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Annual Economic Report 2017

Investment Management | Corporate Finance | Investor Services | Infrastructure Development

LIST OF ACRONYMS

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

LIST OF ACRONYMS (Continued...)

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

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EXECUTIVE SUMMARY

Economic Outlook– Malawi

⇒ The Kwacha is expected to remain stable in the short-term as a result of continued inflow of foreign currency and consistently slowing down of inflation. In the medium term, the Kwacha is expected to depreciate, if the current trend in tobacco revenues is sustained as this would entail low forex reserves generated from tobacco sales. Significant current account deficits and weak investments inflows are the other factors accounting for Kwacha depreciation in the medium term.

⇒ Inflation is expected to remain subdued in the short term due to the continued slowdown in food price increases, but may increase due to rising global oil prices which may add pressure to non-food inflation. The IMF projects an average inflation rate of 9.9% in 2019.

⇒ Interbank rates are expected to remain unstable due to the volatility of liquidity levels. Treasury bill yields are expected to remain around the same level of monetary policy rate plus a premium. Commercial banks have decreased their base lending rates in response to the decrease in the monetary policy rate to 16%. Base lending rates are expected to remain subdued in the short term due to the stability of the monetary policy rate. The policy rate is expected to be maintained at 16% in the short-term, with further possible reduction if inflation pressures remain low and a good harvest is sustained in 2017/18 season.

⇒ The government will continue to seek external support from non-traditional partners. The bulk of aid will, however, continue to be disbursed as project-based grants and off-budget support to non-government agencies.

⇒ Fiscal policy will focus on preserving debt sustainability while spurring inclusive economic growth. The FY 2017/18 budget contains measures to boost domestic revenue, including some policy adjustments and measures to strengthen tax compliance which are expected to increase the government's resource envelope.

⇒ EIU projected an economic growth rate of 4.4% in 2017 and 4.1% in 2018, which is below World Bank's 4.5% projection in 2017 and 2018. The IMF projected a 5.0% economic growth in 2018, up from 4.5% projected in 2017.

Key Economic Risks-Malawi

⇒ Insufficient power supply—will lead to lower productivity and dampen economic growth.

⇒ High interest rates—may lead to high loan defaults and slow down in private sector investment.

⇒ Increase in government expenditure— leading to an increase in the fiscal deficit which may lead to increased government borrowing and cost push inflation.

⇒ High government debt levels—create a future obligation for government to repay the debt plus interest.

⇒ Persistently weak export base—affects the Kwacha's stability against the major currencies as import values exceed export values.

⇒ Adverse weather conditions—may result in lower agricultural output and lead to food shortages.

⇒ High population growth rates—may reduce the country's ability to allocate resources to more productive activities.

EXECUTIVE SUMMARY (Continued...)

Economic Highlights For 2017—Malawi

⇒ Inflation decreased to an average of 11.6% in 2017 from an average of 21.8% in 2016 (Source: NSO).

⇒ The average Treasury bill yield decreased to 19.73% in 2017 from 27.87% in 2016 (Source: RBM).

⇒ In 2017, the Malawi Kwacha depreciated against all major currencies. As at 29 December 2017, the Kwacha was trading at MK732.03:US$1 (0.47% annual depreciation), MK979.53:GBP1 (8.75% annual depreciation), MK59.04:ZAR1 (10.11% annual depreciation) and MK869.07:EUR1 (11.86% annual depreciation) (Source: RBM).

⇒ Total forex reserves increased to US$1,176.00 million as at 29 December 2017 (5.63 months worth of import cover) from US$943.54 million (4.51 months worth of import cover) as at 30 December 2016 (Source: RBM). Of the total reserves, gross official reserves totaled US$761.97 (3.65 months of import cover) as at 29 December 2017 from US$606.96 (2.90 months of import cover) as at 31 December 2016.

⇒ The stock market was bullish during the year with the MASI increasing by 62.14% (2016: -8.53%) to settle at 21,598.07 points from 13,320.51 points in 2016. The largest 3 gainers were TNM (133.12% increase), NICO (100.12% increase) and MPICO (99.36% increase). There were no losers registered on the market as at end 2017 (Source: MSE).

⇒ Liquidity levels decreased in 2017 averaging K5.35 billion a day compared to K7.51 billion a day in 2016. Access on the Lombard facility increased marginally to an average of K7.67 billion in 2017 from K7.04 billion in 2016 (Source: RBM).

⇒ In 2017, a total of 106.53 million kilograms of tobacco was sold on the auction floors at an average price of US$1.99 per kilogram resulting in total revenues of US$212.49 million compared to US$276.39 million in 2016 (23.12% decrease) (Source: TCC).

⇒ The Malawi Vulnerability Assessment Committee (MVAC) released a report which shows that 836,766 people will not be able to meet their minimum food requirements during the 2017/18 consumption year. The national maize requirement was estimated at 3.2 million metric tons (Source: Ministry of Finance).

⇒ In June 2017, the IMF executive board completed the ninth and final review of Malawi's economic performance under the program supported by an ECF arrangement. The board's decision enabled the disbursement of US$26.9 million, bringing total disbursements under the arrangement to about US$191.4 million (Source: IMF).

⇒ The World Bank released four publications on the Malawi economy in 2017. These include two publications of the Malawi Economic Monitor, Investment Climate Assessment report (ICA) and the Country Economic Memorandum report (CEM). ICA report evaluated the performance of private sector firms in Malawi and the constraints faced by Malawian enterprises. CEM report focused on understanding the puzzle for Malawi's lack of development despite significant development efforts. The MEM reports analysed Malawi's macroeconomic developments, and issues related to urbanization and land administration.

