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Asset Managers

**Invest Today
for Tomorrow**

Annual Economic Report 2018

Investment Management | Corporate Finance | Investor Services

LIST OF ACRONYMS

ADMARC:	Agricultural Development Marketing Corporation
AfDB:	African Development Bank
ATAF:	Automatic Tariff Adjustment Formula
BHL:	Blantyre Hotels plc
CEPA:	Centre for Environmental Policy and Advocacy
CPI:	Consumer Price Index
DSI:	Domestic Share Index
ECB:	European Central Bank
ECF:	Extended Credit Facility
EGENCO:	Electricity Generation Company
EIU:	Economist Intelligence Unit
ESCOM:	Electricity Supply Corporation of Malawi
EUR:	Euro
FEWS Net:	Famine Early Warning Systems Network
FISP:	Farm Input Subsidy Program
FMB:	First Merchant Bank
FMBCH:	First Merchant Bank Capital Holdings
FOB:	Freight on Board
FOMC:	Federal Open Market Committee
FSI:	Foreign Share Index
FUM:	Farmers Union of Malawi
GBP:	British Pound
GDP:	Gross Domestic Product
IFPRI:	International Food Policy Research Institute
IMF:	International Monetary Fund
IPP:	Independent Power Producers
MASI:	Malawi All Share Index
NERA:	Malawi Energy Regulatory Authority
MK:	Malawi Kwacha
MPC:	Monetary Policy Committee
MPICO:	Malawi Property Investment Company Plc
MSE:	Malawi Stock Exchange
MT:	Metric Tons
MW:	Mega Watts
NBM:	National Bank of Malawi plc
NBS:	NBS Bank Plc
NITL:	National Investment Trust plc
MRA:	Malawi Revenue Authority
NICO:	NICO Holdings Plc
NRJN:	Natural Resources Justice Network
NSO:	National Statistical Office
OECD:	Organization for Economic Co-operation and Development

LIST OF ACRONYMS (Continued...)

OML:	Old Mutual plc
OMO:	Open Market Operations
OPEC:	Organization of the Petroleum Exporting Countries
P/B:	Price to Book Value ratio
P/E:	Price to Earnings ratio
PCL:	Press Corporation plc
PSF:	Price Stabilisation Fund
RFA:	Road Fund Administration
RBM:	Reserve Bank of Malawi
Rmb:	Chinese Renminbi
STANDARD:	Standard Bank plc
SUNBIRD:	Sunbird Tourism plc
TB:	Treasury Bills
TNM:	Telekom Networks Malawi plc
TCC:	Tobacco Control Commission
TSH:	Tanzania Shillings
UGX:	Ugandan Shillings
UK:	United Kingdom
US:	United States of America
US\$:	United States Dollar
WTO:	World Trade Organisation
ZAR:	South African Rand
ZMK:	Zambian Kwacha

TABLE OF CONTENTS

Executive Summary.....	5-7
Economic Overview.....	8-13
Other Market Developments.....	14-19
Regional Developments.....	20-23
Global Developments.....	24-26
Outlook for 2019 and Beyond— Malawi.....	27-30
Economic Risks.....	31-32
Appendices:	33
1. Selected Economic Indicators (Malawi).....	33
2. Selected Economic Indicators (Tanzania, Uganda, Zambia, Mozambique).....	33
3. Budget Framework.....	34
4. Budgetary operations.....	35
5. Trend of Public debt in Malawi.....	35
6. Malawi Selected Economic Indicators.....	36
7-9. GDP.....	37-38
10-11. Economic Projections.....	39-40
12. FEWS Net Seasonal Calendar for a Typical year	41
13. Malawi's main export and import commodities.....	41

EXECUTIVE SUMMARY

Economic Outlook– Malawi

- ⇒ The Malawian Kwacha is expected to remain relatively stable in the short term due to the sufficient foreign exchange reserves. The Kwacha should be expected to depreciate in the medium to long term due to increase in current account deficit, increase in government expenditure which is mostly funded domestically.
- ⇒ Inflation is expected to continue to decline in 2019 mainly due to the normal rainfall pattern expected. Risks should however be anticipated due to probable increases in utility prices and increasing government expenditure to add to the inflationary pressures.
- ⇒ The export sector revenue growth is expected to slow down due to subdued global commodity prices. In addition to this, poor infrastructure and lack of finance for farmers will also hinder the export growth.
- ⇒ Real gross domestic product (GDP) growth for 2019 is expected to increase to an average of 4.5% due to anticipated rebound output production in the agricultural sector from the favourable rainfall pattern. However, in the medium term growth could increase to 5% with successful implementation of plans to diversify and expand cash crops.
- ⇒ Government's total revenue is expected to increase and aide in narrowing the fiscal deficit to 6.20% of the GDP in 2019 and 3.5% of GDP in 2020.

Key Economic Risks-Malawi

- ⇒ Insufficient and erratic power supply- This will lead to lower production in addition to discouraging potential investors. This may dampen economic growth.
- ⇒ High population growth rates- This will lead to pressure on resources which will limit the country's ability to allocate and use them productively and efficiently.
- ⇒ Increase in government debt- This is unsustainable as it increases burden of repaying the debt with higher interest rates.
- ⇒ Increase in government expenditure-This will lead to an increase in fiscal deficit which government may resort to borrowing. Borrowing from the private sector will crowd out private investment and lead to cost push inflation.
- ⇒ Weak export base- This will affect the national currency against major currencies as it means the country will need more foreign currency that it receives from exports. This will result in depreciation of our currency, making most imports expensive.

EXECUTIVE SUMMARY (Continued...)

Economic Highlights For 2018—Malawi

- ⇒ Annual headline inflation for 2018 stood at 9.2% a decline from 11.50% observed in 2017 (Source: NSO).
- ⇒ The average all type Treasury bill yield decreased to 14.28% in 2018 from 19.73% in 2017 (Source: RBM).
- ⇒ The Malawian Kwacha marginally depreciated against the US dollar. As at 31 December 2018, the Kwacha was trading at MK733.69:US\$1 (2017:MK732.03:US\$1) representing a 0.23% annual depreciation. On the other hand, the Malawian Kwacha appreciated against the rest of the major trading currencies to close at MK926.83:GBP1 (5.36% appreciation), MK50.96:ZAR1 (13.69% appreciation) and MK836.75:EUR1 (3.72% appreciation) (Source: RBM).
- ⇒ Total foreign exchange reserves position as at 29 December 2018 stood at US\$1,086.06 million (2017: US\$1,175.94 million) representing 5.19 months worth of import cover (2017: 5.63 months of import cover) (Source: RBM).
- ⇒ The stock market continued to be bullish for a second consecutive year as the Malawi All Share Index (MASI) experienced positive return of 34.19% (2017:62.14%). It closed at 28,983.53 points on 31 December 2018 from 21,598.07 points in 2017. The stock exchange also listed the first corporate bond by New Finance Bank (NFB) and six of government of Malawi's Treasury notes. The largest three gainers were BHL (141.64% increase), (TNM (93.10% increase), PCL(90.00% increase). Illovo and MPICO were the losers with a decline of 16.67% and 15.44% respectively (Source: MSE).
- ⇒ The liquidity levels increased to an average of K8.44 billion a day in 2018 from an average of K5.35 billion a day in 2017. Access on the Lombard facility decreased in 2018 to an average of K5.85 billion from an average of K7.67 billion in 2017. The average rate for the Lombard facility closed at 18.% in December from 22.49% in 2017 (Source: RBM).
- ⇒ In November 2018, the International Monetary fund (IMF) executive board completed the first review under the three year Extended Credit Facility (ECF) arrangement. The board's decision enabled Malawi to draw an equivalent of SDR11.15 million (about US\$15.40 million). This is meant to advance structural reforms and improve governance and transparency to help attain strong economic outcomes (Source: IMF).
- ⇒ The World Bank released four publications on the Malawi economy in 2018. These include two publications of the Malawi Economic Monitor (MEM), Investment Climate Assessment report (ICA) and the Country Economic Memorandum report (CEM). The ICA report evaluated the performance of private sector firms in Malawi and the constraints faced by Malawian enterprises. The CEM report focused on understanding the puzzle for Malawi's lack of development despite significant development efforts. The MEM reports analysed Malawi's macroeconomic developments, and issues related to urbanization and land administration
- ⇒ The 2018/2019 National budget focused on economic growth as the main goal of economic management in addition to maintenance of macroeconomic stability for robust, inclusive and sustainable growth.
- ⇒ The country's financial system remained stable and was capable of withstanding both domestic and external shock.

EXECUTIVE SUMMARY (Continued...)

Economic Highlights For 2018—Malawi (Continued...)

- ⇒ The Monetary Policy Committee (MPC) met three times in 2018. The Liquidity Reserve Requirement (LRR) was maintained at 7.5% throughout the year, and the monetary policy rate was maintained at 16%. The average lending rates for the commercial banks for 2018 were between the range of 24% and 28% (2017: between 26% to 34%) (Source: RBM).
- ⇒ However, in January 2019, the MPC met and agreed to reduce the policy rate to 14.50% from 16.00%, the Lombard rate was reduced from 18.00% to 14.90%. In addition to this, the LRR on local currency deposits was reduced to 5.00% from 7.00% whilst the LRR on foreign currency deposits was reduced to 3.75% from 7.00% (Source: RBM).
- ⇒ In May 2018, the Minister of Finance, Economic Planning and Development presented the proposed budget statement for the 2018/19 year in parliament. The key focus was on a robust, sustainable economic growth and macroeconomic stability. The economic growth rates for 2018 and 2019 were projected to be at 4.1% and 6% respectively. Expenditure for 2018/2019 fiscal year increased to K1.5 trillion from K1.3 trillion in 2017. Total revenue was projected to increase to K1.0 trillion from K0.95 trillion in 2017.
- ⇒ MERA adjusted the fuel prices for Petrol, Diesel and Paraffin in December 2018 to K923.50/litre, K949.60/litre and K781.80/litre respectively despite these petroleum products registering an increase in the average FOB prices. In 2018, a price per litre of petrol, Diesel and Paraffin averaged K933.58, K941.63 and Paraffin K760.35 respectively.
- ⇒ However, in January 2019, MERA revised down the fuel prices citing decline in global oil prices and stability of the Malawian Kwacha. Petrol is now at K868.00 per litre, Diesel at K874.00 per liter and Paraffin at K946.60 per litre.
- ⇒ ESCOM applied for a 60% third base tariff increase covering all the business units which will move the average tariff by K44.07 from MK73.23/kWh to MK117.30/kWh. As mandated by the Energy Regulation Act, 2004, the MERA Board undertook a review and analysis of the application and approved the tariff be increased by 31.8% over the four-year period from 2018 to 2022. As of December 2018, the Electricity tariff stood at K88.02/kWh (2017; 57.72/Kwh).
- ⇒ In an effort to increase the national power generation capacity as a way of addressing the persistent black-outs the country is experiencing, EGENCO begun the construction of power projects which included a 18MW Tedzani IV hydropower station, a 20MW solar power station and installation of diesel generators in some parts of the country.

1. ECONOMIC OVERVIEW

Inflation

Malawi's inflation rates for 2018 averaged 9.20% from 11.50% in 2017 (Source: NSO). This was due to a slowdown in mainly non-food inflation which decreased to an average of 8.95% as compared to 12.87% observed in 2017. On the other hand, food inflation decreased to an average of 9.76% in 2018 from 10.28% in 2017 Sources: NSO).

	2017	2018	Change
Headline inflation	11.50%	9.20%	↓ -0.20
Food	10.28%	9.76%	↓ -0.05
Non-food	12.87%	8.95%	↓ -0.30

Government Securities

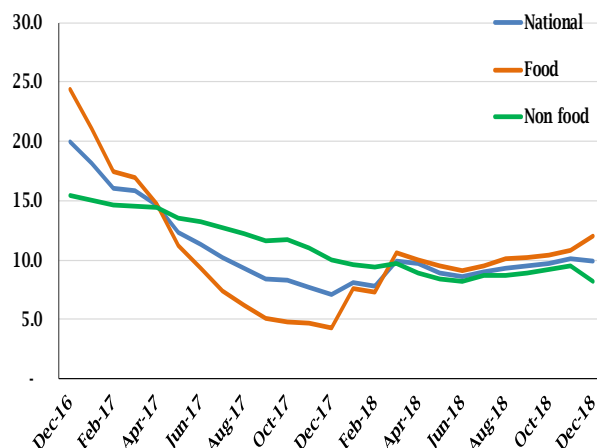
During the year 2018, the All Type Treasury bill yield decreased to an average of 14.28% from 19.73% in 2017. The table below shows the average yields per tenor for 2018 compared to 2017 (Source: RBM).

Average	2017	2018	Change
91-day	18.92%	13.59%	↓ -5.33%
182-day	19.78%	14.38%	↓ -5.40%
364-day	20.47%	14.86%	↓ -5.61%
All type yield	19.73%	14.28%	↓ -5.45%

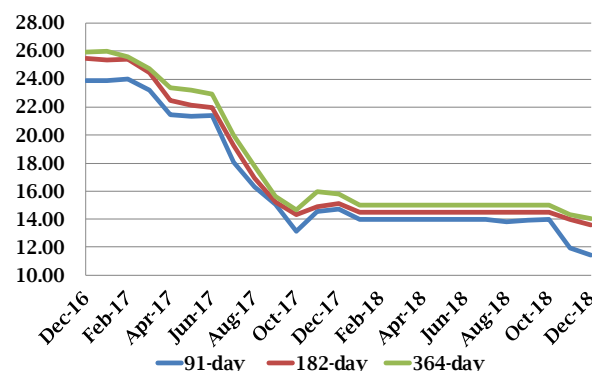
Total applications for Treasury bills for 2018 increased by 35.55% to K578.47 billion (2017: K426.77) while total allotments increased by 82.59% to K490.17 billion (2017: K268.46 billion). The 364 days paper accounted for the highest subscription rate at 51.21%, followed by the 182 days paper at 28.75% and the 91 days paper at 20.04%.

	2017	2018
Applications (K' billion)	426.77	578.47
Allotments (K' billion)	268.46	490.17
Rejection rate (%)	37.09%	15.26%

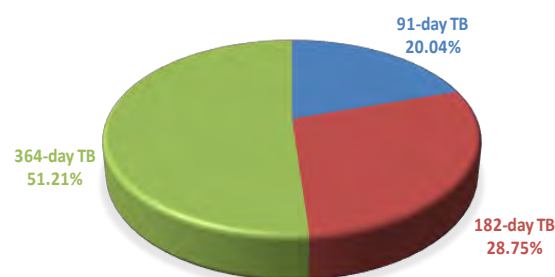
Inflation (%) (Source: NSO)



Treasury Bill Yields (%) (Source: RBM)



SUBSCRIPTION PER TB TENOR FOR 2018



1. ECONOMIC OVERVIEW (Continued...)

Foreign Currency Market

In 2018, the Malawi Kwacha appreciated against the British Pound, the Euro and the South African Rand but marginally depreciated against the Dollar. The stability of the Kwacha is due to adequate forex reserves and tight liquidity conditions present.

The Kwacha recorded a marginal depreciation of 0.23% in December 2018 against the US Dollar as compared to a 0.47% depreciation recorded in 2017 (Source: RBM).

