NICO
Asset Managers

ANNUAL ECONOMIC REPORT 2015

Investment Management | Corporate Finance | Investor Services | Infrastructure Development

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EXECUTIVE SUMMARY

Economic Outlook– Malawi

⇒ The Kwacha is expected to continue depreciating as the lean season continues and donors continue to withhold budgetary support. In the medium to long term the currency will depreciate on account of the significant current account deficit and weak investment inflows despite tobacco exports and forex reserves.

⇒ Inflation is expected to remain elevated in the short term as a result of rising food prices and the depreciating currency. A low maize harvest resulting from the late rains and the damage from the heavy rains may affect food inflation. The EIU expects inflation to average 19.9% in 2016 from 22.2% in 2015.

⇒ Interbank rates and Treasury bill rates are expected to remain high as a result of the volatile liquidity in the market, a high monetary policy rate and high inflation rates. Banks have increased their base lending rates in response to the increase in the monetary policy rate to 27% from 25%.

⇒ Government has approved a budget to parliament for the 2015/16 financial year. Expenditures are projected at K930 billion against revenues of K763 billion resulting in a deficit of K167 billion. Government intends to finance the fiscal deficit by the use of external borrowing. The EIU projects a fiscal deficit of 3.8% in the 2015/16 fiscal year. The budget may be revised downwards in order to ensure expenditures are closer to revenues.

⇒ The corruption and theft of government funds scandals affected the relationship and future donor aid with donor countries. This has resulted in some donors withholding budgetary support to the government.

⇒ GDP growth has been revised downwards to 3.0% in 2015 then increase to 5% in 2016. Growth is expected to improve in 2016 as agricultural production improves and global oil prices remain low. 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.

⇒ Interest rate risk—high interest rates leading 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.

⇒ High inflation rates—reduces disposable income of households and lowers the amount of foreign direct investment coming into the country.

EXECUTIVE SUMMARY (Continued...)

Economic Highlights For 2015—Malawi

⇒ During 2015 inflation decreased to 21.9% from 23.8% in 2014 (Source: NSO).

⇒ The All-type Treasury bill yield decreased to 24.91% in December 2015 from 26.79% in December 2014. The average Treasury bill yield for 2015 is 23.96% (2014: 21.73%) (Source: RBM).

⇒ In 2015, the Malawi Kwacha depreciated against all the major currencies. As at 31 December 2015, the Kwacha was trading at MK672.68:US$1 (42.9% depreciation), MK997.53:GBP1 (36.2% depreciation), MK43.41:ZAR1 (6.7% depreciation) and MK732.37:EUR1 (28.0% depreciation) (Source: RBM).

⇒ Total forex reserves increased to US$1,007 million (4.82 months worth of import cover) as at 31 December 2015 from US$922million (4.83 months worth of import cover) in December 2014 (Source: RBM).

⇒ The stock market was bearish during the year with the MASI decreasing by 2.17% to settle at 14,562.53 points from 14,886.12 points in the previous year due to share price losses in FMB, NBS Bank, Illovo, NICO and Real Insurance (Source: MSE).

⇒ Liquidity levels increased in 2015 averaging K10.22 billion per day compared to K8.17 billion per day in 2014. Access on the Lombard Facility (discount window borrowing) averaged K4.22 billion in 2015 from K18.87 billion in 2014 (Source: RBM).

⇒ In 2015, a total of 190.72 million kilograms of tobacco was sold on the auction floors at an average price of US$1.76 per kilogram resulting in total revenues of US$335.24 million compared to US$361.56 million in 2014 (7% decrease) (Source: TCC).

⇒ The Malawi Vulnerability Assessment Committee (MVAC) released a report which shows that 2.8 million people will not be able to meet their minimum food requirements during the 2015/16 consumption year. There is a maize deficit of 223,723 metric tonnes due to under production (Source: Ministry of Finance).

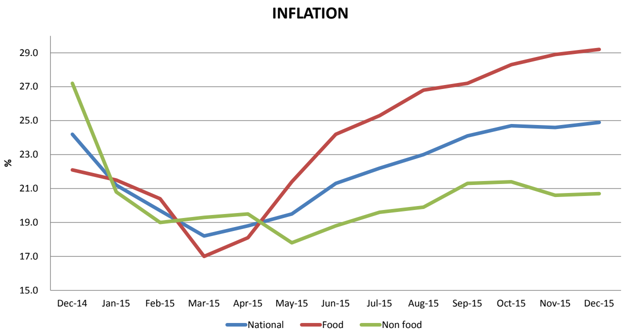
⇒ The International Monetary Fund (IMF) mission visited Malawi three times. They disbursed US$18 million in March 2015. However the program had been declared off track due to performance slippages in September 2015, then it was declared back on track in December 2015. They continued to urge government to keep tight monetary and fiscal policies (Source: IMF).

⇒ The Monetary Policy Committee (MPC) met four times during the year. The Liquidity Reserve Requirement (LRR) was adjusted downwards from 15.5% to 7.5% in July 2015, and then the monetary policy rate was adjusted upward from 25% to 27% in November 2015 (Source: RBM).

1. ECONOMIC OVERVIEW

Inflation

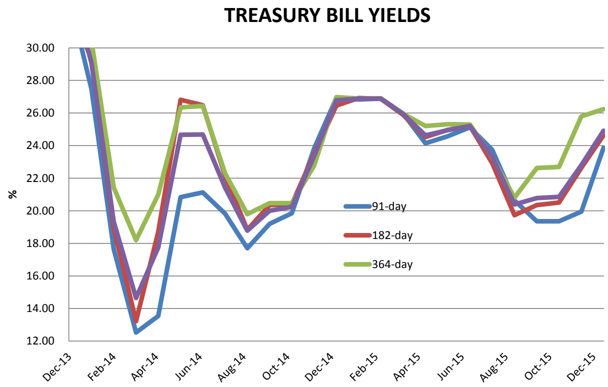
Inflation for 2015 averaged 21.9% a decline from 23.8% in 2014 (Source: National Statistical Office). The decline was mainly attributed to the fall in non-food prices mainly fuel pump prices. Global oil prices had fallen compared to 2015 as a result of global over supply and slowing demand. However food prices increased as a result of lower maize production.



	2015	2014	Change
Headline inflation	21.9%	23.8%	-1.90%
Food	24.0%	22.0%	2.00%
Non-food	19.9%	26.1%	-6.20%
Urban	19.8%	31.8%	-12.00%
Rural	24.1%	20.0%	4.10%

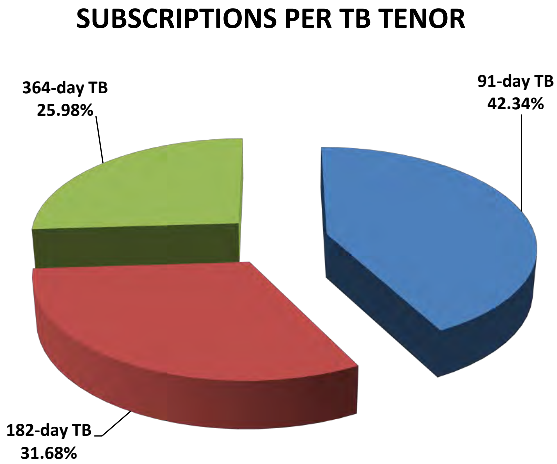
Government Securities

During the year 2015, Treasury Bill yields increased on all the tenors. The All Type Treasury bill yield increased to 23.96% from 21.73% in 2014. Treasury bill yields reached a high of 27% in early 2015 when RBM was allotting Treasury bills at the monetary policy rate plus 200 basis points (Source: RBM).



	2015	2014	Change
91-day	23.37%	20.04%	3.33%
182-day	23.76%	22.09%	1.67%
364-day	24.75%	23.05%	1.70%
All type yield	23.96%	21.73%	2.23%

Total applications for Treasury bills for 2015 stood at K509 billion compared to K430 billion in 2014 but K379 billion was allotted compared to K286 billion in 2014 resulting in a rejection rate of 26%. Maturing Treasury bills stood at K408 billion resulting in a net injection of K29 billion. The 182 days paper accounted for the highest subscription rate at 34.2%, followed by the 91 days paper at 33.9% and the 364 days paper at 31.9% (Source: RBM).

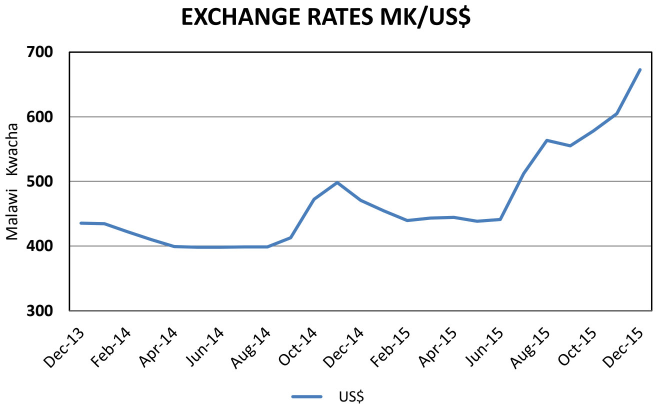


There were Treasury Note Auctions in the year under review with tenors of 2 years, 3 years, 5 years, 7 years and 10 years. However only the 2 year and 3 year Notes were subscribed to. A total of K20 billion was allotted on the 2 year Treasury Note at an average rate of 23.66% with a 14% coupon rate. A total of K20 billion was allotted on the 3 year Treasury Note at an average rate of 24.26% with a 13% coupon rate.

1. ECONOMIC OVERVIEW (Continued...)

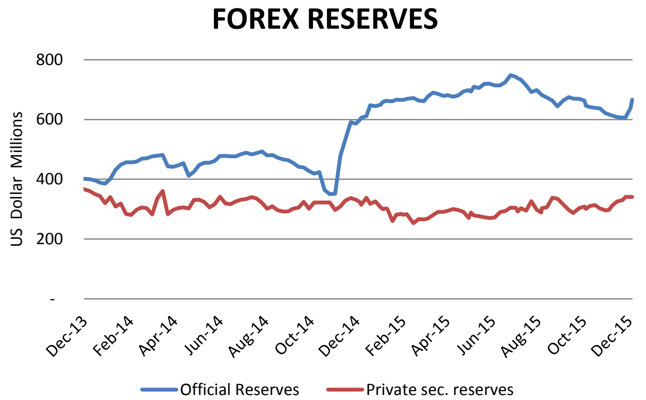
Foreign Currency Market

In 2015, the Malawi Kwacha depreciated against all the major currencies. The Kwacha recorded a depreciation of 42.9% against the US Dollar compared to an 8.2% depreciation recorded in 2014. The Kwacha depreciated significantly during the lean season when the tobacco season was closed mainly as a result of speculation and a firming of the US Dollar against its major trading partners (Source: RBM).



CURRENCY	Dec-15	Nov-15	Dec-14	%Movement 1 month	%Movement 12 months
MK/US Dollar	672.68	604.84	470.78	-11.2%	-42.9%
MK/GBP	997.53	909.68	732.63	-9.7%	-36.2%
MK/ZAR	43.41	42.06	40.71	-3.2%	-6.7%
MK/EUR	732.37	640.64	572.28	-14.3%	-28.0%

Foreign exchange reserves as at 31 December 2015 increased to US$1.07 billion from US$922 million on 31 December 2014. Of the total reserves, US$666 million was gross official reserves (3.19 months of import cover) and US$341 million was with the private sector (1.63 months of import cover). Despite the higher reserves the import cover has not changed as much as this is attributed to the adjustment in monthly import cover requirements from US$181 million to US$209 million effective on 8 May 2015 (Source: RBM).

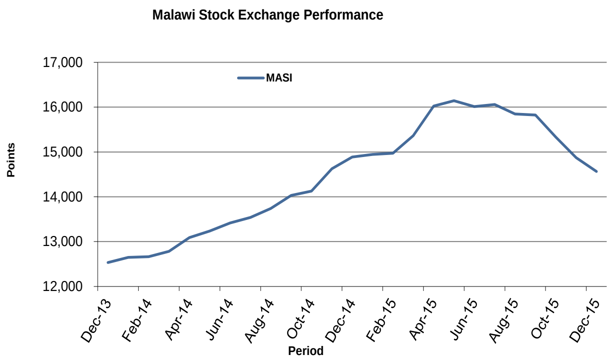


	31-Dec-15		31-Dec-14	
	(US$ million)	Import Cover (Months)	(US$ million)	Import Cover (Months)
Gross Official	666 ⬇	3.19	598	3.13
Private Sector	341 ⬇	1.63	324	1.70
Total	1,007 ⬇	4.82	922	4.83

1. ECONOMIC OVERVIEW (Continued...)

Stock Market

The stock market was bearish during the year under review, with the Malawi All Share Index (MASI) decreasing by 2.17% to settle at 14,562.53 points much lower than the 18.95% return achieved in 2014. The largest 3 losers were Illovo (21.82% decrease), FMB (26.16% decrease) and NBS (14.81% decrease). The largest 3 gainers were Sunbird (187.50% increase), MPICO (103.98% increase) and TNM (46.70% increase). During the period the Domestic Share Index (DSI) decreased by 2.20% to 11,462.87 points while the Foreign Share Index (FSI) increased by 0.14% to 1,762.13 points.