⇒ The World Bank Board of Executive Directors approved a US$80 million credit to the Malawi Government for general budget support on 4 May 2017. This budget support operation aims at improving incentives for private sector participation in agricultural markets and strengthening fiscal management. The World Bank also approved US$95 million credit to help the country commercialise agriculture, and a US$166 million loan to transform Malawi's irrigated agriculture.

EXECUTIVE SUMMARY (Continued...)

Economic Highlights For 2017—Malawi (Continued...)

⇒ The Monetary Policy Committee (MPC) met four times during the year. The Liquidity Reserve Requirement (LRR) was maintained at 7.5% throughout the year, and the monetary policy rate was adjusted downward three times to 16% in December 2017. Commercial banks also reduced their lending rates to a range of 23% and 27.5% (2016: between 32% and 35%) (Source: RBM).

⇒ The Minister of Finance, Economic Planning and Development presented the proposed 2017/18 national budget in parliament on 19 May 2017. Total value of revenue and grants are expected to increase by 13.3% and total expenditure is projected to register a 13.5% increase at current prices.

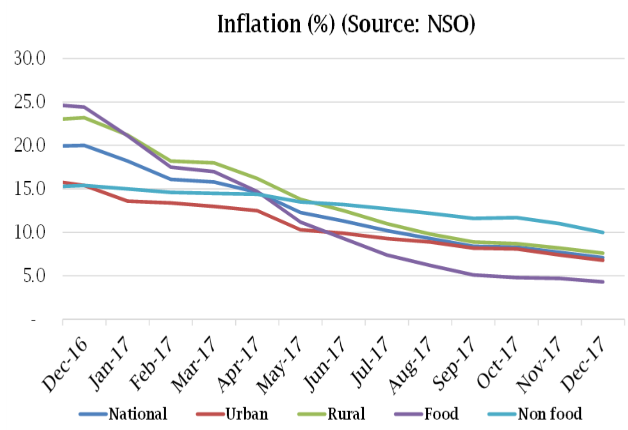
⇒ MERA maintained fuel prices for Petrol, Diesel and Paraffin at K824.70/litre, K815.80/litre and K648.70/litre respectively throughout 2017 despite these petroleum products registering an increase in the average FOB prices. The last fuel price adjustment was in November 2016. Electricity tariff was also maintained at K57.72/kWh throughout 2017.

⇒ In an effort to increase the national power generation capacity as a way of addressing the persistent black-outs the country is experiencing, EGENCO is undertaking the construction of power projects which include an 18MW Tedzani IV hydropower station, a 20MW solar power station and installation of diesel generators in some parts of the country.

1. ECONOMIC OVERVIEW

Inflation

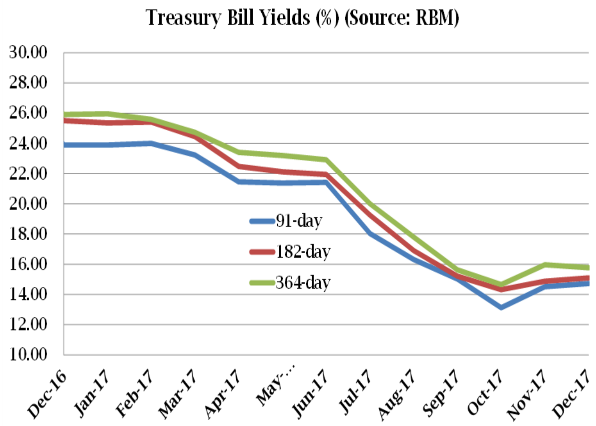
Inflation averaged 11.6% in 2017, a significant decrease from 21.8% in 2016. This was due to a slowdown in both food and non-food inflation. Food inflation decreased to an average of 10.3% in 2017 from 26.7% the previous year. This was as a result of lower than average maize prices arising from above average maize stocks from high agricultural production and inflow of maize stocks from neighbouring countries. On the other hand, non-food inflation decreased to an average of 12.9% in 2017 from 17.1% in 2016 (Source: NSO).



	2017	2016	Change
Headline inflation	11.6%	21.8%	-10.20%
Food	10.3%	26.7%	-16.40%
Non-food	12.9%	17.1%	-4.20%
Urban	10.1%	17.8%	-7.70%
Rural	12.8%	24.7%	-11.90%

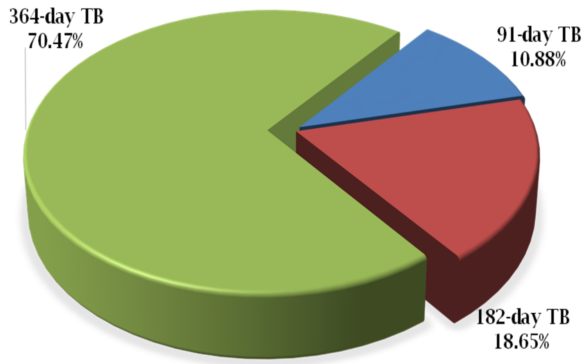
Government Securities

During the year 2017, the All Type Treasury bill yield decreased to an average of 19.73% from 27.87% in 2016. The yield for the 91 days paper decreased to 18.92% from 27.51% in 2016, while the yield for 182 days paper and 364 days paper decreased to 19.78% and 20.47% from 27.99% and 28.15% in 2016 respectively (Source: RBM).