Currency	Dec-17	Dec-18	% Movement 12 months
MK/US Dollar	732.03	733.69	↓ -0.23%
MK/GBP	979.53	926.83	↑ 5.38%
MK/ZAR	59.04%	50.96%	↑ 13.69%
MK/EUR	869.07	836.75	↑ 3.72%

The following table provides a historical summary of the performance of the Malawi Kwacha against the US Dollar:

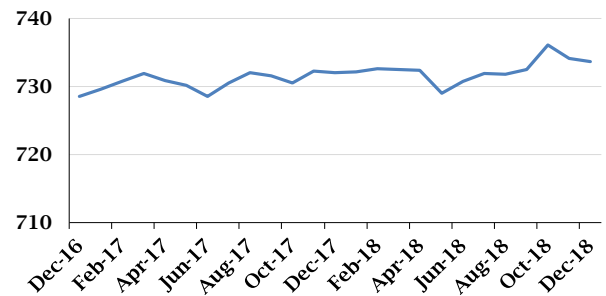
	2014	2015	2016	2017	2018
MK/US Dollar	470.78	672.68	728.62	732.03	733.69
Year on Year Movement	-8.17%	42.89%	8.32%	0.47%	0.23%

Total foreign exchange reserves recorded at 31 December 2018 were US\$1,086.06 million (5.19 months of import cover) a decline from US\$1,175.94 million (5.63 months of import cover) recorded on 29 December 2017. Of the total reserves, US\$755.22 million were gross official reserves (3.61 months of import cover) and US\$330.84 million was private sector reserves (1.58 months of import cover) (Source: RBM)

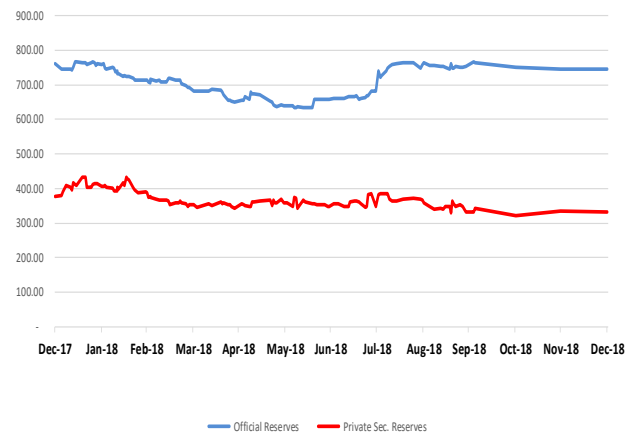
Below is the historical information on the end of year foreign exchange reserves for the last five years.

	2014	2015	2016	2017	2018
Gross Official (US\$ million)	705.3	688.81	609.69	761.91	755.22
Private Sector (US\$ million)	371.1	298.40	313.48	414.03	330.84
Import cover (Months)	4.07	4.80	4.40	5.63	5.19

USD/MWK Exchange Rate (Source: RBM)



Forex Reserves (US\$ million) (Source: RBM)



1. ECONOMIC OVERVIEW (Continued...)

Stock Market

The stock market was bullish in 2018 with the MASI increasing by 34.19% to settle at 28,983.53 points from 21,598.07 points in 2017. The largest five gainers were BHL (141.64% increase), TNM (93.10% increase), PCL (90.00% increase), Sunbird (51.04% increase) and FMBCH (49.25% increase). The losers were Illovo (16.67% decrease) and MPICO (15.44% decrease). During the period, the Domestic Share Index (DSI) increased by 31.01% to 21,318.07 points while the Foreign Share Index (FSI) increased by 49.60% to 5,265.12 points.

The stock market performance has been impressive in 2018, with the MASI increasing for most of the year before a decline was registered in November 2018 as a result of a price drop in FMBCH shares from a high of K160.00 per share to a low of K70.00 per share. It then recovered to close the year at K100.00 per share. The market transacted a total of 958.3 million shares at a total consideration of K48.70 billion in 2,153 trades. This is a significant increase from a total of 698.9 million shares traded in 2017 at a total consideration of K13.52 billion in 1,189 trades. This reflects a 37.11% increase in share volume and a 260.28% rise in share value.

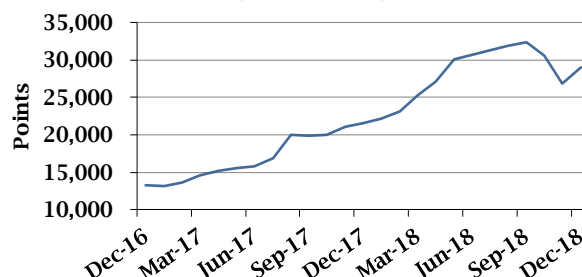
The dividend yield for the MASI closed at 1.86% in 2018 from 2.69% in 2017. The P/E ratio decreased to 8.71 in 2018 compared to 12.79 in 2017. On the other hand, the P/B ratio increased to 2.23 in 2018 from 1.02 in 2017 (Source: MSE).

	2017	2018	Change
Traded value (K'billions)	13.52	48.7	↑ 260.21%
Traded volume	698,894,283.00	958,247,064.00	↑ 37.11%
Number of transactions	1189	2153	↑ 81.08%
Price to Earnings ratio	12.79	8.71	↓ -31.90%
Price to Book Value ratio	1.02	2.23	↑ 118.63%
Dividend Yield(%)	2.69	1.86	↓ -30.86%
Malawi All Share Index (points)	21,598.07	28,983.53	↑ 34.19%

Old Mutual Group was delisted on the MSE but was replaced by Old Mutual Limited as part of the managed separation transaction undertaken during the year. Under the transaction, shareholders of Old Mutual Group were given shares in Old Mutual Limited (headquartered in South Africa), Quilter and Nedbank in exchange for shares in Old Mutual Group.

FMB Capital Holdings (FMBCH) raised additional share capital of K8.54 billion through the issue of 122 million ordinary shares, representing a 4.96% stake in the company, to Old Mutual Investment Group (Source: FMBCH).

Malawi Stock Exchange Performance
(Source: MSE)



	Dec-17	Dec-18	Change (12 months)
	MK/Share	MK/Share	%
BHL	5.38	13.00	↑ 141.64%
ILLOVO	240.00	200.00	↓ -16.67%
MPICO	15.61	13.20	↓ -15.44%
NBM	270.08	332.02	↑ 22.93%
NBS	8.50	10.00	↑ 17.65%
NICO	34.00	43.00	↑ 26.47%
NITL	60.06	75.00	↑ 24.88%
PCL	600.00	1,140.00	↑ 90.00%
STANDARD	640.00	670.00	↑ 4.69%
SUNBIRD	96.00	145.00	↑ 51.04%
TNM	14.50	28.00	↑ 93.10%
FMBCH	67.00	100.00	↑ 49.25%
OML	1,960.00	N/A	N/A
OMU	N/A	2,513.25	N/A
MA SI	21,598.07	28,983.53	↑ 34.19%
DSI	16,272.64	21,318.07	↑ 31.01%
FSI	3,519.43	5,265.12	↑ 49.60%

1. ECONOMIC OVERVIEW (Continued...)

Stock Market (Continued...)

Published Financials and Trading Statements of Listed Companies (Source: Respective Companies)

Some companies released their financials for the half year (HY) ending 30 June 2018. The tables below presents a summary:

YEAR END PUBLISHED FINANCIALS						
	NET PROFIT (K' Billion)			TOTAL DIVIDEND (K'Billions)		
COMPANY	HY2017	HY2018	% CHANGE	HY2017	HY2018	% CHANGE
Illovo *	6.95	7.74	11.37%	0	0	0%
BHL **	0.23	0.17	-26.09%	-	-	-
National Bank	9.53	8.54	-10.39%	3.32	2.50	-24.70%
MPICO	2.76	8.8	37.68%	0.18	0.21	16.67%
NBS	-1.14	0.48	142.11%	0.00	0.00	0.00%
Sunbird	1.07	1.17	9.35%	0.08	0.13	62.50%
NICO	4.3	5.97	38.84%	0.52	0.63	21.15%
PCL	7.06	23.08	226.91%	0.60	0.72	20.00%
Standard Bank	8.16	5.53	-32.23%	1.50	1.70	13.33%
TNM	4.75	6.94	46.11%	1.15	2.51	66.23%
NITL	1.01	1.43	41.58%	0.07	0.07	0.00%

NET PROFIT (\$'Millions)		
COMPANY	12 months 2017	HY2018
FMBCH	34.86	20.12

TOTAL DIVIDEND (\$'Millions)		
HY2017	HY2018	%CHANGE
0	0	0.00%

Notes: * 28 February 2018

** 30 March 2018

The following trading statements were published

- BHL is expecting its profits for the year ending 30 September 2018 to be 30% lower than the previous corresponding period
- TNM is expecting its profits for the year ending 31 December 2018 to be more than 25% higher than the previous corresponding period
- NITL is expecting its profits for the year ending 31 December 2018 to be more than 25% lower than the previous corresponding period
- NBS Bank is expecting its profits for the year ending 31 December 2018 to be approximately 130% higher than the loss recorded during the previous corresponding period
- Illovo released financials for the year ending 31 August 2018. The company's profits increased to K16.45 billion for the audited 12 months period ending on 31 August 2018 from K7.73 billion for the audited 5 months which ended on 31 August 2017.

Blantyre Hotels Bonus Issue and Stock Split (Source: MSE)

Blantyre Hotels plc (BHL) conducted a bonus issue and stock split in May 2018. 38.7 million bonus shares were issued from retained earnings of K1.085 billion at a price of K28.00 per share by issuing 3 ordinary shares for every 10 ordinary shares held in the company. An additional 671.8 shares were issued through a share split of 1 share held in the company after the bonus issue into 5 shares held in the company. This decreased the par value of the company from 25 tambala per share to 5 tambala per share. This resulted in an automatic drop in the share price from K32.00 per share to K5.38 per share. However, the price closed at K13.00 per share in December 2018.

1. ECONOMIC OVERVIEW (Continued...)

ICON Properties Plc Initial Public Offering (IPO)

ICON Properties Plc conducted an initial public offering (IPO) where they invited investors to buy shares in the company. A total of 1.68 billion shares were offered at a price of K8.75 per share with the aim of raising K14.7 billion. The offer ran from 7 to 28 December 2018. According to a press release by the company, K14.7 billion was raised. The company was listed on the Malawi Stock Exchange on 21 January 2019.

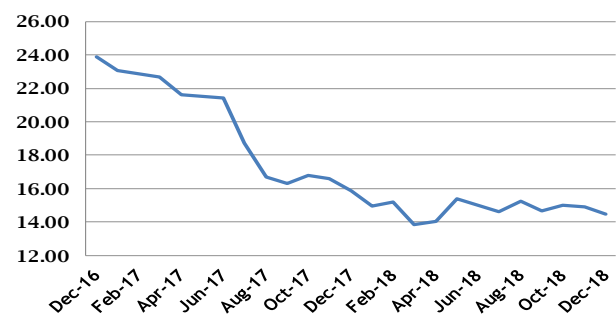
Interbank Markets and Interest Rates

Liquidity levels increased in 2018 averaging K8.44 billion a day compared to K5.35 billion a day in 2017. Liquidity levels have been erratic in the year under review reaching a high of K39.88 billion in March 2018 and a low of negative K6.96 billion in July 2018. Liquidity levels in the banking system have not been stable as evidenced by the volatility noticed on a month-on-month basis. However, the Reserve Bank of Malawi's active market interventions helped to absorb the excess liquidity.

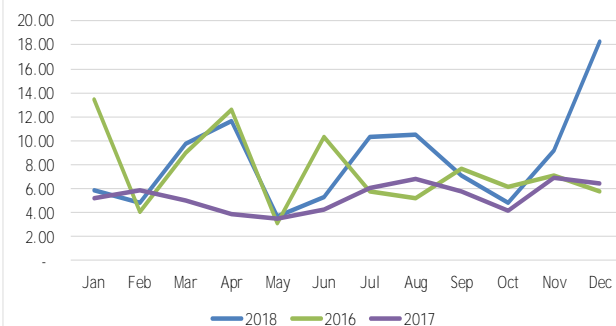
The Monetary Policy rate was maintained at 16% during the year. The commercial banks base lending rates averaged 25.41% as at December 2018 (December 2017: 27.33%).

Access on the Lombard facility decreased to a daily average of K5.85 billion in 2018 from K7.67 billion in 2017. Over-night borrowing between banks increased to a daily average of K8.20 billion from K6.35 billion in 2017. Interbank rates averaged 14.67% in 2018 decreasing from 19.52% in 2017 (Source: RBM).

Interbank Rates(%) (Source: RBM)



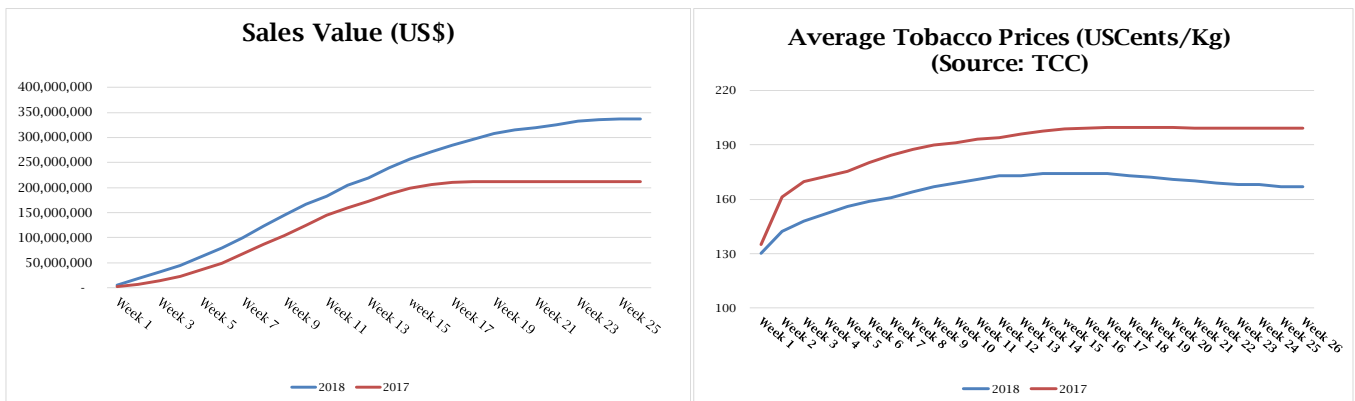
Monthly Liquidity Movements (Source: RBM)



1. ECONOMIC OVERVIEW (Continued...)

2018 Tobacco season ends (Source: TCC)

Total proceeds from the 2018 tobacco selling season which ended in October 2018 amounted to US\$337.50 million up from US\$212.51 million for 2017. This was as a result of increase in the national volume by 89.61% from 106.74 million kilograms in 2017 to 202.00 million kilograms in 2018.



Malawi Vulnerability Assessment Committee Results 2018 (Source: SADC/MVAC)

The Malawi Vulnerability Assessment Committee results for 2018 were released.

According to the results maize production for the year 2018 declined by 28.40% compared to last year and was 20.30% below the five-year average. In addition to this, there was a decrease in other agricultural outputs such as soya beans and pulses. This may have been due to the dry spells between December 2017 and January 2018. Furthermore, the flooding experienced towards the end of the season and the fall army worm infestation also negatively impacted agricultural production.

The results of the Malawi Vulnerability Assessment showed that an estimate of 3.3 million individuals in Malawi will be food insecure in 2018/19. This figure is a significant increase from the 2017/18 estimate of 1.0 million.

Malawi's nutrition situation was shown to improve during the period under review. Global acute malnutrition prevalence is 1.30%, down from 4.10% in December 2016. Moreover, the prevalence of severe acute malnutrition was 0.10%, this figure was within acceptable levels and there were no major variations by zone.