During the year under review there was a 37% increase in traded volumes totaling 2.3 billion shares which returned a total value of K48.5 billion (349% more than 2014). However there was a 27% decrease in the number of deals from 1,667 in 2014 to 1,218 in 2015.

The dividend yield for the MASI closed at 3.99% in 2015 from 3.66% in 2014. The PE ratio increased to 11.77 in 2015 compared to 10.06 in in 2014. On the other hand the Price to Book ratio decreased to 1.16 in 2015 from 1.19 in 2015.

	Dec-15	Nov-15	Dec-14	Change (1 month)	Change (12 months)
		MK/Share	MK/Share	%	%
BHL	9.60	9.60	8.00	0.00%	20.00%
FMB	14.00	14.00	18.96	0.00%	-26.16%
ILLOVO	230.00	245.00	294.20	-6.12%	-21.82%
MPICO	8.20	9.00	4.02	-8.89%	103.98%
NBM	258.00	258.00	241.00	0.00%	7.05%
NBS	23.00	25.50	27.00	-9.80%	-14.81%
NICO	28.00	28.00	32.50	0.00%	-13.85%
NITL	55.00	55.00	41.50	0.00%	32.53%
PCL	535.00	535.00	453.10	0.00%	18.08%
REAL	2.00	2.00	2.30	0.00%	-13.04%
STANDARD	440.00	440.00	425.00	0.00%	3.53%
SUNBIRD	23.00	22.09	8.00	4.12%	187.50%
TNM	6.00	6.00	4.09	0.00%	46.70%
OML	1,402.00	1,402.00	1,400.00	0.00%	0.14%
MASI	14,562.53	14,871.56	14,886.12	-2.08%	-2.17%
DSI	11,462.87	11,708.68	11,720.43	-2.10%	-2.20%
FSI	1,762.13	1,762.13	1,759.61	0.00%	0.14%

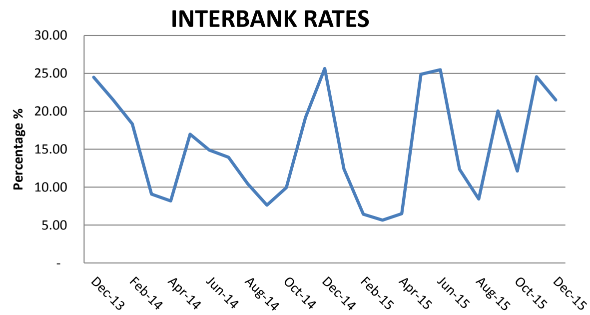
1. ECONOMIC OVERVIEW (Continued...)

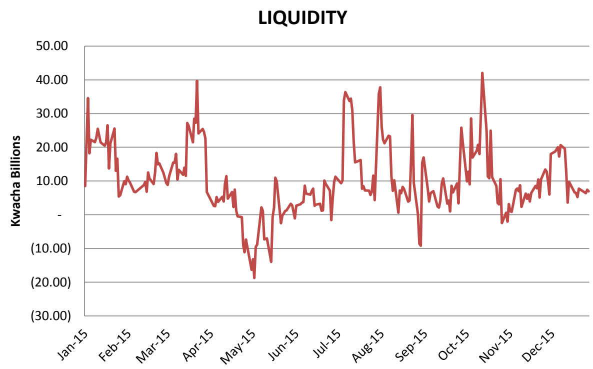
Interbank Markets and Interest Rates

Liquidity levels increased in 2015 averaging K10.22 billion a day compared to K8.17 billion a day in 2014. Liquidity levels have been erratic in the year under review reaching a high of K42.04 billion and a low of negative K18.72 billion. The liquidity levels had reached the negative levels in April 2015 around the opening of the tobacco season. There was a spike in the liquidity levels as a result of a reduction in the Liquidity Reserve Requirement (LRR) from 15.5% to 7.5% effective 28 July 2015. This reduction flooded the market with approximately K40 billion which was later invested in the Treasury Notes. The Monetary Policy rate had been adjusted upwards to 27% effective 4 November 2015 from a previous rate of 25%. Commercial banks base lending rates range between 34.0% and 38.0% effective November 2015 (2014: between 37.0% and 39.0%).

Access on the Lombard facility decreased to an average of K4.22 billion from K18.87 billion in 2014. Overnight borrowing between banks increased to an average of K4.29 billion from 3.05 billion in 2014. Interbank rates averaged 15.16% in 2015 from 14.66% in 2014 (Source: RBM).

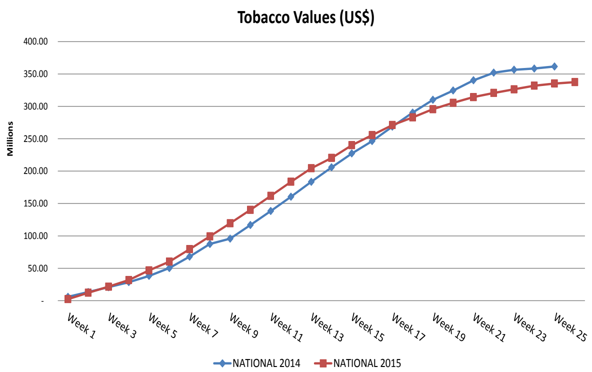
Average interbank rates





Tobacco Market Update (Source: Tobacco Control Commission)

The 2015 tobacco market commenced on 8 April 2015, three weeks later than the previous season. In the 2015 tobacco market season, revenues totaled US$335.24 million from the previous year's US$361.56 million (a 7% decrease) selling at an average price of US$1.76 per kilogram (2014: US$1.88 per kilogram representing a 7% decrease). A total of 190.72 million kilograms of tobacco was sold on all the auction floors in the 2015 market compared to 191.97 million kilogram in 2014 (a 1% decrease). The type of leaf sold is detailed in the table below: (Source: Tobacco Control Commission).



Type of Leaf	Volume (KG) million			Value (US$) million			Average Price (US$/Kg)		
	2014	2015	% Change	2014	2015	% Change	2014	2015	% Change
Burley	159.39	167.05	4.81%	282.96	278.92	-1.43%	1.78	1.67	-5.95%
Flue Cured	31.06	22.31	-28.19%	75.63	53.38	-29.42%	2.43	2.39	-1.71%
NDDF	1.31	1.28	-2.18%	2.61	2.77	6.21%	1.99	2.16	8.59%
SDF	0.21	0.08	-61.95%	0.36	0.17	-51.05%	1.73	2.22	28.66%
All Tobacco	**191.97**	**190.72**	**-0.65%**	**361.56**	**335.24**	**-7.28%**	**1.88**	**1.76**	**-6.67%**

2. OTHER MARKET DEVELOPMENTS

National Flood Disaster Donations (Source: Department of Disaster Management Affairs)

The department of disaster management affairs received various donations in cash and kind towards the national flood disaster that occurred in early January 2015 which caused loss of life and property. Total cash received as at 29 January 2015 was K100 million and details of the donations received and expenditure were published in local newspapers. They have also received pledges from various institutions and governments which they will release at a later date.

UNDAC assessment of the 2015 floods (Source: UNDAC)

The United Nations Disaster Assessment and Coordination (UNDAC) organization released an assessment on the impact of the 2015 floods in Malawi. 230,000 people were displaced in the country with 104 people dead and 645 people injured. The most affected areas were Nsanje, Zomba and Phalombe.

Results of the food Security Vulnerability Assessment (Source: Ministry of Finance)

In a press release, the Ministry of Finance, Economic Planning and Development released the results of the food security vulnerability assessment conducted by the Malawi Vulnerability Assessment Committee (MVAC). The results show that a total of 2,833,212 people (17% of the population) will not be able to meet their annual food requirement during the 2015/16 consumption year. There has been an increase of 116% in the number of people affected during the 2015/16 consumption year compared to 1,312,376 people in the previous year. The increase has been as a result of the weather related hazards, ranging from late on-set rains, floods and dry spells to early cessation of rains, all of which affected crop production during the 2014/15 agricultural season.

The total humanitarian food that is required to support the affected people is estimated at 124,183 metric tonnes of maize with an estimated cash value of K18.6 billion. These figures relate to the food requirements of the vulnerable people only which is lower than the maize consumption deficit of 223,723 metric tonnes. The government, in collaboration with its development partners will be implementing response interventions to assist the affected population. They are procuring 52,000 metric tonnes of maize to provide food assistance to the affected people while ADMARC is procuring an estimated 45,000 metric tonnes of maize in order to ensure that the commodity is available at its selling points so as to stabilize the prices of maize.

Food Security Update (FEWS Net)

Currently 12 districts are receiving humanitarian assistance and an additional 13 districts have enough funding for implementation up to February 2016. However assistance for March 2016 is uncertain as there is a 25% funding shortfall. So far ADMARC has already disbursed about 35% of its maize supplies. Maize prices have increased between 15% and 30% (depending on the region) between October and December 2015.

The rainy season in Malawi has been slow to start as some regions have been delayed by up to 1 month. This delay of the season will likely extend the lean season by one month as the maize harvest will also be delayed. FEWS Net projects that stressed food insecure populations will begin to experience improved consumption due to food assistance in January 2016. However the funding shortfall may make implementation for March 2016 uncertain.

2. OTHER MARKET DEVELOPMENTS (Continued…)

IMF IN MALAWI (Source: IMF)

March 2015

The International Monetary Fund (IMF) Executive Board completed the fifth and sixth reviews of Malawi's economic performance under the Extended Credit Facility (ECF) arrangement enabling the disbursement of US$18 million. The current three year ECF arrangement started in July 2012 and was for a total amount of US$144 million. A total of US$90 million has been disbursed so far. The Board also approved the request for waivers on non-observance of performance criteria related to the net domestic assets of the Reserve Bank of Malawi (RBM), net domestic borrowing by the government, the ceiling on new non-concessional external debt maturing in more than one year, and the ceiling on non-accumulation of external payments arrears. The Board also approved a request for an extension of the current ECF arrangement by six months to May 2016 and the rephasing of disbursements associated with the seventh and eighth reviews.

September 2015

The IMF sent a team on a mission to Malawi between 16-30 September 2015 to conduct discussions of Malawi's performance under the ECF. According to the IMF, real GDP growth was projected to fall to 3% in 2015 from an estimated 5.7% in 2014, reflecting the steep decline in the maize harvest in addition to weak private sector investment and consumption. Program targets on net international reserves and net domestic assets of the Reserve Bank of Malawi for June 2015 were met. However fiscal slippages to about 2% of GDP emerged during the second half of the FY2014/15, in part because of overspending on the wage bill. As a consequence the end June 2015 program target on net domestic financing was not met. Therefore the ECF program was declared off track.

December 2015

On 11 December 2015, the Executive Board of IMF concluded the 2015 Article IV consultation with Malawi. The directors noted that uneven policy implementation, high inflation, the cash gate scandal and the subsequent withdrawal of donors' budgetary support as well as fiscal and monetary policy slippages prevented the achievement of key objectives of sustainable and inclusive growth and low inflation under Malawi's Growth and Development Strategy. The economic outlook remains difficult reflecting the negative impact of weather-related shocks, the ongoing suspension of budget support, persistently high inflation and weaker global demand which could hurt Malawi's exports. Real GDP growth projection was maintained at 3% in 2015 and it is projected to rise gradually to about 5.5% over the medium term. Growth will be conditional on a recovery in the agricultural sector, construction activity, and the wholesale and retail sector. Inflation is expected to rise to 25.4% at the end of 2015 and is estimated to ease in 2016 and reach single digits by the end of 2017 if fiscal and monetary policies tighten, and international prices for food and petroleum products remain low.

2. OTHER MARKET DEVELOPMENTS (Continued…)

WORLD BANK ECONOMIC MONITOR (Source: World Bank)

The World Bank introduced a new semi-annual publication in March 2015 intended to provide an analysis of economic and structural development issues in Malawi.

In the first edition of the report, the impact of the January 2015 floods was estimated at 5% of GDP but the net effect of the floods is expected to be neutral as the impact is offset by reconstruction efforts financed through increased foreign grants. The following steps were highlighted as key to restoring macroeconomic stability and building confidence in the economy: Fiscal consolidation and reduction in the size of the budget deficit; The application of a tight monetary policy and scaled back domestic borrowing to gradually reduce inflationary pressures; The reform of key subsidy programs particularly FISP in order to reduce fiscal pressures and to improve policy effectiveness; Implementation of public financial management reforms in prioritized areas to rebuild confidence in the integrity of government accounts.

In the second edition of the report, the World Bank noted that Malawi's short term growth prospects have deteriorated due to a combination of weather shocks, increased instability in key macroeconomic variables, and a decline in business confidence. As a result they revised the GDP forecast for 2015 to 2.8% from a previous estimate of 5.1%. Inflation wass expected to remain high, averaging 21.7% in 2015 mainly as a result of rising maize prices in anticipation for shortages. The control of core inflation is highly dependent on reducing the fiscal deficit and curbing government's appetite for borrowing.