Average	2017	2016	Change
91-day	18.92%	27.51%	-8.59%
182-day	19.78%	27.99%	-8.21%
364-day	20.47%	28.15%	-7.68%
All type yield	19.73%	27.87%	-8.14%

Subscriptions Per Tenor



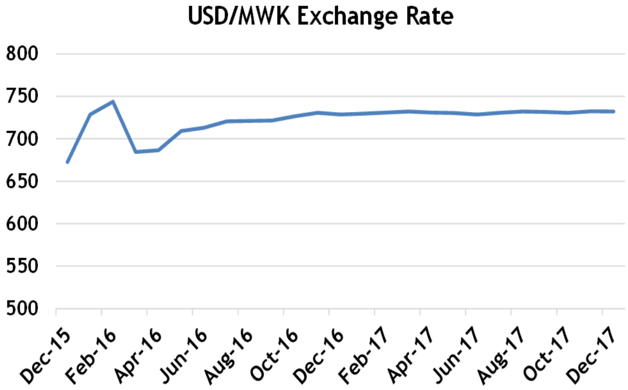
Total applications for Treasury bills for 2017 decreased by 0.17% to K426.77 billion while total allotments decreased by 26.88% to K268.46 billion .The 364 days paper accounted for the highest subscription rate at 70.47%, followed by the 182 days paper at 18.65% and the 91 days paper at 10.88%.

	2017	2016
Applications (K'billions)	426.77	427.51
Allotments (K'billions)	268.46	367.14
Rejection Rate	37.09%	14.12%

1. ECONOMIC OVERVIEW (Continued...)

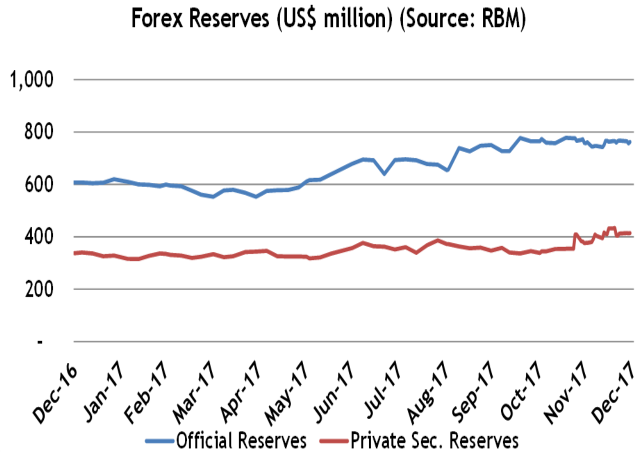
Foreign Currency Market

In 2017, the Malawi Kwacha depreciated against all the major trading currencies. The Kwacha was relatively stable against the U.S Dollar since August 2016 and it traded at an average rate of K730.93:US$1 in 2017. The Kwacha stability was driven by the subdued demand for foreign currency and the continued inflow of foreign exchange reserves, which were adequate to cushion the foreign exchange market and guard against the Kwacha volatility.



The Kwacha recorded a marginal depreciation of 0.47% in December 2017 against the US Dollar compared to a 8.32% depreciation recorded in 2016 (Source: RBM).

CURRENCY	Dec-17	Dec-16	% Movement 12 Months
MK/US Dollar	732.03	728.62	-0.47%
MK/GBP	979.53	893.83	-8.75%
MK/ZAR	59.04	52.81	-10.56%
MK/EUR	869.07	766.03	-11.86%



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

	2017	2016	2015	2014	2013
MK/US Dollar	732.03	728.62	672.68	470.78	435.23
Year on Year Movement	-0.47%	-8.32%	-42.89%	-8.17%	-29.87%

Total foreign exchange reserves as at 29 December 2017 increased to US$1,176.00 million (5.63 months worth of import cover) from US$943.57 million (4.51 months of import cover) on 31 December 2016. Of the total reserves, US$761.97 million was gross official reserves (3.65 months of import cover) and US$414.03 million was private sector reserves (1.98 months of import cover).

	29-Dec-17		31-Dec-16	
	(US$ million)	Import Cover (Months)	(US$ million)	Import Cover (Months)
Gross Official	761.97	3.65	606.96	2.90
Private Sector	414.03	1.98	336.61	1.61
Total	1,176.00	5.63	943.57	4.51

1. ECONOMIC OVERVIEW (Continued...)

Stock Market

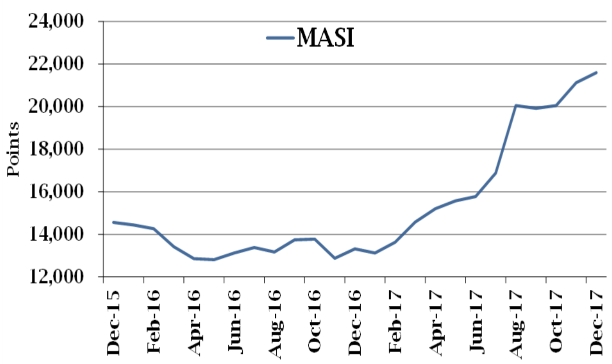
The stock market was bullish in 2017 with the Malawi All Share Index (MASI) increasing by 62.14% to settle at 21,598.07 points from 13,320.51 points in 2016. The largest five gainers were FMB (182.35% increase), TNM (133.12% increase), NICO (100.12% increase), MPICO (99.36% increase) and NITL (76.65% increase). There were no losers registered on the market as at end of 2017. During the period, the Domestic Share Index (DSI) increased by 55.62% to 16,272.64 points while the Foreign Share Index (FSI) increased by 73.71% to 3,519.43 points. FMBCH plc was officially listed on 18 September 2017 and FMB was officially delisted on the MSE on 19 December 2017.

The stock market performance has been impressive in 2017, with the MASI increasing throughout the year except in September when it dropped to 19,920.42 points from 20,049.44 points. The market transacted a total of 698,894,283 shares at a total consideration of K13.52 billion in 1,189 trades. This is a significant increase from a total of 410,895,390 shares traded in 2016 at a total consideration of K6.20 billion in 913 trades. This reflects a 70.09% increase in share volume and a 118.14% rise in share value.