The African Development Bank (AfDB) approved country strategy paper (Source: AfDB)

African Development Bank approved its Country Strategy Paper for Malawi for 2018-2022 which intended to guide the Bank's operations in Malawi with regard to its financial, technical and knowledge assistance to the country. The Bank planned to address issues of economic, social and climate resilience through focusing on specific problems that the country is having including, water supply issues.

African Development Bank approved \$15.0M for water supply and sanitation project (Source: AfDB)

The AfDB Group approved a US\$15.0 million grant from the African Development Fund(ADF) for a water supply and sanitation project estimated to cost US\$30.4 million. The project named "The Nkhata-Bay Town Water Supply" Project is to immensely improve water supply and sanitation at the resort port town which is also a main link on the Mtwara development corridor, connecting Malawi, Tanzania and Zambia.

2. OTHER MARKET DEVELOPMENTS

Electricity Tariffs Update (Source: MERA)

The Malawi Energy Regulatory Authority (MERA) approved two electricity tariff hikes by ESCOM during the year.

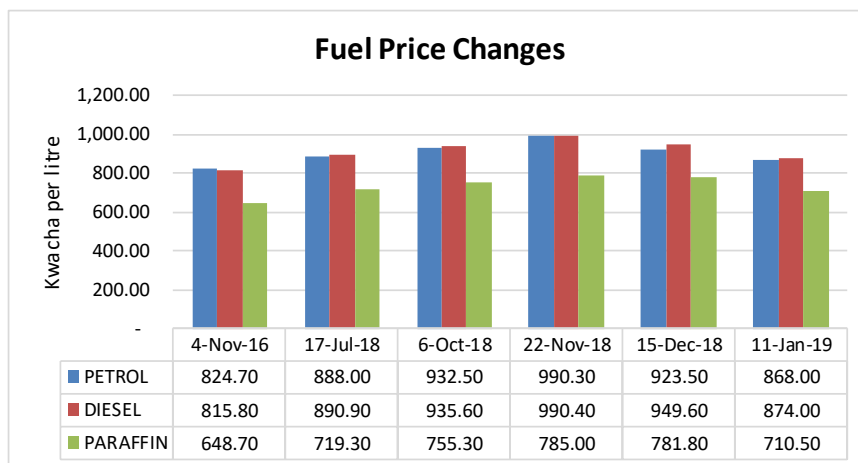
The first hike was effective February 2018 when the country started using power generated by ESCOM generators. As such, electricity tariffs were revised upwards to K73.23 per KWh from the K58.8 per KWh, representing a 24.67% increase. ESCOM commissioned generators that were expected to add 55MW to the national grid.

ESCOM applied to MERA for further hikes of 60% to be spread over four years. However, MERA approved a base tariff increase of 31.80% over a four-year period, from 2018 to 2022, with an initial increase of 20.00% in the year 2018/19. Compared to ESCOM's requested 60.00% increase, the 31.80% increase translates into a K21.92/kWh increase and an average tariff of K95.15/kWh against the average of MK 117.64/kWh requested by ESCOM. The approved tariff was effective from October 2018. As of December 2018, electricity tariff stood at K88.02/Kwh (2017:57.72/kWh)

The President stipulated that within five years, the country will be generating 1,400MW of coal fired power, about 700MW of hydro power and 70MW of solar energy. Above these, the country is expected to be connected to the SADC power pool so it can purchase power from any other country when need arises. The President expects that by the end of 2019, the country will have added about 300MW to the power grid.

FUEL PRICE ADJUSTMENT (SOURCE: MERA)

The Malawi Energy Regulatory Authority (MERA) revised the fuel prices for petrol, diesel and paraffin four times during the year. The prevailing pump prices for December 2018 for petrol, diesel and paraffin were K923.50 per litre, K949.60 per litre and K781.80 per litre respectively. Overall there was an increase in fuel prices for petrol , diesel and paraffin by 11.98%, 16.40% and 20.52% respectively. As of January 2019, Petrol, Diesel and Paraffin are at K868, K874 and K946.60 per litre respectively. The graph shows the changes during the year:



2. OTHER MARKET DEVELOPMENTS (Continued...)

Monetary Policy Committee Statements (Source: RBM)

The monetary policy committee (MPC) held three meetings during the year.

1. At its meeting held on 27 and 28 March 2018, the Reserve Bank of Malawi MPC decided to maintain the Policy Rate at 16%. The committee also decided to maintain the Liquidity Reserve Requirement (LRR) at 7.5% and the Lombard Rate at 200 basis points above the Policy Rate. The MPC stated that maintaining the monetary stance was appropriate to consolidate the gains made as at that date especially the achievement of a single digit inflation and ensure that it converges to the medium term objective of 5%.
2. At its second MPC meeting for 2018 held from 3 to 4 July the MPC resolved to maintain the monetary policy rate at 16% and keep the LRR ratio at 7.5%. The committee expected upside risks to inflation outlook coupled with rising global oil to persist.
3. The MPC met on 25 and 26 September 2018 for their third MPC meeting. The Committee decided that the Policy rate should be maintained at 16.00% and the LRR at 7.50%. The outlook on inflation was that the medium-term disinflation towards the target of 5.00% will not be jeopardized.

According to the MPC report, the risks that were foreseen during the second MPC meeting materialized in the third quarter of 2018. These risks included an increase in domestic fuel prices, maize prices and electricity tariffs. This therefore contributed to the increase in inflation, from 9.00% in July 2018 to 9.30% in August 2018. Moreover, Lilongwe water board raised their water tariffs by an average of 7.50% in July 2018.

The MPC held its first meeting for 2019 on 29 and 30 January 2019. The committee decided to reduce the policy rate from 16.00% to 14.50% and reduce the Lombard rate from 18.00% to 14.90%. In addition to this, the LRR for the domestic currency deposits has been reduced from 7.50% to 5.00% whilst the LRR for foreign currency deposits has been reduced from 7.50% to 3.50%. The commercial banks are now expected to use the Lombard rate as their base rate.

The Malawi Growth and Development Strategy (MGDS) III (Source: Ministry of Finance, Economic Planning and Development)

The MGDS III, whose overarching theme is “Building a Productive, Competitive and Resilient Nation”, is the fourth and the final medium-term national development strategy which is formulated to contribute to the attainment of the country’s long term development goals enshrined in the Vision 2020. The strategy will be implemented from 2017 to 2022, replacing MGDS II which was phased out in June 2016. The successor strategy has departed from the formulation of multiple thematic areas by going straight into the choice of five key priority areas, which are said to be carefully selected in order to spur growth and address the bottlenecks to growth and development.

The following are identified as the five key priority areas:

1. Agriculture, water development and climate change and management.
2. Education and skills development.
3. Energy , Industry and Tourism Development.
4. Transport and ICT Infrastructure.
5. Health and population.

2. OTHER MARKET DEVELOPMENTS (Continued...)

IMF in Malawi (Source: IMF)

In June 2017, the IMF executive board completed the ninth and final review of Malawi's economic performance. Following the conclusion of an ECF arrangement between Malawi and the IMF in 2017, discussions were held regarding a new ECF agreement.

The IMF team visited Malawi from 14 January 2018 to conduct the 2018 Article IV Consultation and hold discussions with Malawian authorities on the program supported by the IMF's Extended Credit Facility. The two teams reached staff-level agreement on a three-year program that could be supported by the ECF which was approved by the IMF's board in April 2018.

The Executive Board of the International Monetary Fund (IMF) on 30 April 2018 approved the three-year ECF arrangement for Malawi for Special Drawing Rights (SDR) worth SDR78.075 million (about US\$112.3 million), equivalent of 56.25% of Malawi's quota in the IMF, to support the country's economic and financial reforms. The Executive Board's decision enabled an immediate disbursement of SDR11.15 million (about US\$16 million). The remaining amount will be phased over the duration of the program, subject to semi-annual reviews.

The authorities' ECF-supported program aims to entrench macroeconomic stability and to foster higher, more inclusive, and resilient growth. This will be achieved through fiscal consolidation to ensure long-term debt and external sustainability; containing inflation; focusing policies on poverty-reducing and resilient growth by raising the amount and quality of spending on critical infrastructure and social sectors; tackling governance challenges through improved public financial management and procurement; improving financial intermediation and strengthening access to finance; and advancing critical growth-supporting structural reforms.

At the end of the first review of the ECF facility in November 2018, the IMF Board approved the disbursement of an additional US\$15.4 million, bringing total disbursement under the arrangement to US\$30.9 million. In completing the review, the Executive Board also approved Malawian authorities request for waivers on the non-observance for the quantitative performances on the primary fiscal balance and on new non-concessional external debt as well as a request for modification of the end-December 2018 performance criteria on reserve money, net international reserves of the central bank and the primary fiscal balance.

Technical Assistance Report-Public Investment Management Assessment (Source: IMF)

A Public Investment Management Assessment (PIMA) was conducted and its results were used to provide recommendations on improving management practices for public investment. The report primarily focused on the performance of domestically financed investment projects. Although slightly underperforming when compared to better-performing emerging markets, the results showed that Malawi broadly performs in line with other LIDCs and SSA countries.

In detail, the results showed that Malawi's performance is mixed as results varied across different PIMA indicators. On the one hand Malawi performed well in areas such as the country's comprehensive national planning system, coordination between central and local government, and the comprehensive Public Sector Investment Program.

On the other hand, several PIMA indicators had relatively sub-par ratings. Examples of such indicators included: the failure to apply cost benefit analysis systematically to large projects; significant data gaps in various published budget documents, unpredictability in the funding of capital projects, and their vulnerability to in year budget cuts and weakness in cash management.

In-depth recommendations were made following the assessment results. Such recommendations included improvements in budget documentation on capital projects and existing data, and bringing forward the date of issuance of the budget ceilings for line ministries.

2. OTHER MARKET DEVELOPMENTS (Continued...)

World Bank 2018 Publications (Source: World Bank)

1. Malawi Economic Monitor “Realising Safety Nets’ Potential” (Source: World Bank)

The World Bank released the 7th edition of its bi-annual publication, Malawi Economic Monitor (MEM), whose special focus was on realizing the potential that safety nets have on breaking the poverty cycle and vulnerability in Malawi. The MEM was divided into two parts: A review of economic developments and a special topic relevant to Malawi’s development prospects.

The report noted that positive macroeconomic conditions in 2017 had a positive impact on private sector investment. Overall, Malawi registered a strong performance in the Doing Business rankings in 2017, moving up 21 ranks from 133 in 2016 to 110 in 2017. Malawi registered the strongest progress in improving the business environment. This was driven by four positive reforms namely; implementation of a credit reference system that reduces the credit risks, reduced fees to process buildings plans for business premises, clearer priority rules inside and outside bankruptcy procedures and improved insolvency procedures by introducing reorganization procedures.

The report recommended the following measures to build a resilient and a stable economy

- Much stronger controls on spending to maintain macro stability, given revenue fluctuations and the need to build buffers to combat weather and other external shocks.
- Reforming agricultural market institutions to reduce the fiscal burden and distortions in maize markets.
- Building on recent business environment reforms to simplify regulations and address infrastructure constraints.

The special topic of the MEM looked at the potential that safety nets have on breaking the cycle of poverty, the stance of safety nets in Malawi, the constraints to effectiveness and efficiency of Malawi’s social safety net, and the recommendations to transform the country’s safety net systems.

2. Malawi Economic Monitor: Investing in Girls’ Education November 2018 (Source: World Bank)

The World Bank published its bi-annual Malawi economic monitor in November 2018 with a special focus on investing in Girls’ Education. The report noted that Malawi’s economy is softening in 2018 due to continued vulnerability to external shock and structural constraints. Malawi’s heavy dependence on agriculture resulted in a slowdown in overall economic performance as a result of negative developments in the sector. This in turn affected government revenues resulting in increased fiscal deficit to 7.8% of GDP for the 2017/18 fiscal year. Malawi’s growth rate is projected to gradually increase to 4.5% in 2019 driven by a rebound in the agricultural sector as a result of increased production output. However the outlook is susceptible to downside risks such as the potential El Nino induced weather shock.

The special topic discussed trends in girls’ education, child marriage and early child bearing with analysis of how they affect a wide range of development outcomes. The key findings of the report were as follows:

- Ending child marriages could generate US\$0.5 billion within 15 years due to lower rates of fertility and population growth
- The loss in earnings for women working today due to their marriage as children in the past stands at US\$167 million
- Other benefits from ending child marriages include education budget savings of up to US\$108 million by 2030 and benefits associated with lower rates of under-five mortality and stunting

2. OTHER MARKET DEVELOPMENTS (Continued...)

2018/19 National Budget Statement (Source: The Ministry of Finance, Economic Planning and Development)

The Ministry of Finance, Economic Planning and Development released the 2018/19 budget statement which is summarized below:

- Economic growth for Malawi was projected at 4.1% and 6.0% for 2018 and 2019 respectively from an estimated 5.1% recorded in 2017.
- Inflation in the region is expected to decline further in 2018 and stabilise at around 7.0%, same as in Malawi.
- The second round Agricultural Production Estimate Survey indicates that maize production is estimated to have declined by 19.4% from 3.5 million metric tons in the 2016/17 growing season to 2.8 million metric tons in the 2017/18 growing season. Significant reductions in yields of major food crops should also be expected.

The following are the reforms that are being implemented:

- The government continues to implement Public Finance Management (PFM) reforms which contribute to the efficient and effective public service delivery and sustainable development.
- Public Procurement and Disposal of Assets Act (PPDA) was enacted which will improve regulation of public procurement.
- Systematic and continuous monitoring mechanisms of transactions that pass through IFMIS have been put in place to ensure timely detection of suspicious transactions.
- Government will introduce other reforms in revenue policy and administration, public procurement, accounting and financial oversight.
- The Trade Remedies Bill is being developed through the Ministry of Industry, Trade and Industry to address technical barriers to trade.
- Government, through the Ministry of Industry, Trade and Industry, is in the process of establishing Special Economic Zones (SEZ) in the country as a tool of attracting both FDI and domestic investment into the industrial sector.
- Government, through the Ministry of Natural Resources, Energy and Mining, is facilitating the Malawi-Mozambique and the Malawi-Zambia interconnectors.
- Negotiations are underway with the Millennium Challenge Corporation (MCC) on the second compact as the current one is expected to end on 30 September 2018.
- Rehabilitation of Nkula A commenced in 2017 and is expected to be completed in. In addition to this, ESCOM commissioned 400Kv power transmission line from Phombeya substation to Lilongwe substation. This is expected to increase efficiency in the operations on transmitting electricity.
- The implementation of MAREP Phase 8 is being facilitated targeting to electrify 336 rural growth centres.
- Other power projects include; the Energy Sector Support Project (ESSP) financed by the World Bank, and the 300 MW Kam'mwamba Coal Fired Power Project.
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The 2018/19 Budget Brief

The 2018/19 budget focused on robust economic growth as the main goal of economic management alongside the maintenance of macroeconomic stability for robust, inclusive and sustainable growth.

- The budget was set at K1.5 trillion which is 28.2% of GDP, compared to K1.3 trillion 2017/18 budget, representing a 15.4% increase. The development budget was increased by 25.6% over the 2017/18 budget to K391.7 billion, representing 7.3% of GDP.
- Revenue and Grants were projected at K1.26 trillion (23.6% of GDP) which was a 13.8% increase from K1.11 trillion in the 2017/18 budget. Domestic revenue was set at K1.05 trillion, representing 19% of GDP and Grants were programmed to reach K209 billion (3.9% of GDP). The recurrent expenditure was estimated at K1.10 trillion (20.7% of GDP) compared to K948.9 million in the 2017/18 budget.

