



**Invest Today
for Tomorrow**

ANNUAL ECONOMIC REPORT

2016



Investment Management | Corporate Finance | Investor Services | Infrastructure Development

LIST OF ACRONYMS

AfDB:	African Development Bank
CEPA:	Centre for Environmental Policy and Advocacy
CPI:	Consumer Price Index
DSI:	Domestic Share Index
ECB:	European Central Bank
ECF:	Extended Credit Facility
EIU:	Economist Intelligence Unit
ESCOM:	Electricity Supply Corporation of Malawi
EUR:	Euro
FEWS NET:	Famine Early Warning Systems Network
FISP:	Farm Input Subsidy Program
FSI:	Foreign Share Index
GBP:	British Pound
GDP:	Gross Domestic Product
IMF:	International Monetary Fund
IPP:	Independent Power Producers
MASI:	Malawi All Share Index
MK:	Malawi Kwacha
MPC:	Monetary Policy Committee
MSE:	Malawi Stock Exchange
MT:	Metric Tonnes
MRA:	Malawi Revenue Authority
NRJN:	Natural Resources Justice Network
NSO:	National Statistical Office
OECD:	Organization for Economic Co-operation and Development
OMO:	Open Market Operations
OPEC:	Organization of the Petroleum Exporting Countries
RBM:	Reserve Bank of Malawi
Rmb:	Chinese Renminbi
TB:	Treasury Bills
TCC:	Tobacco Control Commission
TSH:	Tanzania Shillings
UGX:	Ugandan Shillings
UK:	United Kingdom
US:	United States of America
US\$:	United States Dollar
ZAR:	South African Rand
ZMK:	Zambian Kwacha

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EXECUTIVE SUMMARY

Economic Outlook- Malawi

- ⇒ The Kwacha is expected to continue depreciating during the lean season as a result of low inflow of foreign currency due to poor performance of tobacco exports, low levels of investment, persistently high inflation and the strengthening of the U.S Dollar. In the medium to long term the currency will depreciate on account of the significant current account deficit and weak investment inflows due to poor tobacco exports and low forex reserves.
- ⇒ Inflation is expected to remain subdued in the short term due to the continued slowdown in food price increases, but may increase due to rising global oil prices which may add pressure to non-food inflation. The EIU expects inflation to average 20.20% in 2017.
- ⇒ Interbank rates are expected to remain unstable due to the volatility of liquidity levels. Treasury bill yields are expected to remain around the same level of monetary policy rate plus a premium. Commercial banks have decreased their base lending rates in response to the decrease in the monetary policy rate of 24%. Base lending rates are expected to remain subdued in the short term due to the stability of the monetary policy rate.
- ⇒ The corruption and theft of government funds scandals affected the relationship and future donor aid with donor countries.
- ⇒ Real GDP growth has been forecasted upwards to 3.9% in 2017 from 2.5% in 2016. Growth is expected to recover in 2017 as agricultural production improves and Malawi begins to diversify its export base. However there are significant downside risks as indicated below.

Key Economic Risks-Malawi

- ⇒ Insufficient power supply—will lead to lower productivity and dampen economic growth.
- ⇒ High interest rates—may lead to high loan defaults and slow down in private sector investment.
- ⇒ Increase in government expenditure— leading to an increase in the fiscal deficit which may lead to increased government borrowing and cost push inflation.
- ⇒ High government debt levels—create a future obligation for government to repay the debt plus interest.
- ⇒ Persistently weak export base—affects the Kwacha's stability against the major currencies as import values exceed export values.
- ⇒ Adverse weather conditions—may result in lower agricultural output and lead to food shortages.

EXECUTIVE SUMMARY (Continued...)

Economic Highlights For 2016—Malawi

- ⇒ Inflation decreased to an average of 21.8% in 2016 from an average of 21.9% in 2015 (Source: NSO).
- ⇒ The average Treasury bill yield increased to 27.87% in 2016 from 23.96% in 2015 (Source: RBM).
- ⇒ In 2016, the Malawi Kwacha depreciated against the US Dollar, the Euro and South African Rand. As at 31 December 2016, the Kwacha was trading at MK728.62:US\$1 (8.32% depreciation), MK893.83:GBP1 (10.40% appreciation), MK52.81:ZAR1 (21.65% depreciation) and MK766.03:EUR1 (4.60% depreciation) (Source: RBM).
- ⇒ Total forex reserves decreased to US\$943.54 million as at 31 December 2016 (4.51 months worth of import cover) from US\$1,007 million (4.82 months worth of import cover) as at 31 December 2015 (Source: RBM).
- ⇒ The stock market was bearish during the year with the MASI decreasing by 8.53% to settle at 13,320.51 points from 14,562.53 points previous year due to share price losses in Illovo, MPICO, National Bank of Malawi, NBS Bank, NICO and NITL despite share price gains in BHL, FMB, PCL, Standard Bank, Sunbird, TNM and Old Mutual (Source: MSE).
- ⇒ Liquidity levels decreased in 2016 averaging K7.47 billion per day compared to K10.22 billion per day in 2015. Access on the Lombard Facility (discount window borrowing) averaged K7.04 billion in 2016 from K4.22 billion in 2015 (Source: RBM).
- ⇒ In 2016, a total of 195.12 million kilograms of tobacco was sold on the auction floors at an average price of US\$1.42 per kilogram resulting in total revenues of US\$276.39 million compared to US\$337.40 million in 2015 (18% decrease) (Source: TCC).
- ⇒ The Malawi Vulnerability Assessment Committee (MVAC) released a report which shows that 6.4 million people will not be able to meet their minimum food requirements during the 2016/17 consumption year. The national maize requirement was estimated at 3.2 million metric tonnes (Source: Ministry of Finance).
- ⇒ The International Monetary Fund (IMF) mission visited Malawi four times in 2016. The mission has stated that they made good progress with the authorities on establishing new macroeconomic targets for 2016 in order to safeguard macroeconomic policy implementation in the face of rising risks from the humanitarian crisis. In December 2016, they conducted discussions on the ninth review of Malawi's economic performance under the Extended Credit Facility (ECF) and have extended the program to June 2017 (Source: IMF).
- ⇒ The Monetary Policy Committee (MPC) met four times during the year. The Liquidity Reserve Requirement (LRR) was maintained at 7.5% throughout the year, and the monetary policy rate was adjusted downward to 24% from 27% in November 2016. Commercial bank base lending rates declined to 33.30% in 2016 from 36.19% in 2015 (Source: RBM).
- ⇒ The Reserve Bank of Malawi has introduced a K2,000 banknote in line with recent economic developments as well as the Bank's strategy towards minimizing currency issuance costs, saving foreign exchange and increasing operational efficiency (Source: RBM).
- ⇒ Malawi Revenue Authority has collected a cumulative total of K377.08 billion against a target of K339.15 billion during the first half of the 2016/17 fiscal year. Total revenue collection for the 2016/17 fiscal year has been targeted to K774.80 billion from K653.90 billion the previous year (Source: MRA).

1. ECONOMIC OVERVIEW

Inflation

Inflation averaged 21.8% in 2016, a marginal decrease from 21.9% in 2015 (Source: NSO). This was due to a slowdown in non-food inflation. Food inflation rose to an average of 26.7% in 2016 from 24.0% the previous year as a result of high food prices due to the maize deficit and low agricultural production. Food accounts for 50% of the inflation basket. While non-food inflation was low at an average of 17.1% from 19.9% in 2016 due to the slump in global oil prices which was a result of global over supply and slowing demand.

Average	2016	2015	Change
Headline inflation	21.8%	21.9%	↓ -0.10%
Food	26.7%	24.0%	↑ 2.70%
Non-food	17.1%	19.9%	↓ -2.80%
Urban	17.8%	19.8%	↓ -2.00%
Rural	24.7%	24.1%	↑ 0.60%

Government Securities

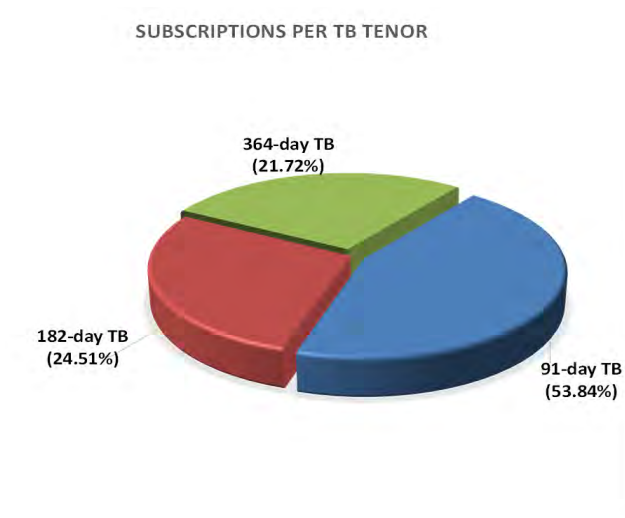
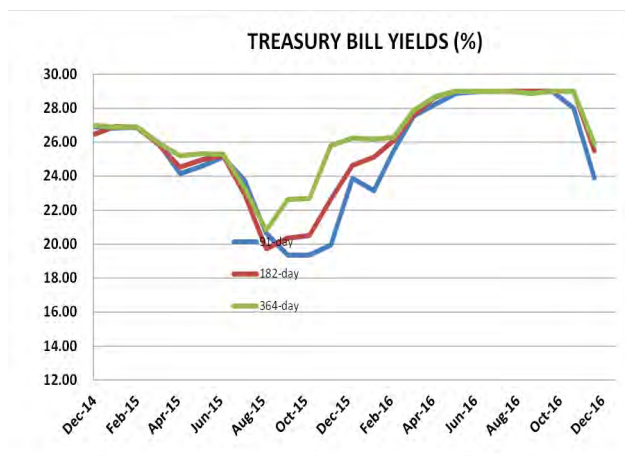
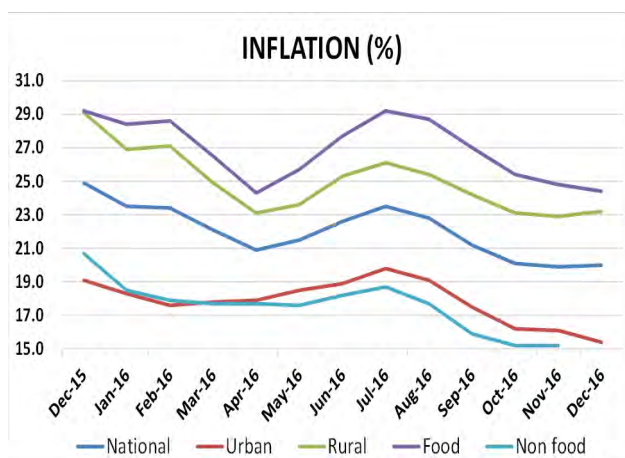
During the year 2016, Treasury Bill yields increased on all the tenors. The All Type Treasury bill yield increased to 27.87% from 23.96% in 2015. Treasury bill yields reached a high of 29% from July to October 2016 when RBM was allotting Treasury bills at the monetary policy rate plus 200 basis points (Source: RBM).

Average	2016	2015	Change
91-day	27.51%	23.37%	↑ 4.14%
182-day	27.99%	23.76%	↑ 4.23%
364-day	28.15%	24.75%	↑ 3.40%
All type yield	27.87%	23.96%	↑ 3.91%

Total applications for Treasury bills for 2016 decreased by 17% to K427 billion while total allotments decreased by 2% to K367 billion as summarized in the table below:

	2016	2015
Applications (K'billions)	427	509
Allotments (K'billions)	367	376
Rejection Rate	14%	26%

Total domestic debt increased by 43% to K757.2 billion during the third quarter of 2016 from K528.0 billion as at the close of 2015. The 91 days paper accounted for the highest subscription rate at 53.84%, followed by the 182 days paper at 24.51% and the 364 days paper at 21.72% (Source: RBM).



1. ECONOMIC OVERVIEW (Continued...)

Foreign Currency Market

In 2016, the Malawi Kwacha depreciated against the US Dollar, the Euro and the South African Rand but appreciated against the British Pound. The appreciation against the British Dollar was due to the effects of Brexit which led to the slump in the value of the British Pound. The depreciation against the other major currencies was due to low inflow of foreign currency, poor tobacco exports and the strengthening of the US Dollar.

The Kwacha recorded a depreciation of 8.32% in December 2016 against the US Dollar compared to a 42.89% depreciation recorded in 2015 (Source: RBM).

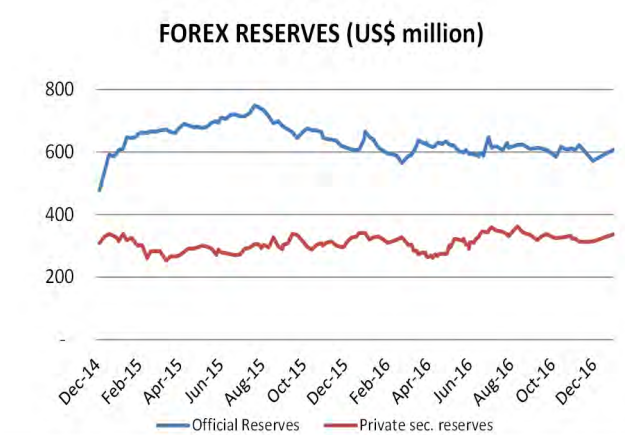
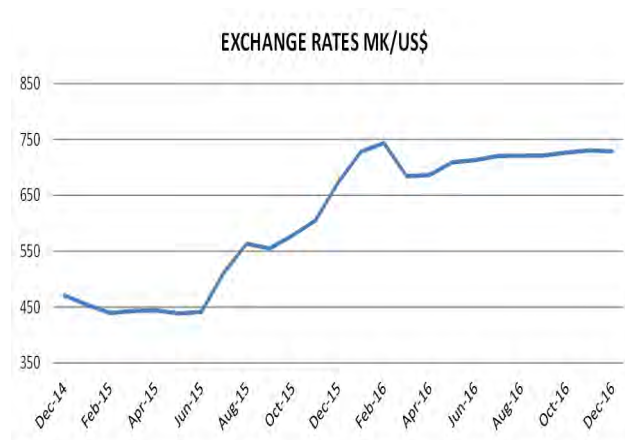
CURRENCY	Dec-16	Dec-15	% Movement 12 months
MK/US Dollar	728.62	672.68	↓ -8.32%
MK/GBP	893.83	997.53	↑ 10.40%
MK/ZAR	52.81	43.41	↓ -21.65%
MK/EUR	766.03	732.37	↓ -4.60%

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

	2016	2015	2014	2013	2012
MK/US Dollar	728.62	672.68	470.78	435.23	335.13
Year on Year Movement	-8.32%	-42.89%	-8.17%	-29.87%	-104.66%

Total foreign exchange reserves as at 31 December 2016 decreased to US\$943.54 million (4.51 months worth of import cover) from US\$1,007 million (4.82 months of import cover) on 31 December 2015. Of the total reserves, US\$606.96 million was gross official reserves (2.90 months of import cover) and US\$336.61 million was with the private sector reserves (1.61 months of import cover).

Exports totaled US\$1.36 billion as compared to imports of US\$2.33 billion in 2016. The low export volumes were due to the poor performance of the tobacco season which led to the reduced inflows of foreign currency hence the decline in foreign reserves (Source: RBM).



	31-Dec-16		31-Dec-15	
	(US\$ million)	Cover	(US\$ million)	Cover
Gross Official	607	2.90	666	3.19
Private Sector	337	1.61	341	1.63
Total	944	4.51	1,007	4.82

1. ECONOMIC OVERVIEW (Continued...)

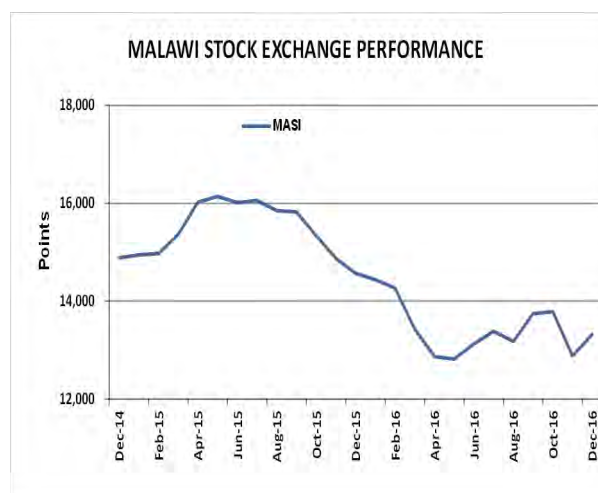
Stock Market

The stock market was bearish in 2016 with the Malawi All Share Index (MASI) decreasing by 8.53% to settle at 13,320.51 points from 14,562.53 points in 2015. The largest 3 losers were NBS Bank (73.91% decrease), NICO (39.29% decrease) and NITL (38.18% decrease). The largest 3 gainers were Sunbird (154.35% increase), BHL (109.38% increase) and FMB (21.43% increase). The share price gains were not able to offset the share losses, leading to a downward movement in the MASI. During the period the Domestic Share Index (DSI) decreased by 8.78% to 10,456.92 points while the Foreign Share Index (FSI) increased by 14.98% to 2,026.07 points.