The dividend yield for the MASI closed at 2.69% in 2017 from 5.21% in 2016. The P/E ratio increased to 12.79 in 2017 compared to 8.48 in 2016. On the other hand, the P/B ratio increased to 1.02 in 2017 from 0.90 in 2016 (Source: MSE)

	2017	2016	Change
Traded Value (K'billions)	13.52	6.20	↑ 118.21%
Traded Volume (Number of shares)	698,894,283	410,895,390	↑ 70.09%
Number of Transactions	1,189	913	↑ 30.23%
Price to Earnings Ratio	12.79	8.48	↑ 50.83%
Price to Book Value Ratio	1.02	0.90	↑ 13.33%
Dividend Yield (Percentage)	2.69	5.21	↓ -48.37%

Malawi Stock Exchange Performance



	Dec-17	Dec-16	Change (12 months)
	MK/Share	MK/Share	%
BHL	28.00	20.10	↑ 39.30%
FMB	48.00	17.00	↑ 182.35%
ILLOVO	240.00	160.00	↑ 50.00%
MPICO	15.61	7.83	↑ 99.36%
NBM	270.08	237.12	↑ 13.90%
NBS	8.50	6.00	↑ 41.67%
NICO	34.00	16.99	↑ 100.12%
NITL	60.06	34.00	↑ 76.65%
PCL	600.00	540.00	↑ 11.11%
STANDARD	610.00	500.00	↑ 22.00%
SUNBIRD	96.00	58.50	↑ 64.10%
TNM	14.50	6.05	↑ 139.67%
FMBCH	67.00	N/A	N/A
OML	1,960.00	1,612.00	↑ 21.59%
MASI	21,598.07	13,320.51	↑ 62.14%
DSI	16,272.64	10,456.92	↑ 55.62%
FSI	3,519.43	2,026.07	↑ 73.71%

1. ECONOMIC OVERVIEW (Continued…)

Stock Market (Continued...)

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

Some companies released their financials for the half year (HY) ending 30 June 2017 and trading statements regarding their performance for the year ending 31 December 2017. The table below shows a summary of these statements:

PUBLISHED FINANCIALS						
	NET PROFIT (K'Billions)			TOTAL DIVIDEND (per share)		
	HY 2016	HY 2017	% Change	HY 2016	HY 2017	% Change
BHL	0.19	0.23	21%	0.50	0.50	0%
FMB	2.81	5.03	79%	0.00	0.00	0%
NBM	8.16	9.53	17%	6.44	7.10	10%
STANDARD	9.64	8.16	-15%	4.26	6.39	50%
TNM	2.77	4.75	71%	0.10	0.15	50%
PCL	8.10	7.06	-13%	0.00	5.00	100%
SUNBIRD	1.07	0.59	-45%	0.19	0.28	47%
MPICO	0.69	2.70	292%	0.00	0.08	100%
NICO	1.14	4.30	277%	0.00	0.50	100%
NITL	(0.97)	1.00	203%	0.30	0.50	67%
NBS	(1.38)	(1.14)	18%	0.00	0.00	0%

TRADING STATEMENTS FOR THE YEAR ENDING 31 DECEMBER 2017	
COUNTER	DESCRIPTION
MPICO plc	Expects profits to be more than 100% higher
NBS Bank plc	Expects a loss of at least 70% lower than the previous corresponding period
NICO Holdings plc	Expects profits to be more than 180% higher
NITL plc	Expects profits to be more than 100% higher
Sunbird Tourism plc	Expects profits to be more than 70% higher
TNM plc	Expects profits to be more than 60% higher
Standard Bank plc	Expects profits to be 30% less

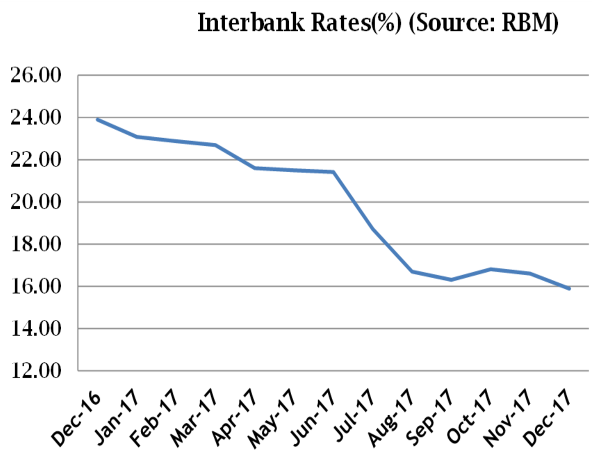
FMB Capital Holdings (FMBCH) Limited Listed on the Malawi Stock Exchange (Source: MSE)

First Merchant Bank plc (FMB) announced its withdrawal from the official list of the Malawi Stock Exchange (MSE) following the 100% acquisition of its issued share capital by FMB Capital Holdings plc effective 19 December 2017. As such, FMB shares are no longer traded or quoted on the MSE. FMB Capital Holdings (FMBCH) was officially listed on the Malawi Stock Exchange on 18 September 2017 at a share price of K45.01, following corporate restructuring initiatives which led to the formation of a holding company registered in Mauritius. FMBCH is now the holding company of the FMB Group.