2. OTHER MARKET DEVELOPMENTS (Continued...)

- The fiscal deficit was expected to amount to K242 billion (4.5% of GDP) from a deficit of K193 billion in the preceding budget (3.9% of GDP). Domestic borrowing was expected to rise to K176 billion which was 3.2% of GDP.

Financial Stability (Source: RBM)

The Reserve Bank of Malawi released the Financial Stability Report for the month of June 2018, a report that analyzes the financial sector developments. The report concluded that Malawi's financial system remained stable and could withstand domestic and external shocks, for the six month period under review. The observed stable exchange rate alongside managed interest rates and the current trade in inflation will aid in the financial system's stability.

- The banking sector was stable during the review period as the industry was sufficiently capitalized, liquid and profitable, with improved asset quality.
- Most of the companies within the general insurance sector registered profits during the review period and an improvement in capital. However, solvency and liquidity remained weak.
- The life insurance sector experienced increases in earnings and capital. The RBM thus expects the sector to remain profitable and experience growth in gross life premiums. This is partly dependent on the continuation of institutions complying with the requirements in buying group life cover as stipulated in the Pensions Act.
- It is anticipated that the pension sector will continue to grow with expected high level of investment returns. However, the report found that contribution arrears are a major challenge in the industry.
- The financial infrastructure is expected to remain robust and sound owing to continued monitoring by RBM to ensure safe, efficient and reliable payment and settlement process.

3. REGIONAL MARKET DEVELOPMENTS

- ⇒ The IMF published the January World Economic Outlook for 2019. In the review, it states that Sub-Saharan Africa registered real economic growth of 2.9% in 2018 (2017: 2.7%). In 2019, the region's real economic growth is projected to be at 3.5% and 3.6% in 2020. Both projections are lower than those projected by the institution in October 2018 because of the decline in oil prices experienced in the region. The economies in SSA have been forecasted to grow above 5% between the years 2019 and 2020 (Source: IMF).

Zambia

- ⇒ The year on year inflation rate for December 2018 was 7.9%, an increase from 7.8% in November 2018. This was attributed to increase of non-food items in household furniture, furnishings and transport. Non-food inflation increased to 7.6% in December 2018 from 7.0% in November whilst food inflation closed at 8.1% from 8.4% observed in November 2018 (Source: Zambia Central Statistical Office).
- ⇒ Zambia sought proposals from potential developers of solar power projects with a combined 200 megawatt (MW) capacity as it tries to diversify its energy mix away from hydroelectric power. The project will be split into small projects of 20 MW maximum each (Source: Reuters).
- ⇒ Zambia shortlisted 10 regional and international companies to build a total of 100 Megawatts of solar electricity projects by 2020. The country is heavily dependent on hydropower and has been hit by electricity shortages since the drought of 2016. This has forced the rationing of power supply to the industrial consumers. The country embarked on a policy to diversify to renewable forms of energy to ensure security of electricity supply. In January 2019, the Zambia government announced its plans to introduce electricity tariffs that reflect the cost of production by the end of the year (Source: Reuters).
- ⇒ Zambia's trade deficit for November 2018 indicate that the country had imported more though at a slower rate than it exported in nominal terms. Imports decreased by 35.7 percent from K2,691.2 million recorded in October 2018 to K1,729.5 million in November 2018. The decrease was mainly attributed to the decrease in the imports of Intermediate Goods. Exports also decreased at a slower rate of 4.4 percent from K8,404.3 Million in October 2018 to K 8,033.5 million in November 2018 (Source: Zambia Central Statistical Office).

Tanzania

- ⇒ The headline inflation rate for the month of December 2018 increased to 3.30% from 3.0% recorded in November 2018. The increase was attributed to an increase in Food and Non Alcoholic beverages inflation which increased by 1.1% as compared to 0.4% recorded in November 2018 whilst non food inflation increased to 5.6% in December from 5.4% in November 2018 (Source: Tanzania National Bureau of Statistics).
- ⇒ The global price of cashew nuts has been on the rise as a result of the decision by Tanzania's government to buy the entire country's stock of 220,000 tons at a higher price reaching US\$3.80 per pound on 21 November 2018 (Source: Reuters).
- ⇒ Donors to Tanzania withheld aid to the country over concerns over human rights abuses. Denmark withheld US\$10 million worth of aid whilst the World Bank scrapped a plan to loan Tanzania US\$300 million (Source: Reuters).
- ⇒ The Bank of Tanzania released its monetary policy statement for the financial year 2018/19 which reviewed the macroeconomic developments and monetary policy implementation during 2017/18 and outlined the monetary policy stance and measures that the Bank intended to pursue in 2018/19. Government aimed at attaining the following macroeconomic objectives: Real GDP growth of 7.2% in 2018, maintaining single digit annual inflation rate by end June 2019 and budget deficit of 3.2% of GDP in 2018/19. The Bank is to adopt an interest rate based monetary policy framework in 2018/19 to safeguard effectiveness and credibility of monetary policy in achieving price stability and sustaining high economic growth (Source: Bank of Tanzania).

3. REGIONAL MARKET DEVELOPMENTS (Continued...)

Uganda

- ⇒ The Uganda Shilling appreciated against its major trading partners with the US Dollar trading at UGX3,728.21:US\$1 as at 30 November 2018 compared to USGX3,752.16:US\$1 at October 2018 (Source: Bank of Uganda).
- ⇒ The headline inflation rate for the month of December 2018 declined to 2.2% from 3.0% observed in November 2018. The decline was largely attributed to the 5.0% decline of prices in Annual Food Crops and Related Items for the year ending December 2018 as compared to 3.3 % recorded for November 2018. The annual inflation for 2018 was 2.63% a decline from 5.64% experienced in 2017 (Source: Uganda Bureau of Statistics)
- ⇒ Uganda will force new investors in telecommunications services to rent capacity from existing fiber optic cables, rather than lay their own in an effort to stem infrastructure duplication and lower internet access costs, according to the state regulator. The new requirement is part of a new national broadband policy that seeks to boost efficiency and extend high speed internet access to the population (Source: Reuters).
- ⇒ French oil major producer, Total, said it expected to start producing oil in Uganda in 2021 at the earliest, the second firm to suggest it will be unable to meet the 2020 target set by the country, alongside China's National Offshore Oil Corporation. Uganda discovered 6.5 billion barrels worth of hydrocarbon deposits 12 years ago in the Albertine rift basin near its border with the Democratic Republic of Congo. But production has been repeatedly delayed by disagreements with oil firms over field development strategy, tax disputes and a lack of infrastructure such as a refinery or export pipeline (Source: Reuters).

Mozambique

- ⇒ Mozambique experienced an inflation rate of 3.91% in December 2018 from 4.27% in November 2018 and its annual headline inflation at 3.52% (2017:15.4%). The decline in annual inflation was attributed to the tight monetary stance the central bank has undertaken (Source: National Statistics Institute, AfDB).
- ⇒ Mozambique's Finance Ministry reported that an agreement had been reached with creditors to restructure the US\$726.5 million Eurobond, in addition to extending maturities and sharing future revenues from off-shore gas projects. The country was struggling to recover economically, after it was cut off from support by the International Monetary Fund and foreign donors in 2016 (Source: EIU).
- ⇒ U.S oil and gas producer Anadarko Petroleum Corporation said it expected to make a final decision in the first half of 2019 on whether to build the first liquified natural gas export terminal in Mozambique. The Mozambique project, which is located between both the Asia-Pacific and European markets, would consist of two liquefaction trains with the capacity to produce 12.88 million tons per annum. The company said it expects to complete the facility in the 2023-2024 timeframe. (Source: Reuters).

Zimbabwe

- ⇒ Zimbabwe's December 2018 headline inflation hit a high of 42.09% from 31.10% in November 2018. This brought the national headline inflation for 2018 for the country to 20.85% (Zimbabwe Statistics Office).
- ⇒ China's unlisted Tsingshan Holding Group signed a US\$1 billion agreement with Zimbabwe to build a steelmaking plant in the country through its local subsidiary Afrochime, which produces chrome ore. The plant was expected to produce 2 million tons of steel a year for 25 years. The country's only integrated steel plant, ZISCO, shut down in 2008 at the height of an economic crisis. Zimbabwe's current administration is trying to woo foreign investors especially in mining' as part of efforts to revive the economy (Source: Reuters).

3. REGIONAL MARKET DEVELOPMENTS (Continued...)

- ⇒ Zimbabwe released a trio of climate change policies designed to make the country more resistant to climate pressures and help it meet its international carbon-cutting pledges. The Child Friendly Climate Policy was designed to educate school children about climate change and promote climate-friendly practices, a new Climate Smart Agriculture Policy and the country's first overall National Climate Policy (Source: Reuters)

South Africa

- ⇒ The annual inflation for December 2018 declined to 4.6% as compared to 5.2% observed in November 2018. The decline was attributed to decreased in Transportation from 1.5% in November 2018 to 0.9% in December 2018. The inflation rate for South Africa in 2018 was 5.2% compared to 5.3% registered in 2017 (Source: Statistics South Africa).
- ⇒ South Africa's trade deficit widened to 5.55 billion Rand in October 2018 from 3.83 billion Rand deficit in September 2018. Exports rose by 8.5% on a month-on month basis to 122.32 billion Rand whilst imports were 9.7% higher to 127.87 billion Rand. (Source: Reuters).
- ⇒ South African Airways (SAA) has stated that it will need 7.5 billion Rand (US\$540 million) to fund day to day operations in 2019. The company has made losses since 2011 and has drawn up an austere turnaround plan that includes cutting jobs and routes in an effort to turn a profit by 2021 and convince lenders to restore credit lines (Source: Reuters).
- ⇒ South Africa's central bank increased its benchmark lending rate for the first time in three years from 6.5% to 6.75% as the risk for higher inflation in the longer term remained elevated. The weaker exchange rate and the impact of higher oil prices have contributed to increasing inflation since March 2018, whilst domestic growth remains weak (Source : South African Reserve Bank).

Other countries

- ⇒ Egypt is aiming for at least two foreign currency bond issues in the first quarter of 2019, according to their finance minister. Egypt's foreign debt stood at US\$92.64 billion at the end of June 2018. Its borrowing requirement for the repayment of external debt is US\$10.51 billion in the current fiscal year (Source: Reuters).
- ⇒ The International Monetary Fund (IMF) approved a new US\$172 million loan program for Sierra Leone to help the country combat rising inflation and lackluster economic growth. The main objective of the program was to safeguard macroeconomic stability, deepen structural reforms and advance the country's education for development and poverty reduction agendas (Source: Reuters).
- ⇒ Rwanda's headline inflation for December 2018 increased by 1.1% from a 0.1% experienced in November 2018. The IMF stated that it expected Rwanda's economy to grow by 7.2% in 2018, up from 6.1% in the previous year. The growth would be driven by tourism, new mining operations, more resilient agriculture, more diversified exports and the construction of a new airport (Source: Reuters).
- ⇒ Nigeria raised US\$2.86 billion in Eurobonds to help fund its budget deficit, in a sale that was three times oversubscribed. It priced the bonds with maturities of 7, 12 and 30 years at 7.625%, 8.75% and 9.25%, respectively (Source: Reuters).
- ⇒ The executive board of the IMF will examine Congo Republic's request for a bailout on 6 July 2018. Like other Central African oil producers, Congo has been hit by low crude prices and is struggling with a debt of over US\$9 billion, which is 110% of GDP (Source: Reuters).
- ⇒ The IMF projected that Benin's economy was expected to grow by 6% in 2018, up from 5.6% in 2017, as cotton production reached its record highs and the economy of neighbouring Nigeria strengthens. The country's cotton output for the 2017/18 season was projected to increase by 28% from the previous season, to 578,000 tons (Source: Reuters).

3. REGIONAL MARKET DEVELOPMENTS

- ⇒ Gabon's real economic growth was expected to rise to 2% in 2018 from 0.5% the preceding year on account of robust growth in agriculture, mining and lodging, which enabled it to avoid a recession. The country was forced to turn to the IMF for a bailout after oil prices slumped during 2014 to 2016 period, promising to carry out tough reforms including deep spending cuts. The IMF board approved about US\$642 million facility in June 2017 to help Gabon's economic recovery (Source: Reuters).
- ⇒ Algeria expects the amendments to its energy laws to be finalised by early 2019. The country has been preparing changes to its hydrocarbon law in a bid to attract foreign investors that have stayed away in recent years, citing bureaucracy and tough terms (Source: Reuters).
- ⇒ Kenya's year-on-year inflation stood at 5.70% as compared to 4.04% experienced in 2017. It increased from 5.6% in November 2018 to 5.71 in December 2018. This was the highest rate of inflation recorded since October 2017. The economy expanded by 5.7% in the first quarter of this year compared with 4.8% in the same period of last year. The significant acceleration in growth was mainly attributable to improved weather conditions and a boost in business and consumer confidence after the conclusion of general elections in 2017 (Source: Reuters).
- ⇒ Egyptian cotton production is on course to rebound with help from a devalued currency and bigger cultivation area, recovering from a slide in exports of the crop since 2011 that was caused by a drop in quality. Cotton exports are expected to reach about 52,000 tons in the 2017/2018 season that ends in August, up nearly 37% from the previous year (Source: Reuters).
- ⇒ Botswana cancelled its plans to sell a power station plagued by technical problems to a state-owned Chinese company China Machinery Engineering Corporation (CMEC linked to the plant's builder, China National Electric Equipment Corporation (CNEEC). The 600-megawatt coal-fired Morupule B plant, which was commissioned in 2012 and built by CNEEC at a cost of US\$970 million, has often broken down, leading to a reliance on diesel generators and imports from South Africa (Source: Reuters).

4. GLOBAL DEVELOPMENTS

Economic growth

Global economic growth was expected to reach 3.1% in 2018, although it is forecast to moderate in 2019-2020, before edging down to 2.9% by the end of the forecast period. However according to the World Bank's report, Global Economic Prospects, June 2018, the projections may be somewhat overly optimistic as capacity constraints will become more binding while inflation should continue to rise during this forecast period. Other factors that should cement the deceleration in growth include, a softening in monetary policy stimulus, higher energy prices and a waning in the United States Fiscal stimulus.

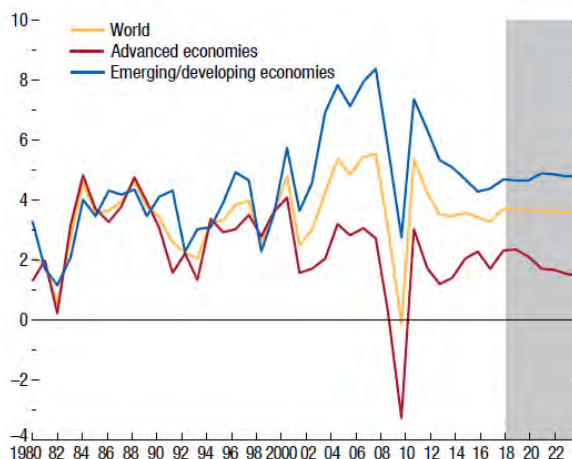
Capital spending by China and other advanced economies is also forecast to decelerate which should also contribute to the moderate global growth rate in 2019 and 2020. For emerging and developing economies, borrowing costs are expected to increase as a result of shifts in policy mix, mainly monetary policy tightening by advanced economies and fiscal policy loosening in the United States. As international trade and financial conditions become less supportive, and given the cyclical upturn in commodity export markets, the overall growth for developing economies is expected to reach 4.7% in 2019 and 2020. Progress in per capita growth in Sub-Saharan Africa, is however projected to remain below or around 1%, while it is expected to reach 6% in South Asia.