The stock market performance has been unimpressive in 2016. The MASI has been fluctuating throughout the year. The market transacted a total of 410,895,390 shares at a total consideration of K6.20 billion in 913 trades. This is a significant drop from a total of 2,355,317,369 shares traded in 2015 at a total consideration of K48.59 billion in 1,220 trades. This reflects a 82.55% decline in share volume and a 87.25% decline in share value. Britam Insurance Company Limited officially delisted on 18 April 2016.

The dividend yield for the MASI closed at 5.21% in 2016 from 3.99% in 2015. The PE ratio decreased to 8.48 in 2016 compared to 11.77 in 2015. On the other hand, the Price to Book ratio decreased to 0.90 in 2016 from 1.16 in 2015 (Source: MSE)

	2016	2015	Change
Traded Value (K'billions)	MK6.20	MK48.59	↓ -87.25%
Traded Volume (Number of shares)	410,895,390	2,355,317,369	↓ -82.55%
Number of Transactions	913	1,220	↓ -25.16%
Price to Earnings Ratio	8.48	11.77	↓ -27.95%
Price to Book Value Ratio	0.90	1.16	↓ -22.41%
Dividend Yield (Percentage)	5.21	3.99	↑ 30.58%
Malawi All Share Index (Points)	13,320.51	14,562.53	↓ -8.53%



	Dec-16	Nov-16	Dec-15	Change (1 month)	Change (12 months)
	MK/Share	MK/Share	MK/Share	%	%
BHL	20.10	20.10	9.60	0.00% ↑	109.38%
FMB	17.00	17.00	14.00	0.00% ↑	21.43%
ILLOVO	160.00	160.00	230.00	0.00% ↓	-30.43%
MPICO	7.83	8.24	8.20	-4.98% ↓	-4.51%
NBM	237.12	215.00	258.00	10.29% ↓	-8.09%
NBS	6.00	6.00	23.00	0.00% ↓	-73.91%
NICO	17.00	17.00	28.00	0.00% ↓	-39.29%
NITL	34.00	39.00	55.00	-12.82% ↓	-38.18%
PCL	540.00	540.00	535.00	0.00% ↑	0.93%
STANDARD	500.00	499.88	440.00	0.02% ↑	13.64%
SUNBIRD	58.50	58.50	23.00	0.00% ↑	154.35%
TNM	6.05	5.00	6.00	21.00% ↑	0.83%
OML	1,612.00	1,612.00	1,402.00	0.00% ↑	14.98%
MASI	13,320.51	12,875.85	14,562.53	3.45% ↓	-8.53%
DSI	10,456.92	10,103.29	11,462.87	3.50% ↓	-8.78%
FSI	2,026.07	2,026.07	1,762.13	0.00% ↑	14.98%

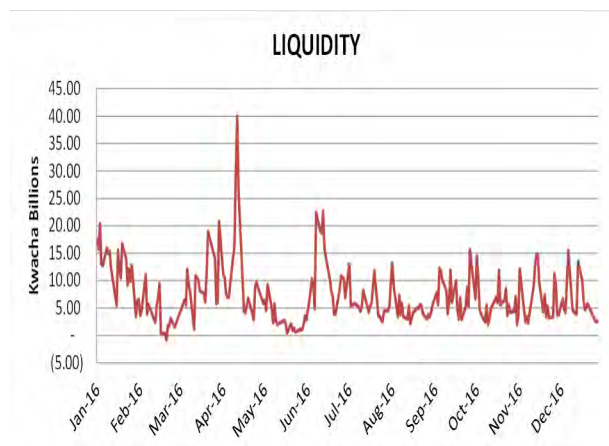
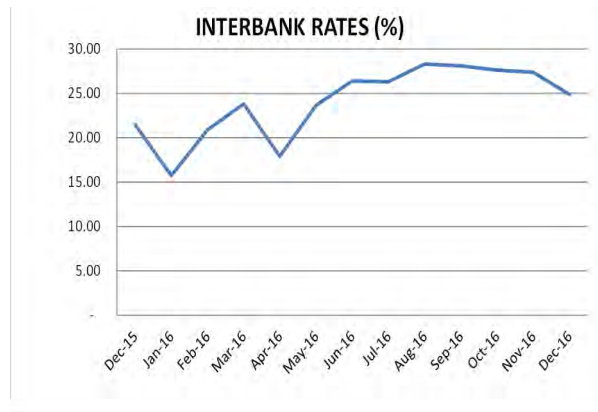
1. ECONOMIC OVERVIEW (Continued...)

Interbank Markets and Interest Rates

Liquidity levels decreased in 2016 averaging K7.47 billion a day compared to K10.22 billion a day in 2015. Liquidity levels have been erratic in the year under review reaching a high of K39.98 billion in April 2016 and a low of negative K0.82 billion in February 2016. Liquidity levels were tight in the first quarter of 2016 due to high volumes of access on the Lombard Facility (Discount Window Borrowing). However, liquidity levels rose in April 2016 around the opening of the tobacco season. Afterwards, liquidity levels in the banking system have not been stable. However, the Reserve Bank of Malawi's active market interventions and tight monetary policy have helped to absorb liquidity leading to the decline of liquidity in 2016.

The Monetary Policy rate was adjusted downwards to 24% in November 2016 from a previous rate of 27%. Before this revision, the monetary policy rate was stable at 27% in the first 10 months of the year. The revision of the monetary policy rate led to a reduction in base lending rates for commercial banks. Commercial banks base lending rates ranged between 32.0% and 35.0% in December 2016 (2015: between 34.0% and 38.0%). Despite the reduced base lending rates, interest rates are still high which is a reflection of the low levels of competition and increased credit risks in the banking sector.

Access on the Lombard facility increased to an average of K7.04 billion from K4.22 billion in 2015. This is due to an increase in borrowing by commercial banks. Overnight borrowing between banks increased to an average of K5.24 billion from K4.29 billion in 2015. Interbank rates averaged 23.90% in 2016 from 15.16% in 2015. (Source: RBM).



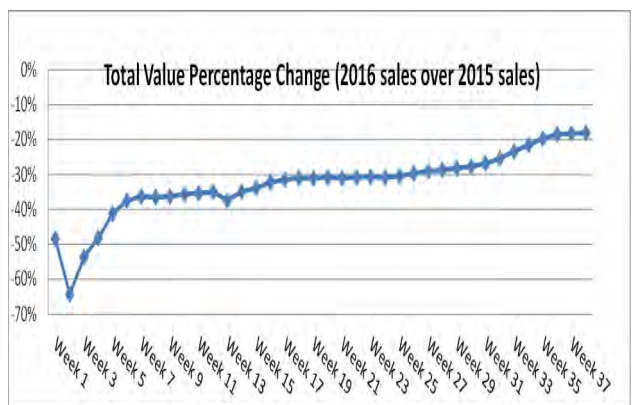
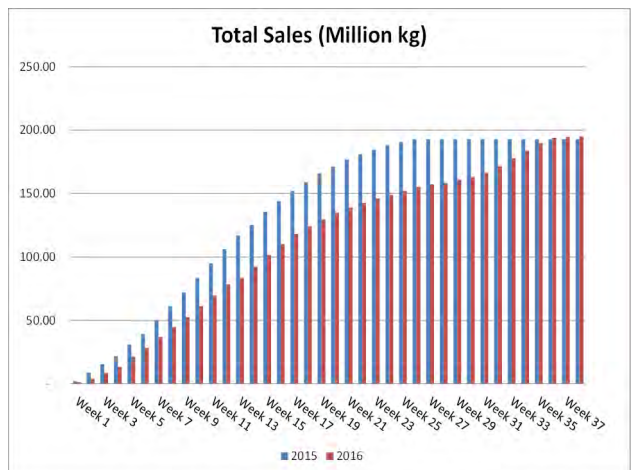
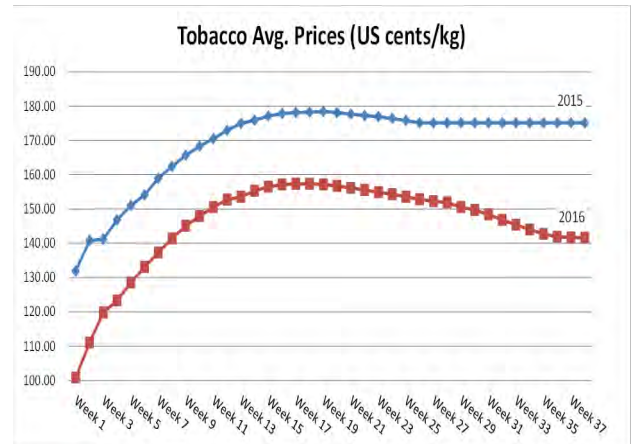
1. ECONOMIC OVERVIEW (Continued...)

Tobacco Market Update (Source: Tobacco Control Commission)

The 2016 tobacco market commenced on 13 April 2016, three days later than the previous season. The season lasted for 37 weeks due to high rejection rates while in 2015 the tobacco season lasted for 26 weeks. In the 2016 tobacco marketing season, revenues totaled US\$276.39 million from the previous year's US\$337.40 million (a 18% decrease) selling at an average price of US\$1.42 per kilogram (2015: US\$1.75 per kilogram representing a 19% decrease). A total of 195.12 million kilograms of tobacco were sold on all the auction floors in the 2016 market compared to 192.69 million kilogram in 2015 (a 1% increase) (Source: Tobacco Control Commission).

There have been two extra clearance sales from 9 to 12 January 2017 after the initial season closed. A total of 437,744 kilograms were sold at a value of US\$535,601 and an average price of US\$1.42 per kilogram.

The poor tobacco sales during the season were a result of the impact of the drought on tobacco quality, low global commodity prices and the poor economic performance of Malawi's key trade partners. The decline in tobacco sales has been particularly significant for auctioned tobacco than tobacco grown on contract. Malawi's limited degree of export diversification leaves the country vulnerable to exposure to risks such as the decline in commodity prices. Global demand in tobacco has also gone down, hence the low prices. Over production of tobacco has also been a problem in Malawi. Despite the recent drought, tobacco volumes still remained high but prices were significantly low and this reduced the value of sales realized during the season.



	2016	2015	% CHANGE
Volume (KG) Millions	195.13	192.69	1.27%
Value (US\$) Millions	276.39	337.40	-18.08%
Average Price (US Cents/Kg)	141.65	175.10	-19.10%

Type of Leaf	Volume (KG) million			Value (US\$) million			Average Price (US\$/Kg)		
	2016	2015	% Change	2016	2015	% Change	2016	2015	% Change
Burley	174.90	168.25	3.95%	226.22	280.21	-19.27%	1.29	1.67	-22.75%
Flue Cured	17.56	23.06	-23.86%	44.86	54.20	-17.23%	2.55	2.35	8.51%
NDDF	2.50	1.30	91.54%	4.95	2.82	75.75%	1.99	2.16	-7.87%
SDF	0.17	0.08	114.16%	0.36	0.17	105.67%	2.14	2.22	-3.60%
All Tobacco	195.13	192.69	1.26%	276.39	337.40	-18.08%	1.42	1.75	-18.86%

2. OTHER MARKET DEVELOPMENTS

Results of the Food Security Vulnerability Assessment (Source: Ministry of Finance, World Bank)

In a press statement, the Ministry of Finance, Economic Planning and Development released the results of the annual food security assessment exercise carried out in May 2016 through the Malawi Vulnerability Assessment Committee (MVAC). The results show that a total of 6.5 million people (39% of the population) will not be able to meet their annual food requirement during the 2016/17 consumption year. This represents an increase of 129% compared to the vulnerable population of 2,833,212 people in the 2015/2016 consumption year. The increase has been as a result of dry spells due to the effects of El Nino which has devastated the country. The on-set of planting rains was on time in the Northern Region but delayed for a period of about 3 weeks in Central Region and 4 weeks in the Southern Region.

Malawi's total maize output stood at 2,431,313 metric tons which was well below the 3,215,135 metric tons required to meet national needs for food consumption, seed, stock feed and industrial use. This brings a total deficit of 783,822 metric tons in the 2016/17 season compared to the deficit of 233,000 metric tons recorded in the previous year. The cumulative impact of the two years of drought in economic terms is estimated to amount the losses of US\$295.5 million, which is equal to 5.6% of Malawi's GDP.

Food Security Update (FEWS Net)

In April 2016, the Malawi government declared a state of disaster in the face of a second consecutive year of food insecurity. The size of the food insecure grew substantially, and the declaration assisted in the mobilization of resources for emergency recovery programming and humanitarian assistance. Foreign donors rushed to help and poor households started receiving assistance. As at November 2016, about 5.7 million people were expected to receive humanitarian assistance. Harvests were delayed in some parts of the country and access to green harvests were limited due to poor cropping conditions. Rain-fed maize production for the 2016/17 consumption year was estimated to drop by about 30% as a result of the El Nino weather condition.

Malawi's formal and informal maize imports levels in the 2016/2017 consumption year have been too low to satisfy the estimated deficit for the current consumption year. Only about 150,000 metric tonnes formal maize imports mainly from Zambia has been assured. Despite some import deals reported to have been made, imported maize inflows have been minimal, raising uncertainty as to the capacity of ADMARC to satisfy maize grain demand to the end of the consumption year. The volumes of informal maize trade have also reduced.

Average maize grain prices are still very high and are 127% higher than the previous year prices. ADMARC opened in late October 2016 and began selling subsidized maize at K250/kg from K110 the previous marketing season. Despite being abnormally high, national maize grain prices were stable towards the end of the year. The price stability was attributed to the high number of households benefitting from humanitarian assistance.

The rainy season in Malawi has been slow as some regions have been delayed by up to one month. This delay of the season will likely extend the lean season by one month as the maize harvest will also be delayed. With a seasonal forecast of normal to above normal rainfall, food consumption is expected to improve in late February to May 2017 as most households start consuming green foods which could substantially improve food access. Poor households will also benefit from planting and weeding labour opportunities as the agricultural season comes to a peak.

2. OTHER MARKET DEVELOPMENTS (Continued...)

IMF IN MALAWI (Source: IMF)

March 2016

The International Monetary Fund (IMF) Executive Board conducted discussions on the seventh and eighth reviews of Malawi's economic performance under the Extended Credit Facility (ECF) arrangement in March 2016. They stated that the local authorities demonstrated concerted effort to put the program back on track. Reforms in the financial sector were carried out as planned and improvements in public financial management needed to be sustained. They also stated that restoring macroeconomic stability by bringing inflation down to single digits would remain the most important policy challenge in the near term. This would only be achieved through prudent fiscal policy combined with a tight monetary stance. The IMF also underscored the need to mobilize domestic revenues in line with Malawi's sustainable development goals by broadening tax base and strengthening tax compliance.

June 2016

The International Monetary Fund (IMF) Executive Board completed the seventh and eighth reviews under Malawi's ECF arrangement and approved US\$76.8 million immediate disbursement. This brought total disbursement under the arrangement to about US\$169.1 million as at June 2016. In completing the reviews, the Board approved authorities' request for an extension of the current ECF arrangement to end December 2016. The requested extension would give authorities more time to achieve the original objectives of the program while the additional financing would help to strengthen the country's response to the El Nino induced drought which has caused a humanitarian crisis. The Board also approved authorities request for waivers of non-observance of performance criteria related to net domestic borrowing by the government and net international reserves. They stated that authorities have strengthened macroeconomic policies and stepped up the implementation of structural reforms over the past year to bring the program back on track. Malawi's macroeconomic situation remained difficult and this contributed to persistently high inflation. Short term risks were adverse weather conditions, lower global demand for Malawi's exports and policy slippages which continued to weigh on the outlook. The pursuit of prudent fiscal policy was critical to safeguarding medium term fiscal and debt sustainability.

September 2016

The International Monetary Fund (IMF) Executive Board conducted discussions on the ninth review of Malawi's economic performance under the Extended Credit Facility (ECF) arrangement. They stated that the negative impact of the El-Nino induced drought continued to weigh heavily on economic activity and placed an estimated 6.5 million people at risk of food insecurity. In response to the humanitarian crisis, the Board approved the disbursement of US\$78.6 million in September 2016. Of this US\$49.2 million was explicitly intended to help the government finance imports of maize as part of the donor-coordinated humanitarian effort. Looking ahead, expenditures and commitments need to be kept within available funding to avoid the emergence of new payment arrears and increased recourse to domestic financing which would undermine the fight against inflation. The mission also stated that they made good progress with the authorities on establishing new macroeconomic targets for end-December 2016 in order to safeguard macroeconomic policy implementation in the face of rising risks from the humanitarian crisis.

December 2016

The International Monetary Fund (IMF) Executive Board approved on 5 December 2016 an extension of Malawi's arrangement under the Extended Credit Facility from December 2016 to June 2017. The extension was stated to provide additional time for the authorities to achieve the program's objectives.

2. OTHER MARKET DEVELOPMENTS (Continued...)

WORLD BANK ECONOMIC MONITOR (Source: World Bank)

In the first edition of the report which was released in May 2016, the World Bank noted that in 2015 Malawi recorded a GDP growth rate of 2.8% due to adverse weather conditions and macroeconomic instability. Flooding in the southern region followed by a country wide drought, weak fiscal discipline, low business confidence and high inflation contributed to the downward revision of economic growth. The World Bank estimated that Malawi would grow at a subdued rate of 2.6% in 2016 mainly due to poor performance of the agricultural sector. The World Bank advised on investing in agricultural resilience because risk management continues to be a significant challenge for the agricultural sector. Risks associated with drought, pests and diseases, and price volatility are the most devastating in the sector. The World Bank recommended an increase in the uptake of on-farm risk management practices, reducing price distortions and volatility, improving coordination between agencies responsible for both maize marketing and risk coping interventions. They also advised on strengthening and aligning agricultural risk management policy with broader policies for the sector's development.