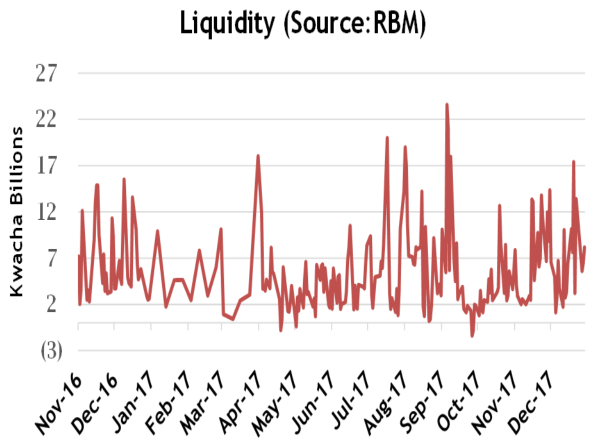
1. ECONOMIC OVERVIEW (Continued...)

Interbank Markets and Interest Rates

Liquidity levels decreased in 2017 averaging K5.35 billion a day compared to K7.51 billion a day in 2016. Liquidity levels have been erratic in the year under review reaching a high of K23.58 billion in September 2017 and a low of negative K0.39 billion in May 2017. Liquidity levels were high in the third quarter of 2017 averaging K6.42 billion, which is the time the tobacco selling season was winding up, and reached the lowest average of K3.87 billion in the second quarter of 2017, the time the tobacco selling season had just been opened. Liquidity levels in the banking system have not been stable as evidenced by the volatility noticed on a month-on-month basis. However, the Reserve Bank of Malawi's active market interventions helped to absorb liquidity leading to the overall decline of liquidity in 2017.



The Monetary Policy rate was adjusted downwards three times during 2017 to 16% in December 2017 from a previous rate of 18%. As at January 2017, the policy rate was at 24% and was later reduced to 22% in March 2017 and 18% in July 2017. These adjustments of the monetary policy rate led to subsequent reductions in base lending rates for commercial banks. Commercial banks base lending rates averaged 27.55% as at December 2017 (December 2016: 33.73%). Despite the reduced base lending rates, interest rates are still high which is a reflection of the low levels of competition and increased credit risks in the banking sector.



Access on the Lombard facility increased marginally to a monthly average of K7.67 billion in 2017 from K7.04 billion in 2016. Overnight borrowing between banks increased to a monthly average of K6.35 billion from K5.24 billion in 2016. Interbank rates averaged 19.52% in 2017 decreasing from 23.90% in 2016 (Source: RBM).

1. ECONOMIC OVERVIEW (Continued...)

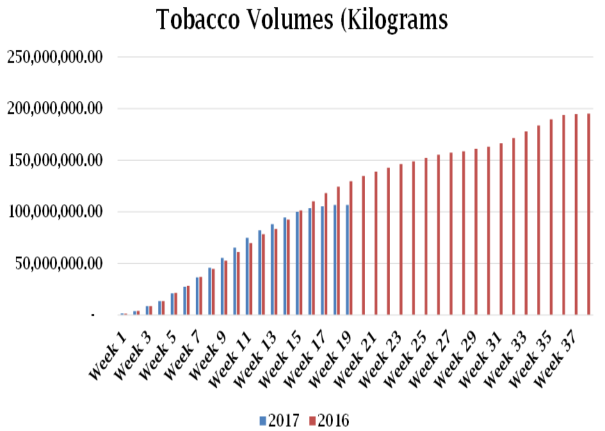
Tobacco Market Update (Source: Tobacco Control Commission)

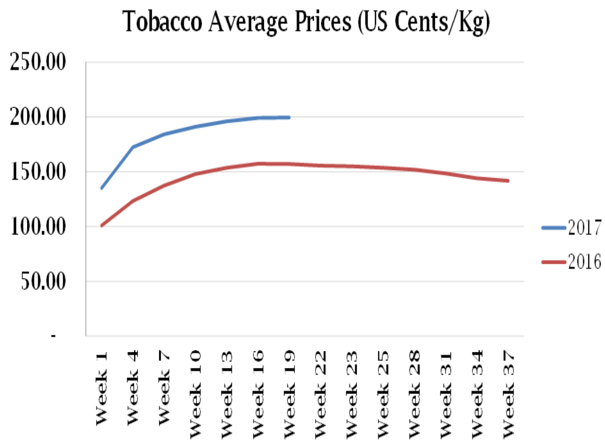
The 2017/18 tobacco marketing season was projected to be smooth as compared to the previous year following indications of low tobacco production. According to TCC, tobacco farmers planted according to trade requirements by following quotas that were given in order to prevent tobacco over production.

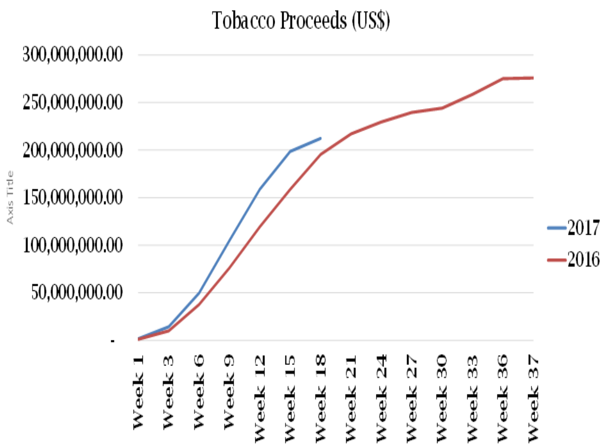
The tobacco market commenced on 11 April 2017, two days earlier than the previous season. The season lasted for 19 weeks compared to 37 weeks in 2016 which was prolonged due to high rejection rates. In the 2017 tobacco marketing season, revenues totaled US$212.49 million from the previous year's US$276.39 million (a 23% decrease) selling at an average price of US$1.99 per kilogram (2016: US$1.42 per kilogram) representing a 40% increase. A total of 106.53 million kilograms of tobacco were sold on all the auction floors in the 2017 market compared to 195.12 million kilogram in 2016 (a 45% decrease) (Source: Tobacco Control Commission).