The recently imposed US trade measures, including the tariffs imposed on US\$200 billion on US imports from China should also hugely negatively impact global economic growth trade as the rising trade tensions and policy uncertainty could lead to firms postponing or forgoing capital spending. This could slow down growth in international investment and demand (Source: World Bank, IMF).

Global Oil Developments

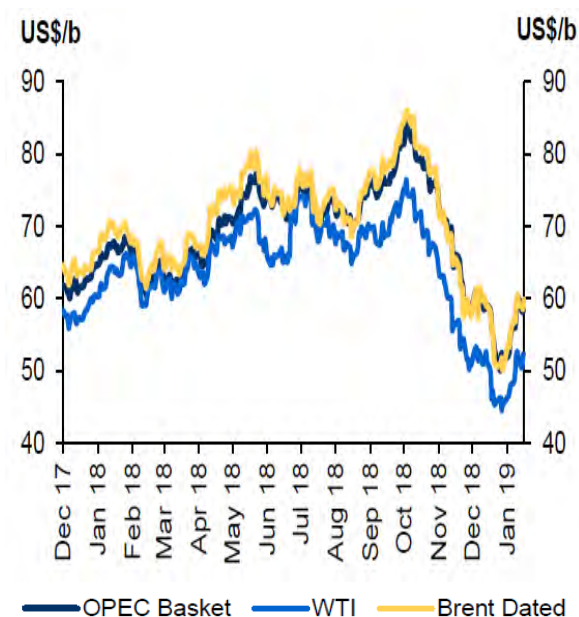
According to OPEC Oil market report published on 17 January 2019, world oil prices have been volatile since August 2018. This was as a result of supply influences and fears of reduced global oil demand. January price's stood at \$55 (2018:\$70.66) per barrel and is expected to stay between \$55 and \$60 per barrel for the next 4 to 5 years. World oil demand growth was estimated at 1.50 million barrels per day (mb/d) for 2018. This translated to total oil demand for the year of 98.79mb/day. In 2019, world oil demand growth is forecasted to be at 1.29 mb/day down by 50 thousand barrels per day from last month's projections. As a result, total world oil demand is projected to reach 100.08 mb/d for the year (Source: OPEC).

Real GDP growth by country group



Source: IMF

Oil price movement



(Source:OPEC)

4. GLOBAL DEVELOPMENTS (Continued...)

Currency Movements

According to the EIU, the US dollar has rallied strongly against most major currencies, as financial markets have taken confidence that the Federal Reserve will continue with gradual monetary tightening although an increase in global energy prices, and rising interest rates could dampen growth elsewhere. The strengthening of the Dollar was expected to continue to the end of 2018. In 2019 however the US economy is expected to begin losing momentum as a result of an escalating trade dispute with China, and the Fed adopting a more cautious tone as it balances the threat of higher inflation with slowing growth. Consequently, the US\$ is expected to depreciate against major economies in 2019 and soften further in 2020 as the economy continues to slow and the Fed embarks on a policy-easing cycle.

(Source: EIU, IMF)

Interest Rate Movements

The US Libor (the cost of banks to borrow funds in US Dollars) increased during the year. In December 2018, the 3 month and 6 month Libor closed at 2.81% (December 2017:1.69%) and 2.88% (December 2017:1.84%) respectively. The US 10 years Treasury bond yield averaged 2.91% in 2018 from an average of 2.33% observed in 2017.

The Bank of England rate (BOE) increased to 0.750% from 0.5% observed in December 2017. This is the highest that the rate has reached since March 2009. In addition to this, the US Fed rate also increased to close at 2.5% from 1.5% observed in December 2017. However, the (ECB) remained flat at 0.00% during the year. (Source: Wallstreet Journal, Bloomberg)

	Dec-17	Dec-18	% Change
US Fed Rate	1.50%	2.50%	↓ -1.00%
US Libor (3 months)	1.69%	2.81%	↓ -1.11%
US Libor (6 months)	1.84%	2.88%	↓ -1.04%
US Treasury yield (10 years)	2.41%	2.69%	↓ -0.28%
BOE Rate	0.50%	0.75%	↓ -0.25%
ECB Rate	0.00%	0.00%	→ 0.00%

3. GLOBAL DEVELOPMENTS (Continued...)

Inflation

The IMF's January World Economic Outlook for 2019 has projected real economic growth for 2019 to 3.45% from the initial 3.3% prediction. The downward revision has been done as a result of the negative effects of tariff increases enacted in the United States and China.

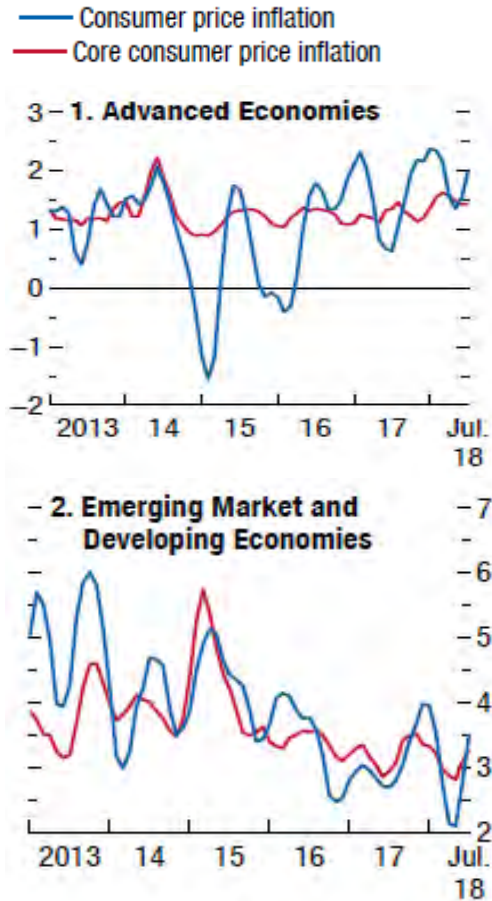
The IMF estimates that, headline year on year inflation rates have increased across advanced, emerging, and developing economies over the past six months. This is due to higher energy prices. However, core inflation in most advanced economies remains below central banks' targets. Core inflation among emerging market and developing economies is below the average despite a minor increase in recent months. While inflation should continue to rise during this forecast period. Other factors that should cement the deceleration in growth include, a softening in monetary policy stimulus, higher energy prices and a waning in the United States fiscal stimulus.

Among advanced economies, core inflation in the United States has exceeded 2.00% since March 2018. Similarly, the United Kingdom's core inflation averaged to more than 2.00% in the first half of 2018, a reduction from the previous year. In the Euro area and Japan core inflation remains low at an average of 1.00% and 0.30% respectively.

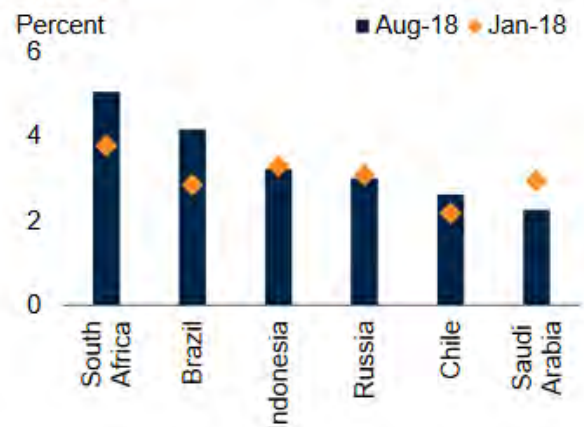
Core inflation varies among economies in the emerging market and developing economy. For instance, in China core inflation remains stagnant at 2.00% because of the reduction in domestic demand that resulted from the financial regulatory tightening. In contrast, India's core inflation has risen to 6.00%. Core inflation in Brazil and Mexico has declined to 2.50% and 3.50% respectively.

Inflation in some commodity exporting countries has also been increasing, largely being driven by recent currency depreciations and the performance of economic growth of the respective countries. In Nigeria, growth slowed in the second quarter of 2018 and inflation remains above the 6.00% and 9.00% target range. In Saudi Arabia, the report indicates possibilities of expanding private sector activity and stable inflation. (Sources: BNP Paribas, IMF, World Bank)

Global Inflation



Source: IMF



Source: World Bank

5. OUTLOOK FOR 2019 AND BEYOND - MALAWI

Exchange Rates

In the short term, it is expected that the Kwacha will remain relatively stable as a result of sufficient foreign exchange reserves. In addition to this, the continued decrease in global oil prices will also add up to the stability of the kwacha. The Kwacha should be expected to depreciate in the medium to long term due to increase in current account deficit, increase in government expenditure which is mostly funded domestically.

POSSIBLE IMPACT: *The depreciation of the Kwacha should lead to higher prices on the local market, and further make domestic goods cheaper on the export front.*

The Economist Intelligence Unit (EIU) thus expects the pace of annual currency depreciation to increase to over 9% in 2019, whilst fiscal consolidation after the election should reduce the downward pressure on the currency in 2020. In 2021-22 a weaker US dollar and higher exports aided by a strengthening in the prices of some of Malawi's agricultural exports should provide further modest support to the Kwacha (Source: EIU).

Inflation

Annual average inflation for 2019 has been projected to range between 8.9% and 12.9 % by EIU and IMF respectively. This is as a result of gradual reduction of food prices as well as reduced international fuel prices. The RBM's medium-term inflation target remains at 5%.

POSSIBLE IMPACT: *Low inflation rates have an positive effects on savings and investment. Private sector investments will increase and contribute to economic growth.*

Malawi is facing some inflationary pressures from the rising electricity tariffs and increases in water tariffs. As we approach maize harvest season, maize prices are expected to start declining. This will ease the food inflationary pressures. In addition to this, humanitarian assistance commenced in December 2018 for those areas which needed supplementary maize. The rainfall pattern will continue affecting the agricultural sector performance and inevitably inflation in 2019. A good rainfall pattern results in a sufficient and increased agricultural production. This will assist in relieving some inflationary pressures.

Moving to 2020, fiscal consolidation and a decline in global oil prices is expected to support a moderation in inflation, that is assuming there is an improvement in food supplies. Inflation rate is however forecast to edge back up in 2021-22 as global oil prices rise once more. (Source: National Statistics Office, RBM, EIU, FEWS NET, IMF).

5. OUTLOOK FOR 2019 AND BEYOND - MALAWI (Continued...)

External Sector

Export performance is expected to be supported by higher production of cash crops, including tea, soybeans and sugar. However comparatively subdued global prices particularly for the period up to FY2019 are expected to slow down the pace of revenue growth. Receipts from tobacco, the country's biggest source of foreign-exchange earnings, are expected to remain relatively flat on the back of a policy to shore up prices by reducing output. Overall, export growth should continue to be held back by infrastructure bottlenecks, a lack of finance for farmers, low-technology agricultural techniques and a secular weakening in global demand for tobacco. Meanwhile, import growth should be driven by rising domestic demand, including the capital goods required to support infrastructure projects.

The services balance is forecasted to remain in deficit owing to the high cost of transporting goods into and out of the land-locked country.

The primary income account deficit is expected to increase over the forecast period as the cost of debt-servicing increases. However, the secondary income surplus, which covers private transfers and some official aid receipts, is forecast to widen during the years covered by the Extended Credit Facility, but will narrow once the program concludes. Overall, the current-account deficit is expected to widen from 16.2% of GDP in 2017 to 17.1% of GDP in 2018 as food imports rise. The shortfall should then narrow to 14.3% of GDP in 2022 as agricultural exports recover and food imports decline. These EIU emphasizes that these forecasts are contingent on normal rainfall patterns, and any significant disruption would prompt a downward revision to agricultural exports and an upward revision to food imports, thereby causing the deficit to widen (Source: EIU)

Monetary Policy

Due to the low inflationary pressures in the economy, it is expected that the Reserve Bank maintain the loose monetary policy stance it has started as a means to maintain price stability and encouraging economic growth. Treasury bill yields are expected to remain below the monetary policy rate. Average interest rates will also decline which will encourage consumers to access cheap capital and spur investments in productive sectors which will aide in the country's economic growth. According to RBM, inflation risks will subdue in 2019 due to the favourable weather conditions which are expected to lead to higher agricultural output than initially projected.

POSSIBLE IMPACT: *Higher import values, in comparison to export values, will widen the trade balance. An increased demand for imported goods will exert pressure on the foreign exchange reserves.*

POSSIBLE IMPACT: *Reducing the monetary policy rates to 14.50% is in line with the prevailing decline of inflation rates. This will reduce the interest rates and spur aggregate demand leading to economic growth.*

5. OUTLOOK FOR 2019 AND BEYOND — MALAWI (Continued...)

International Relations

The disbursement of funds in November 2018 under the three-year extended credit facility (ECF) is said to assist government in attaining enhanced poverty reduction and resilient economic growth. However aid levels are unlikely to reach previous levels, due to continued structural weaknesses and concerns over corruption and fiscal laxity. Aid that does come in is expected to be disbursed as project based grants and support to non-government agencies.

Further support will continue to be sought out from non-traditional partners such as China and India, while their economic presence in Malawi is also expected to grow. (Source: EIU).

POSSIBLE IMPACT: *External support may increase the availability of forex, leading to the stability in Kwacha and forex reserves maintained of the required three months import cover threshold.*

Fiscal Policy

The 2018 Annual Report for the Ministry of Finance, Economic Planning and Development has highlighted that government will continue to implement measures to create fiscal space for inclusive and sustainable economic growth. In the medium term, the government, through automation of tax administration and widening of the tax base, anticipates that revenue performance will improve and thus create additional fiscal space.

POSSIBLE IMPACT: *Lower government expenditures may lead to a reduction in the fiscal deficit which may decrease government domestic borrowing. Decreased government borrowing could reduce interest rates and encourage private investment. However lower government expenditure may come at the expense of development projects which would have been beneficial to the economy.*

The resumption of budget support from the IMF and other donors may help ease the budget deficit. However, the donors have put conditions for government to meet to ensure consistent flow of funds. The fiscal deficit is estimated at K254 billion and may need to be financed through both domestic and foreign debt. Government is now issuing long term Treasury Notes of up to 7 years to help fund the deficit.

The overall fiscal balance for November 2018 recorded a deficit worth K54.5 billion, an increase from K23.10 billion recorded in October 2018. However, the governments total revenue increased to K92.7 billion from K89.6 billion recorded in October 2018. The EIU expects that the fiscal deficit will narrow in 2018/19, to 6.2% of GDP. With greater control over current spending, it is expected that the fiscal deficit will reduce to 3.5% of GDP in 2021/22.

(Source: Ministry of Finance, Economic Planning and Development, EIU, RBM)

5. OUTLOOK FOR 2019 AND BEYOND— MALAWI (Continued...)

Economic Growth

Growth forecasts indicate the economy will grow by an average of 4.4% in the next three years. However favourable rainfall patterns, and a good agricultural output coupled with successful implementation of plans to diversify and expand cash crops could push the number upwards of 5% in the 2019. This economic stride would assist to prop up critical sectors such as health and education which continue to lag behind.

Growth in the agricultural sector remains pivotal as it accounts for over 25% of the contribution to GDP but will be dependent on weather outcomes. On the other hand the services sector, particularly telecommunications have higher potential for growth as demand increases especially as some of the products such as mobile banking gain popularity.