In the second edition of the report which was released in October 2016, the World Bank revised Malawi's GDP growth rate to 2.5% in 2016 from 2.8% in 2015 due to drought and subsequently poor harvests for a second consecutive year. They noted that Malawi is particularly vulnerable to weather shocks and their impact had intensified over the past years and is likely to worsen with climate change. The humanitarian impact of the drought had been significant with about 40% of the population likely to experience food insecurity. Malawi's government had limited fiscal space available to respond to the humanitarian crisis and had been borrowing heavily to finance fiscal deficits.

The World Bank stated that an economic recovery may be possible in 2017 although this would require the implementation of a number of politically challenging reforms. In 2017, a higher rate of growth could be driven by increased agricultural output. However, growth recovery would be dependent on implementation of a well-managed humanitarian response and a well managed humanitarian response and careful macroeconomic management to avoid further instability. There is also a risk that a La Nina effect could result in higher than average rainfall in Malawi and trigger localized flooding that can place already strained disaster response mechanisms under further pressure.

2. OTHER MARKET DEVELOPMENTS (Continued...)

MONETARY POLICY COMMITTEE MEETINGS (Source: RBM)

The Monetary Policy Committee (MPC) of the Reserve Bank of Malawi met four times in 2016 in order to review the global and domestic economic developments and adjust the monetary policy accordingly. Minutes of the meetings were released to the general public. They have been summarized below:

18 February 2016

The policy rate was maintained at 27% and the Liquidity Reserve Requirement (LRR) at 7.5%. Real GDP growth was estimated at 5.6% in 2016 but the MPC stated that it may likely be revised considering dry spells induced by El Nino. Money supply continued to moderate to 19.1% in 2015 from 24.6% in 2014 reflecting a generally tight monetary policy stance. Government domestic borrowing amounted to K4.3 billion in the first half of the 2015/16 fiscal year ending December 2015, compared to K36.2 billion during the previous period of the last fiscal year. Efforts were also underway to align the interbank market rate with the policy rate to enhance the effectiveness of monetary policy.

29 April 2016

The policy rate was maintained at 27% and the Liquidity Reserve Requirement (LRR) at 7.5%. They revised their real GDP growth for 2016 to 5.1% from a previous projection of 5.6%. The revision took into account a contraction in agricultural production brought on by the late rains and flooding. Money supply growth in the first two months of 2016 averaged 27.0% which was above the projected nominal GDP growth for 2016 of 24.9%, an indication that demand side inflationary pressures still persist. Government debt stock with the private sector declined by K68.1 billion during the first 8 months of the 2015/16 fiscal year. As such, net government domestic borrowing during the period amounted to K23.6 billion against the ceiling of K25.0 billion.

29 July 2016

The monetary policy rate was maintained at 27% and the Liquidity Reserve Requirement (LRR) at 7.5%. Real GDP growth was expected to be subdued following two consecutive years of below par agriculture production due to unfavorable climatic conditions. The MPC observed that underlying inflationary pressures could be mitigated if the maize supply situation improved in the months ahead. Money supply growth averaged 26.3% during the first five months of 2016, slightly above the estimated nominal GDP growth for 2016 largely driven by credit to government partly for maize purchases.

24 November 2016

The policy rate was adjusted downwards to 24% from 27% and the Liquidity Reserve Requirement (LRR) was maintained at 7.5%. The adjustment was attributed to the persistently high inflation, depreciating exchange rate, drop in exports and uncertainties on food prices. The real GDP growth forecast for 2016 was revised to 2.9% from a previous estimate of 5.1%. The downward revision was mainly as a result of sluggish growth reflecting continued adverse effects of weather-related shocks that the country experienced during the 2015/16 agricultural season.

2. OTHER MARKET DEVELOPMENTS

Revision of Electricity Tariffs (Source: MERA)

In February 2016 the Malawi Energy Regulatory Authority (MERA) granted tariff increase to ESCOM based on the automatic tariff adjustment formula (ATAF). The increase in inflation and exchange rate depreciation resulted in a weighted average ATAF outcome of 15.64%, which was above the statutory $\pm 5\%$ trigger limit for adjusting the electricity tariff. Consequently, on 6 February 2016 the electricity tariff was increased by 7.5% to K57.72/kWh from K53.69/kWh. In October 2016, the MERA Board stated that implementation of ESCOM's 8.9% third tranche base tariff increase is to be deferred pending further investigation, analysis and validation of ESCOM's performance. The MERA Board has since reviewed electricity tariffs under the ATAF but resolved to maintain them at the current average of K57.72/kWh as the ATAF outcome was within the statutory limit.

THE 2016/17 Fiscal Budget Statement (Source: Ministry of Finance)

The Minister of Finance, Economic Planning and Development presented the proposed 2016/17 national budget in parliament. The national budget was increased by 23.90% to K1.14 trillion from the revised budget of K917.2 billion in 2015/16. Domestic revenue is expected to increase by 18.50% to K774.80 billion from K653.90 billion in the 2015/16 budget while grants are expected to increase by 45.50% to K190.40 billion from K130.90 billion in the previous budget. The Development Budget was increased by 57.00% to K317.40 billion from K217.50 billion while the recurrent budget was increased by 16.50% to K815.50 billion from K699.70 billion in 2015/16. K3.5 billion was meant to be extended as credit to university students and ward counselors. The budget deficit increased by 29.30% to K171.20 billion from K132.40 billion in the previous budget.

Net domestic borrowing was pegged at K60 billion which was higher than the lower limit of K25 billion set in the 2015/16 budget. This is expected to add inflationary pressures. The amount of money allocated to Farm Input Subsidy Program (FISP) decreased by 50.9% to K31.4 billion from K63.9 billion in the 2015/16 revised budget. A 16.50% Value Added Tax (VAT) was introduced on some commodities such as newsprint and imported milk, ordinary bread and laundry soap. The new VAT has increased prices of these commodities. Although the development budget was increased, the national budget was still dominated by the recurrent budget as the development budget was just 27.9% of the total budget. The table below shows a historical summary of the national budget:

	Total Revenues (K'Billions)	Total Expenditures (K'Billions)
2016/17 (Approved)	965	1,149
2016/17 (proposed)	965	1,136
2015/16 (revised)	763	908
2014/15	683	801
2013/14	520	656
2012/13	472	481
2011/12	257	338

2. OTHER MARKET DEVELOPMENTS (Continued...)

Malawi Growth and Development Strategy Review Summary (Source: Ministry of Finance, Economic Planning and Development)

A report was published on 25 March 2016 by the Ministry of Finance, Economic Planning and Development which reviewed the Malawi Growth and Development Strategy II (MGDS II). The MGDS II is a medium term strategy for Malawi that was designed to attain Malawi's long term development objectives. The strategy covers a period of 5 years, 2011 to 2016. It is the successor of the Malawi Growth and Development Strategy which expired in 2011. Like its predecessor, it seeks to reduce poverty through sustainable economic growth and infrastructure development. The report shows the following achievements and challenges of the MGDS II:

Achievements

- The country has registered remarkable progress in the decline of new HIV infections and deaths due to AIDS related diseases. Antiretroviral therapy has been successful in reducing HIV mortality, morbidity and transmission. HIV prevalence has declined from 13.6% in 2011 to 10.3% in 2014.
- There has been an improvement in the provision of safe drinking water. Malawi managed to surpass the MDGS II target of 75%. However there are still large segments of the population that are in need of safe drinking water.
- Gender equality has made some steady progress. Between 2012 and 2014, Malawi had women's representation at the highest political level. There have also been increase in the enrollment of girls in schools. However, women's participation in decision making is still low at 24% against a target of 40 as at 2014/15.
- Despite remaining high, maternal mortality rates have also declined from 674 per 100,000 live births in 2010 to 574 per 100,000 live births in 2014.

Challenges

- MGDS II has been implemented under 3 regimes with different visions for the country. Successful implementation of MGDS II largely required a stable political environment which was not present.
- MGDS II has not been successful in developing an accountable public sector. Public sector reforms have not been operationalized efficiently.
- Private sector environment has been regressive due to macroeconomic instability. Malawi's doing business and global competitiveness rankings are still very low in comparison to other countries in the region.
- Little progress has been made on the mining sector. Paladin African Limited suspended its operations on Kayelekera due to the slump in global uranium prices. The closure of the mine has led to the drop of mining contribution to economic growth.
- The agricultural sector has suffered severe shocks under MGDS II with less focus on prioritization on agricultural resilience techniques. Despite an increase in earnings from cash crops to US\$361 million in 2013/14 from US\$292 in 2010/11, the agriculture sector still faces severe constraints due to overdependence of rain-fed agriculture, low infrastructure support and low irrigation development. Livestock growth rates have also declined to 5.3% in 2009 to 2013 from 12.2% from 2003 to 2008.
- Education standards have declined with severe fees hikes for secondary schools and public universities. Access to primary education has increased but universal access is still far from being achieved while secondary school education is still very low and is worsening. However, overall literacy levels have increased to 71.3% nationwide in 2013 from 64.5% in 2010.
- The country's health sector still remains weak as a result of inadequate medical equipment. Despite improvements in HIV and malaria treatment, malnutrition still remains relatively high at 42.3% in 2013 of which 16.3% are severely stunted. The proportion of children who are underweight has also increased to 16.7% in 2013 from 13% in 2010.
- Overall, poverty has not been reduced. Poverty has remained high and largely unchanged. The Integrated household Panel Survey (2013) shows that poverty marginally declined to 38.7% in 2013 from 40.2% in 2010.

2. OTHER MARKET DEVELOPMENTS (Continued...)

Presidential Address on the State of the Nation (Source: Government of Malawi)

The President of Malawi delivered the State of the Nation Address in May and November 2016 on the economic developments that took place in the country and the measures government had put in place to address some of the challenges. Following the poor climatic conditions that have devastated production of both food and cash crops, real GDP growth was projected to decline to 2.8% in 2016 from 3.2% in 2015. In order to contain food insecurity, the Malawi government in collaboration with humanitarian partners developed a 2016/17 Food Insecurity Response Plan in order to avert the crisis. The total budget was US\$395.13 million which was meant to assist the affected people with relief food.

In order to address the water shortages, in the short term, the government will rehabilitate Mudi Dam, procure heavy duty generators for Blantyre stations and will conduct comprehensive maintenance of plant and equipment to sustain the current production. In the medium term, projects have been initiated to tap water from Likhubula river in Mulanje to supplement water supply in Blantyre and surrounding areas. Lilongwe Water Board also plans to implement the Lilongwe Water Program, tapping water from Diamphwi Dam. As for power shortages the government has put in place short term and long term measures. A 46 mega watt diesel peaking generator will be procured to be used in Lilongwe and Mzuzu, Escom will also acquire 78 megawatt of Emergency Power Plant on lease basis for 18 months and 70 megawatts of Photovoltaic Solar power from Independent Power Producers. In the long term, the government is making progress on various hydropower and coal fired power project.

The government also facilitated bilateral discussions with potential investors through the Malawi Investment Forum. Government conducted bilateral meetings with the Chinese Government on priority projects for Malawi and investment certificates worth \$124 million were granted. The Chinese Government approved the immediate implementation of three priority projects: Chileka International Airport Project, the 300 Megawatt Kam'mwamba Coal Fired Power Plant project and the E-Government (National Identity) Project. The Chinese Government agreed to bring investors to support value addition in a number of products particularly those featured in the National Export Strategy such as oil seed products; sugarcane products; cotton, textile and apparel; hides and skins, among others.

Malawi Industrial Policy and Trade Policy Launch (Source: Malawi Trade Portal)

The Malawi Government through the Ministry of Industry, Trade and Tourism launched the Malawi Industrial Policy and Trade Policy on 7 October 2016. The aim is to enhance the country's productive capacity through industrialization. The National Industry Policy provides guidance in dealing with factors that determine the growth of the economy such as land, taxes, energy, transportation etc. The policy adopted the priority clusters in the National Export Strategy such as oil, sugarcane and manufacturing products. The implementation of the policy is necessary for shaping the economy of Malawi and improving the export base.

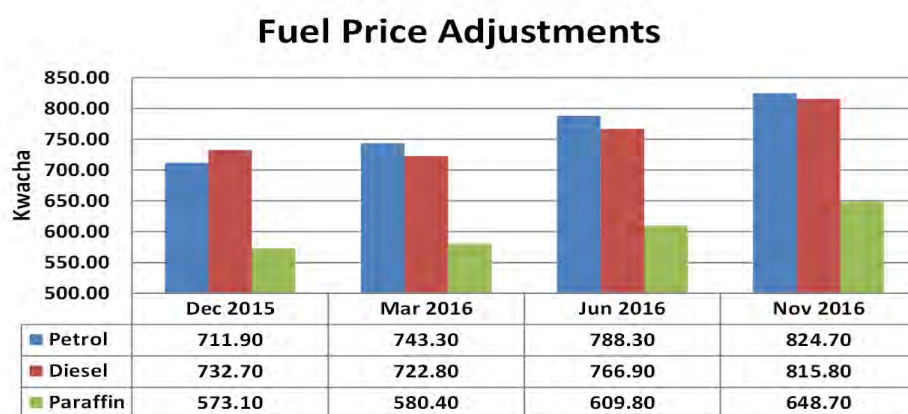
Malawi Investment Forum (Source: COMESA)

The second Malawi Investment Forum was held from 10 to 11 October, 2016 under the theme "Smart Partnerships for Private Sector-Led Industrialization". The forum is aimed at developing new business opportunities in Malawi with regional and international businesses. The Vice President of Malawi opened the event by recognizing the importance of investment and trade in creating jobs, expanding the domestic tax base, attaining sustainable economic growth and improving the living standards of people. Various projects were presented at the Forum such as the Lake Malawi water supply project, development of four office buildings at Capital Hill, infrastructure development at New City Centre, development of coal fired and hydropower plants and bio-fertilizer manufacturing.

2. OTHER MARKET DEVELOPMENTS (Continued...)

Fuel Price Adjustment (Source: MERA)

MERA adjusted fuel pump prices three times in 2016 with the latest adjustment effective 4 November 2016. In 2016, petrol prices increased by 15.84% from K711.90 to K824.70, diesel from K732.70 to K815.80 (11.34% increase) and paraffin from K573.10 to K648.70 (13.19% increase). Overall prices have increased by 13.46% on average. This was due to the recovery of global oil prices and their landed costs. Global oil prices improved in 2016 after the global oil slump in 2015 due to OPEC's decision to cut oil production in order to boost prices in November 2016. Global oil prices surged after this decision to US\$53.40/barrel in December 2016 from US\$33.61/barrel the previous year.



Launch of Likhubula Water Supply Project (Source: Blantyre Water Board)

On 7 November 2016, the Malawi Government and Blantyre Water Board launched the K17 billion Likhubula Water Supply System Project. This project is expected to help Blantyre Water Board pump water from Likhubula River water source on Mulanje Mountain to Blantyre and surrounding districts such as Chiradzulu and Thyolo.

Blantyre Water Board officials stated at the launch that the water currently being used in Blantyre is pumped from Nkula (Shire River) which is further away from the city and requires a lot of energy and expenses. Once the project is completed, Blantyre Water Board will save electricity expenses that arise from pumping water over a long distance and will increase the supply of water in the city.

African Development Bank Approved US\$17 million Food Assistance For Malawi (Source: AfDB)

The African Development Bank (AfDB) Group of Directors approved a US\$17 million (about K12.2 billion) Food Crisis Response Budget Support Program grant for Malawi on 16 November 2016. The Program will support Malawi Government's Emergency Response Plan to mitigate the current food crisis through the purchase of maize for distribution to vulnerable households. This grant will enable the Government, through the National Food Reserve Agency to procure 36,000 metric tonnes from international sources as well as local suppliers. This Program is estimated to benefit more than 700,000 food insecure people, most of whom are women and children.