In 2015 Malawi is expected to face significant challenges, as external shocks add pressure to an already weak fiscal position. The fiscal deficit for the FY2015/16 is expected to reach a value equivalent to 7.0% as collected revenues are expected to be lower than targets, especially if government expenditure is not contained to reasonable levels. Weak fiscal discipline is the most significant contributor to Malawi's macroeconomic instability with the prospects of improvement remaining poor. This creates the risk of pushing up inflation and lending rates, crowding out private sector investment and constraining growth.

Revision of the Guidelines to Foreign Exchange Trading Activities (Source: RBM)

On 28 July 2015 the Reserve Bank of Malawi revised some of the provisions in the guidelines for foreign exchange trading that were published in November 2014. The changes are:

- Opening rates will be based on the previous day's average market closing prices plus a margin not more than +/- 0.25%.
- Intraday changes can be made provided a deal of minimum USD250,000 has been executed but must not exceed a margin of +/- 0.5%.
- Spread between buying and selling exchange rates shall not exceed K5 for all trading currencies at any point.
- Overall foreign exchange risk exposure is reduced from +/- 35% to +/- 10%.
- In calculating LRR for foreign currency deposit balance should be converted to Malawi Kwacha.

2. OTHER MARKET DEVELOPMENTS (Continued…)

MONETARY POLICY (Source: RBM)

The Monetary Policy Committee (MPC) met four times in 2015 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:

4 February 2015

The policy rate was maintained at 25% and the Liquidity Reserve Requirement (LRR) at 15.5%. Real GDP growth was estimated at 6.3% in 2014 largely driven by the domestic sector. Money supply growth fell to 18% in December 2014 largely due to a decline in net domestic credit. Average money supply growth for 2014 was at 22.2%. Government recorded a deficit of K78.52 billion in the first half of the 2014/15 fiscal year. Borrowing from RBM closed the month of December 2014 at K77.53 billion against the statutory limit of K105.06 billion.

29 April 2015

The policy rate was maintained at 25% and the Liquidity Reserve Requirement (LRR) at 15.5%. They revised their real GDP growth for 2015 to 5.4% from a previous projection of 5.8%. The revision took into account a contraction in agricultural production brought on by the late rains and flooding. Fiscal performance up to the third quarter of the 2014/15 fiscal year was unsatisfactory as domestic borrowing requirements exceeded expectations as contained in the budget. Monetary policy remained tight in the first quarter of 2015 as money supply growth decelerated to 15% in February 2015 from a high of 34% in February 2014.

28 July 2015

The monetary policy rate was maintained at 25%. However the Liquidity Reserve Requirement (LRR) ratio was reduced to 7.5% from 15.5% to enable banks to lower the spread between the prime lending rate and the policy rate. Real GDP growth estimate was maintained at 5.4% in 2015. As of May 2015, net government borrowing was at K110 billion from K99.3 billion in March 2015. Money supply growth decelerated to 10.3% in May 2015 from a high of 32.5% in January as a result of a drop in net domestic credit.

4 November 2015

The policy rate was adjusted upwards to 27% from 25% and the Liquidity Reserve Requirement (LRR) was maintained at 7.5%. The adjustment was attributed to the persistently high inflation, depreciating exchange rate as well as uncertainties on food prices and wage demands. The real GDP growth forecast for 2015 was revised to 3.0% from a previous estimate of 5.4%. The downward revision was mainly as a result of a contraction in agriculture due to the late onset of rains, floods and early cessation of the rains.

Monetary Policy Statement

In the third Monetary Policy Statement RBM has maintained its tight monetary policy stance with the main objectives of attaining price stability and financial system stability. RBM has forecast inflation to 19.3% by June 2016, however they will aim to meet the Ministry of Finance target of 14.2% by June 2016. This will be attained by low domestic food prices, low and stable fuel pump prices and minimal exchange rate volatility.

2. OTHER MARKET DEVELOPMENTS

Millennium Challenge Account: Compact Progress Report (Source: MCC)

The Millennium Challenge Corporation (MCC) released a progress report on the compact signed with the Government of Malawi on 7 April 2011. So far US$19.69 million from the budgeted US$350.7 billion for the project has been disbursed. Infrastructure Development Projects include: Nkula A is to be refurbished increasing the 24MW capacity by 25% to maximise output. Actual implementation to take place between May 2015 and January 2018; Construction of transmission lines including: A 173 km long 400KV transmission line from Phombeya to Nkhoma; 35km long 66KV line within Lilongwe; and a 131Km long 132KV line parallel to the existing 66KV line from Chintheche to Luwinga and Bwengu.

ESCOM to Add 40MW to Capacity (Source: ESCOM)

The Electricity Supply Corporation of Malawi (ESCOM) announced plans to extend its Kapichira Hydro-power Station which will add 40MW to current capacity. Escom's current capacity is at 351MW against a suppressed demand of 350MW. Kapichira Hydro-power station currently has a generation capacity of 128MW. The country is also implementing a US$351 million power revitalization project under MCC which will help to modernize distribution, transmission and generation lines.

Revision of Electricity Tariffs (Source: MERA)

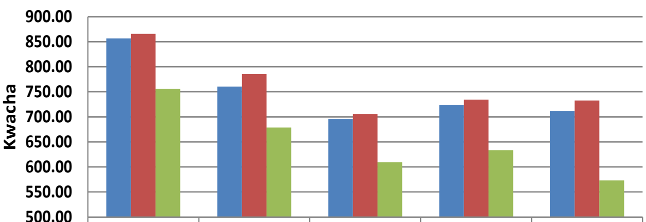
The Malawi Energy Regulatory Authority (MERA) issued an announcement that they have approved an increase of 13.5% in tariffs for ESCOM. This is supposed to be part of the 37.28% tariff increase that the MERA Board granted ESCOM in 2014 which is to be rolled over a three year period. The tariff increased from K35.69 per KWh to K40.59 per KWh effective 2 November 2015. The Board noted that ESCOM continues to improve its balance sheet due to a combination of the tariff increase and the debt swap that they did with government. The Board also noted that the depreciating currency and rising inflation had eroded the current value of the electricity tariff. The approved tariff is expected to catalyze a financially healthy and self sustaining electricity sector that is capable of generating sufficient revenue and credit worthiness.

On 22 December 2015, the MERA board approved another 32% increase from K40.69 per KWh to K53.69 per KWh. The automatic tariff adjustment formula showed that it was necessary to increase the tariff due to the rapidly depreciating Kwacha and the rising inflation. Under the Electricity Act ESCOM can adjust its tariff at any time to offset any losses or gains that may occur due to changes in economic fundamentals.

Fuel Price Adjustment (Source: MERA)

MERA revised fuel pump prices four times in 2015 with the latest adjustment effective 5 December 2015. Petrol prices decreased by 17% from K856.70 to K711.90, diesel from K865.90 to K732.70 (15% decrease) and paraffin from K756.10 to K573.10 (24% decrease). Overall prices have decreased by 19% on average. The decline is as a result of falling global oil prices and their landed costs. Free On Board (FOB) prices have declined by an average of 21.66% between April 2015 and November 2015. However some of the gains from declining oil prices were offset by the depreciating currency.

Fuel Price Adjustments



	Nov 2014	Jan 2015	Feb 2015	May 2015	Dec 2015
Petrol	856.70	760.40	696.30	723.60	711.90
Diesel	865.90	785.40	705.50	734.60	732.70
Paraffin	756.10	678.80	609.30	633.20	573.10

2. OTHER MARKET DEVELOPMENTS (Continued…)

Mining Activities Update (Source: Mining Review)

The Malawi government in its efforts to improve the mining sector introduced a modern licensing cadastral system at the Department of Mines and is offering digital data to investors through the Geological Survey Department. The Natural Resources, Energy and Mining ministry is also reviewing the country's legal system in relation to mining and is developing a new legal and institutional framework that protects the country's long term interests. The Acts to be reviewed are the Mines and Mineral Act (1981) and Petroleum Exploration and Production Act (1983). The Mines and Minerals policy which was launched in 2013 will be used as a guideline. The government aims to increase the mining sector's contribution to the country's Gross Domestic Product (GDP) which is currently at 10% to surpass agriculture which is at 30%. The country's commercial banks are also supporting government's efforts to develop a thriving mining sector by financing mining projects.

The Malawi government aims to replace the 1981 Mines and Minerals Act by the end of 2015 and hosted a consultative workshop of the Draft Mines and Minerals Bill in Lilongwe in April 2015. According to the Draft Bill the government will recruit a Registrar of Mineral Tenements who will be responsible for maintaining a chronological record of all applications received for mineral tenements. The Registrar of Mineral Tenements will receive applications for the grant, transfer, extension, modification or consolidation of mineral tenements or application for expansion or surrender of mineral tenement areas.

The Malawi government applied for Extractive Industries Transparency Initiative (EITI) candidature to ensure transparency and accountability in managing mineral revenues. Committing to this global transparency initiative implies that Malawi has subscribed to the idea on the need to promote improved data and dialogue in natural resource governance. The EITI has seven requirements on how to report activity in the oil, gas and mining sectors along the value chain of extracting a resource and turning it into an economic benefit. Countries are assessed every three years and can be suspended at any time if the country fails to meet the requirements. Reports indicate that the implementation of EITI by other countries has led to a wide range of benefits such as improved tax collection and budgetary planning as well as improved governance systems.

On 22 October 2015, the Extractive Industries Initiative (EITI) Board approved Malawi's application to join the EITI. The civil society has been advocating for Malawi to join the EITI in the belief that it will improve transparency and accountability in the natural resources sector resulting in greater socio economic development for all Malawians. Two GIZ-funded consultants are conducting a scoping study which will help stakeholders determine how the EITI standard will be applied.

Malawi has officially launched the country-wide high resolution airborne geophysical data obtained from the survey dubbed "Kauniuni" which was carried out with funding from the World Bank and the European Union. The data is expected to increase the knowledge of Malawians on the country's geology as well as making it easy for prospective investors to identify anomalies which may identify various minerals as exploration targets.

The remapping of the country's mineral prospects is poised to commence in 2016, according to the Geological Survey Department. This was announced at the launch of the airborne geophysical data which was obtained through a countrywide high resolution survey that took place between September 2013 and August 2014. The remapping exercise will involve geological interpretation of the geophysical data obtained. Upon conclusion of the task government will have adequate information pertaining to the country's mineral anomalies readily available for use by prospective investors.

2. OTHER MARKET DEVELOPMENTS (Continued…)

Status of MoUs for Independent Power Producers (Source: Ministry of Natural Resources, Energy and Mining)

The Government of Malawi through the Ministry of Natural Resources, Energy and Mining has planned to add 1500MW of electricity by the year 2020 as a solution to the electricity problems the country has been experiencing. In order to do this the government is working with Independent Power Producers (IPP) to invest in the energy sector. The projects are expected to take 1 to 3 years before being implemented as the projects may take time depending on the size and nature of the project.

There are 17 IPPs under review by the Ministry. The highlights of the projects are: China Gezhouba is planning to build a 300MW coal powered plant which will begin to be implemented in mid 2016; Africa Energy and Power Corporation is planning to build a 350MW solar powered plant but this is still in the negotiation phase with ESCOM; Airon Green Energy Turbines which is making preparations to start in the first quarter of 2016; Grow Mine Africa is expecting to generate 2,000MW but they are still waiting for term sheet and agreements with ESCOM; and others.

Chinese Funded Projects (Source: Press Statement by the President)

The President of Malawi, Professor Arthur Peter Mutharika, announced at a press hearing that Chinese investors will fund some development projects in Malawi. Some of the projects approved were the 300MW Kam'mwamba coal fired power plant, The E-government (National Identity) project and the Chileka International Airport Project. Several other projects have been submitted for review to the Chinese government.

Investment Forum 2015

At the 2015 Malawi investment forum held in June 2015, the President of Malawi, Professor Arthur Peter Mutharika, assured investors that the government will provide a stable, enabling as well as secure environment for businesses both fiscally and physically in his opening speech. He noted that this may be accomplished through the multi-sector reforms that have been initiated by the government e.g. through the Malawi Investment and Trade Centre (MITC). The government has also been tackling issues on security, stability of the currency, reliability of electricity supply, accessible road network among other developments. Malawi may be embarking on the construction of the electricity interconnector with Mozambique and upgrading the national transmission network (Source: Mining Review).

The Malawi investment forum netted more than US$1 billion in prospective investments. Officials hope that the amount would rise to US$10 billion once all proposed deals were concluded. There has been a lot of interest in the energy, mining and agriculture sectors (Source: Reuters).

Brazil Partners Cotton Development in Malawi (Source: Ventures Africa)

The Malawi and Brazilian governments have partnered under the cotton development agreement to boost cotton production in the country. The partnership will see modern technologies and cotton breeds developed under Brazilian Research Corporation (Embrapa). Under this partnership, cotton exports are expected to drive up production thereby raising export revenues significantly. The Minister of Agriculture said the project will strengthen local researchers and extension workers for better production of technologies and cotton seeds. The project is a replication of one that was implemented by Brazil in Benin, Burkina Faso, Chad and Mali which was known as Cotton-4.