The low tobacco volume for the 2017 production was a result of the impact TCC's intervention in tobacco production through imposing quotas aimed at cutting production to improve tobacco prices. The reduced tobacco production led to the intended outcome of increasing tobacco prices. However, the increase in prices was not sufficient to offset the impact of reduced production on total revenues as evidenced by lower 2017 tobacco revenues despite the price increase. Malawi's limited degree of export diversification leaves the country vulnerable to risks such as low commodity prices. The country's tobacco over production and reduced global demand in tobacco have supressed tobacco prices.

	2017	2016	% CHANGE
Volume (KG) Millions	106.53	195.12	-45.40%
Value (US$) Millions	212.49	276.39	-23.12%
Average Price (US Cents/Kg)	199.46	141.65	40.81%







2. OTHER MARKET DEVELOPMENTS

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

The Ministry of Finance, Economic Planning and Development released the results of the annual food security assessment exercise carried out from June to August 2017 through the Malawi Vulnerability Assessment Committee (MVAC). The exercise was aimed at assessing the food security situation in the country and determining the number of people who are likely to be food insecure during the 2017/18 consumption year. The results showed that a total of 836,766 people out of the total projected population of 17,373,185 will not be able to meet their annual food requirement, representing 5% of the total population. There has been a decrease of 87% percent in the number of affected people from 6,692,114 people during the 2016/17 consumption period. The decrease has been a result of increased agriculture production due to favourable weather conditions and good agricultural practices. The volume of maize required to meet the dietary needs of these food insecure people is estimated at 23,000 metric tons, which is likely to be met domestically.

Cereal production increased to an above average level in 2017. Maize output was estimated at approximately 3.5 million tons (against national requirement of 3.2 million tons), 46% up on a yearly basis compared to the drought-reduced 2016 output of about 2.4 million tons. The 2017 maize output was also 6% higher compared to the previous five-year average. This brings a total surplus of about 300,000 metric tons in 2016/17 season compared to the deficit of 783,822 metric tons in the 2015/16 season. Production gains were also estimated for millet, rice and sorghum, contributing to an overall above-average cereal output of 3.7 million tons in 2017 compared to 2.5 million tons in 2016. The increase is mainly reflective of beneficial weather conditions, despite poor rains at the start of the season and generally good availability of inputs. However, weather shocks (dry spells) and Fall Armyworm infestations caused some localized damage.

Food Security Update (FEWS Net, FAO,IFPRI)

In 2017, food insecurity outcomes improved as many households were consuming own-produced food, and market supplies and food stocks remained above average. However, very poor and poor households in some areas such as the Lower Shire, were reported to have started relying on food purchases earlier than normal due to below average 2017 production. As at November 2017, a population of greater than 20% was projected to be in crisis/ stressed in Nsanje, Chikwawa, Balaka and Mwanza districts of southern Malawi during the months of November 2017 through March 2018. This was said to be due to localized dry spells and pests on crops last season. These districts were therefore planned to be targeted with assistance between December 2017 and March 2018 and outcomes were projected to improve from February to March 2018.

National and local maize supplies continued to remain above average as at November 2017 with high volumes of maize grain reported to be informally flowing into Malawi from neighboring Mozambique and Zambia. ADMARC and the Strategic Grain Reserves also reported above average stocks and purchases. High cereals supplies in the face of reduced demand depressed maize prices further, pushing them below their year average levels. As of August 2017, the national average maize price, at K105/kg, was 53% down on a yearly basis. ADMARC was selling maize at K250/kg more than double the national average retail price. The Monthly Maize Market report for December 2017 by the International Food Policy Research Institute (IFPRI) indicated that the average price of maize in 15 selected markets as at December 2017 was K86/kg as compared to K227/kg as at December 2016.

2. OTHER MARKET DEVELOPMENTS (Continued…)

Farmers Union of Malawi Statement on Maize Export Ban (Source: Farmers Union of Malawi)

The government of Malawi, effected the maize export ban early in 2017 in order to avoid creating shortages of the staple grain and ensure that the country was self sufficient.

In May 2017, Farmers Union of Malawi, in reaction to this development, observed with great concern the practice by government of imposing an export ban on maize which was believed to have brought economic suffering to farmers. According to Farmers Union of Malawi (FUM), the maize export ban dampened maize farm gate prices with prices as low as K50/kg. While government invested billions in agriculture through the subsidy program in order to benefit smallholder farmers, the export ban reduced expected benefits to Farm Input Subsidy Program targeted farmers which was a clear policy contradiction. With these low farm gate prices, farmers would not be able to recover their costs and make a good profit margin.

As a way forward, FUM strongly recommended the government to open an export window for maize. According to FUM, maize prices in Eastern Africa were found to range from 300-740 US Dollars per metric tons which were said to be competitive and could help in making good profit margins if ADMARC was allowed to export some of its stock. This could ease pressure on the domestic market and allowed demand for maize to pick up, which could push up maize prices to the benefit of producers.

Lifting of Maize Export Ban (Source: Reuters)

In late October 2017, the President of Malawi, Professor Peter Mutharika ordered the immediate lift of a maize export ban after a bumper 2016/17 harvest helped farmers recover from a severe drought. The 2015/16 harvest was devastated by an El-Nino weather system that swept across southern Africa and left almost half of Malawi population needing food aid, leading to the maize export ban in early 2017.

The improved rainfall during the 2016/17 season helped to produce about 3.5 million tons of maize in 2017 from 2.4 million tons the previous year. Hence, the maize export ban was lifted thereby allowing farmers to start selling their maize outside the country as it was expected that Malawi would have adequate maize storage even in the event of another poor harvest.