2. OTHER MARKET DEVELOPMENTS (Continued...)

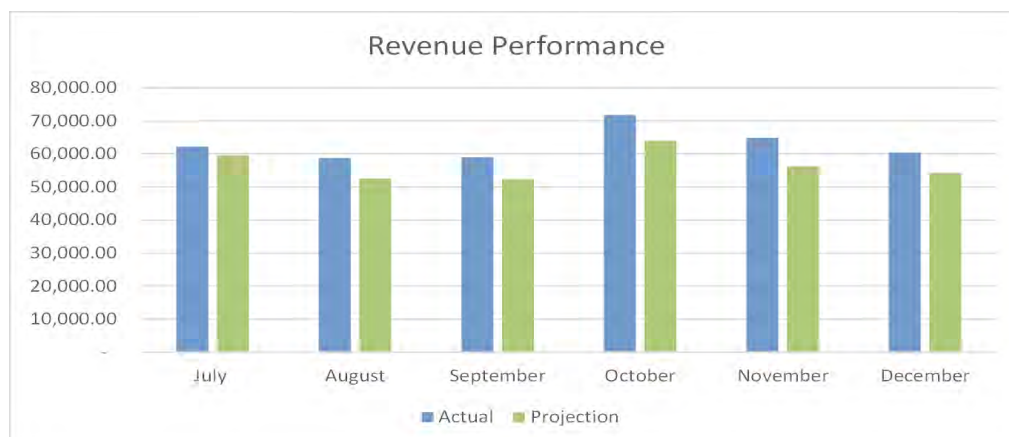
Economics Association of Malawi 2016 Conference (Source: ECAMA)

The Economics Association of Malawi held its Annual Conference on 10 and 11 November 2016 under the theme “Managing Risks and Protecting The Vulnerable: Redesigning Malawi’s Future”. The presentations were as follows:

- Dr Richard Mussa showed concern on the growing inequality in the country which has seen the gap between the rich and poor widening over the years.
- A presentation by UN Women showed concern on the vulnerability of women especially those in rural areas.
- The World Bank presented on the recent economic developments in the country and stated that economic growth will be challenging and will be dependent on food security responses, weather changes and maintenance of macroeconomic and fiscal balance.
- A World Bank representative Holger Kray suggested investing on agricultural resilience by strengthening small holder farmers in order to curb food insecurity .
- The African Development Bank presented on the effects of climate change on development in Malawi.
- The IMF presented on the economic outlook of Sub-Saharan Africa in 2016 and suggested investing in infrastructure development to attract investors and improve domestic revenue collection.
- The last presentation was by Dr Winford Masanjala which highlighted the shortfalls of Malawi’s Development Policies and suggested that these policies must be formulated by national experts and foreign partners.

Revenue Performance Report (Source: Malawi Revenue Authority)

Malawi Revenue Authority (MRA) has collected a cumulative total of K377.08 billion against a target of K339.15 billion during the first half of the 2016/17 fiscal year. This translates to an excess collection of K37.93 billion. MRA has beaten all its revenue targets during the period due to good performance in PAYE, Fringe Benefit Tax, Provisional Tax, Import Tax, VAT and Excise Duties. MRA has targeted a total revenue collection of K774.80 billion in the 2016/17 fiscal year from K653.90 billion in the 2015/16 fiscal year.



2. OTHER MARKET DEVELOPMENTS (Continued...)

Malawi Business Climate Survey 2016 (Source: MCCCCI)

A business climate survey was published by the Malawi Confederation of Chambers of Commerce and Industry (MCCCCI) in November 2016, which measures how conducive the business climate in Malawi is for business growth and investment. The survey sample was drawn from all sectors of the economy. And the results were as follows:

- Business climate performance in 2016 was expected to remain weak as it was in 2015. The proportion of those who perceive a good performance rose to 46.1% in 2016 from 44.1% in 2015. However, the number of those who expect poor performance has risen more to 23.5% in 2016 from 16.5% in 2015. This indicates that the environment is not improving for business.
- In terms of anticipated levels of investment production and employment, the outlook was gloomy in 2016 compared to 2015. About 57.3% and 47.6% of the respondents indicated that their employment and investment levels will remain unchanged in 2016 respectively, while 45.8% of the respondents indicated that their production levels will increase. This shows uncertainty that businesses have in the operating environment as far as decision making is concerned.
- The Business Confidence Index (BCI) was also measured which assesses current and future expectations of the business climate. The BCI has declined to 58.5 points in 2016 from 65 points in 2015. This shows a perceived decline in the confidence of the business environment.
- In terms of prospects for exports and imports, above 50% of the respondents expect their exports to the SADC, COMESA and other regions to increase during the year. However, 37.5% of the respondents indicated exports beyond SADC and COMESA will decrease during the year. On the other hand, above 50% of the respondents expect increased imports from SADC, COMESA and other regions.

Introduction of K2,000 Banknote (Source: RBM)

The Reserve Bank of Malawi informed the general public that on 19th December 2016, it will introduce a K2,000 banknote. The new banknote has been introduced in line with recent economic developments as well as the Bank's strategy towards minimizing currency issuance costs, saving foreign exchange and increasing operational efficiency.

Unbundling of the Electricity Supply Corporation of Malawi (Source: Ministry of Natural Resources, Energy and Mining)

The Government of Malawi is implementing a reform program in the energy sector through Power Market Restructuring (PMR) with the aim of increasing efficiency in power generation and creating an enabling environment of Independent Power Producers (IPPs) to invest in power generation. Following the implementation of the PMR program, ESCOM was officially unbundled effective 1 January, 2017. This implies that the generation function has been carved out of ESCOM and that a new company called the Electricity Generation Company Limited (EGENCO), registered and incorporated under the Companies Act of the Laws of Malawi on 7 September 2016, is operational. The remaining functions under ESCOM have also been restructured in order to facilitate the efficient operation of the power market.

2. OTHER MARKET DEVELOPMENTS (Continued...)

Malawi Improves on World Bank Doing Business Rank (Source: World Bank)

The World Bank published a report in November 2016 that ranked Malawi on position 133 among 190 countries in the world on the ease of doing business. The report showed an improvement from position 141 the previous year. Malawi has made significant improvements in the access of credit and starting a new business but tax payments, construction permits and less protection of minority investors are making it difficult to do business.

The average ranking for Malawi from 2008 to 2016 has been 144 in the ease of doing business rank. The ease of doing business ranking compares economies with each other based on how the regulatory environment is conducive to business operations. This ranking may help bring more investors to the country and help improve how the regulatory environment is conducive to business operations.

Topics	2017 Rank	2016 Rank	Change in Rank
Overall	133.00	141.00	↑ 8.00
Starting a Business	150.00	160.00	↑ 10.00
Getting Electricity	169.00	173.00	↑ 4.00
Getting Credit	101.00	152.00	↑ 51.00
Paying Taxes	102.00	101.00	↓ -1.00
Dealing with Construction Permits	65.00	62.00	↓ -3.00
Protecting Minority Investors	132.00	129.00	↓ -3.00

Malawi Debt Sustainability Analysis (Source: IMF)

A Debt Sustainability Analysis was jointly prepared by the IMF and International Development Association using a debt sustainability framework for low-income countries. The report showed that external debt indicators are below their indicative thresholds and a weaker debt outcome was possible in 2016 and beyond.

In 2015, Malawi's public and publicly guaranteed (PPG) external debt stood at about \$1.78 billion (37.0% of GDP) compared to US\$1.45 billion (30.8% of GDP) in 2014. Malawi's external debt is held mainly by multilateral creditors and the remainder is held by bilateral creditors. The main provider of loans to Malawi is the International Development Association (33%) followed by the African Development Fund (13%) and the IMF (9%). China and India are the main holders among the bilateral creditors at 14% and 9% respectively.

Malawi's gross domestic debt has increased significantly to K538.2 billion (16.8% of GDP) in 2015 from K206.6 billion (13.8% of GDP) in 2012 largely due:

- The rise in government net domestic financing (NDF) following the drop in budgetary support due to the cash-gate scandal.
- The issuance of promissory notes in 2013-14 by the government to recapitalize the central bank following losses that arose from the 2012 devaluation of the exchange rate.
- The securitization of domestic arrears in 2013 and 2015 through promissory notes maturing in 2017 at Treasury bill rate plus 200 basis points
- The issuance of a substantial amount of Treasury Notes (4.8% of GDP) with maturities ranging from 2 to 7 years in 2015.

Malawi remained at a moderate risk of debt distress in 2016 but heightened overall risks remain, reflecting vulnerabilities to domestic and external conditions. The moderate risk of debt distress is due to the fall in PPG external debt on account of large amortization repayment related to the PTA loan. However, export-related and weather shocks risks remain due to over dependence on rain-fed agriculture. There are also risks of financing shocks such as delayed donor support and lower than expected tax revenues. This may worsen Malawi's debt sustainability and lead to the increase in fiscal deficits.

	Actual (% of GDP)			Projections (% of GDP)			
	2013	2014	2015	2016	2017	2018	2019
External debt	34.80	36.70	40.40	37.00	32.30	32.10	31.80
Public sector debt	50.60	48.00	53.80	52.10	47.10	44.70	42.50

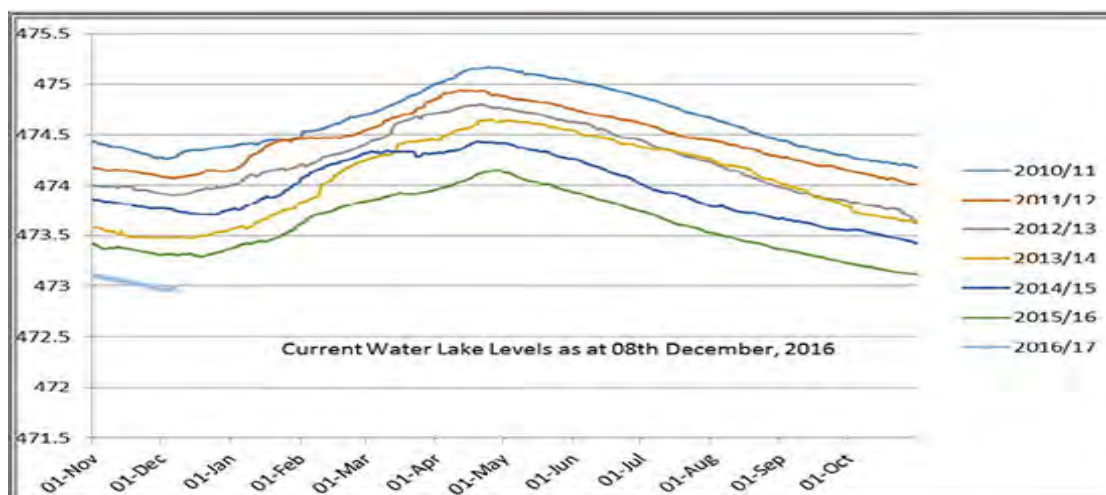
2. OTHER MARKET DEVELOPMENTS (Continued...)

Update on Current Water Levels and the Energy Situation in Malawi (Source: ESCOM)

The Electricity Supply Corporation of Malawi (ESCOM) warned of persistent power blackouts in the country because of supply shortages in October 2016. The capacity of Malawi's hydropower plants fell to 135 megawatts from a total installed 352 megawatts, because of El Nino-related drought that reduced water levels in Lake Malawi and the Shire River.

The country started receiving rainfalls in the month of November 2016, with a forecast of normal to above normal rainfall during the 2016/17 rain season. As at 30 December 2016, the impact of the rains on Lake Malawi was insignificant. The normal water levels are supposed to be above 474 metres above sea level (asl). Within, the past years, the levels have dropped to as low as 472.97 metres asl. With the recent rainfalls, the lake level has improved by a meagre 20 millimeters. This has not been sufficient to improve the Shire River water flows to a state where ESCOM can adequately generate power at full capacity to the hydropower stations.

The normal water flows required in the Shire River to generate electricity up to a maximum capacity is 264 cubic meters per second. However, despite the rainfalls the average water flows in Shire River have remained at around 115 cubic meters translating to less than 50% of the water flows to generate at maximum capacity of electricity.



National Identity Card Project Launch (Source: NRB)

The National Identity Card (ID) project was officially launched by the President of Malawi on 27 October 2016, to address the challenges being faced in Malawi due to the absence of national documentation. The project is being overseen by the National Registration Bureau (NRB) who will process the issuing of national identity documents. Over 1,600 people registered in the first phase of the National Identity Project and was concluded in August 2016. The second phase is targeting 90,000-95,000 people and the third phase is targeting 9 million Malawians above 16 years of age as well as resident foreigners nationwide and these phases are still underway.

2. REGIONAL MARKET DEVELOPMENTS

Africa

- ⇒ A report by the African Development Bank (AfDB) showed that Africa's real GDP was expected to grow by 3.70% in 2016 from 3.60% achieved in 2015. This was due to the gradual strengthening of the world economy and a slow recovery in commodity prices. East Africa was expected to register the highest growth of 6.40% in 2016, followed by West Africa (4.30%) and Central Africa (3.90%), while North Africa (3.30%) and Southern Africa (1.90%) will be the regions with least growth. Africa has achieved impressive economic growth over the past 15 years which has averaged above 5% from 2001 to 2014 from just above 2% during the 1980s to 1990s. However, in the past two years growth has been moderate with African economies affected by headwinds of the global economy. China's weaker growth and transition from investment and exports of industrial goods towards consumption and services is an important factor in the recent drop of commodity prices which has harshly affected Africa. Africa's economy is expected to strengthen to 4.5% in 2017 based on the assumption that the price off oil and other commodities will stabilize. This growth projection will be driven by East Africa (6.7%), followed by West Africa (5.5%) and Central Africa (5.0%) and the lowest in North Africa (3.8%) and Southern Africa (2.8%) (Source: AfDB).

Sub-Saharan Africa

- ⇒ Economic growth in Sub-Saharan Africa was set to drop to 1.4%, the lowest level in more than 20 years, reflecting the adverse external environment and a lacklustre policy response in many countries. While most resource-scarce countries in the region were expected to continue to perform well as they benefit from lower oil prices, an improved business environment and strong infrastructure investment, many resource-intensive countries were under severe economic strain. This was particularly the case for commodity exporting economies, including the three largest in the region (Angola, Nigeria and South Africa) which have depressed the region's overall growth projection. Economic growth is projected to grow to 2.9% in 2017 as the commodity and drought shocks are expected to dissipate and power supply improves. However, policy uncertainty and structural constraints will put a lid on this growth (Source: IMF).

Zambia

- ⇒ Zambia's economic growth is expected to improve to 4.0% in 2017 from a slowdown of 2.9% in 2016. This recent slowdown in the country's GDP growth is mainly due to low global copper prices that have affected the economy which is heavily dependent on mining. The country is also struggling with drought and a power crisis (Source: World Bank).
- ⇒ Zambia's central bank maintained its policy rate at 15.50% throughout the year. The Zambia Kwacha currency was also strong against the dollar than the previous year. However threats to the currency may still persist coming from low copper prices and large fiscal imbalances (Source: Bank of Zambia).
- ⇒ Zambia is planning to put duty on copper concentrate imports in order to disrupt global copper suppliers and boost copper prices locally. The 7.5% duty will force miners in countries like DRC to look for other ways to process their concentrate. This will upset the supply chain and lead to a rise in copper prices (Source: Reuters).
- ⇒ Zambia's year-on-year inflation largely decreased to 7.5% in December 2016 from 21.1% in December 2015 (Source: Central Statistics Office of Zambia). The Zambian Kwacha appreciated against the US Dollar and British Pound but depreciated against the South African Rand. The Zambian Kwacha appreciated against the US Dollar by 9.84% to ZMK9.90:US\$1 (Source: Bank of Zambia).

2. REGIONAL MARKET DEVELOPMENTS

Tanzania

- ⇒ Tanzania's economic growth was projected at 7% in 2016 as a result of improvement in current account balance due to lower capital goods imports and increases in exports of gold and manufactured goods. Tanzania is also at low risk of external debt distress and has room to borrow externally to meet its financing needs. Tanzania's economic growth is expected to be stable at 7.1% in 2017 due to improvements in private investment and global commodity prices (Source: World Bank).
- ⇒ IMF mission held discussions with the Tanzania authorities on the fifth review under the Policy Support Instrument (PSI) program. Real economic growth was projected at 7% in 2016 as a result of improvement in current account balance due to lower capital goods imports and increases in exports of gold and manufactured goods. Tanzania is also at low risk of external debt distress and has room to borrow externally to meet its financing needs (Source: IMF)
- ⇒ Tanzania's central bank maintained its policy rate at 12% throughout the year. In a monetary policy statement released in November 2016, the Bank will continue to pursue prudent monetary policy in 2016/17 to keep inflation close to the medium term target of 5% and ensure that liquidity levels are consistent with the demands of various economic activities (Source: Bank of Tanzania)
- ⇒ Tanzania's inflation decreased to 5.0% in December 2016 from 6.8% in December 2015. This was mainly as a result of a decrease in food prices (Source: Tanzania Bureau of Statistics). The Tanzanian Shilling depreciated against the US Dollar and South African Rand but appreciated against the British Pound and the Euro. The Tanzanian Shilling depreciated against the US Dollar by 1.12% to TSH2,172.62:US\$1 (Source: Bank of Tanzania).

Uganda

- ⇒ The IMF mission concluded the seventh review of the country's economic program under the Policy Support Instrument (PSI). They stated that Uganda's economy performed well in a complex environment characterised by elections, muted global growth and a growth decline of 4.8% the previous year. The IMF expected an improvement in growth to 5% in 2016 and 5.5% in 2017 due to a stable shilling, and effective monetary policy (Source: IMF).
- ⇒ The Bank of Uganda lowered its policy rate for the fifth time in 2016 to 12% at the December 2016. Monetary Policy Committee meeting. This was an attempt to boost economic growth amid unclear global economic developments. Policy makers stated that inflation rate is expected to remain around the medium target of 5% over the next 12 months (Source: Reuters).
- ⇒ The World Bank announced its decision in October 2016 to withhold new lending to Uganda until the government explains how funds are being managed. The World Bank made the move as misappropriation of funds and corruption prevail in the country, negatively impacting its economy (Source: World Bank).
- ⇒ Uganda's inflation decreased to 5.7% in December 2016 from 9.3% in December 2015. This was mainly due to the slowdown of food inflation. The Ugandan Shilling depreciated against all US Dollar and the Euro but appreciated against the British Pound. The Ugandan Shilling depreciated against the US Dollar by 6.91% to UGX 3,610.50:US\$1 (Source: Bank of Uganda).