2. OTHER MARKET DEVELOPMENTS (Continued…)

State of the Nation Address (Source: Ministry of Finance)

The President of Malawi made a state of the nation address at the state opening of the 4th meeting of parliament and the discussion of the 2015/16 national budget meeting. The key issues raised include that the government will use the fiscal and monetary policies to achieve the following goals: Ensure annual inflation is low, stable and within single digits; Reduce and eventually eliminate huge domestic borrowing; Reduce the balance of payments deficits; Maintain a stable exchange rate; and achieve and maintain lower interest rates.

In order to fill the revenue gap government has intensified the implementation of tax policy reforms aimed at improving the tax regime and tax compliance. Government will avoid further accumulation of arrears through strict expenditure control measures. Government will continue to prioritize the mining sector with the aim of increasing contribution to GDP from the current 6% to 20% by 2020. Other sectors being targeted for development include tourism, education, health, infrastructure and many more.

THE 2015/16 FISCAL BUDGET STATEMENT (Source: Ministry of Finance)

The 2015/16 Draft Budget proposed the following revenues and expenditures:

- Total expenditures were projected at K901 billion against revenues of K763 billion resulting in a deficit of K138 billion (15.3% of total expenditure). Government intends to finance the fiscal deficit by the use of external borrowing.
- Grants were expected to fall by 27% as donors continue to move away from budget support and they are financing projects through other means.
- Tax revenues are expected to rise by 1.9% to K592.4 billion as MRA seeks to strengthen the tax administration regime.
- The wage bill was expected to increase by 15% to K228.7 billion.
- K5 billion of the development expenditure will be allocated to rural development in the district councils.
- Allocations to key ministries are: K133.7 billion for the Ministry of Agriculture; K109.8 billion to the Ministry of Education; and K77.4 billion to the Ministry of Health.

The overall economic performance of 2014 and prospects for 2015 are as follows:

- Malawi attained GDP growth of 6% in 2014 and it was estimated to expand by 5.4% in 2015 and 6.5% 2016.
- Inflation was expected to average 16.4% in 2015 and 12% in 2016. The decrease is mainly attributed to a significant drop in non-food inflation due to lower import prices as a result of lower global oil prices and increasing stability in the exchange rate. However food inflation may not drop as fast as previously expected due to adverse weather conditions impacting production output.
- Malawi posted a current account deficit of US$1,236.8 million in 2014 which was projected to decrease by 11% to US$1,100.3 million in 2015 due to continued deficits in net exports.
- Malawi is mainly financing imports through foreign capital grants, foreign loans and foreign direct investment leaving a capital account surplus of US$574.6 million in 2014 which was expected to increase by 19.8% to US$688.6 million in 2015.

The government is committed to ensuring that macroeconomic environment of the economy continues to improve and stabilize. They will maintain a tight fiscal policy stance and a tight monetary policy stance in order to maintain price stability as well as a viable balance of payments position.

2. OTHER MARKET DEVELOPMENTS (Continued…)

Reserve Bank of Malawi Economic Symposium (Source: RBM)

The Reserve Bank of Malawi held an economic symposium on 23 November 2015. The theme was commemorating the 50th anniversary of the Bank. In the presentations made by the current and past governors of Reserve Bank of Malawi the following was noted:

- Monetary policy cannot work properly without fiscal prudence. The government needs to tighten its expenditure to within its revenue streams for monetary policy to have a greater effect.
- Lack of donor support affects the ability of fiscal prudence as the country is highly dependent on donor support.
- There are a lot of policy inconsistencies and policy reversals which make the economic environment uncertain.
- The informal banking sector continues to grow. The monetary policy has limited, if any impact to this sector.
- The economy relies on agriculture and hence any event in agriculture will trigger fiscal and monetary policy which are reactive rather than proactive.
- Weak regulatory technology and capacity to implement regulations.
- Incomplete financial infrastructure.
- Barriers to entry into the banking system for the masses.

The following suggestions were made:

- Policy implementation needs to be improved to avoid risks.
- Establish policy credibility by avoiding policy inconsistencies.
- Minimize government borrowing from RBM.
- Entrench central bank independence (especially in operations).
- Minimize the antagonizing of donors.
- Review of barriers to entry into the banking system e.g. minimum balance requirements.

ECAMA Conference 12-13 November 2015 (Source: ECAMA)

At the ECAMA conference held on 12 and 13 November 2015 there were several presentations by different stakeholders. The theme for the conference was "Agricultural Transformation and Value Chain Development for Sustainable Development". Some of the suggestions made (but not limited to) are:

- Prioritize production as opposed to current target of consumption.
- The Malawi Revenue Authority and RBM should strengthen their roles of collecting and tracking export proceeds.
- Shift government policy towards medium and large scale mechanization and irrigated agriculture.
- The Land laws require urgent review to make available land for large scale investors.
- Improve access to financing through special arrangements with banks.
- Ensure policy consistency between government ministries.
- Timely release of reliable and up to date market information by the National Statistics Office and Ministry of Agriculture.
- Encourage and promote farmers to work in groups or cooperatives.
- Enforce and speed up the implementation of the National ID system (can be used in identification of beneficiaries of subsidies).
- Eliminate areas of recurrent expenditure wastage by auditing the transactions.

2. REGIONAL MARKET DEVELOPMENTS

⇒ Zimbabwe expects economic expansion to quicken to 2.7% in 2016 on the back of modest growth from all economic sectors while gold output is expected to hit a 21 year high. However economic growth is expected to grow by 1.5% in 2015 as drought had impacted agricultural production and weak commodity prices reduced earnings from mineral exports (Source: Reuters).

⇒ Zambia is under increasing strain as the inflation rate increased to 19.5% in November 2015. The World Bank has cut Zambia's growth forecast to below 4.0% as revenue has fallen due to lower copper prices. The country is already struggling with drought and a power crisis (Source: Bloomberg).

⇒ Zambia's central bank raised its overnight lending rate to 25.5% (10 percentage points above the policy rate) in an effort to combat the turmoil caused by the collapse in the global price of copper. The Zambia Kwacha currency responded by increasing by 7% to its strongest level in a month. However threats to the currency may still persist coming from low copper prices, cuts to global growth and large fiscal imbalances (Source: Reuters).

⇒ Zambia overspent its 2015 budget plan by ZMK14.9 billion due to emergency electricity purchases, increased costs of importing fuel and a sharp depreciation of the Zambian Kwacha. Zambia is facing its toughest economic challenges in a decade as weak commodity prices, electricity shortages and an economic slowdown in China hit growth in the country (Source: Reuters).

⇒ Fitch rating agency cut South Africa's credit rating by one level to BBB-, the lowest investment grade, in line with a similar downgrade by Standard and Poor. The country's growth potential has deteriorated further, with a power shortage likely to constrain an expansion for the next two years (Source: Bloomberg).

⇒ South Africa's central bank raised its benchmark interest rate by 25 basis points to 6.25%. The governor of the central bank has urged that adjustments need to take place in order to reduce the inflation risks which would otherwise worsen the country's weak economic growth (Source: Reuters).

⇒ China and South Africa have signed deals and loans valued at US$6.5 billion with a focus on building infrastructure in South Africa. US$2.5 billion will go to the country's state owned oil operator. According to BBC China has given a series of loans to African countries for development and the countries will in turn provide oil and other key commodities to China (Source: BBC).

⇒ The Chinese President Xi Jinping pledged US$60 billion in funding to Africa to promote cooperation and support development efforts. The package includes US$5 billion in interest free loans and US$35 billion in preferential financing, export credit lines and concessional loans (Source: Bloomberg).

⇒ Botswana's August trade balance slipped to a US$159 million deficit in August 2015 from a US$170 million surplus in the same period last year due to a sharp fall in diamond exports. The deficit was driven by a significant 34% decline in exports month to month (Source: Reuters).

⇒ Nigeria's government said it will boost spending by a fifth in next year's budget without overstepping borrowing targets, even though oil revenue is expected to fall. The expenditure will rise to 6 trillion Naira in order to pay for fuel subsidies and troops fighting the Islamic insurgency in the north east of the country (Source: Bloomberg).

⇒ Egypt plans to build 1 million homes for poorer people at a cost of almost US$20 billion over the next five years in order to ease the crunch that has seen slums and unlicensed buildings spread. Egypt currently has a population of about 90 million and there aren't enough houses for the poorest in the society. Egypt is financing its scheme through land sales to developers building higher-end homes (Source: Reuters).

2. REGIONAL MARKET DEVELOPMENTS

⇒ Tanzania's inflation increased to 6.8% in December 2015 from 4.8% in December 2014. This was mainly as a result of an increase in food prices (Source: Tanzania Bureau of Statistics). The Tanzanian Shilling appreciated against the South African Rand but depreciated against the Euro, the British Pound and the US Dollar*. The Tanzanian Shilling depreciated against the US Dollar by 24.5% to TSH2,148.52:US$1 (Source: Bank of Tanzania).

⇒ Zambia's year-on-year inflation increased to 21.1% in December 2015 from 7.9% in December 2014 (Source: Central Statistics Office of Zambia). The Zambian Kwacha appreciated against all the major currencies during the year*. The Zambian Kwacha depreciated against the US Dollar by 71.96% to ZMK10.98:US$1 (Source: Bank of Zambia).

⇒ Mozambique's year-on-year inflation increased to 10.5% in December 2015 from 1.9% in December 2014. The Mozambique Metical depreciated against all the major currencies during the year*. The Metical depreciated against the US Dollar by 42.51% to MT45.12:US$1 (Source: Bank of Mozambique).

⇒ Uganda's inflation increased to 9.3% in December 2015 from 1.8% in December 2014. The Ugandan Shilling depreciated against all the major currencies during the year. The Ugandan Shilling depreciated against the US Dollar by 21.78% to UGX 3,377.01:US$1 (Source: Bank of Uganda).

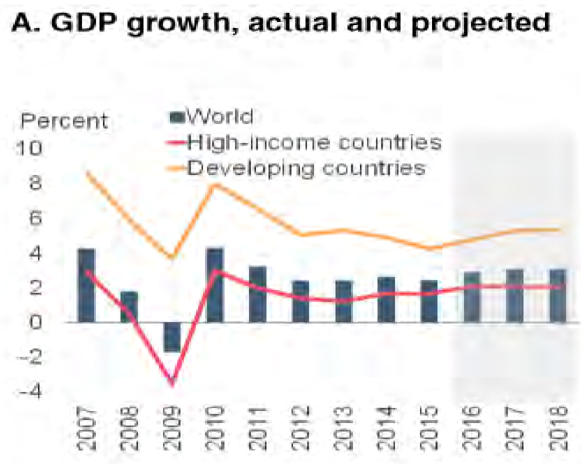
* Refer to the table on page 21 (Appendix 2) for more details

3. GLOBAL DEVELOPMENTS

Economic growth

Global growth disappointed again in 2015, slowing to 2.4% and is expected to recover at a slower pace than previously envisioned. The disappointing performance mainly reflected a continued growth deceleration in emerging and developing economies amid post crisis lows in commodity prices, weaker capital flows and subdued global trade. Growth is projected to reach 2.9% in 2016 and 3.1% in 2017-18 as a modest recovery in advanced economies continues and activity stabilizes among major commodity exporters. Forecasts are subject to substantial downside risks including a sharper than expected slowdown in major emerging and developing economies or financial market turmoil arising from a sudden increase in borrowing costs that could combine with deteriorating fundamentals and lingering vulnerabilities in some countries (Source: World Bank).

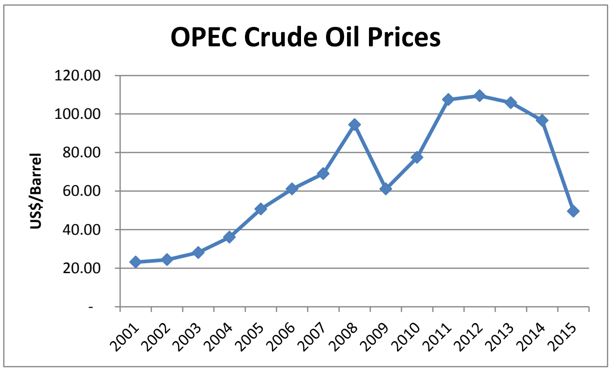
Economic Growth Projections



Source: World Bank

Oil prices

Benchmark oil prices continue to decline in 2015 reaching an average of US$49.49 per barrel, decreasing by 48% from US$96.63 per barrel in 2014. This was mainly as a result of declining demand from China and rising oil inventories (Source: OPEC).



After falling to an estimated 48% in 2015, OPEC's share of global crude oil production is expected to edge back up over 40% by 2020. The OPEC group has maintained its focus on market share by resisting to cut production to support prices in the hope that higher cost producers like the US will cut production. US output is expected to contract in 2016 as depressed prices force the less profitable companies out of business and prevent others from making investments in the business. The prices will recover only slowly from their collapse in 2015 to about US$60 per barrel in 2016 and US$73 per barrel in 2017 (Source: EIU).

Monetary policy

Global borrowing costs remain low, partly as a result of monetary stimulus in the Euro Area. The European Central Bank reduced the interest rate to negative 0.3%. Quantitative easing by the European Central Bank and the Federal Reserve tightening monetary policy have caused a broad based appreciation of the US Dollar and has been followed by some volatility in the global bond market. On balance, global financial conditions are expected to tighten modestly and tilt capital flows towards developing countries with sound prospects and low vulnerability (Source: World Bank).