The country's economic productive sectors will need a stronger push to focus and deliver as the need to lower dependence on foreign aid remains critical and cannot be over-emphasized. As a result of decrease in foreign borrowing, the 2018/2019 budget statement states that government will increase domestic borrowing component with K176 billion expected to come from the private sector.

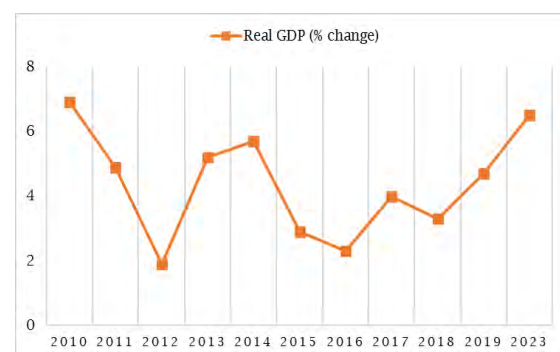
Some of the risks to economic growth in 2019 include insufficient power supply which remains a key drag on industrial performance as it constrains production. Further increases in electricity tariffs and fuel prices will push up production costs. Electricity tariffs are expected to increase further as MERA approved ESCOM's tariff increase of 31.80% over a four-year period, from 2018 to 2022, with an initial increase of 20.00% in the year 2018/19. The upcoming elections also remain critical in terms of the overall effect they will have on total government expenditure.

(Sources: RBM, EIU, World Bank, Ministry of Finance , Economic Planning and Development)

POSSIBLE IMPACT: An *economic slowdown will lessen donor and investor confidence and decrease private sector activity. Decreased private sector activity will also have a negative impact on economic growth.*

GDP Projections

Real GDP Growth Projections				
	2017	2018	2019	2020
EIU	4.40%	2.10%	3.90%	4.90%
IMF	4.00%	3.20%	4.00%	5.00%
WORLD BANK	4.00%	3.50%	4.10%	4.94%
GOVERNMENT	5.00%	4.50%	6.00%	6.00%
RBM	5.10%	4.00%		
Average Real GDP	4.50%	3.46%	4.50%	5.21%



6. ECONOMIC RISKS

ECONOMIC RISKS	IMPACT ON ECONOMY	MITIGATION MEASURES
Insufficient power supply and electricity tariff hike	<ol style="list-style-type: none"> 1. Commercial productivity remains small scale as large scale enterprises are difficult to implement with limited power supply 2. Low industrial productivity in the manufacturing sector resulting in low economic productivity and dampening economic growth. 3. Deferment of development by investors. 4. Decline in tourism levels as it dampens tourists appetite to visit the country which results in lower income and growth in the industry. 	<ol style="list-style-type: none"> 1. Encourage use of energy saver bulbs. 2. Rehabilitate and develop new power plants. 3. Public-Private Partnerships to enhance energy production through alternative power sources. 4. The entrance of Independence Power Producers (IPPs) may help boost power generation
High population growth rates	<ol style="list-style-type: none"> 1. Reduced per capita income. 2. Over-crowding on public resources. 3. Resources which could have been allocated to more productive activities are used to take care of the growing population. 	<ol style="list-style-type: none"> 1. Civic education to raise awareness on the need to have less children.
Increase in government debt	<ol style="list-style-type: none"> 1. Creates a future obligation for government which may keep the budget deficit large. 2. Crowds out the private sector hence reducing the expansion of the private sector as funds are not available. 	<ol style="list-style-type: none"> 1. Reduce government expenditure by tightening fiscal policy. 2. Increase government revenue base to finance debt.
High Interest Rates	<ol style="list-style-type: none"> 1. High lending rates will lead to slower private sector growth and a decrease in capital investments. 2. High interest rates will also lead to higher loan impairments for banks which will reduce funds that may be used to lend other private investors. It also puts customer deposits at risk if the bank were to fail. 	<ol style="list-style-type: none"> 1. Reduction of the Monetary Policy Rate.

6. ECONOMIC RISKS (Continued...)

ECONOMIC RISKS	IMPACT ON ECONOMY	MITIGATION MEASURES
Global tobacco lobby (anti-smoking)	<ol style="list-style-type: none"> 1. Decline in demand for Malawi tobacco and services from supporting industries resulting in lower commodity prices. 2. Reduction in export earnings (tobacco accounts for 60% of Malawi's export earnings). 3. Reduced employment opportunities in the tobacco and supporting industry. 4. Lower income for farmers- small holder and commercial. 	<ol style="list-style-type: none"> 1. Diversify into other sectors such as mining and cotton etc. 2. Engage in aggressive tourism marketing.
Incidents of alleged theft and corruption within the public sector	<ol style="list-style-type: none"> 1. It will lead to a misuse of resources as areas of great need do not receive the right resources and thereby hampering growth. 2. Loss of aid funding as donors become unwilling to send aid, which could affect government spending and forex availability. 3. Negatively affect the ability for external borrowing even for the private sector due to the negative image of the country. 4. Negatively impacts the country's sovereign credit risk ratings. 	<ol style="list-style-type: none"> 1. Tighter controls and measures with better implementation of the policies. 2. More transparency in the public sector and government.
4 Uncertainty in the external environment	<ol style="list-style-type: none"> 1. Dampening export demand for major export commodities i.e. tobacco, tea, cotton and sugar. 2. Declining investor interest in Malawi resulting in fewer investments and less foreign currency coming into the country. 3. Declining remittances from abroad, hence contributing to lower forex reserves levels. 4. Reduced access to foreign capital, hence financing not available or difficulties in accessing letters of credit. 5. Impaired growth and Balance of Payments (BOP) due to declining exports and low foreign investments. 6. Decline in tourism levels leading to lower forex revenues. 	<ol style="list-style-type: none"> 1. Diversification of export base of products.
Increasing global oil prices	<ol style="list-style-type: none"> 1. May lead to high import costs which may widen the country's trade deficit. 2. This may lead to a further increase in local fuel prices. This will eventually exert pressure on inflation. 	

7. APPENDIX

Appendix 1: SELECTED ECONOMIC INDICATORS FOR MALAWI

	Dec-17	Jan-18	Feb-18	Mar-18	Apr 18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	M-O-M movement	Y-O-Y movement
MK : US\$	732.03	732.23	732.58	732.51	732.36	731.85	730.73	731.90	731.83	732.51	736.09	733.25	733.69	↓ -0.06%	↓ -0.23%
MK : GBP	979.53	1,038.82	1,010.45	1,033.37	1,007.20	967.31	956.98	959.22	950.71	961.05	938.44	938.44	926.83	↑ 1.24%	↑ 5.38%
MK : ZAR	59.04	60.99	62.14	62.61	59.01	58.06	53.15	55.47	49.73	52.92	50.44	50.98	50.96	↑ 0.04%	↑ 13.69%
MK : EUR	869.07	902.47	891.04	906.12	882.92	845.43	842.94	851.94	852.32	852.15	832.18	845.14	836.75	↑ 0.99%	↑ 3.72%
Forex reserves (Source: RBM)															
Gross Official Reserves (US\$'mn)	757.08	712.98	693.51	678.77	640.56	665.23	728.10	754.82	753.52	727.63	619.90	631.21	755.22	↑ 19.65%	↓ -0.25%
Private Sector Reserves (US\$'mn)	412.98	389.95	348.88	349.16	348.80	349.16	386.18	338.72	332.05	319.23	329.23	337.21	330.84	↓ -1.89%	↓ -19.89%
Total Reserves (US\$'mn)	1,170.06	1,102.93	1,042.39	1,027.93	989.36	1,014.39	1,114.28	1,093.54	1,085.57	1,046.86	949.13	968.42	1,086.06	↑ 12.15%	↓ -7.18%
Total Import Cover (months)	5.60	5.28	4.99	4.92	4.73	4.85	5.33	5.23	5.20	5.00	4.78	4.66	5.19	↑ 11.37%	↓ -7.32%
Inflation rates (Source: NSO)															
Headline Inflation	7.10%	8.10%	7.80%	9.90%	9.70%	8.90%	8.60%	9.00%	9.30%	9.50%	9.70%	10.10%	9.90%	↓ -0.20%	↑ 2.80%
Food	4.30%	7.60%	7.30%	10.60%	10.00%	9.50%	9.10%	9.50%	10.10%	10.20%	10.40%	10.80%	12.00%	↑ 1.20%	↑ 7.70%
Non Food	10.00%	9.60%	9.40%	9.70%	8.90%	8.40%	8.20%	8.70%	8.70%	8.90%	9.20%	9.50%	8.20%	↓ -1.30%	↓ -1.80%
Interbank Rates (Source: RBM)															
Monetary Policy Rate	16.00%	16.00%	16.00%	16.00%	16.00%	16.00%	16.00%	16.00%	16.00%	16.00%	16.00%	16.00%	16.00%	⇒ 0.00%	⇒ 0.00%
Average Interbank Rate	15.89%	14.95%	15.20%	13.85%	14.02%	15.41%	15.02%	14.61%	15.26%	14.68%	14.99%	14.89%	14.48%	↓ -0.41%	↓ -1.41%
Average Base Lending Rates	27.55%	25.41%	25.41%	25.41%	25.41%	25.41%	25.41%	25.41%	25.41%	25.41%	25.41%	24.78%	24.78%	⇒ 0.00%	↓ -2.77%
Treasury Bill Yields (Source: RBM)															
91 day Treasury Bill yield	14.73%	14.00%	13.98%	14.00%	14.00%	14.00%	14.00%	14.00%	13.80%	13.91%	13.99%	12.28%	11.42%	↓ -0.86%	↓ -3.31%
182 day Treasury Bill yield	15.10%	14.50%	14.50%	14.50%	14.50%	14.50%	14.50%	14.50%	14.50%	14.50%	14.49%	14.13%	13.00%	↓ -1.13%	↓ -2.10%
364 day Treasury Bill yield	15.77%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	14.50%	14.02%	↓ -0.48%	↓ -1.75%
Stock Market Indices (Point) (Source: MSE)															
MAI	21,598.07	22,223.44	23,182.59	25,286.79	27,092.17	30,043.03	30,736.95	31,263.14	31,956.43	32,373.19	30,622.36	26,803.80	28,983.53	↑ 8.13%	↑ 34.19%
DSI	16,272.64	16,692.97	17,535.66	18,009.73	18,158.46	19,436.22	20,033.47	20,513.69	21,145.76	21,621.84	20,938.61	20,772.32	21,318.07	↑ 2.63%	↑ 31.01%
FSI	3,519.43	3,673.87	3,706.12	5,197.43	6,743.62	8,201.57	8,237.82	8,237.82	8,237.32	8,138.23	7,196.88	3,778.77	5,265.12	↑ 39.33%	↑ 49.60%
Fuel Prices per Litre (Source: MERA)															
Petrol	824.70	824.70	824.70	824.70	824.70	824.70	824.70	888.00	888.00	888.00	888.00	990.30	933.50	↓ -5.74%	↑ 13.19%
Diesel	815.80	815.80	815.80	815.80	815.80	815.80	815.80	890.90	890.90	890.90	890.90	990.40	946.60	↓ -4.42%	↑ 16.03%
Paraffin	648.70	648.70	648.70	648.70	648.70	648.70	648.70	719.30	719.30	719.30	719.30	785.00	781.80	↓ -0.41%	↑ 20.52%

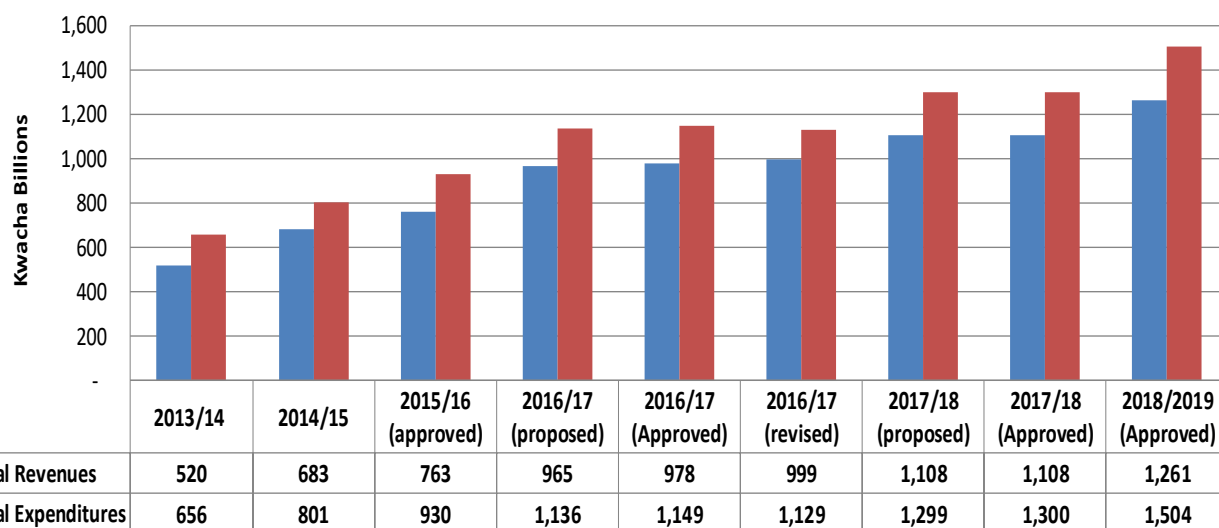
Appendix 2 : SELECTED ECONOMIC INDICATORS FOR TANZANIA, UGANDA, ZAMBIA AND MOZAMBIQUE

	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18
TANZANIA															
Exchange rate															
US\$	2,237.78	2,232.67	2,236.89	2,249.87	2,250.12	2,255.40	2,279.53	2,281.53	2,274.83	2,278.69	2,274.91	2,277.46	2,289.87	2,278.77	2,281.23
GBP	2,952.97	2,989.55	3,020.74	3,184.81	3,128.97	3,160.88	3,139.03	3,023.81	3,005.57	2,993.07	2,962.62	2,989.74	2,979.15	2,909.54	2,895.34
ZAR	159.02	162.85	180.69	187.86	192.09	190.49	184.81	179.75	166.14	173.16	155.79	161.35	159.74	166.98	158.40
EUR	2,597.39	2,642.03	2,683.97	2,791.99	2,751.82	2,779.55	2,763.30	2,632.22	2,666.64	2,667.77	2,659.03	2,660.20	2,595.18	2,593.25	2,615.09
Inflation %	5.10	4.40	4.00	4.00	4.10	3.90	3.80	3.60	3.40	3.30	3.30	3.40	3.20	3.00	3.30
Bank rate %	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	7.00	7.00	7.00	7.00	7.00
UGANDA															
Exchange rate															
US\$	3,651.63	3,634.53	3,633.15	3,633.46	3,636.84	3,688.48	3,709.95	3,763.65	3,878.76	3,697.82	3,758.75	3,820.67	3,752.16	3,728.21	3,714.13
GBP	4,849.36	4,874.14	4,906.30	5,143.36	5,057.32	5,169.30	5,108.79	4,988.13	5,123.02	4,857.10	4,885.94	5,037.81	4,882.61	4,754.77	4,695.12
EUR	4,253.79	4,305.89	4,359.32	4,508.97	4,447.73	4,545.68	4,497.29	4,342.15	4,538.05	4,329.20	4,394.66	4,489.10	4,254.04	4,204.12	4,235.83
Inflation %	4.80	4.00	3.30	3.00	2.10	2.00	1.80	1.70	2.10	3.10	3.80	3.70	3.00	3.00	2.20
Central Bank Rate %	9.50	9.50	9.50	9.50	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	10.00	10.00
ZAMBIA															
Exchange rate															
US\$	10.02	10.13	10.08	9.76	9.83	9.55	9.83	10.40	9.97	10.03	10.28	12.29	11.75	11.95	11.78
GBP	13.26	13.64	13.62	13.82	13.67	13.38	13.54	13.78	13.17	13.18	13.35	16.03	15.33	15.24	15.60
ZAR	0.71	0.74	0.81	0.82	0.84	0.80	0.80	0.82	0.72	0.76	0.70	0.87	0.82	0.87	0.73
Inflation %	6.40	6.30	6.10	6.20	6.10	7.10	7.40	7.80	7.40	7.80	8.10	7.90	8.30	7.80	7.92
Bank rate %	11.00	10.25	10.25	10.25	9.75	9.75	9.75	9.75	9.75	9.75	9.75	9.75	9.75	9.75	9.75
MOZAMBIQUE															
US\$	60.88	60.49	58.91	60.44	61.55	61.73	59.59	59.99	59.92	58.25	60.21	60.71	61.27	61.47	61.46
ZAR	4.31	4.43	4.76	5.05	5.25	5.21	4.83	4.73	4.32	4.43	3.98	4.29	4.275	4.48	4.26
EUR	70.92	71.70	70.68	75.01	75.28	76.08	72.24	69.21	69.30	68.19	69.72	71.01	69.454	69.87	70.37
Inflation%	8.35	7.15	5.65	3.84	2.93	3.05	2.33	3.26	4.40	4.73	5.02%	4.89	4.75	4.27	3.91