2. REGIONAL MARKET DEVELOPMENTS

Mozambique

- ⇒ Mozambique expects to sign new oil and gas prospecting contracts by early 2017 with the companies awarded rights to test for hydrocarbons across the country. After the signing of the contracts the winning bidders would start looking for oil and gas immediately. Mozambique has about 85 trillion cubic feet of gas reserves, enough to supply Germany, Britain, France and Italy for two decades. Mozambican officials have stated that they expect more than \$30 billion dollars will be invested in the natural gas sector (Source: Reuters).
- ⇒ Mozambique's economy is facing a huge debt crisis which was expected to contract the economy in 2016. Mozambique has \$1.4 billion worth of undisclosed debt, 10.7% of Mozambique's real GDP. Government officials have stated that country will be unable to repay loans until gas reserves are available after 2021. As a result, the IMF stated that it was ready to assist Mozambique authorities in debt negotiations with creditors (Source: Reuters).
- ⇒ The IMF mission concluded their visit to Mozambique in October 2016. The mission visited Mozambique to assess recent economic developments and discuss government policies to restore confidence and underpin economic stability. At the end of the mission, the IMF stated that economic growth was forecasted to 3.7% in 2016 from 6.6% in 2015 due economic challenges such as weak exports, low foreign direct investment, and lack of donor financing (Source: IMF).
- ⇒ Mozambique's year-on-year inflation increased significantly to 25.27% in December 2016 from 0.5% in December 2015. This was due to a high rise in the cost of food and non-alcoholic beverages. The Mozambique Metical depreciated against all the major currencies during the year*. The Metical depreciated against the US Dollar by 58.11% to MT71.34:US\$1 (Source: Bank of Mozambique).

South Africa

- ⇒ South Africa's central bank increased the repo rate in March 2016 to 7.00% from 6.75% in order to fight high inflation. The central bank stated that growth in 2016 was expected to remain subdued following the weakening of the economy due to contractions in the agricultural and manufacturing sectors. The struggling economy is expected to pick up to 4.2% in 2017 as global commodity prices improve (Source: BBC).
- ⇒ Fitch Ratings downgraded its outlook for South Africa's sovereign credit rating to negative from stable on 25 November 2016 due to an increase in political risks which continue to affect the country's macroeconomic performance. South Africa's credit rating stands at BBB- with a negative outlook for investment (Source: Fitch Ratings).
- ⇒ IMF cut South Africa's 2016 growth forecast to barely 0.10% in July 2016. This was as a result of Africa's most industrialized economy not keeping up with the increasing population. This growth forecast contradicts a previous estimate of 0.60% given in May by the IMF mission chief for South Africa (Source: Reuters).
- ⇒ South Africa's economy avoided a second recession in 7 years as mining and factory output rebounded during the second quarter of 2016. Real GDP rose to an annualized 3.3% in the second quarter of 2016, compared with a 1.2% contraction the previous quarter. Low commodity prices, the worst drought in more than a century and weak export weighed on the economy and was not expected to expand in 2016 (Source: Bloomberg).

2. REGIONAL MARKET DEVELOPMENTS

Other countries

- ⇒ Zimbabwe's mining sector requires at least \$5 billion to revive its operations which have been struggling as a result of high electricity costs and heavy taxation. The mining sector has recorded negative growth over the past 2 years and average prices for most minerals (except for gold) remain predominantly depressed (Source: Reuters).
- ⇒ Nigeria's President Buhari has presented a draft budget framework for 2017, outlining spending plans for the economy. Overall spending for 2017 is expected to reach 6.9 trillion Naira up from the 6.06 trillion Naira in the 2016 budget. The budget was amended due to declined oil exports from low oil global prices (Source: CNBC).
- ⇒ Kenya's bank shares plunged in August 2016 after President Uhuru Kenyatta signed a law that caps the interest rates lenders can charge on loans. Kenyatta backed the move by stating that high cost of credit and poor savings rate is deterring private investment in Kenya. KCB Group (Kenya's largest bank by assets) shares fell by 10%, the most in more than 7 years (Source: Bloomberg).
- ⇒ Kenya's economy was expected to grow by 5.9% in 2016 from 5.6% in 2015. The World Bank have projected an improved performance in the agriculture sector and tourism sectors and increased foreign direct investments (Source: World Bank)
- ⇒ IMF approved a \$12 billion loan program for Egypt in October 2016 and insisted that it would not call for cuts to food subsidies. They also stated that Egypt has made good progress to secure this financing, including contributions from Middle East countries. Ahead of the IMF financing, the government included a value added tax, raised electricity price and sought other cost saving means to shrink its high budget deficit. Egypt is also in talks with China for a \$4 billion loan to fund sewage and renewable energy projects (Source: Bloomberg).
- ⇒ In November 2016, Liberia was seeking \$1.3 billion to revive its economy that was performing badly due to a slump in its key exports as a result of the Ebola epidemic. Liberia is seeking to invest in energy projects to spur its manufacturing and agriculture sector. Iron ore exports, the largest earner of foreign currency, fell by more than 60% as a result of decreased demand from the country due to the epidemic (Source: Bloomberg).
- ⇒ Ethiopia opened a new train line linking its land-locked capital to the Red Sea state of Djibouti aimed at turning the poor agrarian nation to an industrial hub. Ethiopia's economy is one of the fastest growing in Africa and growth has been fuelled by construction of railways, roads and hydro-electric dams which have reduced power shortages.
- ⇒ The Democratic Republic of Congo signed a Memorandum of Understanding with Tanzania for joint exploration of gas on Lake Tanganyika and exchange of experiences in exploration and exploitation of petroleum. The two countries are expected to start oil and gas production in the next few years to come.
- ⇒ Angola cut its 2016 economic growth forecast and slashed government spending as lower oil prices hammer state revenues in Africa's largest crude exporter. Angola's finance ministry stated that the economy would grow by 1.30% in 2016 compared with a previous forecast of 3.30%. This was a result of the global fall in oil prices, government debt and sanitation problems (Source: Reuters).

* Refer to the table on page 34 (Appendix 2) for more details

3. GLOBAL DEVELOPMENTS

Economic growth

Global growth is estimated to have fallen to 2.3% in 2016 and is expected to recover to 2.7% in 2017. This was due to stalling global trade, weak investment and heightened political uncertainty which depressed world economic activity. Advanced economies continued to struggle with subdued growth, low inflation and sluggish productivity growth. The US economy lost momentum in 2016 due to low exports and a deceleration in private investment. The US economy is expected to recover to 1.8% in 2017 from 1.6% in 2016 due to policy proposals by the new President to expand the manufacturing sector. Despite the Brexit vote in June 2016, business confidence in the Euro Area has continued to improve, however investment rates are still low. Uncertainty about the Brexit process is expected to weigh in on the United Kingdom and growth is projected to decline to 1.2% in 2017 from 2.0% in 2016. Investment and exports in Japan were generally weak in 2016 however private consumption showed some signs of improvement. The risks to global economic growth in 2017 are: political uncertainty in the United States and Europe and a sharper than expected slow-down in China which could weigh in on commodity prices.

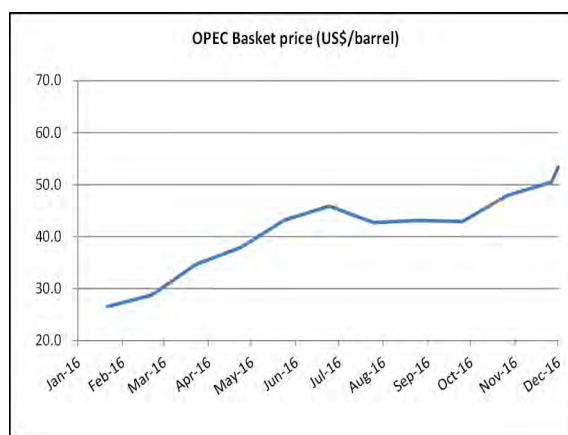
Economic Growth Projections



Source: World Bank

Oil prices

OPEC members met on 30 November 2016 to finalize a deal to cut oil production in order to boost global prices which have slumped in the past 2 years. From January 2017, OPEC members will produce 32.5 million barrels per day from 33.8 million barrels per day. Immediately oil prices went up to US\$54.19/barrel, the highest level in 2016. Although OPEC is making efforts to boost oil production, its proposed oil production cut is too modest to raise prices and cheating is also inevitable. Furthermore, OPEC's oil production cut will only be offset by non-OPEC production especially Russia. Therefore, the effectiveness of the oil production cut will depend on co-ordination between OPEC and non-OPEC oil producers. Oil prices are expected to climb to US\$56.5/barrel in 2017 according to the EIU. The International Energy Agency (IEA) forecast oil prices to average \$50.0/barrel in 2017 as supply will continue to outweigh demand and the market's return to balance may take years.



Monetary policy

The Bank of England has cut its policy rate to 0.25% from 0.50% in August 2016 in order to meet its 2% inflation target. This decision was maintained at the MPC meeting in the first week of November 2016 in order to ensure a sustainable return of the 2% target in 2016. The Bank of Japan has also left their policy rate unchanged at negative 0.1% in 2016 despite the country's struggling economy. The US Federal Reserve raised its policy rate to 0.75% from 0.5% at the MPC meeting in December 2016 reflecting the Bank's confidence in the strengthening of the US economy and signs of higher inflation (Source: IMF).

3. GLOBAL DEVELOPMENTS (Continued...)

Currency movements

The U.S Dollar rose to its highest in 14 years on 24 November 2016 due to an expected rise in infrastructure investments after the Presidential election. The Dollar was trading at US\$1.05:€1 as markets anticipate a boom in public expenditure in the short term based on the President-elects campaign promises. The US Dollar strengthened in 2016 after the Presidential election on the premise that fiscal loosening under the new administration will reflate the economy.

The British Pound has been one of the weak performing currencies of 2016. The British Pound was trading at an average of £1.23:US\$1 in the first week of October 2016, the lowest point since 1985. This was due to remarks made by the Brexit Minister who stated that the UK could leave the EU but stay in a single market by paying for access. The British Pound entered December 2016 with strong gains as Treasury bond yields rise higher due to anticipation of a fiscal spending spree by the U.S President.

The Euro has shown its resilience during the year due to its good performance despite the Brexit vote in June 2016 and the Italy referendum. The Euro fell to a two year low of US\$1.05:€1 in December 2016 but later rebounded reaching US\$1.07:€1.

The Japanese Yen was one of the best performing currencies of 2016 but lost some of its gains after the US Presidential election. The level of depreciation has accelerated since the election and fell by 8.2% to ¥112:US\$1 in November 2016 from ¥103:US\$1 in October 2016 as a result of investor aversion (Source: EIU).

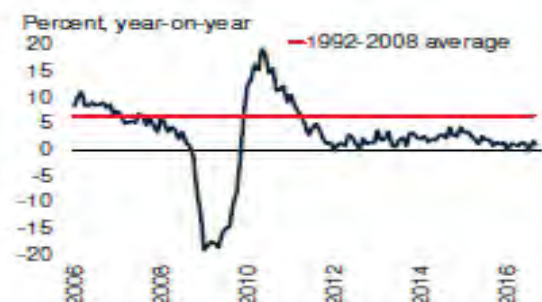
Global trade

The World Trade Organization forecasted global trade to drop to 1.7% in 2016 from 2.6% in 2015. The forecast reflected a slowdown in emerging markets especially China which account for more than 10% of global trade. Global trade will be uncertain in 2017 due to the US President-elect's promises to impose high tariffs on Chinese imports which could trigger a trade war between the world's two largest economies. The EIU expect global trade to accelerate to 2.8% in 2017 and average of 2.7% in 2018-2021. The forecasts incorporate a significant slowdown in China's economy in 2018, followed by a mid recession in the US in 2019 which will prove to be a drag on global trade growth (Source: WTO).

Currency Movements: US\$ vs Euro (€)



C. Global goods trade growth



Source: World Bank

5. OUTLOOK FOR 2017 AND BEYOND - MALAWI

Exchange Rates

The Kwacha appreciated in December 2016 as the tobacco season came to a close. This may be as a result of high tobacco sales during the final weeks of the season resulting in further currency inflows. The Kwacha is expected to continue depreciating in 2017 as a result of low inflow of foreign currency due to the poor performance of the tobacco exports, low levels of investment, persistently high inflation and the strengthening of the U.S Dollar. The tobacco marketing season was affected by weak global demand due to increased health campaigns. The tobacco season was also affected by the impact of drought which resulted in poor tobacco quality and low tobacco prices.

POSSIBLE IMPACT: *A depreciating exchange rate may increase the cost of imports and lead to a further widening of the trade balance. Rising prices of imports may also put pressure on the inflation rate to increase.*

In the medium to long term, the Kwacha is expected to depreciate due to significant current account deficit, weak foreign direct investment inflows and low forex reserves. This overall trend towards a depreciation in the value of the Kwacha reflects uncertainties regarding Malawi's macroeconomic outlook and has also been driven by the general strengthening in the value of the US Dollar. Malawi's currency will weaken gradually but steadily from an estimated value of MK716.30:US\$1 in 2016 to K949:US\$1 in 2021 (Source: World Bank, EIU).

Inflation

Inflation marginally increased to 20.0% in December 2016 from 19.9% in November 2016. This was due to an increase in non-food inflation. Malawi's agricultural production has declined by 30% which has triggered a high maize deficit due to the El Nino weather conditions that were characterised by late rains and dry spells. This food deficit, if not fully covered, is likely to further increase prices in the near future. The government has begun importing maize to help alleviate food shortages but may not be sufficient to cover the deficit. Food shortages are currently being covered by humanitarian assistance. Admarc has also increased maize prices which may worsen food insecurity and keep food prices high and add to food inflationary pressures. The delay in FISP may also lead to lower maize production which may keep food prices high. Food accounts for 50% of the consumer price index that is used to calculate inflation. The IMF has urged government to maintain tight fiscal and monetary policy until inflation returns to a clear and declining trend.

POSSIBLE IMPACT: *High inflation rates will lead to high interest rates. It will also affect lending rates which will decrease the amount borrowed and lessen disposable income for spending and investments as the real return declines.*

Inflation is expected to remain subdued during the rainy season due to the continued slowdown in food price increases. Food inflationary pressures are expected to be dampened following the current importation of maize. Non-food inflation may increase due to high import costs that arise from a depreciating currency and a possible rise in global oil prices. Inflation will drop slightly in 2017 but will remain high at 20.20% as the effects of drought continue to restrict food supply. Inflationary pressures are expected to ease gradually from 2018 to single digits after a normalization of food production. Inflation is forecast to continue falling to an average of 8.1% in 2021 (Source: EIU).

5. OUTLOOK FOR 2017 AND BEYOND - MALAWI (Continued...)

Interest Rates

The Monetary Policy Committee adjusted the Policy Rate to 24% from 27% at the Monetary Policy Committee meetings on 23 and 24 November 2016. Commercial banks have started reducing their lending rates to a range of 32% and 35% (2015: between 34% and 39%). Interest rates on the interbank market are dependent on the volatility of liquidity and unlikely to be stable. Treasury bill yields are expected to be around the Monetary Policy Rate level plus a premium. The monetary policy rate is expected to be maintained at 24.00% in the short term. However, if inflationary pressures are low and a good harvest is sustained in the 2016/17 season, the monetary policy rate may be reduced further.

POSSIBLE IMPACT: *High lending rates will keep the cost of borrowing high. If households are deterred from borrowing there will be less demand for goods and services in the economy which will in turn reduce inflation rates through a fall in prices. It may also lead to lower property values as demand is dampened by high mortgage rates.*

The cost of borrowing is very high which results in higher default risk of existing liabilities and lower demand for credit.

Foreign Trade

Exports may recover in 2017 on the back of the normalization of harvesting patterns, but growth potential is limited owing to weak global demand. Medium-term export growth will be driven by the gradual expansion of soya beans, tea, sugar and other cash crops, although growth will continue to be held back by infrastructure challenges, a lack of finance for farmers and low technology agricultural techniques.

POSSIBLE IMPACT: *Higher export values will increase the inflow of forex which would hamper the recovery of the economy in the event of an economic downturn.*

The government is promoting the production of legumes and it is estimated that the country can earn US\$1 billion from legumes exports. The promotion of agricultural resilience by connecting farmers to markets and strengthening farmer capacity in risk management practices may also help improve exports. Tobacco will remain the main export commodity, although its growth potential is limited amid weak global prices.

Import growth is expected to accelerate in 2017/18 driven by rising domestic demand and an increase in global oil prices despite the government's efforts to implement a tight fiscal policy. It is critical for the country to diversify its export base in order to be competitive and reduce risks in economic growth due to overdependence of tobacco.

The trade balance will remain in deficit, owing to high cost of transporting goods into and out of a landlocked country. Overall, the current account deficit is forecast to contract gradually from 18.8% of GDP in 2016 to 15.9% of GDP in 2021 as a rebound in export earnings boosts the trade balance (Source: EIU).