3. GLOBAL DEVELOPMENTS (Continued...)

Currency movements

The currency markets remain focused on the first US interest rate rise which took place in December 2015. The rebound in emerging market currencies has mostly abated in December 2015. Most emerging market currencies are still stronger than they were two months ago. On the other hand the US dollar has strengthened against the major currencies in December 2015 after the slight depreciation two months ago. The appreciation reflects a growing market consensus that the US Federal Reserve will raise interest rates in December 2015 combined with the likelihood the European Central Bank and the Bank of Japan will expand their quantitative easing programs. The EIU expects the US Dollar to remain strong against the major currencies in 2016, supported by a widening interest differential relative to the Euro zone and Japan (Source: EIU).

Currency Movements: US$ vs Euro (€) and US$ vs. British Pound (£)

Global trade

Deteriorating growth prospects for developing countries have been accompanied by weakening global trade, capital flows and commodity prices. Currency pressures have increased, particularly for some commodity exporters. Domestic challenges with elevated private sector debt, slowing credit and weaker productivity growth (Source: World Bank).

Although China continues to run a large trade surplus with the US and the EU, its overall trade balance has shrunk. Lower oil prices will have a profound impact on the current account positions of oil producing countries, which ran huge surpluses during the era of high prices. Although the World Trade Organization (WTO) reached an agreement in November 2015 on trade facilitation, progress under the Doha Round of WTO trade talks has been modest. Governments have accordingly switched their attention to regional deals, and three such deals are currently under discussion (Source: EIU).

Source: World Bank

5. OUTLOOK FOR DECEMBER AND BEYOND - MALAWI

Exchange Rates

The Kwacha continued to depreciate in December 2015 as the lean season continues and the US Dollar continues to appreciate against its major trading currencies. We have seen gross official reserves fall from US$738 million (3.53 months of import over) as at 31 July 2015 when the depreciation started to US$666 million (3.19 months of import cover) as at 31 December 2015 indicating that RBM has been injecting foreign currency into the market in order to reduce the rate of depreciation. Foreign currency in Malawi mainly comes from foreign aid and export proceeds of which tobacco contributes over 60% and since the tobacco season is now closed there is less income from that sector. Government no longer receives direct budgetary aid support from the donors due to the financial management issues. However aid is still flowing into the country albeit indirectly, but straight to the projects that need funding.

The Kwacha is expected to continue depreciating in the short term as the tobacco season is now closed, the lean season continues and donors continue to withhold budgetary support. The demand for imported farm inputs may also put pressure on the currency in the short term. In the medium to long term the currency will depreciate on account of the significant current account deficit and weak investment inflows despite tobacco exports and improving forex reserves.

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.*

Inflation

Inflation remains high, above 20%, due to rising food prices and a depreciating currency has kept the prices of imported goods high. The late rains in the 2014/15 season and the damage to crops due to excessive rains had a negative impact on agricultural output with production falling by 30% to 2.7 million tonnes resulting in a deficit of 223,723 tonnes which has led to rising food prices. Government allocated K8.0 billion in the budget for restocking the grain reserves. 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. The control of government expenditure that reduces the fiscal deficit will be crucial to ensuring that inflationary pressures are contained. Inflation is expected to remain elevated, as a result of the rising food prices from lower than expected harvest and the depreciating currency but the pressure will be partly offset by the lower global oil prices even as the currency depreciates. The rise of maize prices will be dependent on whether government can meet the maize shortage and distribute to those in need during the lean season. Currently the government is having challenges in the procurement of enough grain to sustain the entire lean season. However the 2015/16 agricultural season may be affected by the El Nino which will affect production unless the mitigation of the risks takes place. The El Nino may disrupt the weather pattern through dryness and floods which in turn will affect crop production as these rely on the weather. According to media reports government has procured drought insurance which may help mitigate the effects of a drought if one was to occur in the country.

The EIU expects inflation to average 22.2% in 2015 then moderate to an average of 19.9% in 2016 as productivity improves and as the currency depreciation slows and domestic food production improves. However the rainfall outlook in light of the forecasted El Nino may negatively impact agricultural production levels in 2016 (Source: EIU).

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.*

5. OUTLOOK FOR DECEMBER AND BEYOND - MALAWI (Continued…)

Interest Rates

The monetary policy committee adjusted the monetary policy rate to 27% from 25% effective 4 November 2015. Banks have already raised their base lending rates in response to the change in the monetary policy rates to a range of 34% and 38% (2014: 37% and 39%). Interest rates on the interbank market are expected to remain high due to the volatility of the market liquidity and the change in the policy rate. The issuance calendar for the first quarter of 2016 states that the government is looking to raise K85.69 billion in Treasury bills and K60 billion in Treasury Notes in the first quarter of 2016. Treasury bill yields are also expected to remain high as investors seek to receive real returns in light of the persistently high inflation rates and the higher auction notices. RBM has stated that they will continue to implement a tight monetary policy that is in tandem with the fiscal policy.

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 are expected to grow modestly in 2016 after the low returns experienced in 2014 and 2015 that resulted from the shut down of Kayelekera uranium mine. The government has stated that they will continue using the current existing export strategy in order to boost export growth. Export growth will be robust in 2017-19, underpinned by government efforts to promote production of cotton and other agricultural commodities. Tobacco will remain the main export, although its growth potential is limited amid weak global prices, rising deforestation and weather related unpredictability.

Imports are expected to moderate in 2016, despite investment growth picking up slightly, as global commodity prices fall (including oil) and currency depreciation dampens domestic demand. The review of the mining regulations may affect the level of investment in the country including the compendium projects and the exploration of mining that may take place. This may also affect the level of exports from the country. However these will only impact export growth in the long term as such projects take time to bear fruit.

It is critical for the country to diversify its export base in order to be competitive and reduce risk. The current account deficit will narrow in the long term as exports pick up reaching 20.1% of GDP in 2019 (Source: EIU Report).

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.*

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

International Relations

Malawi is expected to remain in good terms with major donors: the US, the UK and the EU. However they have concerns on the corruption and theft scandals in the public sector and the pace of the reforms. As a result most donors have stated that they will continue to provide aid through non-government sources. The government has committed itself to resolve issues in the public financial management in order to improve donor confidence in the country. The next IMF mission will come in 2016 when the program will be assessed again.

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

The EIU has forecast the fiscal deficit at 4.4% of GDP in the 2015/16 financial year compared to a global average of 2.7% of GDP as the tight external finance environment forces the government to keep a lid on spending growth. The deficit is forecasted to narrow, gradually reaching 3.9% of GDP in 2017/18 (Source: EIU).

According to the IMF mission, there were fiscal slippages amounting to 2% of GDP during the second half of the 2014/15FY mainly as a result of overspending on the wage bill. The IMF mission has stated that the ECF program is back on track which will involve a revised tight fiscal framework where government expenditure would have to be controlled within available resources. As at the end of June 2015 the total public debt was estimated at K1.25 trillion (K829 billion in external debt and K425 billion in domestic debt) approximately 40% of GDP compared to 66% of GDP in June 2014. The downwards revision was attributed to debt dynamics such as currency movements and GDP growth. Malawi government needs to promote growth oriented policies in order to reduce this high ratio. Debt levels may create a drag on real economic growth.

The approved budget for the 2015/16 financial year was K930 billion against revenues of K763 billion. The government has re-affirmed the need to cut government expenditure in order to reduce the spending. They are looking at ways to cut unnecessary expenditure. As at December 2015 MRA underperformed with revenues at K271 billion, 1% below the target. However this tight fiscal stance may be hampered by the lack of donor funding for some of the projects. The government has stated that they will review the budget and revise it downwards in order to put expenditure closer to the revenue streams.

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.

5. OUTLOOK FOR 2016 AND BEYOND— MALAWI (Continued...)

Economic Growth

The estimated real GDP growth for 2015 is 5% in 2016 from 3% estimate in 2015. In 2016 economic growth is expected to increase compared to 2015 as the economy recovers from the lower agricultural production. Estimates indicate that maize production for 2015 is 2.7 million tonnes, a 30% decrease from 3.9 million tonnes in 2014. The effects of the maize production shortfalls may spillover to 2016 as the lean season continues and the El Nino threatens agricultural output for the 2015/16 growing season. Implementation of the investment projects as highlighted in the compendium document may also boost growth in the long term if the projects are successful. The projects that have been funded by Chinese investors are expected to promote the country's growth prospects. These projects include the rehabilitation of Chileka airport, the Kam'mwamba project and others. If successful they will lead to better infrastructure and improved power generation which will aid the manufacturing industry and other business. The insufficient power supply may also hamper productivity in the country as business will be unable to operate to their full capacity if the issue is not addressed. If the power projects announced by the government are successful then power generation may improve.

Economic growth is forecast to average 5.6% in the period 2016-2018 as the economy continues to recover, donor budgetary support flows restart, uranium production restarts once world prices recover and also due to continued exploration of rare earth minerals. The take off of the investment projects will also boost economic growth in the long term.

Risks to economic growth in 2016 are the high inflation rates; high lending interest rates which slow down economic growth as they reduce private sector activity; as well as delays or continued suspensions in donor funding which could lead to higher fiscal deficits and put pressure on the currency to depreciate. Lower global commodity prices and uncompetitive exports will also add to the risks. High debt levels may also keep interest rates high and crowd out private sector funding for growth. Growth in 2016 will hinge on the expansion of agricultural production and improved investor sentiment as well as innovations in the mining sector.

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

	2014	2015	2016	2017	2018
EIU	5.70%	3.80%	5.10%	5.40%	5.70%
IMF	5.70%	3.00%	5.00%	5.30%	5.50%
WORLD BANK	5.70%	2.80%	5.60%	5.90%	
GOVERNMENT	6.10%	3.00%	4.50%		
Avg Real GDP Growth	5.80%	3.15%	5.05%	5.53%	5.60%
Inflation forecast	23.80%	22.20%	19.90%	12.00%	10.30%
Nominal GDP Growth	29.60%	25.35%	24.95%	17.53%	15.90%

2015	GDP, Current Prices (US Dollars Billions)	GDP Per Capita, Current Prices (US Dollars)	Population (Millions)
Kenya	63.12	1,432.09	44.08
Malawi	6.39	352.73	18.11
Mozamique	16.99	626.23	21.12
South Africa	317.29	5,783.50	54.86
Tanzania	46.19	968.82	47.68
Uganda	24.94	625.30	39.89
Zambia	24.47	1,576.45	15.52
Zimbabwe	13.91	1,037.16	13.41
Source: IMF			

6. ECONOMIC RISKS

ECONOMIC RISKS	IMPACT ON ECONOMY	MITIGATION MEASURES
Insufficient power supply	1. Commercial productivity remains small scale as large scale enterprises are difficult to implement with limited power supply 2. Low industrial productivity in the manufacturing sector resulting in low economic productivity and dampening economic growth. 3. Decline in tourism levels as it dampens tourists appetite to visit the country which results in lower income and growth in the industry. 4. Deferment of development by investors.	1. Encourage use of energy saver bulbs. 2. Rehabilitate and develop new power plants. 3. Public-Private Partnerships to enhance energy production through alternative power sources.
High inflation rates	1. Rising prices of goods and services. 2. Lowers the disposable income of households which would otherwise be used for savings and investment. 3. Lowers the real returns on savings and investments. 4. Reduces the likelihood of foreign investors coming into the country as real returns are eroded by the high inflation rate.	1. Tight monetary policy to reduce demand. 2. Decrease in government recurrent expenditure.
Increase in government debt	1. Creates a future obligation for government which may keep the budget deficit large. 2. Crowds out the private sector hence reducing the expansion of the private sector as funds are not available.	1. Reduce government expenditure by tightening fiscal policy. 2. Increase government revenue base to finance debt.
High Interest Rates	1. High lending rates will lead to slower private sector growth and a decrease in capital investments. 2. High interest rates will also lead to higher loan impairments for banks which will reduce funds that may be used to borrow other private investors. It also puts customer deposits at risk if the bank were to fail.	1. Recapitalization of banks. 2. Reduction of lending rates.