Appendix 3: Budget Framework (Source: Ministry of Finance)

K'Billion	2015/16 (Approved)	2016/17 (Approved)	2016/17 (Revised)	2017/18 (Proposed)	2017/18 (Approved)	2018/19 (Approved)
Total Revenues	763	978	999	1,108	1,108	1,261
Domestic revenue	666	783	841	980	980	1,052
Grants	97	197	159	128	128	209
Budgetary support	7			36	36	
Earmarked grants	90					
Total Expenditures	930	1,149	1,129	1,299	1,300	1,504
Recurrent expenditure	704	823	869	947	947	1,104
Wage & salaries	229	272	271	304	304	392
Interest on debt	125	144	169	186	186	183
Investment Expenditure	224	322	257	349	350	
Deficit/Surplus	(166)	(174)	(130)	(191)	(192)	(243)
Deficit as a % of Revenue	-22%	-17%	-13%	-17%	-17%	-19%

National Budget

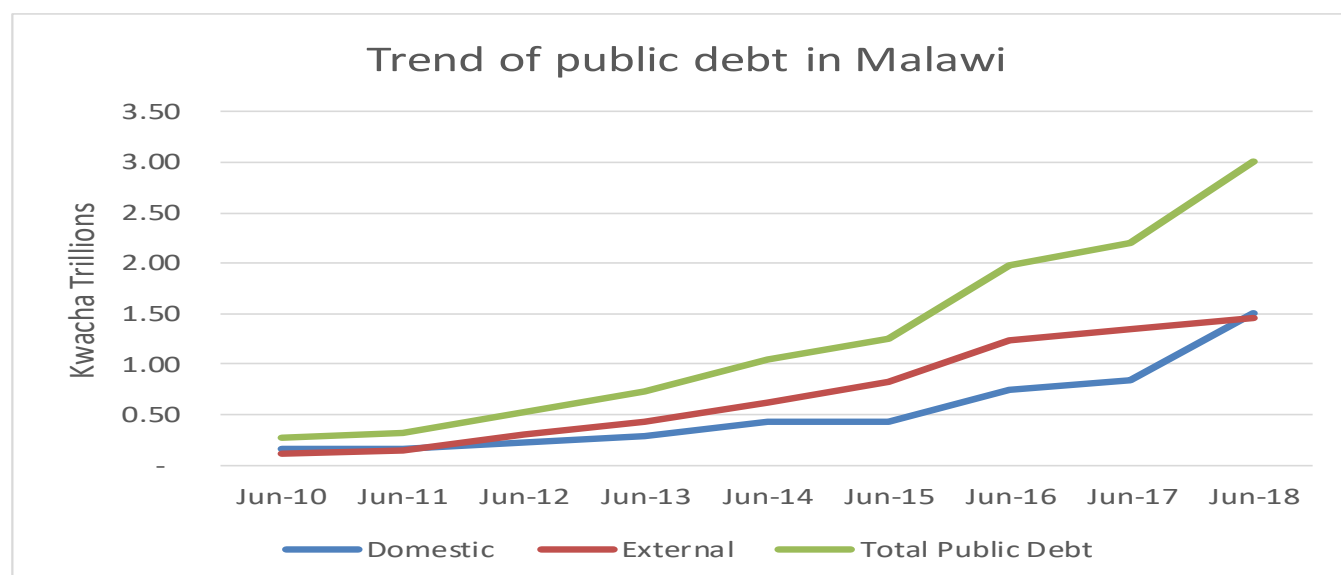


Appendix 4: Central Government Budgetary Operations *in billions of Kwacha* (Source: Reserve Bank of Malawi)

	2017		2018									
	Nov	Dec	Feb	Mar	April	May	Jun	July	Aug	Sep	Oct	Nov
Total Revenues	80.1	74.7	73.3	82.5	95.4	75.0	99.9	92.0	86.8	115.2	89.6	92.7
Domestic Revenues	69.4	69.6	71.0	77.8	91.9	71.4	86.0	84.2	71.3	104.9	82.5	85.6
Tax Revenue	65.0	66.8	67.0	65.3	77.5	67.0	81.0	78.9	68.4	101.5	79.7	80.4
Non Tax revenue	4.4	2.8	4.0	12.5	14.4	4.4	5.0	5.3	2.8	3.4	2.8	5.2
Departmental receipts	4.1		3.6	12.2	1.4	3.2	4.5	2.6	2.2	2.4	2.0	4.1
Other Receipts	0.3	1.9	0.4	0.3	13.0	1.2	0.5	2.7	0.7	1.0	0.8	1.1
Grants	10.7	5.1	2.6	4.7	3.6	4.3	13.9	7.8	15.5	10.3	7.1	7.1
Total Expenditures	120.4	91.5	113.3	108.8	99.1	104.0	101.6	78.4	132.2	111.4	117.2	147.2
Recurrent Expenditure	107.3	74.2	99.4	94.6	82.7	85.8	80.8	65.5	113.7	95.8	100.2	129.5
Interest Payments	13.0	6.4	21.8	27.0	22.0	17.6	9.5	6.1	21.3	24.8	17.3	14.5
Domestic	12.2	5.8	20.7	26.5	17.7	16.9	8.4	5.8	21.3	22.2	14.7	13.8
Foreign	0.7	0.5	1.2	0.4	4.4	0.7	1.1	0.2	0.0	2.6	2.6	0.7
Development	13.1	17.4	13.9	14.2	16.4	18.3	20.8	12.9	18.6	15.6	17.0	17.8
Deficit/Surplus	-40.3	-6.8	-39.6	-26.3	-3.7	28.3	-1.6	13.5	-45.5	3.8	-23.1	-54.5
Financing (net)	47.0	32.8	56.9	34.7	22.4	36.4	8.6	10.1	54.9	-1.3	34.8	60.0
Foreign	0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	47.0	0.0	56.9	34.7	22.4	36.4	8.6	10.1	54.9	1.3	34.8	60.0
Banking System	7.9	32.8	49.2	4.3	-15.7	19.3	-66.1	-7.2	86.9	-30.4	33.5	72.7
Non-Bank Sector	39.1	27.2	7.7	30.4	38.1	17.1	74.8	17.4	-31.9	29.1	1.2	-12.7
Errors and Omissions	6.7	5.6	17.3	8.4	31.0	5.6	7.0	23.6	22.8	-10.8	11.7	-5.5

Source: Reserve Bank of Malawi

APPENDIX 5: Trend of Public Debt in Malawi (Source: Ministry of Finance)



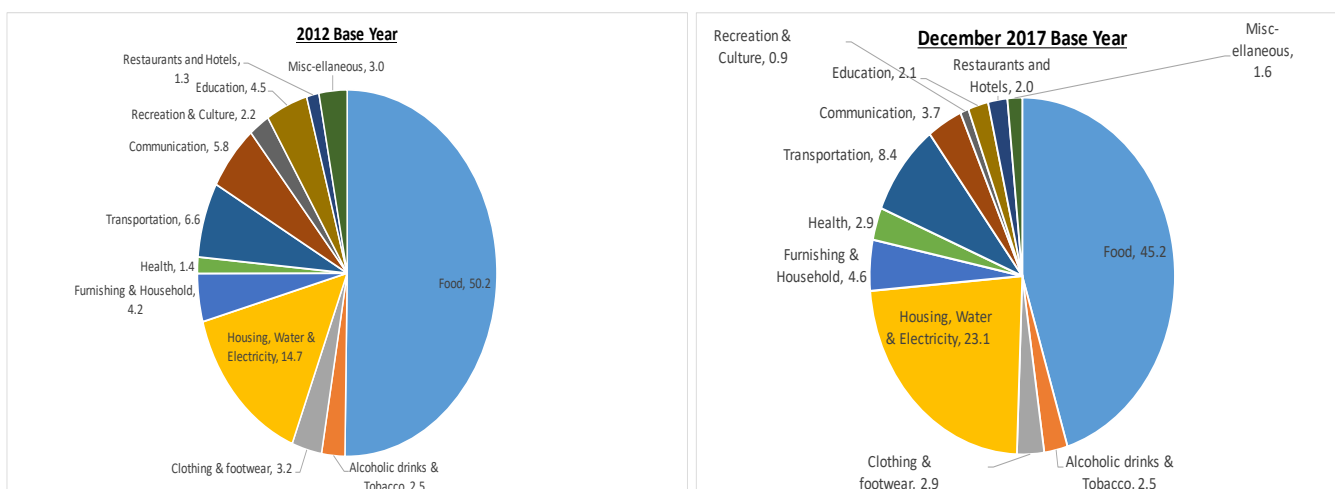
Appendix 6: MALAWI SELECTED ECONOMIC INDICATORS (source: IMF)

TABLE 1. MALAWI SELECTED ECONOMIC INDICATORS 2011-17

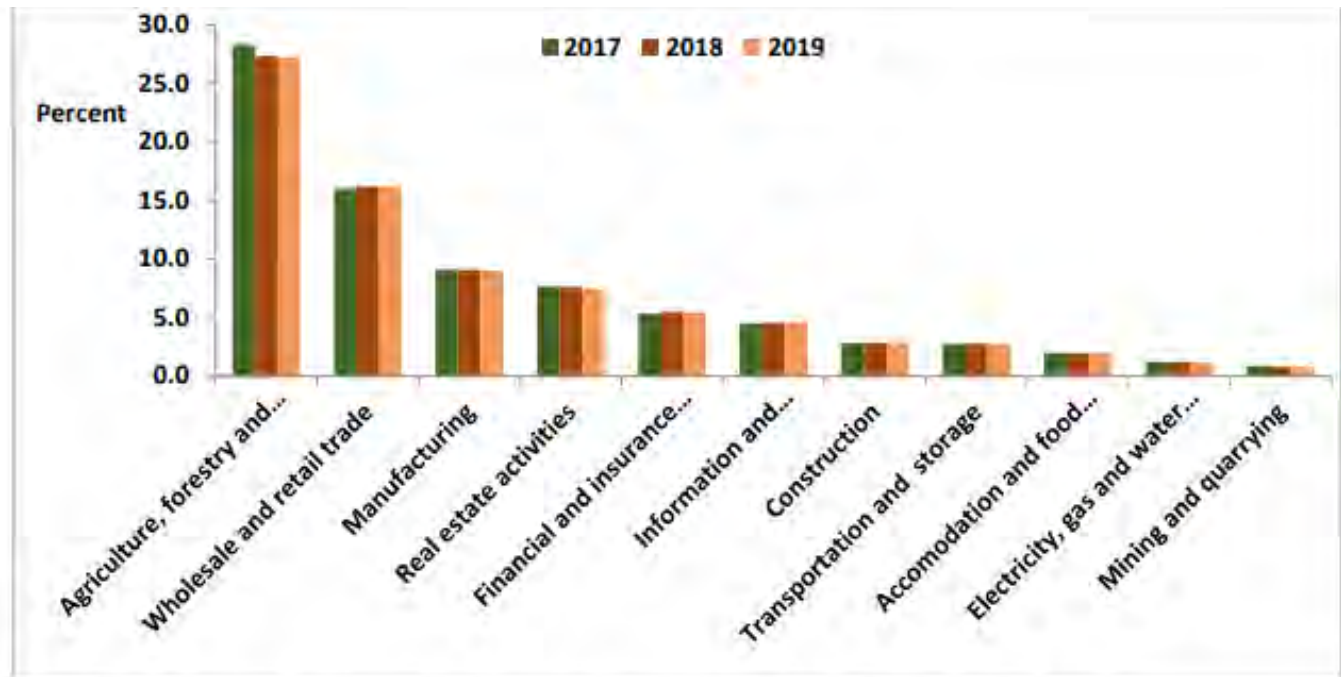
	2011	2012	2013		2014		2015	2016	2017
			Prog.	Actual	Prog	Estimate			
National accounts and prices (percent change, unless otherwise stated)	4.3	1.9	5.0	5.2	6.1	5.7	5.5	5.7	6.0
GDP at constant market prices	881	1,056	1,412	1,415	1,744	1,809	2,224	2,556	2,893
Nominal GDP (billions of Kwacha)	4.0	17.7	27.3	27.3	16.4	20.9	16.4	8.7	6.7
GDP deflator	9.8	34.6	20.1	23.5	9.7	24.2	12.0	8.0	7.0
Consumer prices (end of period)	7.6	21.3	27.7	28.3	15.1	23.8	17.3	10.0	7.7
Consumer prices (annual average)									
Investment and savings (percent of GDP)									
National savings	9.4	12.5	16.9	14.2	18.6	10.3	12.2	13.0	13.5
National investment	15.3	16.9	20.4	16.0	21.2	15.4	15.6	15.7	16.1
Saving-Investment balance	-5.9	-4.4	-3.5	-1.8	-2.6	-5.1	-3.4	-2.7	-2.5
Central government (percent of GDP on a fiscal year basis)									
Revenue	32.1	26.5	38.3	39.1	36.9	32.4	33.0	32.6	33.0
Tax and nontax revenue	24.5	22.1	24.0	24.5	27.1	28.0	27.0	27.3	27.5
Grants	7.6	4.4	14.2	14.5	9.8	4.4	6.1	5.3	5.5
Expenditure and net lending	35.0	33.4	39.6	40.5	41.1	41.0	38.9	35.4	35.4
Overall balance (excluding grants)	-10.5	-11.3	-15.6	-15.9	-13.9	-13.1	-11.9	-8.1	-8.0
Overall balance	-2.9	-6.9	-1.3	-1.4	-4.2	-8.6	-5.9	-2.8	-2.4
Foreign financing	1.3	1.6	2.6	2.7	4.9	2.8	4.0	1.8	2.0
Domestic financing	1.7	6.7	-0.2	-0.2	0.4	5.9	1.9	1.0	0.4
Discrepancy	-0.1	-1.5	-1.1	-1.1	-1.2	-0.1	0.0	0.0	0.0
Money and credit (change in percent of broad money at the beginning of the period, unless otherwise indicated)									
Money and quasi money	35.7	22.9	25.6	35.1	23.5	15.1	21.5	14.9	13.2
Net foreign assets	-7.9	9.2	17.8	26.5	4.3	15.9	8.2	7.4	3.0
Net domestic assets	43.6	13.8	7.9	8.6	19.2	-0.9	13.3	7.5	10.2
Credit to the government	19.7	0.0	16.3	11.3	-7.5	-10.4	6.1	-0.9	-2.1
Credit to the rest of the economy (percentage change)	30.1	22.4	7.8	14.4	37.0	20.5	17.6	18.1	19.0
External Sector (US\$ millions, unless otherwise stated)									
Exports (goods and services)	1408.7	1359.3	1499.2	1624.0	1631.1	1746.0	1847.0	2049.0	2156.0
Imports (goods and services)	2236.2	2259.1	2260.3	2313.0	2460.8	2381.0	2523.0	2754.0	2899.0
Usable gross official reserves	190.2	215.4	403.0	397.0	453.1	599.0	698.0	791.0	817.0
(months of imports)	1.0	1.1	2.0	2.0	2.0	2.9	3.0	3.3	3.4
(percent of reserve money)	42.5	72.0	120.8	108.3	117.8	131.5	119.7	122.3	110.9
Current account (percent of GDP)	-5.9	-4.4	-3.5	-1.8	-2.6	-5.1	-3.4	-2.7	-2.5
Current account excl official transfers(percent of GDP)	-12.2	-18.6	-16.4	-15.0	-16.8	-11.7	-11.1	-10.3	-9.9
Overall balance (percent of GDP)	-1.9	0.9	2.4	4.4	6.4	4.3	1.5	1.7	1.4
Terms of trade (percent of GDP)	-17.5	-2.2	0.3	0.6	2.5	2.1	8.1	-3.5	-2.2
Debt Stock and service (percent of GDP, unless otherwise indicated)									
External debt (public sector)	16.9	37.4	41.5	44.0	38.9	47.3	35.3	34.1	31.9
NPV of debt (percent of exports)	48.1	53.3	49.4	78.9	44.5	90.4	8.2	85.0	75.4
Domestic Public debt	23.1	19.5		28.1		28.5	25.0	22.8	18.8
Total public debt	40.0	57.2		72.1		75.8	60.2	56.9	50.7
External debt service (percent of exports)	1.6	2.4	2.7	4.6	4.0	4.7	8.0	13.2	8.3
External debt service (percent of exports excl. grants)	1.7	3.9	5.0	7.5	6.1	7.1	11.3	17.4	9.8
91 day treasury bill rate (end of period)	6.8	20.1		32.3		26.9			