5. OUTLOOK FOR 2017 AND BEYOND — MALAWI (Continued...)

International Relations

The resumption of the IMF Program in March 2016 is slowly restoring donor confidence in the government's economic management after concerns over corruption and fiscal laxity led to widespread aid freeze in 2013. However, the slow pace of the public financial management reforms signal that ties with donors will remain strained. Most donors will nevertheless remain engaged through project-based grants and off-budget support to non-governmental agencies. The government will continue to seek external support from non-traditional partners including China and India, and their economic presence in Malawi is expected to grow. Relations with Tanzania will remain strained by dispute over the countries' border in Lake Malawi although it is expected to be resolved diplomatically (Source: EIU).

POSSIBLE IMPACT: *Lack of donor funds may hamper government reform efforts as the government revenue will not be sufficient to sustain the programs.*

Lack of donor funds will also reduce the availability of forex which would in turn cause continued depreciation of the Kwacha.

Lack of donor funds may result in increased government borrowing to fund expenditures.

Fiscal Policy

Execution of the 2016/17 budget is expected to be weak, owing to financial constraints due to government over-expenditure. The budget of K1.14 trillion was approved by parliament in June 2016 with an increase in spending by 33% compared to the 2015/16 budget with additional financing for maize purchases partially offset by lower fertilizer subsidies and cuts to the public-sector wage bill. This higher spending is expected to be financed by higher tax revenues and an increase in domestic borrowing. Currently, MRA is collecting above target due to introduction of VAT on new commodities and good performance in PAYE, Fringe Benefit Tax, Import Tax and Excise Duty.

POSSIBLE IMPACT: *An increase in expenditure will result in improved livelihoods as the vulnerable are cushioned from the negative effects of the policy reforms.*

A large fiscal deficit may lead to higher government domestic borrowing which in turn leads to higher interest rates as the liquidity in the market decreases.

The domestic debt stock increased to K757.2 billion in the third quarter of 2016 from K746.7 billion the previous quarter. While the country's external debt stock decreased to K1,218.0 billion (US\$1,709.9 million) from K1,240.6 billion (US\$1,740.1 million) recorded in the second quarter of 2016. The increase in Malawi's level of debt has been driven by rising domestic borrowing to makeup for financial shortfalls due to suspended budgetary support by donors in 2013.

Fiscal policy is expected to shift towards reducing the deficit from 2017/2018 as Malawi's humanitarian situation normalize. However, there are much needed reforms in the public sector but this may take time due to political uncertainty and financing constraints. Nevertheless, fiscal discipline is expected to improve an continued support of the IMF may help in the gradual return of external budgetary support. The fiscal deficit is still expected to remain sizeable at 5.9% of GDP in 2016/17 and contract to 3.2% of GDP by 2020/2021 (Source: EIU).

5. OUTLOOK FOR 2017 AND BEYOND—MALAWI (Continued...)

Economic Growth

After an estimated real GDP growth of 2.50% in 2016, economic activity is expected to pick up to 3.9% in 2017. This will be led by agriculture as production stages some recovery from a contraction caused by drought the year before. As in the past, Malawi's economy will be dominated by agriculture. Plans to expand cash crops beyond tobacco should register some success in 2017, supported by firmer global prices for soya beans, tea and sugar. Although tobacco production is expected to recover from the lows of 2015 to 2016, weak global demand, weather shocks and environmental degradation mean that the industry may be in a phase of a long-term structural decline.

Outside of the agricultural sector, growth is likely to be lackluster. Coal production which has fallen by 75% since 2014 owing to low prices is unlikely to emerge as a key driver of growth in 2017 to 2021. Malawi's mining sector will continue to struggle to compete with mines in neighboring countries.

Implementation of investment projects as highlighted in the Malawi investments compendium document may boost growth in the long term if the projects are successfully implemented. These projects are expected to promote the country's growth prospects in the long term. These are projects such as the development of a niobium mine, commercial fish farming, the construction of new hotels and a cable car resort in Mulanje. If successful they will lead to better infrastructure and improved power generation which will aid the manufacturing industry and other business. Government is also launching agricultural projects such commercial farming utilizing solar powered irrigation, commercial dairy production, afri-seed production and development of a horticulture farm at Kamuzu International Airport. The country is also investing in hydropower and coal powered plants which may substantially improve economic growth. Power shortages contributed to the subdued economic activity in 2016 as business were unable to perform to their full capacity and were burdened by the high costs of using generators and solar energy.

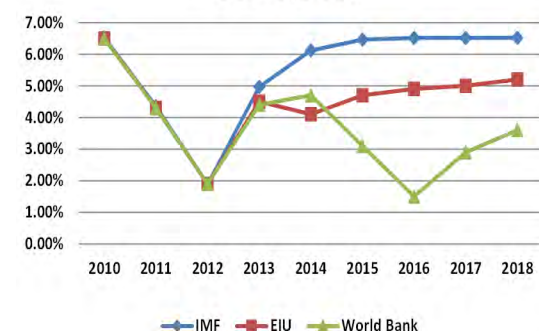
Risks to economic growth in 2017 are high government debt levels which may increase the budget deficit, high lending rates and adverse weather conditions. Lower global commodity prices and uncompetitive exports will also add to the risks. The insufficient power supply may also hamper productivity in the country. Growth in 2017 will hinge on the expansion of agricultural production and improved investor sentiment as well as innovations in the mining sector (Source: EIU).

POSSIBLE IMPACT: Growth of the economy will boost donor and investor confidence hence increasing private sector activity and improving the stock market performance. Increased private sector activity will boost economic growth.

GDP Projections

Real GDP Growth					
	2015	2016	2017	2018	2019
EIU	3.00%	2.50%	3.90%	4.70%	4.30%
IMF	2.95%	3.00%	4.00%	4.50%	5.00%
WORLD BANK	2.80%	2.50%	4.20%	4.50%	
GOVERNMENT	3.10%	2.80%			
RBM	3.10%	2.90%	5.60%		
Average GDP	2.96%	2.70%	4.03%	4.57%	5.00%

GDP Growth



6. ECONOMIC RISKS

ECONOMIC RISKS	IMPACT ON ECONOMY	MITIGATION MEASURES
Insufficient power supply	<ol style="list-style-type: none"> Commercial productivity remains small scale as large scale enterprises are difficult to implement with limited power supply Low industrial productivity in the manufacturing sector resulting in low economic productivity and dampening economic growth. Decline in tourism levels as it dampens tourists appetite to visit the country which results in lower income and growth in the industry. Deferment of development by investors. 	<ol style="list-style-type: none"> Encourage use of energy saver bulbs. Rehabilitate and develop new power plants. Public-Private Partnerships to enhance energy production through alternative power sources. The entrance of Independence Power Producers (IPPs) may help boost power generation
High inflation rates	<ol style="list-style-type: none"> Rising prices of goods and services. Lowers the disposable income of households which would otherwise be used for savings and investment. Lowers the real returns on savings and investments. Reduces the likelihood of foreign investors coming into the country as real returns are eroded by the high inflation rate. 	<ol style="list-style-type: none"> Tight monetary policy to reduce demand. Decrease in government recurrent expenditure.
Increase in government debt	<ol style="list-style-type: none"> Creates a future obligation for government which may keep the budget deficit large. Crowds out the private sector hence reducing the expansion of the private sector as funds are not available. 	<ol style="list-style-type: none"> Reduce government expenditure by tightening fiscal policy. Increase government revenue base to finance debt.
High Interest Rates	<ol style="list-style-type: none"> High lending rates will lead to slower private sector growth and a decrease in capital investments. High interest rates will also lead to higher loan impairments for banks which will reduce funds that may be used to borrow other private investors. It also puts customer deposits at risk if the bank were to fail. 	<ol style="list-style-type: none"> Reduction of the Monetary Policy Rate.

6. ECONOMIC RISKS (Continued...)

ECONOMIC RISKS	IMPACT ON ECONOMY	MITIGATION MEASURES
Persistently weak export base	<ol style="list-style-type: none"> 1. To affect Kwacha's stability against major trading currencies resulting in a depreciating currency. 2. Curtail growth in imports leading to higher prices of imported products. 3. To affect the sustainability of the fertilizer subsidy program which may increase the budget deficit as prices of imports increase. 4. Lead to drug shortages that could affect labor productivity. 5. Lead to fuel shortages that could affect production efficiency. 	<ol style="list-style-type: none"> 1. Diversify into other forex generating sectors such as mining, tourism e.t.c. 2. Explore local production of goods currently imported. 3. Move more into local fertilizer manufacturing to reduce import costs. 4. Increased promotion of tobacco alternatives e.g. cotton, coffee, peas etc. 5. Control imports of products with local substitutes e.g. cooking oils, wheat, toilet tissues etc.
Adverse Weather Conditions	<ol style="list-style-type: none"> 1. The El Nino may lead to irregular weather patterns of heavy rainfall and dry spells 2. The heavy rainfall and dry spells may result in lower agricultural output and may lead to food shortages. 3. Lower output may lead to higher prices, increased food inflation and also hamper growth. 	<ol style="list-style-type: none"> 1. Tight monetary policy stance to keep inflation in check. 2. Modernize Agricultural production in order to reduce reliance on the weather.
Slow down in private sector growth due to high interest rates	<ol style="list-style-type: none"> 1. Dwindling private sector growth and reduced capital investments. 2. Increasing unemployment due to retrenchments and freezing of recruitment and/or winding down of companies. 3. Reduced savings by individuals directly or indirectly affected by unemployment. 4. Relocation of companies to other countries with better prospects. 	<ol style="list-style-type: none"> 1. Provide incentives to the private sector e.g. tax incentives. 2. Declining inflation.
Donor budgetary support may not return	<ol style="list-style-type: none"> 1. Increased domestic borrowing by government thereby increasing the fiscal deficit. 2. Low forex availability resulting in fuel scarcity and reduced import of fertilizer for the subsidy program. 3. Depreciation of the Kwacha. Leading to higher prices of goods and services 	<ol style="list-style-type: none"> 1. Diversify into other forex generating sectors e.g. increase in exports.

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 	<ol style="list-style-type: none"> 1. Diversify into other sectors such as mining and cotton e.t.c. 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.
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 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.
Dispute with Tanzania resulting in cancellation of oil explorations activities	<ol style="list-style-type: none"> 1. Loss in possible source of revenue for government. 2. Loss in possible source of forex for Malawi. 3. Loss in possible employment opportunities for Malawians. 	

7. APPENDIX

Key Economic Risks-Malawi

Appendix 1: SELECTED ECONOMIC INDICATORS FOR MALAWI

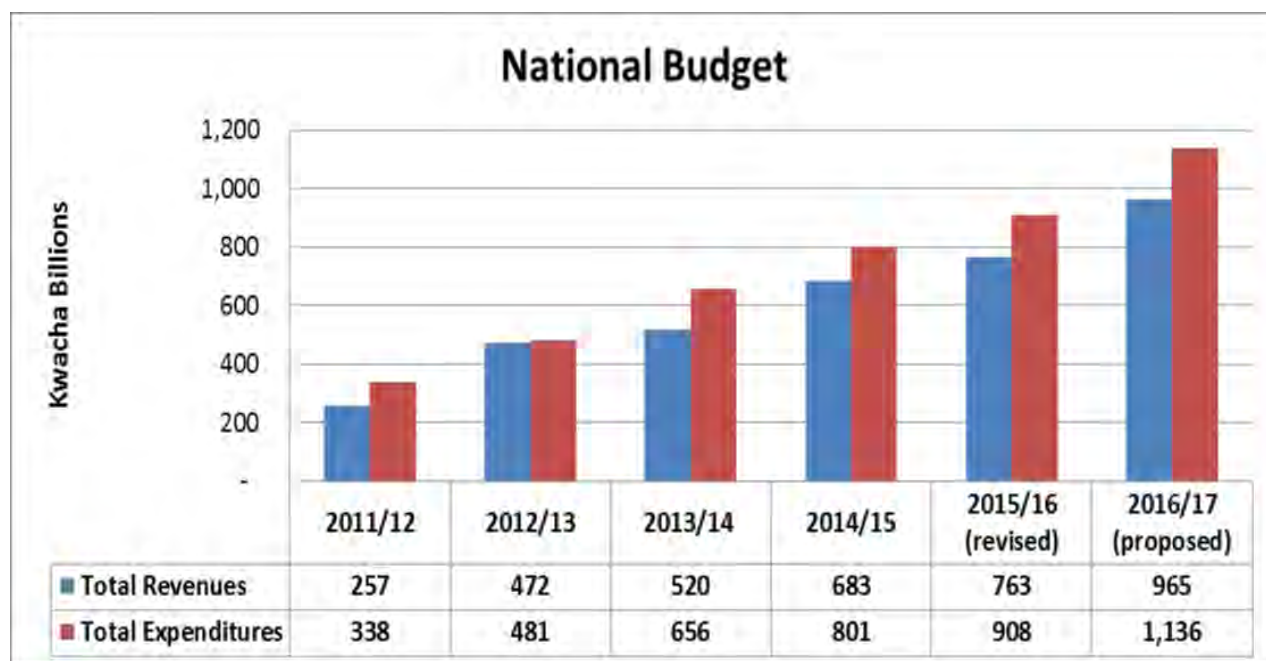
	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16
Exchange rates (Source: RBM)													
MK : US\$	672.68	728.51	743.69	684.39	686.58	709.12	712.94	720.50	721.05	721.39	726.58	730.46	728.62
MK : GBP	997.53	1,046.28	1,031.65	984.02	1,003.02	1,038.15	961.47	949.91	944.72	935.71	883.92	912.23	893.83
MK : ZAR	43.41	44.96	46.41	45.81	48.06	44.84	48.29	50.99	49.78	51.92	52.82	52.08	52.81
MK : EUR	732.37	796.99	813.00	775.97	779.40	789.82	792.93	798.32	804.26	809.32	794.42	771.56	766.03
Forex reserves (Source: RBM)													
Total reserves (US\$m)	1,007.00	927.00	865.00	898.00	908.00	900.00	989.00	943.00	944.86	926.66	933.89	886.00	943.54
Import cover (months)	4.82	4.43	4.14	4.30	4.34	4.30	4.73	4.51	4.52	4.43	4.46	4.24	4.51
Inflation (Source: NSO)													
Headline inflation	24.90%	23.50%	23.40%	22.10%	20.90%	21.50%	22.60%	23.50%	22.80%	21.20%	20.10%	19.90%	N/A
Food	29.20%	28.40%	28.60%	26.50%	24.30%	25.70%	27.70%	29.20%	28.70%	27.00%	25.40%	24.80%	N/A
Non Food	20.70%	18.50%	17.90%	17.70%	17.70%	17.60%	18.20%	18.70%	17.70%	15.90%	15.20%	15.20%	N/A
Urban	19.80%	18.30%	17.60%	17.80%	17.90%	18.50%	18.90%	19.80%	19.10%	17.50%	16.20%	16.10%	N/A
Rural	24.10%	26.90%	27.10%	24.90%	23.10%	23.60%	25.30%	26.10%	25.40%	24.20%	23.10%	22.90%	N/A
Treasury Bill Yields (Source: RBM)													
91 day TB yield	23.87%	23.15%	25.48%	27.54%	28.23%	28.87%	28.98%	29.00%	28.99%	29.00%	29.00%	28.00%	23.89%
182 day TB yield	24.63%	25.12%	26.08%	27.59%	28.66%	29.00%	29.00%	28.99%	29.00%	29.00%	29.00%	28.99%	25.50%
364 day TB yield	26.24%	26.18%	26.27%	27.87%	28.68%	29.00%	29.00%	29.00%	29.00%	28.86%	29.00%	N/A	25.91%
Stock market (Source: MSE)													
MASI	14,562.53	14,440.24	14,263.58	13,419.95	12,861.07	12,814.18	13,126.13	13,381.50	13,174.36	13,744.12	13,782.48	12,875.85	13,320.51
DSI	11,462.87	11,365.60	11,225.08	10,554.04	10,109.50	10,072.19	10,320.33	10,523.46	10,358.69	10,793.84	10,824.35	10,103.29	10,456.92
FSI	1,762.13	1,762.13	1,762.13	1,762.13	1,762.13	1,762.13	1,762.13	1,762.13	1,762.13	2,026.07	2,026.07	2,026.07	2,026.07
Fuel Prices (Source: MERA)													
Petrol	711.90	711.90	711.90	743.30	743.30	743.30	788.30	788.30	788.30	788.30	788.30	824.70	824.70
Diesel	732.70	732.70	732.70	722.80	722.80	722.80	766.90	766.90	766.90	766.90	766.90	815.80	815.80
Paraffin	573.10	573.10	526.30	580.40	580.40	580.40	609.80	609.80	609.80	609.80	609.80	648.70	648.70