6. ECONOMIC RISKS (Continued...)

ECONOMIC RISKS	IMPACT ON ECONOMY	MITIGATION MEASURES
Persistently weak export base	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.	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	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.	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	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.	1. Provide incentives to the private sector e.g. tax incentives. 2. Declining inflation.
Complete Closure of Kayelekera Mine	1. Lower export revenues. 2. Lower incoming forex leading to stress on the forex reserves.	3. Increase export base of products.
Donor budgetary support may not return	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	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)	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	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	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.	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	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.	1. Diversification of export base of products.
Dispute with Tanzania resulting in cancellation of oil explorations activities	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

Appendix 1: SELECTED ECONOMIC INDICATORS FOR MALAWI

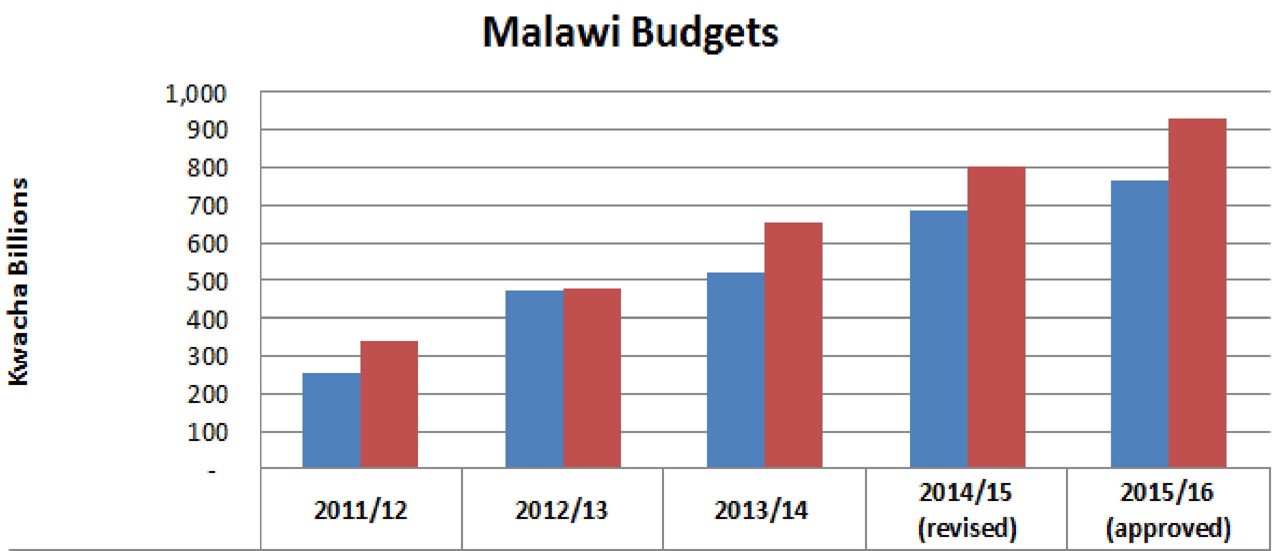
	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Dec-14
Exchange rates													
MK : US$	454.26	439.42	443.12	444.41	438.45	441.05	512.14	563.33	554.98	559.63	672.68	672.68	470.78
MK : GBP	684.43	679.46	641.68	673.55	671.54	694.13	798.11	866.90	840.85	856.79	997.53	997.53	732.63
MK : ZAR	39.31	38.31	36.64	37.93	36.13	36.02	40.23	42.58	39.70	40.27	43.41	43.41	40.71
MK : EURO	514.22	490.05	470.19	488.32	480.06	495.57	558.89	633.68	624.30	614.30	732.37	732.37	572.28
Forex reserves													
Gross reserves (US$'mn)	959.00	947.00	942.00	976.00	969.00	987.00	1,030.00	979.00	978.00	947.00	917.00	1,007.00	922.00
Import cover (months)	5.02	4.96	4.93	5.11	4.64	4.70	4.93	4.69	4.67	4.53	4.37	4.82	4.83
Inflation													
Headline inflation (%)	21.20	19.70	18.20	18.80	19.50	21.30	22.20	23.00	24.10	24.70	24.60	24.90	24.20
Food	21.50	20.40	17.00	18.10	21.40	24.20	25.30	26.80	27.20	28.30	28.90	29.20	22.10
Non Food	20.80	19.00	19.30	19.50	17.80	18.80	19.60	19.90	21.30	21.40	20.60	20.70	27.20
Urban	24.50	22.50	19.70	19.00	17.10	18.50	18.80	19.50	19.60	20.00	18.90	19.80	28.60
Rural	20.60	19.00	18.00	19.50	21.70	24.10	25.70	26.70	27.40	28.20	28.80	24.10	22.00
Treasury Bill Yields													
91 day TB yield	26.83	26.89	25.96	24.15	24.58	25.12	23.74	20.63	19.36	19.36	19.95	23.87	26.92
182 day TB yield	26.93	26.86	25.88	24.53	24.96	25.20	22.91	19.73	20.35	20.51	22.64	24.63	26.46
364 day TB yield	26.89	26.91	25.95	25.20	25.31	25.30	23.28	20.81	22.63	22.69	25.80	26.24	26.98
Stock market													
MASI	14,942.70	14,971.01	15,364.50	16,024.62	16,141.51	16,011.65	16,056.99	15,848.78	15,824.68	15,332.70	14,871.56	14,562.53	14,886.12
DSI	11,765.26	11,787.78	12,100.70	12,625.84	12,718.82	12,615.53	12,651.59	12,485.98	12,466.81	12,075.48	11,708.68	11,462.87	11,720.43
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	1,762.13	1,762.13	1,762.13	1,759.61
GDP growth													
Government	5.80%	5.80%	5.80%	5.40%	5.40%	5.40%	5.40%	5.40%	5.40%	3.00%	3.00%	3.00%	6.30%
EIU statistics	3.60%	3.60%	3.60%	3.60%	3.60%	3.80%	3.80%	3.80%	3.80%	3.80%	3.80%	3.10%	4.30%
IMF Stats	5.50%	5.50%	5.50%	5.50%	5.50%	5.70%	5.70%	5.70%	3.00%	3.00%	3.00%	3.00%	6.10%
World Bank	5.10%	5.10%	5.10%	5.10%	5.10%	5.10%	5.10%	5.10%	5.10%	2.80%	2.80%	2.80%	4.60%

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

	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Dec-14
TANZANIA													
Exchange rate													
US$	1,760.78	1,781.46	1,788.06	1,829.00	1,997.15	2,020.35	2,086.44	2,133.76	2,149.03	2,166.33	2,329.11	2,148.52	1,725.78
GBP	2,659.13	2,759.92	2,643.47	2,811.45	3,049.75	3,180.43	3,260.48	3,275.01	3,255.46	3,303.23	3,236.45	3,179.28	2,680.66
ZAR	152.82	156.01	147.49	154.27	163.90	164.51	164.27	160.75	153.54	212.49	150.16	139.17	148.29
EUR	1,996.73	2,015.63	1,939.07	2,015.56	2,172.61	2,253.70	2,284.44	2,400.06	2,408.53	2,367.78	2,274.72	2,347.58	2,097.09
Inflation %	4.00	4.20	4.30	4.50	5.30	6.10	6.40	6.40	6.10	6.30	6.60	6.80	4.80
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$	2,866.77	2,894.18	2,970.63	2,987.47	3,054.29	3,301.77	3,425.81	3,658.39	3,695.25	3,559.50	3,357.12	3,377.01	2,773.07
GBP	4,322.23	4,459.94	4,398.32	4,616.84	4,670.62	5,198.31	5,347.35	5,617.10	5,593.87	5,443.73	5,053.48	5,009.12	4,314.89
EUR	3,250.06	3,245.54	3,217.49	3,331.33	3,334.67	3,681.81	3,742.36	4,103.25	4,145.33	3,901.09	3,556.87	3,685.67	3,373.71
Inflation %	1.30	1.40	1.90	3.60	4.90	4.90	5.40	4.80	7.20	8.80	9.10	9.30	1.80
Bank rate %	11.00	11.00	11.00	12.00	12.00	13.00	14.50	16.00	16.00	17.00	17.00	17.00	11.00
ZAMBIA													
Exchange rate													
US$	6.48	6.86	7.58	7.43	7.28	7.51	7.66	8.72	12.01	12.55	10.32	10.98	6.39
GBP	9.76	10.60	11.20	11.41	11.13	11.85	11.99	13.44	18.62	19.25	15.50	16.28	9.96
ZAR	0.56	0.59	0.62	0.62	0.60	0.62	0.61	0.65	0.88	0.91	0.71	0.71	0.55
Inflation %	7.70	7.40	7.20	7.20	6.90	7.10	7.10	7.30	7.70	14.30	19.50	21.10	7.90
Bank rate %	12.50	12.50	12.50	12.50	12.50	12.50	12.50	12.50	12.50	12.50	15.50	15.50	12.50
MOZAMBIQUE													
US$	32.15	32.46	34.72	33.37	34.49	38.65	38.57	40.02	40.01	45.75	54.82	45.12	31.66
ZAR	2.76	2.84	2.86	2.83	2.84	3.15	3.04	3.02	2.85	3.03	3.83	2.93	2.72
EUR	36.32	36.73	37.59	36.80	37.34	42.96	42.25	45.02	44.64	41.84	58.01	49.29	38.63
Inflation%	2.79	3.99	3.11	1.98	1.29	1.36	1.50	2.28	2.73	4.74	6.27	10.55	1.93

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

	2013/14 Outturn	2014/15 Approved	2014/15 (Revised)	2015/16 (Approved)
Total Revenues	**520**	**641**	**683**	**763**
Domestic revenue	441	531	551	666
Grants	79	110	133	97
Budgetary support	7	-	14	7
Earmarked grants	72	110	119	90
Total Expenditures	**656**	**746**	**801**	**930**
Recurrent expenditure	556	550	611	704
Wage & salaries	140	163	198	229
Interest on debt	98	80	106	125
Investment Expenditure	100	224	189	224
Deficit/Surplus	**(136)**	**(105)**	**(117)**	**(166)**
Deficit as a % of Revenue	**-26%**	**-16%**	**-17%**	**-22%**



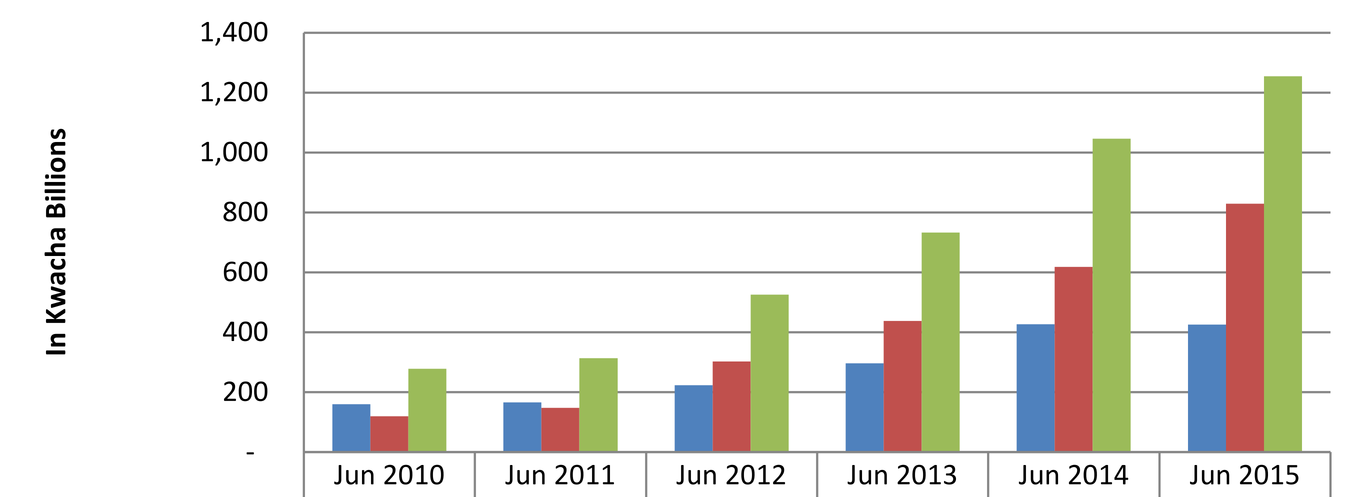
	2011/12	2012/13	2013/14	2014/15 (revised)	2015/16 (approved)
Total Revenues	257	472	520	683	763
Total Expenditures	338	481	656	801	930

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

	2015									
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Total Revenues	57.8	33.9	58.7	52.0	47.2	78.8	63.4	55.4	48.1	60.8
Domestic Revenues	52.9	32.8	55.8	43.5	44.7	74.1	56.8	48.9	46.4	59.3
Tax Revenue	46.8	30.3	42.4	39.3	42.1	42.7	53.5	44.9	43.1	52.5
Non Tax revenue	6.1	2.5	13.5	4.2	2.6	31.3	3.3	4.0	3.3	6.8
Departmental Receipts	2.8	1.1	1.1	1.1	0.7	26.7	1.4	1.4	1.4	2.9
Other Receipts	3.3	1.4	12.3	3.2	1.9	4.7	1.8	2.6	1.9	4.0
Grants	4.9	1.1	2.9	8.4	2.4	4.8	6.6	6.5	1.7	1.5
Expenditures	68.7	53.7	69.8	52.7	55.8	54.9	74.0	73.2	63.2	73.5
Recurrent Expenditure	51.0	40.2	54.6	42.2	43.0	31.4	61.7	60.4	47.3	51.4
Interest Payments	10.8	7.3	9.9	3.6	6.3	14.7	5.3	5.6	8.6	11.4
Domestic	10.6	6.6	7.8	3.3	5.6	14.3	4.9	4.9	8.2	8.6
Foreign	0.2	0.6	2.1	0.3	0.6	0.4	0.2	0.8	0.3	2.7
Development	6.9	6.2	5.2	6.9	6.5	8.9	7.3	7.2	7.3	10.7
Deficit/Surplus	-10.9	-19.8	-11.0	-0.7	-8.7	24.0	-10.7	-17.9	-15.1	-12.7
Financing (net)	21.3	27.7	11.5	-5.7	12.5	-15.0	4.1	20.1	13.2	6.3
Foreign	-0.4	-0.4	-1.8	-1.0	-1.3	-0.8	20.5	9.5	0.0	0.0
Domestic	21.7	28.1	13.3	-4.7	13.8	-14.2	-16.4	10.6	13.2	6.3
Banking System	-11.7	17.9	14.6	-33.4	14.4	-6.1	-13.9	11.3	19.8	16.9
Non-Bank Sector	33.5	10.2	-1.3	28.7	-0.5	-8.1	-2.5	-0.7	-6.6	-10.6
Errors and Omissions	10.4	8.0	0.5	-6.4	3.8	9.0	-6.6	2.2	-1.9	-6.4

