.8 years.

5.4 Exchange Rate Risk

As for foreign exchange risk, 45.3 percent of the debt stock was denominated in foreign currency at the end of June 2021. This is an increase from 43.8 percent reported in the previous edition and largely reflects the reclassification of some domestic debt to external debt. This large proportion implies that almost half 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.

Table 5: Cost and Risk Indicators for Existing Debt (end-June 2021)

Risk Indicators		External debt	Domestic debt	Total debt
Amount (in millions of MWK)		2,108,736.5	2,542,416.0	4,651,152.5
Amount (in millions of USD)		2,617.6	3,156.0	5,773.6
Nominal debt as percent of GDP		22.7	27.4	50.2
PV as percent of GDP		15.0	27.4	42.4
Cost of debt	Interest payment (% of GDP)	0.4	3.8	4.3
	Weighted Av. IR (%)	1.9	13.9	8.5
Refinancing risk	ATM (years)	13.5	2.7	7.8
	Debt maturing in 1yr (% of total)	5.6	27.2	17.0
	Debt maturing in 1yr (% of GDP)	1.4	7.5	8.9
Interest rate risk	ATR (years)	13.5	2.7	7.8
	Debt refixing in 1yr (% of total)	5.6	27.2	17.0
	Fixed rate debt incl T-bills (% of total)	100.0	100.0	100.0
FX risk	FX debt (% of total debt)			45.3
	ST FX debt (% of reserves)			8.0

Source: MoF staff calculations

Annex 1: Newly Signed Loans as at end-June 2021

Loan	Creditor	Signing Date	Grace Period (Years)	Repayment Period (Years)	Interest/ Annum (%)	Other Loan Terms	Amount	Equiv in USD	Grant[7] Element (%)
Malawi Watershed Services Improvement Project	IDA	10-Dec-20	6	32	0.75	-	XDR57.1	78.5	53
Financial Inclusion and Entrepreneurship Scaling Project	IDA	5-Nov-20	6	32	0.75	-	XDR62.7	86	53
Covid-19 Response Support Programme	ADF	2-Nov-20	10	30	0.75	Commitment fee 0.5%	UA17.9	22.68	51
Supplementary Financing for the Promoting Investment and Competitiveness in the Tourism Sector	ADF	2-Nov-20	10	30	0.75	Commitment fee 0.5%	UA 0.32	0.46	51
Additional Financing for the Sustainable Agriculture Production Programme	IFAD	11-Nov-20	10	30	0.75	-	XDR7.3	10.1	58
Transforming Agriculture through Diversification and Entrepreneurship Programme	OFID	25-Nov-20	5	15	1	Service charge of 1%	US$20	20	36

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

Annex 1: Newly Signed Loans as at end- June 2021 *(continued)*

Loan	Creditor	Signing Date	Grace Period (Years)	Repayment Period (Years)	Interest/ Annum (%)	Other Loan Terms	Amount	Equiv in USD	Grant Element (%)
Malawi National Fibre Backbone Phase II Project	EXIM China	18-Aug-20	6.5	20	1	Management Fee 0.25% and Commitment fee 0.25%	CNY 693	99	35
Additional Financing for Treatment Works III Project	EIB		5	20	1.45	-	Euro 2.5	3.03	36
Total (USD)								**319.77**	

Source: MoF staff calculations.

Annex 2: Loan Guarantees as at end-June 2021

Creditor	Beneficiary	Signed Amount (MK Million)	Contingent Liability
NBS Bank	Electricity Supply Commission of Malawi	33,600.00	20,753.23
CDH Investment Bank	Agricultural Development and Marketing Corporation	35,138.17	30,899.51
Export Development Fund (EDF)	Agricultural Development and Marketing Corporation	10,000.00	9,273.51
CDH Investment Bank	Greenbelt Authority	5,213.40	5,213.40
CDH Investment Bank	Salima Sugar	25,000.00	18,449.17
FDH Bank and EDF	National Economic Empowerment Fund Limited	13,000.00	12,335.84
CDH Investment Bank	Auction Holdings Limited	19,264.46	19,264.46
CDH Investment Bank	Umodzi Holdings Limited	3,227.14	3,227.14
Total		**144,443.17**	**119,416.25**
Government Guarantee to GDP (%)			**1.3**

Source: MoF staff calculations.