2. OTHER MARKET DEVELOPMENTS (Continued…)

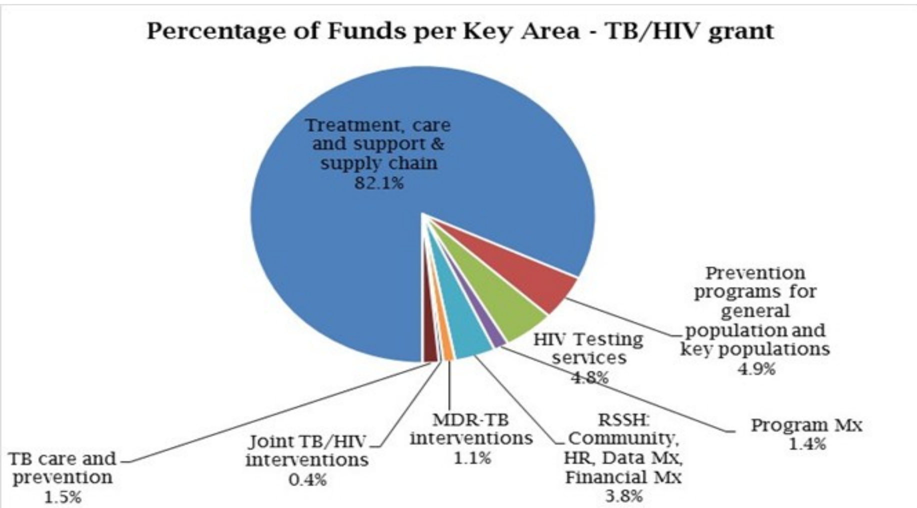
IMF in Malawi (Source: IMF)

In June 2017, the IMF executive board completed the ninth and final review of Malawi's economic performance under the program supported by an ECF arrangement. The board's decision enabled the disbursement of US$26.9 million, bringing total disbursements under the arrangement to about US$191.4 million. The board also approved the authorities' request for waivers of non-observance of performance criteria related to the net domestic assets and net international reserves of the Reserve Bank of Malawi, and net domestic borrowing by the central government. Since the program's inception in July 2012, there have been several policy-induced slippages and adverse weather–related shocks that warranted extending the program on four occasions so that the authorities could undertake corrective actions.

Participants during the ninth and final review of the ECF agreed that the ECF program broadly achieved its macroeconomic policy stabilization objectives, including reducing inflation and increasing international reserves. However, it fell short on achieving sustained and inclusive growth. The IMF therefore recommended that focus should be on increasing growth and reducing poverty, while consolidating the hard-won achievement of macroeconomic stability. Priorities should include reinforcing economic resilience to climate shocks, sustaining public financial management reforms, improving debt management in view of the large infrastructure needs, safeguarding and strengthening financial sector stability and improving the business environment to foster job creation and inclusive growth. Given the scarce resources and significant needs, careful sequencing and prioritization will be required to address infrastructural gaps and enhance competitiveness.

Global Fund's US$460 million Grant to Malawi (Source: Ministry of Health)

In November 2017, Malawi and the Global Fund strengthened their relationship by signing four grants worth a total of US$460.48 million towards the fight against HIV, Tuberculosis (TB) and Malaria including building resilient sustainable systems for health (RSSH). Based on the Global Fund Board's decision, Malawi initially had an allocation of US$450.48 million which was determined for all recipient countries primarily based on disease burden and income level. An extra US$10 million was added to the grant on condition that selected interventions on key areas be matched for the next period interventions hence the total of US$460.48 million. The grant period is 3 years from 1 January 2018 to 31 December 2020.



2. OTHER MARKET DEVELOPMENTS (Continued…)

World Bank 2017 Publications (Source: World Bank)

In the fifth edition of the Malawi Economic Monitor (MEM) report which was released in May 2017, the World Bank noted that in 2016 Malawi recorded a GDP growth rate of 2.5% despite a significant contraction in agriculture sector, the country's major contributor to GDP, by 2.3%. Floods and drought in early 2015 followed by the late onset of rains and the erratic dry spells with the El-Nino weather pattern weighed heavily on agricultural production, energy generation and poverty reduction. During the second half of the FY 2016, the food crisis resulted in dramatic increase in the borrowing standing at around 6% of GDP, due to unplanned expenditure on post-harvest maize purchases in anticipations of interventions in food-deficit areas. The World Bank estimated that Malawi would grow at a rate of 4.4% in 2017 driven by improved conditions in the agricultural sector arising from favourable weather patterns. The World Bank advised that in the medium term, it is essential for Malawi to build resilience to both external and internal shocks. The recommended steps towards building resilience include: deeper policy reforms to reduce distortions in the agriculture sector, boost commercialisation and ensure that markets function effectively including through maize market reforms, maintaining macroeconomic stability and in particular , improving fiscal discipline and carefully managing debt sustainability, and making investments to build resilience against weather shocks to diversify the economy, while reforming and expanding existing safety nets to enable flexible responses to shocks.

In the sixth edition of the MEM report which was released in November 2017, the World Bank revised Malawi's GDP growth rate to 4.5% in 2017 from the estimated 4.4%. This upward revision was attributed to the rebound in the country's agriculture sector, with the impact of the weather shocks that affected the economy over the past two years finally subsidizing. Despite this rebound in the agricultural sector, it was noted that the rates for industry and services sectors remained low, partly due to structural constraints in the supply of water and energy specifically in the manufacturing sector. With a significant portion of the macroeconomic gains made in 2017 resting on smallholder production, the country remained susceptible to significant internal and external shocks namely unfavourable weather conditions and unstable markets. Growth in large scale maize production remained limited, largely due to unpredictability of the Government's interventions in agricultural produce markets. The 2016/17 FY recorded improvements in fiscal performance with the fiscal deficit narrowing to 4.8% of GDP from 6.1% of GDP in 2015/16 FY, largely owing to strong performance in revenue collection, high value of total grants, and contained government borrowing and recurrent expenditure.