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

	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16
TANZANIA													
Exchange rate													
US\$	2,148.52	2,164.22	2,179.54	2,179.60	2,178.90	2,182.29	2,178.86	2,179.01	2,176.26	2,172.81	2,175.69	2,170.97	2,172.62
GBP	3,179.28	3,115.72	3,044.71	3,139.38	3,169.87	3,190.07	2,940.59	2,868.34	2,852.17	2,825.85	2,643.46	2,707.20	2,660.38
ZAR	139.17	130.78	139.16	145.78	151.20	138.00	145.79	153.00	150.57	157.32	156.59	155.07	158.84
EUR	2,347.58	2,358.25	2,400.22	2,465.78	2,467.93	2,431.08	2,422.02	2,416.74	2,427.96	2,435.18	2,378.13	2,297.32	2,270.28
Inflation %	6.80	6.50	5.60	5.40	5.10	5.20	5.50	5.10	4.90	4.50	4.50	4.80	5.00
Bank rate %	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00
UGANDA													
Exchange rate													
US\$	3,377.01	3,367.07	3,345.87	3,370.81	3,325.55	3,364.52	3,404.86	3,375.63	3,375.64	3,388.56	3,465.15	3,624.58	3,610.50
GBP	5,009.12	5,031.30	4,638.05	4,808.80	4,845.66	4,917.58	4,604.39	4,428.83	4,420.74	4,399.03	4,208.43	4,494.12	4,414.20
EUR	3,685.67	3,621.27	3,655.70	3,771.60	3,762.86	3,745.72	3,781.10	3,741.21	3,764.18	3,805.36	3,786.37	3,817.77	3,786.70
Inflation %	9.30	7.60	7.00	6.20	5.10	5.40	5.90	5.10	4.80	4.20	4.10	4.60	5.70
Bank rate %	17.00	17.00	17.00	17.00	16.00	16.00	15.00	15.00	14.00	14.00	13.00	13.00	12.00
ZAMBIA													
Exchange rate													
US\$	10.98	11.06	11.37	11.14	9.60	10.43	9.92	10.25	9.53	9.94	9.70	9.90	9.90
GBP	16.28	15.93	15.78	16.02	14.05	15.28	13.31	13.56	12.49	12.89	11.79	12.35	12.20
ZAR	0.71	0.67	0.71	0.76	0.68	0.66	0.67	0.73	0.65	0.72	0.71	0.71	0.72
Inflation %	21.10	21.80	22.90	22.20	21.80	21.30	21.00	20.20	19.60	18.90	12.50	8.80	7.50
Bank rate %	15.50	15.50	15.50	15.50	15.50	15.50	15.50	15.50	15.50	15.50	15.50	15.50	15.50
MOZAMBIQUE													
US\$	45.12	47.26	47.26	50.39	53.44	57.99	63.29	68.30	72.96	78.51	77.03	74.08	71.34
ZAR	2.93	2.86	3.02	3.38	3.71	3.67	4.24	4.80	5.04	5.69	5.57	5.30	5.22
EUR	49.29	51.40	52.07	57.00	60.63	64.58	70.15	75.78	81.42	87.93	84.14	78.41	74.54
Inflation%	10.55	11.25	12.18	13.61	17.29	18.27	19.72	20.68	21.96	24.90	25.53	26.83	25.27

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

K'Billion	2013/14 Outturn	2014/15 Approved	2014/15 (Revised)	2015/16 (Revised)	2016/17 (Proposed)
Total Revenues	520	641	683	785	965
Domestic revenue	441	531	551	654	775
Grants	79	110	133	131	190
Budgetary support	7	-	14		
Earmarked grants	72	110	119		
Total Expenditures	656	746	801	917	1,136
Recurrent expenditure	556	550	611	700	816
Wage & salaries	140	163	198	222	264
Interest on debt	98	80	106	116	144
Investment Expenditure	100	224	189	217	317
Deficit/Surplus	(136)	(105)	(117)	(132)	(171)
Deficit as a % of Revenue	-26%	-16%	-17%	-17%	-18%

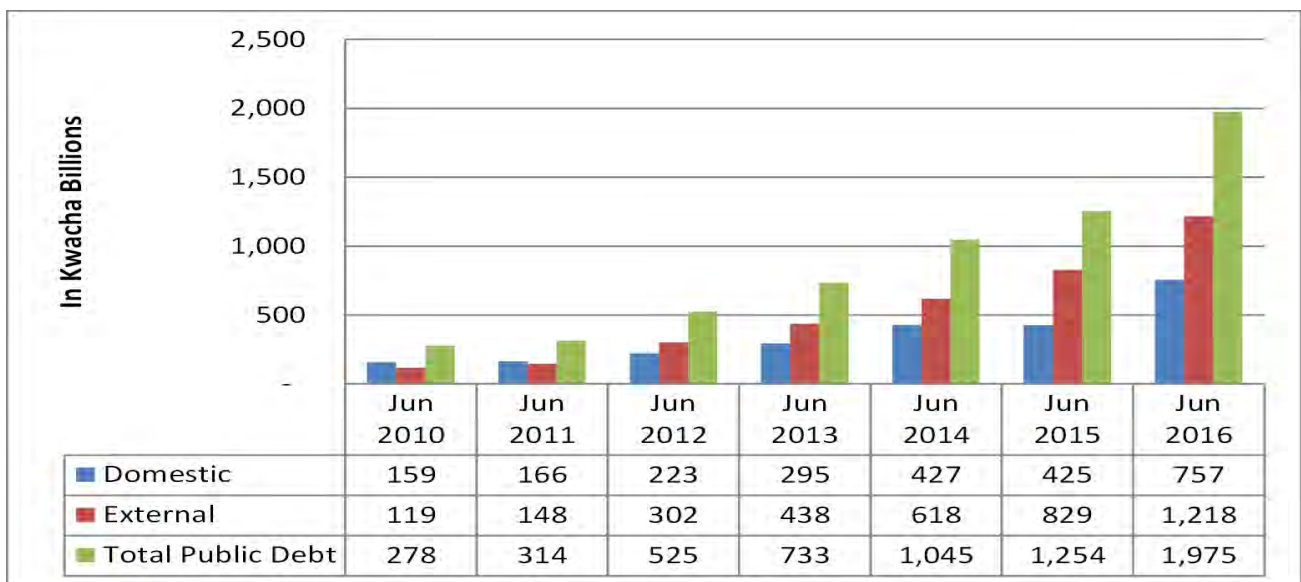


Appendix 4: Central Government Budgetary Operations *in billions of Kwacha* (Source: Reserve Bank of Malawi)

	2015				2016								
	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Total Revenues	48.1	60.8	49.1	56.2	56.2	48.7	60.7	63.4	51.1	79.4	75.4	68.9	74.4
Domestic Revenues	46.4	59.3	46.2	52.8	52.8	45.7	49.7	60.5	47.4	67.6	65.3	64.6	70.0
Tax Revenue	43.1	52.5	41.2	46.8	46.8	43.3	45.4	53.6	44.3	52.9	62.3	60.6	63.0
Non Tax revenue	3.3	6.8	5	6	6	2.3	4.3	6.9	3.1	14.7	3.0	4.0	7.0
Departmental Receipts	1.4	2.9	1.8	4.5	4.5	1.7	1.5	1.4	1.7	2.5	1.0	2.4	1.8
Other Receipts	1.9	4	3.2	1.4	1.4	0.6	2.8	5.5	1.4	12.2	2.0	1.6	5.2
Grants	1.7	1.5	2.9	3.5	3.5	3.1	11	2.8	3.7	11.8	10.1	4.2	4.4
Expenditures	63.2	73.5	54.2	69	69	69.9	90.3	75.7	53.1	97.8	59.9	103.2	98.1
Recurrent Expenditure	47.3	51.4	35.3	53.7	53.7	50.9	58.1	49.7	40.4	75.2	32.0	71.9	65.3
Interest Payments	8.6	11.4	5.4	6.5	6.5	9.4	20.6	16.1	6.9	9.5	18.9	16.4	20.6
Domestic	8.2	8.6	4.6	6.3	6.3	8.9	18.5	15.2	5.9	8.3	18.2	15.6	18.8
Foreign	0.3	2.7	0.7	0.2	0.2	0.5	2	0.9	1.1	1.3	0.6	0.8	1.8
Development	7.3	10.7	13.5	8.8	8.8	9.6	11.5	9.9	5.7	13.0	9.0	14.9	12.2
Deficit/Surplus	-15.1	-12.7	-5.2	-12.7	-12.7	-21.1	-29.5	-12.3	-1.9	-18.4	15.5	-34.4	-23.6
Financing (net)	13.2	6.3	1.7	-11	-11	15.1	42.6	9.6	-5.8	7.8	-16.1	23.6	33.9
Foreign	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	13.2	6.3	1.7	11	11	15.1	42.6	9.6	-5.8	7.8	-16.1	23.6	33.9
Banking System	19.8	16.9	7.2	1.6	1.6	-0.8	24.1	18.7	9.1	23.1	-31.3	24.9	51.3
Non-Bank Sector	-6.6	-10.6	-5.5	-12.6	-12.6	16	18.5	-9.1	-14.9	-15.3	15.1	-1.3	17.4
Errors and Omissions	-1.9	-6.4	-3.5	-23.7	-23.7	-6	-6	-2.7	-7.7	-10.5	-0.6	-10.7	10.2

Source: Reserve Bank of Malawi

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



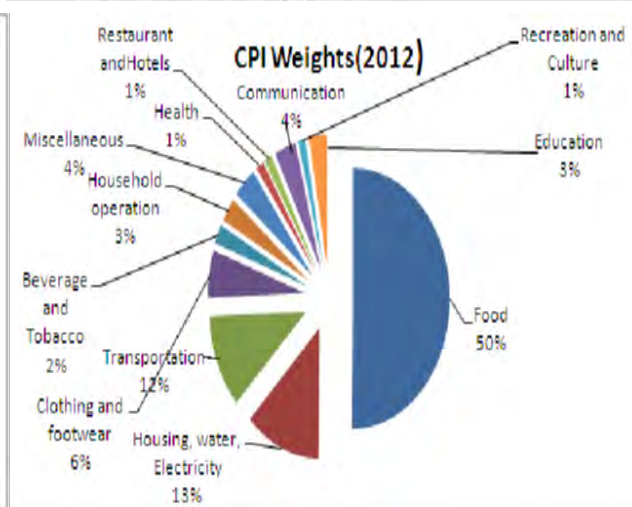
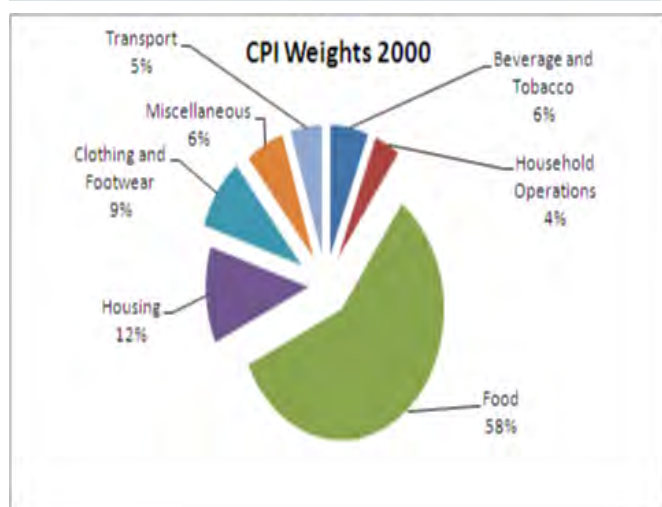
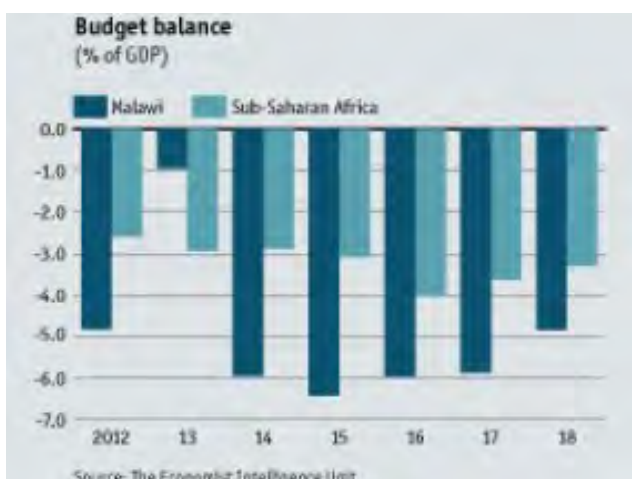
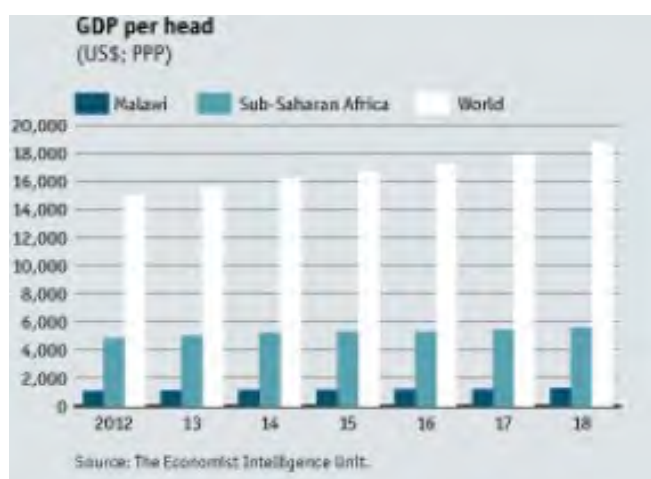
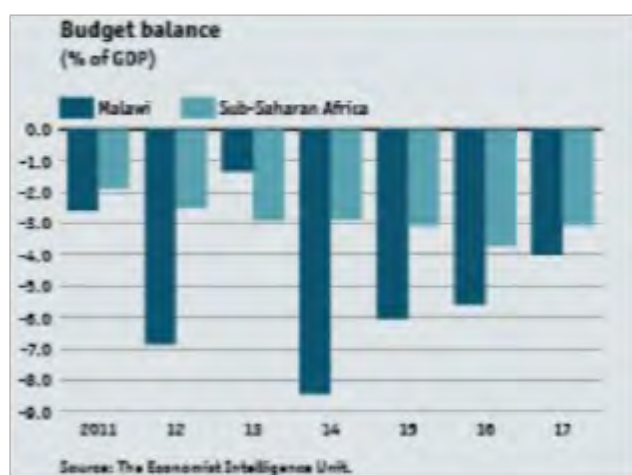
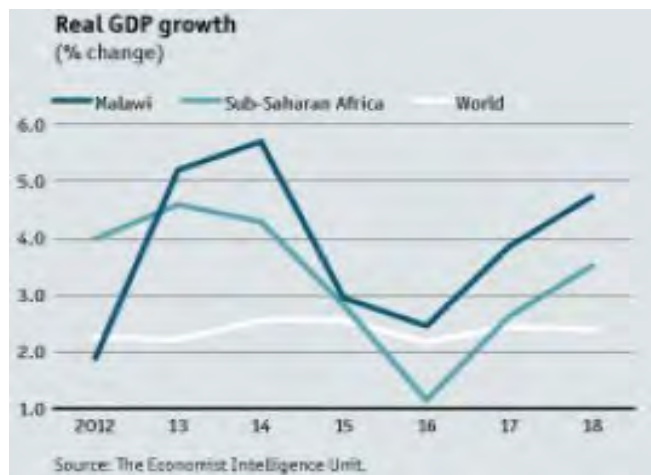
Appendix 6: MALAWI SELECTED ECONOMIC INDICATORS (source: IMF)

TABLE 1. MALAWI SELECTED ECONOMIC INDICATORS 2011-17

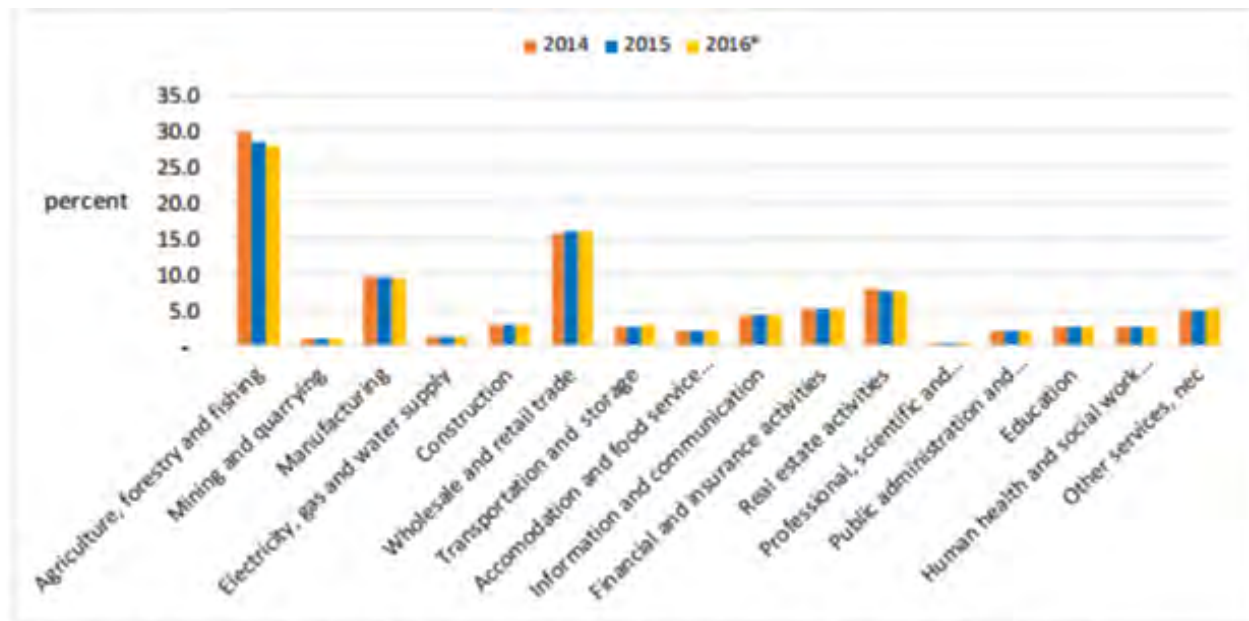
	2011	2012	2013		2014		2015	2016	2017
			Prog.	Actual	Prog	Estimate			
National accounts and prices (percent change, unless otherwise stated)	4.3	1.9	5.0	5.2	6.1	5.7	5.5	5.7	6.0
GDP at constant market prices	881	1,056	1,412	1,415	1,744	1,809	2,224	2,556	2,893
Nominal GDP (billions of Kwacha)	4.0	17.7	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)