Source: Reserve Bank of Malawi

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



	Jun 2010	Jun 2011	Jun 2012	Jun 2013	Jun 2014	Jun 2015
Domestic	159	166	223	295	427	425
External	119	148	302	438	618	829
Total Public Debt	278	314	525	733	1,045	1,254

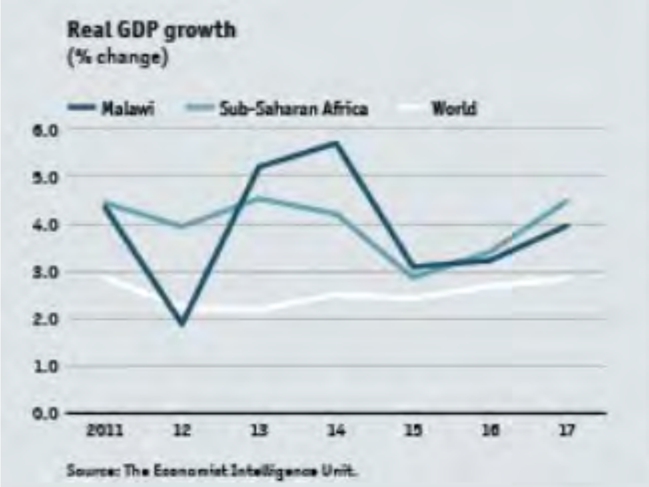
Appendix 6: MALAWI SELECTED ECONOMIC INDICATORS (source: IMF)

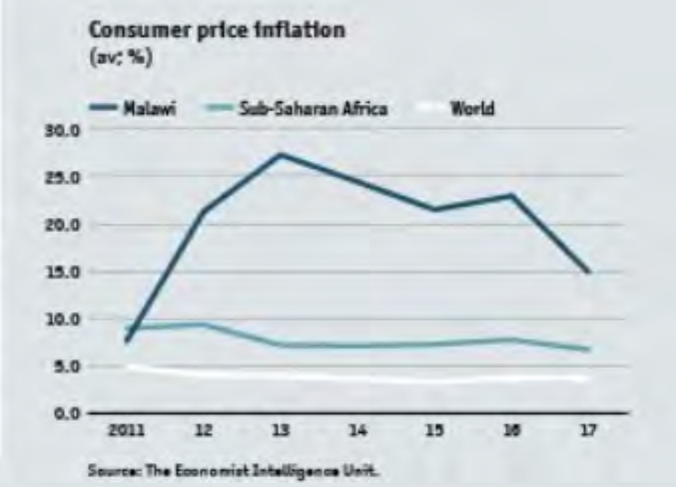
TABLE MALAWI SELECTED ECONOMIC INDICATORS 2012-18

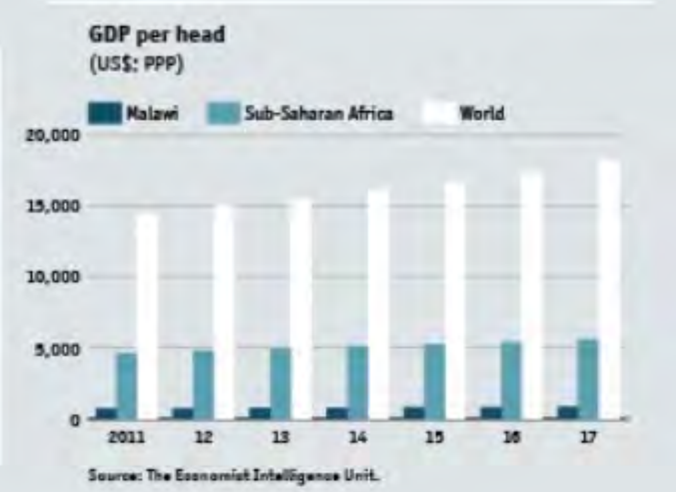
	2012	2013	2014	2015	2016	2017	2018
	Actual	Actual	Estimate	Projections			
National accounts and prices (percent change, unless otherwise stated)							
GDP at constant market prices	1.9	5.2	5.7	3.0	4.5	5.2	5.5
Nominal GDP (billions of Kwacha)	1,502	2,011	2,570	3,198	3,933	4,564	5,190
GDP deflator	17.7	27.3	20.9	20.8	17.7	10.3	7.8
Consumer prices (end of period)	34.6	23.5	24.2	25.4	13.6	9.3	8.2
Consumer prices (annual average)	21.3	28.3	23.8	21.9	19.8	11.8	8.8
Investment and savings (percent of GDP)							
National savings	2.8	4.0	3.9	4.9	5.1	5.2	5.4
Gross Investment	12.1	12.7	12.0	12.8	12.9	13.0	13.1
Government Investment	5.8	5.3	4.6	6.6	5.6	5.8	5.6
Private Investment	6.3	7.4	7.5	6.2	7.3	7.2	7.5
Saving-Investment balance	-9.3	-8.7	-8.1	-7.9	-7.8	-7.8	-7.7
Central government (percent of GDP on a fiscal year basis)							
Revuue	18.7	27.5	22.8	21.4	22.4	22.2	22.5
Tax and nontax revenue	15.6	17.3	19.7	18.6	18.5	18.6	18.9
Grants	3.1	10.2	3.1	2.8	3.9	3.5	3.6
Expenditure and net lending	23.5	28.5	28.9	27.1	26.2	24.7	25.3
Overall balance (excluding grants)	-7.9	-11.2	-9.2	-8.5	-7.7	-6.1	-6.4
Overall balance	-4.8	-1.0	-6.1	-5.7	-3.8	-2.5	-2.8
Foreign financing	1.1	1.9	2.0	2.5	3.1	2.2	2.8
Domestic financing	4.7	-0.1	4.2	3.3	0.7	0.3	0.1
Discrepancy	-1.1	-0.8	-0.1	0.0	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	22.9	35.1	20.7	31.8	21.3	14.8	16.4
Net foreign assets	9.3	26.5	20.6	23.8	15.0	5.9	9.0
Net domestic assets	13.6	8.6	0.1	8.0	6.3	8.8	7.5
Credit to the government	0.0	11.3	-5.9	2.3	-0.6	0.4	0.1
Credit to the rest of the economy (percentage change)	25.4	14.4	20.0	15.1	16.5	18.6	19.5
External Sector (US$ millions, unless otherwise stated)							
Exports (goods and services)	1421.0	1657.0	1751.0	1558.0	1698.0	1861.0	1943.2
Imports (goods and services)	2282.0	2315.0	2388.0	2186.0	2264.0	2452.0	2556.0
Usable gross official reserves	236.0	397.0	588.0	683.0	745.0	772.0	895.4
(months of imports)	1.2	2.0	3.2	3.6	3.6	3.7	3.7
(percent of reserve money)	69.1	108.3	130.3	143.8	146.9	142.3	150.8
Current account (percent of GDP)	-9.3	-8.7	-8.1	-7.9	-7.8	-7.8	-7.7
Current account excl official transfers(percent of GDP)	-12.3	-10.0	-8.1	-8.3	-8.0	-7.8	-7.6
Overall balance (percent of GDP)	1.6	3.1	2.7	1.0	0.5	0.9	2.0
Terms of trade (percent of GDP)	-2.6	1.1	1.5	11.1	-1.5	-3.0	-1.1
Debt Stock and service (percent of GDP, unless otherwise indicated)							
External debt (public sector)	20.1	25.5	26.6	34.0	31.7	30.0	30.4
NPV of debt (percent of exports)	53.3	77.3	102.7	117.2	103.6	89.2	84.9
Domestic Public debt	13.8	19.8	14.9	14.0	13.4	12.4	11.1
Total public debt	33.8	45.3	41.5	48.0	45.1	42.3	41.4
External debt service (percent of exports)	1.4	1.7	4.2	9.5	11.4	9.5	4.9
External debt service (percent of exports excl. grants)	2.1	2.8	6.6	12.4	16.3	13.6	7.2
91 day treasury bill rate (end of period)	20	32.3	26.9				

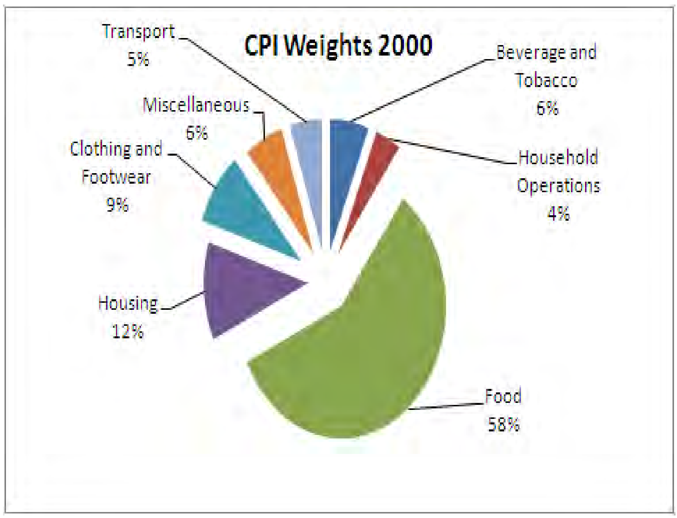
Sources: Malawian authorities and IMF staff estimates

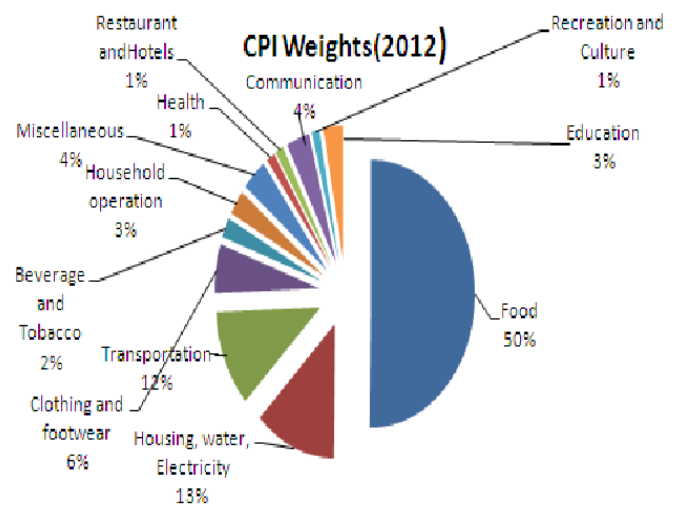
Appendix 7: GDP—MALAWI (source: EIU)



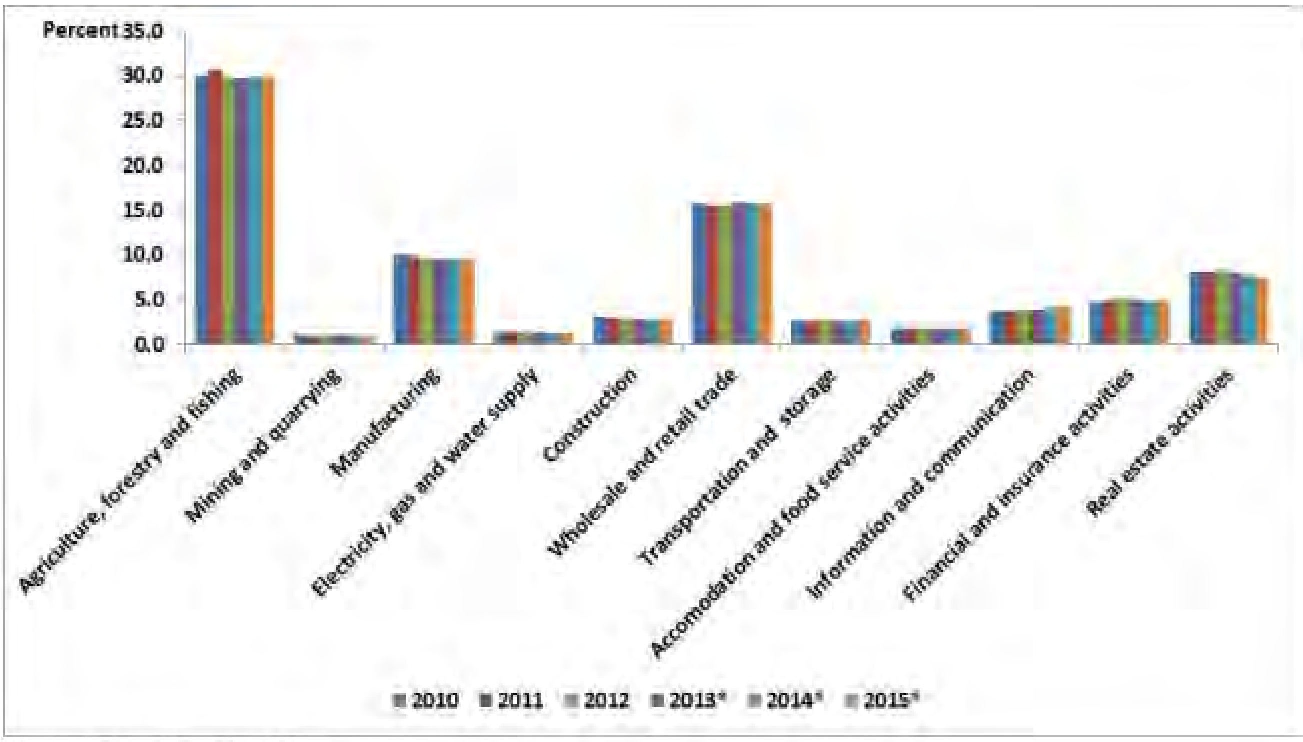








Appendix 8: CONTRIBUTION TO GDP BY SECTOR



Source: National Statistics Office

Appendix 9: MALAWI ECONOMIC GROWTH (Source: EIU)