Sources: Malawian authorities and IMF staff estimates

Appendix 7: GDP—MALAWI (source: EIU)



Appendix 8: CONTRIBUTION TO GDP BY SECTOR



Source: National Statistics Office, Reserve Bank, Ministry of Finance and Ministry of Economic Planning and Development

Appendix 9: MALAWI ECONOMIC GROWTH (Source: EIU)

Economic growth

%	2018 ^a	2019 ^b	2020 ^b	2021 ^b	2022 ^b	2023 ^b
GDP	2.1	3.9	4.9	4.5	4.8	4.6
Private consumption	-3.3	4.0	5.2	4.3	5.0	4.7
Government consumption	1.1	4.3	3.8	3.9	4.2	4.3
Gross fixed investment	3.1	5.7	6.1	5.4	6.3	6.4
Exports of goods & services	1.0	4.4	4.8	4.5	5.0	4.5
Imports of goods & services	8.7	4.8	4.2	4.1	4.7	4.5
Domestic demand	0.8	4.4	4.2	4.1	4.5	4.6
Agriculture	-2.2	2.6	5.5	4.4	4.8	4.5
Industry	2.2	4.6	4.1	4.7	5.4	5.2
Services	4.3	4.4	4.9	4.5	4.7	4.5

^a Economist Intelligence Unit estimates. ^b Economist Intelligence Unit forecasts.

Appendix 10: MALAWI PROJECTIONS PER SECTOR (SOURCE: RBM)

	2013	2014	2015	2016	2017*	2018*	2019*
A. Agriculture.....	6.2	6.3	(1.0)	(0.1)	6.3	0.1	5.8
B. Mining and Quarrying.....	6.9	(4.6)	1.1	0.4	1.6	2.3	2.7
C. Manufacturing.....	5.6	6.3	3.8	1.3	1.8	3.6	5.1
D. Utilities.....	5.5	3.0	2.4	0.1	2.7	5.2	5.5
E. Construction.....	2.0	4.8	3.5	3.4	4.8	5.3	5.8
F. Wholesale and retail.....	7.9	6.3	4.9	2.3	5.3	5.5	6.0
G. Transport and storage.....	5.3	4.5	4.3	4.9	6.0	5.5	5.8
H. Accommodation and food service activities.....	5.1	5.9	5.1	5.7	4.2	4.6	4.9
I. Information and communication.....	7.5	12.2	8.6	5.0	6.4	5.5	6.1
J. Financial and Insurance activities.....	3.8	5.5	5.6	5.9	6.7	6.1	4.8
K. Real estate activities.....	2.5	3.7	1.9	3.1	3.9	3.7	2.7
M. Public administration and defence.....	2.7	5.1	6.3	6.2	6.7	6.1	7.2
GDP in 2010 constant prices.....	6.3	6.2	3.3	2.7	5.1	4.0	6.0

Source: Reserve Bank of Malawi, National Statistics Office, Ministry of Finance and Development Planning

GLOBAL PROJECTIONS (Source: EIU)

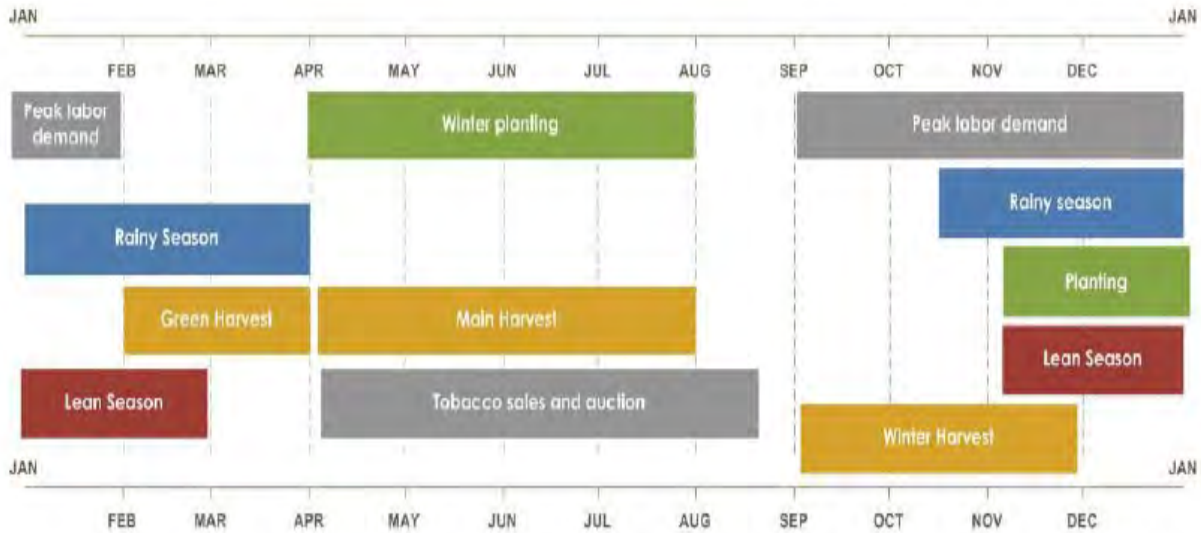
	2018	2019	2020	2021	2022	2023
Economic growth (%)						
US GDP	2.9	2.2	1.3	1.7	2.0	1.9
OECD GDP	2.3	2.0	1.5	1.8	1.9	1.9
World GDP	3.0	2.7	2.5	2.7	2.8	2.7
World trade	4.0	3.4	2.8	3.9	3.7	3.9
Inflation indicators (% unless otherwise indicated)						
US CPI	2.6	2.4	1.6	1.8	1.7	1.8
OECD CPI	2.5	2.5	2.0	2.0	2.0	2.0
Manufactures (measured in US\$)	6.3	3.6	3.0	2.4	3.6	3.0
Oil (Brent; US\$/b)	73.2	75.5	70.3	74.8	77.4	76.1
Non-oil commodities (measured in US\$)	2.4	0.0	2.6	1.9	1.5	0.6
Financial variables						
US\$ 3-month commercial paper rate (av; %)	2.1	2.9	2.5	2.6	2.9	3.2
US\$:€ (av)	1.18	1.19	1.21	1.21	1.24	1.24
¥:US\$	110.12	111.41	108.59	104.88	100.46	96.08

Appendix 11: PROJECTIONS

GLOBAL PROJECTIONS (Source: IMF)

	Average 2000-09	2010	2011	2012	2013	2014	2015	2016	2017	Projections		
World	3.9	3.4	4.3	3.3	3.3	3.6	3.3	3.3	3.7	3.7	3.7	3.6
Advanced Economies	1.8	3.1	1.7	1.2	1.4	2.1	2.3	1.7	2.3	2.4	2.1	1.9
United States	1.9	2.6	1.6	2.2	1.8	2.5	2.9	1.6	2.2	2.9	2.6	1.4
Euro Area	1.4	2.1	1.6	-0.9	-0.2	1.4	2.1	1.9	2.4	2.0	1.9	1.4
Japan	0.5	4.2	-0.1	1.3	2.0	0.4	1.4	1.0	1.7	1.1	0.9	0.5
Other Advanced Economies ²	2.8	4.6	3.0	1.9	2.4	2.9	2.1	2.1	2.6	2.4	2.2	2.1
Emerging Market and Developing Economies	6.1	7.4	6.4	5.3	5.1	4.7	4.3	4.4	4.7	4.7	4.7	4.8
Regional Groups												
Commonwealth of Independent States ³	3.9	4.6	5.3	3.7	2.5	1.1	-1.9	0.4	2.1	2.3	2.4	2.1
Emerging and Developing Asia	8.1	9.6	7.9	7.0	6.9	6.8	6.8	6.6	6.6	6.5	6.3	6.1
Emerging and Developing Europe	4.0	4.3	6.6	2.5	4.9	3.9	4.7	3.3	6.0	3.8	2.0	2.7
Latin America and the Caribbean	3.0	6.1	4.8	2.9	2.9	1.3	0.3	-0.6	1.3	1.2	2.2	2.9
Middle East, North Africa, Afghanistan, and Pakistan	3.2	4.6	4.4	4.8	2.6	2.9	2.5	5.1	2.2	2.4	2.7	3.0
Middle East and North Africa	3.2	4.8	4.5	4.9	2.4	2.7	2.4	5.2	1.8	2.0	2.5	3.0
Sub-Saharan Africa	3.6	7.1	5.1	4.6	3.2	3.1	3.3	1.4	2.7	3.1	3.8	4.1
Memorandum												
European Union	1.7	2.0	1.8	-0.3	0.3	1.9	2.4	2.0	2.7	2.2	2.0	1.6
Low-Income Developing Countries	6.3	7.4	5.1	4.6	6.1	6.1	4.7	3.6	4.7	4.7	5.2	5.4
Analytical Groups												
By Source of Export Earnings												
Fuel	5.7	5.1	5.2	5.0	2.6	2.2	0.3	1.9	0.9	1.2	1.9	2.0
Nonfuel	6.2	8.0	6.7	5.4	5.7	5.3	5.2	4.9	5.8	5.4	5.2	5.3
Of Which, Primary Products	3.8	6.8	4.9	2.3	4.2	2.1	2.8	1.7	2.8	1.6	2.1	3.6
By External Financing Source												
Net Debtor Economies	4.9	6.9	5.4	4.2	4.8	4.6	4.2	3.8	4.7	4.8	4.8	5.2
Net Debtor Economies by Debt-Servicing Experience												
Economies with Arrears and/or Rescheduling during 2013-17	4.7	4.2	2.7	1.5	3.2	1.9	1.0	2.8	3.2	3.9	4.4	5.0
Memorandum												
Median Growth Rate												
Advanced Economies	2.4	2.3	1.9	1.0	1.5	2.5	2.0	2.2	2.9	2.8	2.5	1.9
Emerging Market and Developing Economies	4.5	4.6	4.7	4.2	4.3	3.8	3.3	3.2	3.4	3.5	3.7	3.7
Low-Income Developing Countries	5.9	6.4	6.1	5.1	5.3	4.8	3.9	4.2	4.5	4.0	4.8	5.0
Output per Capita⁴												
Advanced Economies	1.1	2.5	1.1	0.7	0.9	1.6	1.7	1.2	1.9	1.9	1.7	1.1
Emerging Market and Developing Economies	4.4	5.9	4.9	3.6	3.6	3.2	2.8	2.9	3.2	3.3	3.3	3.6
Low-Income Developing Countries	3.7	5.0	3.5	1.6	2.7	3.8	2.3	1.2	2.4	2.4	3.0	3.2
World Growth Rate Based on Market Exchange Rates	2.6	4.1	3.1	2.5	2.6	2.8	2.8	2.5	3.2	3.2	3.1	2.8
Value of World Output (billions of US dollars)												
At Market Exchange Rates	46,626	68,011	73,230	74,619	76,750	78,832	74,802	75,653	80,051	84,835	88,081	108,712
At Purchasing Power Parities	66,722	89,402	95,018	99,891	105,088	110,806	115,729	120,893	127,489	135,236	143,089	177,424

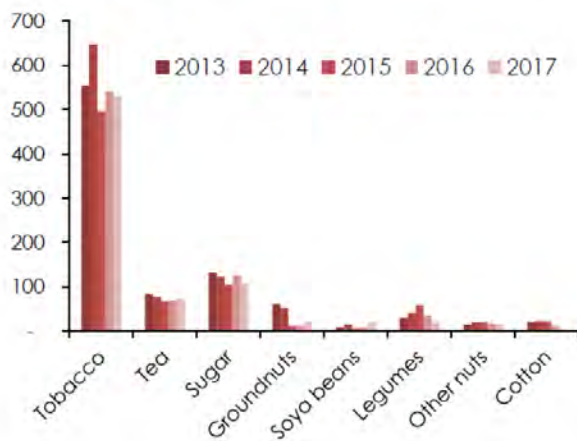
Appendix 12: SEASONAL CALENDAR FOR A TYPICAL YEAR



Source: FEWS NET

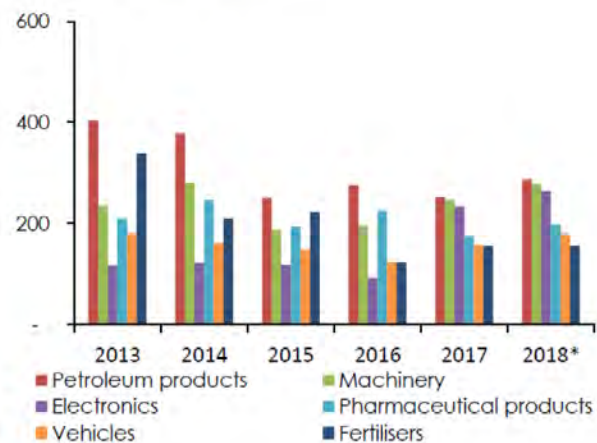
APPENDIX 13: MALAWI'S MAIN EXPORT AND IMPORT COMMODITIES (Source: World Bank)

Figure 21: The export base is highly concentrated
United States Dollar, Millions



Source: World Bank Staff calculations based on ITC/NSO data

Figure 22: Petrol and diesel dominate imports
United States Dollar, Millions



Source: World Bank Staff calculations based on ITC/NSO data

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