(% unless otherwise indicated)

	2016 ^a	2017 ^b	2018 ^b	2019 ^b	2020 ^b	2021 ^b
Real GDP growth	2.5	3.9	4.7	4.3	3.8	4.0
Gross industrial growth	3.4	3.4	3.8	6.0	3.9	3.7
Gross agricultural production growth	-0.2	2.9	2.1	0.6	0.2	1.2
Consumer price inflation (av)	23.6	20.2	11.6	9.2	8.6	8.1
Consumer price inflation (end-period)	24.8	16.9	9.7	8.6	7.8	7.8
Lending rate (av)	44.5	44.3	41.9	39.0	38.2	38.2
Government balance (% of GDP)	-6.0	-5.9	-4.8	-4.0	-3.8	-3.2
Exports of goods fob (US\$ m)	1,455	1,581	1,633	1,676	1,714	1,762
Imports of goods fob (US\$ m)	-2,677	-2,855	-3,050	-3,126	-3,189	-3,232
Current-account balance (US\$ m)	-1,057	-1,127	-1,233	-1,292	-1,320	-1,411
Current-account balance (% of GDP)	-18.8	-17.9	-17.9	-17.3	-16.2	-15.9
External debt (year-end; US\$ bn)	1.9	2.1	2.3	2.6	2.8	3.0
Exchange rate MK:US\$ (av)	716.31	792.95	843.40	887.42	919.01	949.09
Exchange rate MK:US\$ (end-period)	737.25	803.96	881.92	926.08	923.96	972.86
Exchange rate MK:¥100 (av)	676.68	655.23	787.64	853.91	917.40	950.27
Exchange rate MK:€ (av)	951.9	879.9	936.40	965.1	1052.3	1110.4

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

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

	2011	2012	2013	2014*	2015*	2016*	2017*
A. Agriculture, forestry and fishing	6.1	(0.7)	6.2	6.3	(1.0)	(0.1)	5.9
B. Mining and Quarrying.....	(7.0)	14.9	6.9	(4.6)	1.1	0.4	1.6
C. Manufacturing.....	1.6	(1.1)	5.6	6.3	3.8	2.0	5.3
D. Utilities.....	2.6	2.4	5.5	3.0	2.4	0.8	4.8
E. Construction.....	0.5	2.5	2.0	4.8	3.5	3.2	5.4
F. Wholesale and retail.....	2.4	2.2	7.9	6.3	4.9	2.2	6.7
G. Transport and storage.....	1.7	4.9	5.3	4.8	4.3	4.7	5.6
H. Accommodation and food service activities.....	3.3	5.2	5.1	5.9	5.1	5.7	4.8
I. Information and communication.....	4.4	6.7	7.5	12.2	8.6	4.6	4.5
J. Financial and Insurance activities.....	9.2	6.1	3.8	5.5	5.6	5.5	6.9
K. Real estate activities.....	4.8	3.8	2.5	3.7	1.9	2.9	2.1
M. Public administration and defense.....	6.1	4.5	2.7	5.1	6.3	6.1	6.2
GDP in 2010 constant.....	3.5	2.1	6.3	6.2	3.3	2.9	5.6
GDP at current prices.....	11.4	23.8	35.3	31.5	26.8	18.9	22.6

Sources: Ministry of Economic Planning and Development, National Statistical Office, Treasury and Reserve Bank of Malawi.

*Preliminary figures

GLOBAL PROJECTIONS (Source: EIU)

	2016	2017	2018	2019	2020	2021
Economic growth (%)						
US GDP	1.6	2.3	2.1	1.0	2.0	2.0
OECD GDP	1.6	1.8	1.7	1.3	1.7	1.8
World GDP	2.2	2.5	2.4	2.0	2.6	2.6
World trade	1.7	2.8	2.7	2.1	3.0	3.1
Inflation indicators (% unless otherwise indicated)						
US CPI	1.1	2.1	2.2	1.3	1.7	1.9
OECD CPI	0.9	1.8	1.9	1.6	1.8	1.9
Manufactures (measured in US\$)	-1.2	2.3	1.8	4.6	3.5	3.1
Oil (Brent; US\$/b)	44.8	56.5	60.5	60.3	61.3	64.0
Non-oil commodities (measured in US\$)	-3.7	3.9	0.1	-0.1	1.1	2.3
Financial variables						
US\$ 3-month commercial paper rate (av, %)	0.5	0.8	1.3	0.8	0.2	0.5
US\$/€ (av)	1.11	1.11	1.10	1.13	1.15	1.17
¥/US\$	107.35	103.64	101.88	100.48	100.18	99.88

Appendix 11: PROJECTIONS

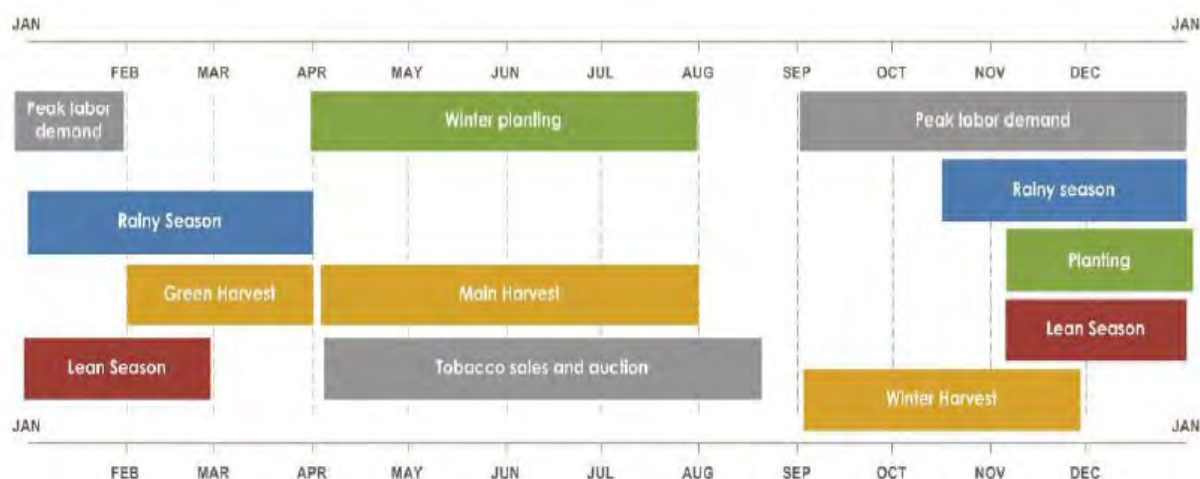
GLOBAL PROJECTIONS (Source: World Bank)

	2014	2015	2016	2017	2018	2019	2015	2016	2017	2018
			Estimates	Projections			Percentage point differences from June 2016 projections			
World	2.7	2.7	2.3	2.7	2.9	2.9	0.3	-0.1	-0.1	-0.1
Advanced economies	1.9	2.1	1.6	1.8	1.8	1.7	0.3	-0.1	-0.1	-0.1
United States	2.4	2.6	1.6	2.2*	2.1*	1.9*	0.2	-0.3	0.0*	0.0*
Euro Area	1.2	2.0	1.6	1.5	1.4	1.4	0.4	0.0	-0.1	-0.1
Japan	0.3	1.2	1.0	0.9	0.8	0.4	0.6	0.5	0.4	0.1
Emerging and developing economies (EMDEs)	4.3	3.5	3.4	4.2	4.6	4.7	0.1	-0.1	-0.1	0.0
Commodity exporting EMDEs	2.1	0.4	0.3	2.3	3.0	3.1	0.2	-0.1	0.0	0.0
Other EMDEs	6.0	6.0	5.6	5.6	5.7	5.8	0.1	-0.2	-0.2	-0.1
Other EMDEs excluding China	4.5	5.0	4.3	4.6	5.0	5.1	0.3	-0.4	-0.3	-0.1
East Asia and Pacific	6.7	6.5	6.3	6.2	6.1	6.1	0.0	0.0	0.0	0.0
China	7.3	6.9	6.7	6.5	6.3	6.3	0.0	0.0	0.0	0.0
Indonesia	5.0	4.8	5.1	5.3	5.5	5.5	0.0	0.0	0.0	0.0
Thailand	0.8	2.8	3.1	3.2	3.3	3.4	0.0	0.6	0.5	0.3
Europe and Central Asia	2.3	0.5	1.2	2.4	2.8	2.9	0.6	0.0	-0.1	0.0
Russia	0.7	-3.7	-0.6	1.5	1.7	1.8	0.0	0.6	0.1	-0.1
Turkey	5.2	6.1	2.5	3.0	3.5	3.7	2.1	-1.0	-0.5	-0.1
Poland	3.3	3.9	2.5	3.1	3.3	3.4	0.3	-1.2	-0.4	-0.2
Latin America and the Caribbean	0.9	-0.6	-1.4	1.2	2.3	2.6	0.1	-0.1	0.0	0.2
Brazil	0.5	-3.8	-3.4	0.5	1.8	2.2	0.0	0.6	0.7	1.0
Mexico	2.3	2.6	2.0	1.8	2.5	2.8	0.1	-0.5	-1.0	-0.5
Argentina	-2.6	2.5	-2.3	2.7	3.2	3.2	0.4	-1.8	-0.4	0.2
Middle East and North Africa	3.3	3.2	2.7	3.1	3.3	3.4	0.4	-0.1	0.0	-0.1
Saudi Arabia	3.6	3.5	1.0	1.6	2.5	2.6	0.1	-0.9	-0.4	0.2
Iran, Islamic Rep.	4.3	1.7	4.6	5.2	4.8	4.5	0.1	0.2	0.3	0.1
Egypt, Arab Rep. ²	2.9	4.4	4.3	4.0	4.7	5.4	0.2	1.0	-0.2	0.1
South Asia	6.7	6.8	6.8	7.1	7.3	7.4	-0.2	-0.3	-0.1	0.0
India ³	7.2	7.6	7.0	7.6	7.8	7.8	0.0	-0.6	-0.1	0.1
Pakistan ²	4.0	4.0	4.7	5.2	5.5	5.8	0.0	0.5	0.7	0.7
Bangladesh ²	6.1	6.6	7.1	6.8	6.5	6.7	0.5	0.6	0.5	-0.3
Sub-Saharan Africa	4.7	3.1	1.5	2.9	3.6	3.7	0.1	-1.0	-1.0	-0.7
South Africa	1.6	1.3	0.4	1.1	1.8	1.8	0.0	-0.2	0.0	-0.2
Nigeria	6.3	2.7	-1.7	1.0	2.5	2.5	0.0	-2.5	-2.5	-1.5
Angola	5.4	3.0	0.4	1.2	0.9	0.9	0.2	-0.5	-1.9	-2.5

Appendix 12: Key Performance Indicators (KPI) to be achieved by ESCOM (source: MERA)

Key Performance Indicators (KPI) to be achieved by ESCOM during the 2014-2017 base tariff period						
SCHEDULE NO. 1	FOR REPORTING PURPOSES ONLY	YEAR 1	YEAR 2	YEAR 3	YEAR 4	Remarks/Explanations
	Description	Targets	Targets	Targets	Targets	
1.1	Average cost per unit	Generation	Generation	Generation	Generation	To be based on cost of Supply Study
		Transmission	Transmission	Transmission	Transmission	
SCHEDULE NO. 2	FINANCIAL EFFICIENCY RATIOS					
	Description	Targets	Targets	Targets	Targets	
2.1	Net Surplus/Revenue (%)	20%	20%	20%	20%	
2.2	Payroll Costs/Total (%)	30%	30%	30%	30%	
2.3	Maintenance Costs/ Operational Costs	43%	43%	43%	43%	
2.4	Average Debt Collection Period	60 Days	50 Days	40 Days	30 Days	
2.5	Bad Debts - Receivable/Turnover	5%	5%	5%	5%	
2.6	Trade receivable/Turnover	20%	20%	20%	20%	
2.7	Return on Capital Employed	24%	24%	24%	24%	
2.8	Return on Shareholder funds	24%	24%	24%	24%	
2.9	Current Ratio	2 to 1	2 to 1	2 to 1	2 to 1	
2.10	Acid Test	1 to 1	1 to 1	1 to 1	1 to 1	
2.11	Gearing Ratio (%)	40%	40%	40%	40%	
2.12	Debt/Equity Ratio	66%	66%	66%	66%	
2.13	Interest coverage	3 times	3 times	3 times	3 times	
2.14	Interest PBIT (%)	33%	33%	33%	33%	
2.15	Trade Payables (Days)	30 Days	30 Days	30 Days	30 Days	
SCHEDULE NO. 3	PRODUCTIVITY RATIOS					
3.1	Customers per employee	99	99	99	99	Due to increased electrification, automation and subcontracting. Staff reducing by modest 5% per annum
3.2	System losses (Technical and Non-technical)	20%	19%	17%	16%	
3.3	Generation availability	90%	90%	90%	90%	To allow for plant maintenance at least four weeks (28 days) per year and the works at nkula
3.4	Average distribution Frequency of forced outages/interruptions	8.40	8.40	8.40	8.40	
3.5	Average distribution duration of outages/interruptions (Hrs)	25.80	25.80	25.80	25.80	
3.6	Energy generated per employee (MWh)	600	600	600	600	Generated figures from load forecast data for year 1 and staff reducing by 5% due to subcontracting and automation
3.7	Faults per 100 customers	30	25.00	20.00	20.00	
3.8	New customers	45,000	45,000	45,000	45,000	Assumes 45,000 connections and that staff will reduce by 5% in year 1 due to subcontracting and automation
3.9	Customers connected on prepayment	210,000	300,000	390,000	480,000	Assumes yearly growth of 90,000 customers
3.10	Electrification	10%	11%	12%	13%	
3.11	Quotation days	14	14	14	14	
3.12	Service Charter	Implemented	Operational	Operational	Operational	

Appendix 13: SEASONAL CALENDAR FOR A TYPICAL YEAR



Source: FEWS NET

APPENDIX 14: MALAWI'S MAIN EXPORT AND IMPORT COMMODITIES (Source: Ministry of Finance)

MALAWI'S MAIN EXPORT COMMODITIES, 2011-2014 IN KWACHA								
	2011		2012		2013		2014*	
Tobacco	88,901,279,193	52%	157,210,625,908	40%	202,795,617,140	59%	258,216,888,381	70%
Tea	13,517,883,162	8%	173,178,369,222	44%	31,013,223,072	9%	30,530,055,666	8%
Sugar	33,520,809,879	20%	10,339,429,668	3%	41,191,574,695	12%	38,331,807,327	10%
Pulses	4,313,549,579	3%	11,099,441,442	3%	11,236,817,607	3%	31,511,226,260	9%
Apparel and Clothing	2,731,702,756	2%	3,503,917,456	1%	3,804,302,728	1%		0%
Rubber	2,326,006,751	1%	2,223,310,546	1%	3,026,229,718	1%		0%
Nuts	1,865,305,718	1%	3,080,406,776	1%	5,007,352,626	1%		0%
Coffee	14,839,941,290	9%	19,041,777,691	5%	33,621,867,950	10%		0%
Cotton	7,608,231,609	4%	12,130,055,090	3%	8,943,245,084	3%	8,558,865,204	2%
Spices (HS 904)	288,062,864	0%	681,930,847	0%	1,110,632,762	0%		0%
SKIN & HIDES (HS 410)	150,976,292	0%	515,390,020	0%	663,100,318	0%		0%
Wood (HS 4407)	908,319,773	1%	3,041,132	0%	3,916,307,230	1%		0%
Wood Furniture	922,180,149	1%	1,761,323,380	0%	5,157,257	0%		0%
TOTAL	171,894,249,015	100%	394,769,019,178	100%	346,335,428,187	100%	367,148,842,838	100%
* Estimations								
Source: NSO								
VALUE OF SELECTED IMPORTS, 2011-2013 IN KWACHA								
	2011		2012		2013		2014*	
Fertilizer	29,186,706,091	29%	71,696,820,835	33%	125,439,817,639	36%	145,180,046,645	48%
Pharmaceutical products	28,053,793,536	27%	59,519,182,273	28%	79,130,419,624	22%		0%
Diesel and other fuels	19,778,780,196	19%	80,524,662,815	37%	95,718,845,873	27%	95,769,563,265	32%
Petroleum	24,293,615,048	24%	1,807,148,820	1%	49,110,756,860	14%	58,870,068,851	19%
Paraffin	575,437,728	1%	937,438,475	0%	2,717,380,994	1%	815,375,678	0%
Coal	276,060,594	0%	445,943,320	0%	1,226,228,377	0%	1,552,082,919	1%
TOTAL	102,164,393,193	100%	214,931,196,538	100%	353,343,449,367	100%	302,187,137,358	100%

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Mission Statement

“To provide high quality investment management, corporate finance and investor services that will create value to all stakeholders”

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