Economic growth

%	2015[a]	2016[b]	2017[b]	2018[b]	2019[b]	2020[b]
GDP	3.1	3.2	4.0	5.4	5.5	5.0
Private consumption	5.3	3.6	4.7	5.7	5.4	5.6
Government consumption	7.3	4.8	3.8	4.7	4.5	4.8
Gross fixed investment	2.0	1.4	2.0	3.1	2.7	3.1
Exports of goods & services	-0.2	2.1	2.8	4.3	6.4	5.9
Imports of goods & services	-0.1	2.9	3.2	3.3	4.6	5.3
Domestic demand	4.0	3.4	4.0	5.0	5.0	4.9
Agriculture	1.2	1.4	2.9	2.1	4.3	2.7
Industry	4.1	4.0	3.4	5.9	6.5	6.4
Services	3.8	4.1	4.6	6.8	5.7	5.6

[a] Economist Intelligence Unit estimates. [b] Economist Intelligence Unit forecasts.

Appendix 10: PROJECTIONS

MALAWI GROWTH PROJECTIONS BY SECTOR (Source: RBM)

Table 14: Real Output Growth by Type of Activity (at 2010 prices)[1]

	2011	2012	2013*	2014*	2015*	2016*
A. Agriculture, forestry and fishing	5.9	(1.0)	6.0	6.3	5.2	5.9
B. Mining and Quarrying	(7.0)	14.9	6.9	(4.6)	2.0	3.2
C. Manufacturing	1.6	(1.1)	5.6	6.2	6.0	7.1
D. Utilities	2.6	2.4	5.5	3.4	3.6	5.0
E. Construction	0.5	2.5	2.0	6.1	5.3	4.7
F. Wholesale and retail	2.4	2.2	7.9	5.7	5.3	7.7
G. Transport and storage	1.7	4.9	5.3	5.4	6.3	5.1
H. Accommodation and food service activities	3.3	5.2	5.1	6.0	3.1	4.9
I. Information and communication	4.4	6.7	7.5	11.2	6.5	5.9
J. Financial and Insurance activities	9.2	6.1	3.8	3.3	6.7	7.6
K. Real estate activities	4.8	3.8	2.5	1.6	2.3	2.9
M. Public administration and defence	6.1	4.5	2.7	5.1	6.3	6.1
GDP in 2010 constant prices	3.4	2.0	6.2	6.0	5.4	6.5
GDP in 2010 constant prices (MK billion)	1,068.5	1,090.0	1,157.5	1,227.2	1,293.0	1,376.8
GDP current market prices (MK billion)	1,150.2	1,423.2	1,923.9	2,524.9	3,098.2	3,695.5

Source: Reserve Bank of Malawi, National Statistics Office, Ministry of Development Planning and Corporation and Ministry of Finance\[1] Annual Percentage changes unless otherwise stated* Indicates preliminary figures

GLOBAL PROJECTIONS (Source: EIU)

	2015	2016	2017	2018	2019	2020
Economic growth (%)						
US GDP	2.5	2.4	2.4	2.5	1.4	2.2
OECD GDP	2.0	2.1	2.1	2.2	1.7	2.0
World GDP	2.4	2.7	2.9	3.0	2.6	2.8
World trade	2.2	3.7	4.3	4.4	3.9	3.7
Inflation indicators (% unless otherwise indicated)						
US CPI	0.2	1.7	2.3	2.5	2.0	2.0
OECD CPI	0.6	1.7	2.1	2.2	2.0	2.0
Manufactures (measured in US$)	-3.3	-0.2	5.2	3.9	2.1	3.9
Oil (Brent; US$/b)	53.4	60.0	72.7	80.2	77.2	79.9
Non-oil commodities (measured in US$)	-16.7	2.8	6.1	3.3	-0.1	0.5
Financial variables						
US$ 3-month commercial paper rate (av; %)	0.2	0.8	1.7	2.7	3.2	3.2
US$:€ (av)	1.11	1.05	1.12	1.17	1.20	1.22
¥:US$	122.09	124.38	123.00	122.00	120.00	118.11

Appendix 11: PROJECTIONS

GLOBAL PROJECTIONS (source: IMF)

Table 1.1. Overview of the *World Economic Outlook* Projections
(Percent change, unless noted otherwise)

		Projections		Difference from July 2015 *WEO Update*[1]		Difference from April 2015 *WEO*[1]	
	2014	2015	2016	2015	2016	2015	2016
World Output	**3.4**	**3.1**	**3.6**	**–0.2**	**–0.2**	**–0.4**	**–0.2**
Advanced Economies	**1.8**	**2.0**	**2.2**	**–0.1**	**–0.2**	**–0.4**	**–0.2**
United States	2.4	2.6	2.8	0.1	–0.2	–0.5	–0.3
Euro Area	0.9	1.5	1.6	0.0	–0.1	0.0	0.0
Germany	1.6	1.5	1.6	–0.1	–0.1	–0.1	–0.1
France	0.2	1.2	1.5	0.0	0.0	0.0	0.0
Italy	–0.4	0.8	1.3	0.1	0.1	0.3	0.2
Spain	1.4	3.1	2.5	0.0	0.0	0.6	0.5
Japan	–0.1	0.6	1.0	–0.2	–0.2	–0.4	–0.2
United Kingdom	3.0	2.5	2.2	0.1	0.0	–0.2	–0.1
Canada	2.4	1.0	1.7	–0.5	–0.4	–1.2	–0.3
Other Advanced Economies[2]	2.8	2.3	2.7	–0.4	–0.4	–0.5	–0.4
Emerging Market and Developing Economies	**4.6**	**4.0**	**4.5**	**–0.2**	**–0.2**	**–0.3**	**–0.2**
Commonwealth of Independent States	1.0	–2.7	0.5	–0.5	–0.7	–0.1	0.2
Russia	0.6	–3.8	–0.6	–0.4	–0.8	0.0	0.5
Excluding Russia	1.9	–0.1	2.8	–0.8	–0.5	–0.5	–0.4
Emerging and Developing Asia	6.8	6.5	6.4	–0.1	0.0	–0.1	0.0
China	7.3	6.8	6.3	0.0	0.0	0.0	0.0
India[3]	7.3	7.3	7.5	–0.2	0.0	–0.2	0.0
ASEAN-5[4]	4.6	4.6	4.9	–0.1	–0.2	–0.6	–0.4
Emerging and Developing Europe	2.8	3.0	3.0	0.1	0.1	0.1	–0.2
Latin America and the Caribbean	1.3	–0.3	0.8	–0.8	–0.9	–1.2	–1.2
Brazil	0.1	–3.0	–1.0	–1.5	–1.7	–2.0	–2.0
Mexico	2.1	2.3	2.8	–0.1	–0.2	–0.7	–0.5
Middle East, North Africa, Afghanistan, and Pakistan	2.7	2.5	3.9	–0.1	0.1	–0.4	0.1
Saudi Arabia	3.5	3.4	2.2	0.6	–0.2	0.4	–0.5
Sub-Saharan Africa	5.0	3.8	4.3	–0.6	–0.8	–0.7	–0.8
Nigeria	6.3	4.0	4.3	–0.5	–0.7	–0.8	–0.7
South Africa	1.5	1.4	1.3	–0.6	–0.8	–0.6	–0.8
Memorandum							
European Union	1.5	1.9	1.9	0.0	–0.1	0.1	0.0
Low-Income Developing Countries	6.0	4.8	5.8	–0.3	–0.4	–0.7	–0.2
Middle East and North Africa	2.6	2.3	3.8	–0.1	0.1	–0.4	0.1
World Growth Based on Market Exchange Rates	2.7	2.5	3.0	–0.1	–0.2	–0.4	–0.2
World Trade Volume (goods and services)	**3.3**	**3.2**	**4.1**	**–0.9**	**–0.3**	**–0.5**	**–0.6**
Imports							
Advanced Economies	3.4	4.0	4.2	–0.5	–0.3	0.7	–0.1
Emerging Market and Developing Economies	3.6	1.3	4.4	–2.3	–0.3	–2.2	–1.1
Exports							
Advanced Economies	3.4	3.1	3.4	–0.5	–0.6	–0.1	–0.7
Emerging Market and Developing Economies	2.9	3.9	4.8	–1.1	0.1	–1.4	–0.9
Commodity Prices (U.S. dollars)							
Oil[5]	–7.5	–46.4	–2.4	–7.6	–11.5	–6.8	–15.3
Nonfuel (average based on world commodity export weights)	–4.0	–16.9	–5.1	–1.3	–3.4	–2.8	–4.1
Consumer Prices							
Advanced Economies	1.4	0.3	1.2	0.3	0.0	–0.1	–0.2
Emerging Market and Developing Economies	5.1	5.6	5.1	0.1	0.3	0.2	0.3
London Interbank Offered Rate (percent)							
On U.S. Dollar Deposits (six month)	0.3	0.4	1.2	0.0	0.0	–0.3	–0.7
On Euro Deposits (three month)	0.2	0.0	0.0	0.0	0.0	0.0	0.0
On Japanese Yen Deposits (six month)	0.2	0.1	0.1	0.0	0.0	0.0	–0.1

Note: Real effective exchange rates are assumed to remain constant at the levels prevailing during July 27–August 24, 2015. Economies are listed on the basis of economic size. The aggregated quarterly data are seasonally adjusted. Data for Lithuania are included in the euro area aggregates but were excluded in the April 2015 *World Economic Outlook* (WEO).

[1]Difference based on rounded figures for both the current, July 2015 *WEO Update*, and April 2015 *World Economic Outlook* forecasts.

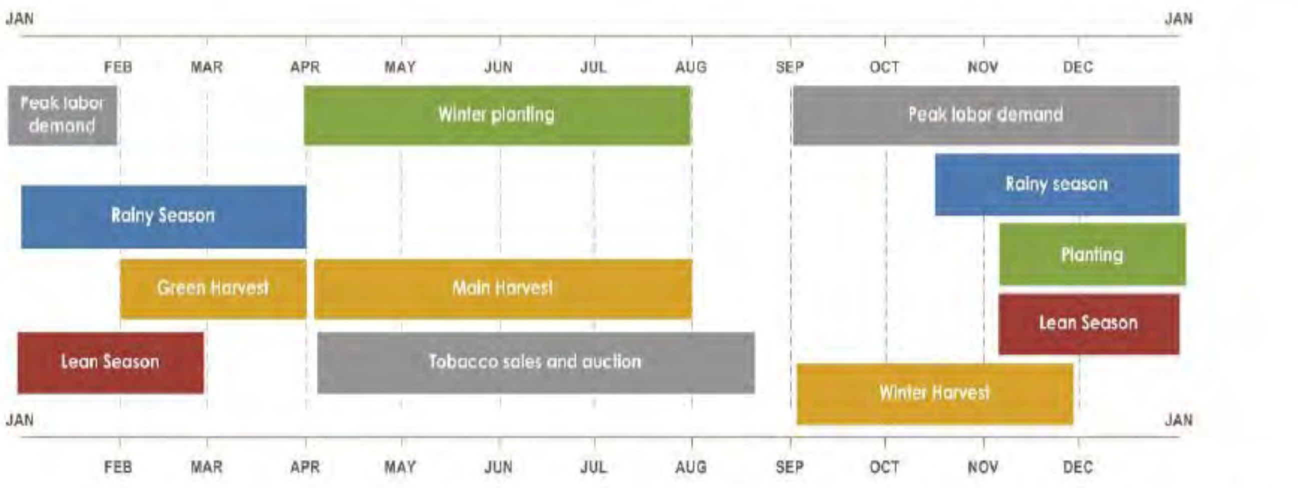
[2]Excludes the G7 (Canada, France, Germany, Italy, Japan, United Kingdom, United States) and euro area countries.

[3]For India, data and forecasts are presented on a fiscal year basis and GDP from 2011 onward is based on GDP at market prices with FY2011/12 as a base year.

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 fugures from load forecast data for year 1 and staff reducing by 5% due to 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%
Coffeee	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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- Company set up

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