The second MEM was launched together with other two publications: Investment Climate Assessment report (ICA) and Country Economic Memorandum report (CEM). The ICA report evaluated the performance of the domestic private sector firms in Malawi and set out recommendations aimed at addressing the constraints faced by Malawian enterprises. It was noted that the country's financial sector is shallow and commercial-bank dominated, the private sector is characterized by few large private firms often engage in agro-processing, the country's ranking on firm competitiveness remains low, there is lack of infrastructural development, among others. The main barriers to increasing private investment were identified to be access to financing, electricity and corruption.

The CEM report focused on understanding the puzzle for Malawi's lack of development despite decades of development efforts and significant amounts of foreign aid. This is manifested in the country's limited diversification in its export base, a dysfunctional agriculture sector, slow structural change, stagnation in capital stock growth and a tough business environment. The report also pointed out access to finance, unreliability of electricity and water supply and corruption as top concerns to private sector development. Four priorities for change which were recommended include entrenching macroeconomic stability, focusing resources to support agriculture more effectively, undertaking reforms to foster private investment and job creation, and restoring the effectiveness of Malawi's institutions.

2. OTHER MARKET DEVELOPMENTS (Continued…)

World Bank's Resumption of Budgetary Support To Malawi (Source: World Bank)

The World Bank Board of Executive Directors approved a US$80 million credit to the Malawi Government for general budget support on 4 May 2017. This is the first budget support in 4 years due to public finance mismanagement. This budget support operation, referred to as the Agricultural Support and Fiscal Management Development Policy Operation (DPO), is the first of a proposed series of two operations. It aims at improving incentives for private sector participation in agricultural markets and strengthening fiscal management.

World Bank Helps Malawi Commercialize Agriculture (Source: World Bank)

The World Bank approved a US$95 million (K69 billion) credit to Malawi to boost the quantity and quality of various agricultural products for domestic and export markets. The Agriculture Commercialization Project was approved on 23 May 2017 and is expected to support 70,000 farmers and 300 producer organizations. In order to create a conducive environment for farmers and agribusinesses to operate in, the project aims at supporting infrastructure such as feeder roads and electricity. The project also supports agro-business reforms and strengthen the warehouse receipt system in Malawi.

In a joint press release with the Malawi government, the World Bank stated that it would support Malawi in its development efforts mainly through provision of financing, knowledge and partnerships. The approved budget support is aimed at helping Malawi achieve its development goals through a program of policy and institutional actions or reforms.

An Agenda to Transform Malawi's Irrigated Agriculture (Source: World Bank)

On 19 October 2017, the World Bank approved a US$166 million loan to transform Malawi's agricultural productivity through irrigation, in order to lay the foundations for commercialization and improve management of natural resources in the Shire Valley. The financing is for the first phase of the Shire Valley Transformation Program (SVTP-1). The funding consists of a $160 million credit from the International Development Association (IDA) and a US$5.59 million grant from the Global Environment Facility Trust Fund.

The whole program which will cover Chikwawa-Nsanje areas of the Shire Valley is scheduled to have three phases over a 14 year period (2017 to 2031). Through this period, the program will provide irrigation to over 40 000 hectares through gravity water delivery, eliminating the need to use electricity for pumping water from the Shire River. The program will boost agriculture production, provide drinking water services, improve sustainable management of natural resources including wetlands and protected areas, while enhancing tourism potential. Implementation of the projects will be led by the Ministry of Agriculture, Irrigation and Water Development with other partners and agencies.

2. OTHER MARKET DEVELOPMENTS (Continued…)

Monetary Policy Committee Meetings (Source: RBM)

The Monetary Policy Committee (MPC) of the Reserve Bank of Malawi met four times in 2017 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 and have been summarized below:

23-24 March 2017

The policy rate was reduced to 22% from 24%, and the Liquidity Reserve Requirement (LRR) was maintained at 7.5%. Real GDP growth was estimated to rebound to between 4% and 5% in 2017 from an estimated 2.7% in 2016 backed by favourable weather conditions, and the stable macroeconomic environment. The MPC stated continued economic recovery over the medium to long term depends on sustained macroeconomic stability and addressing underlying structural constraints. Money supply continued to moderate to 15% in December 2016 from 30% in June 2016 reflecting a generally tight monetary policy stance. It was observed that inflation had been declining since August 2016, recorded at 16.1% in February 2017 (23.4% February 2016). Net domestic borrowing as at December 2016 amounted K565.7 billion compared to K448.5 billion recorded in the similar month last fiscal month. RBM maintained the foreign exchange reserves around 3 months of import cover over the period of February 2016 to February 2017.

4-5 July 2017

The policy rate was reduced to 18% and the Liquidity Reserve Requirement (LRR) maintained at 7.5%. The real GDP growth was projected to around 4.5% backed by favourable weather conditions, and the stable macroeconomic environment. Growth in money supply rose to 18% year-on-year in May 2017 from 15% in December 2016. Headline inflation fell to 12.3% in May 2017 from 23.5% in July 2016. Net credit to government from the banking sector expanded to K104.8 billion in May 2017 from K86.0 billion recorded in January 2017, while private sector credit from commercial banks increased marginally to K404.8 billion from K398.5 billion over the same period. The MPC observed that the exchange rate had been relatively stable during the past 12 months prior to the meeting, supported by low Kwacha liquidity and relatively subdued demand for foreign exchange.

27-28 September 2017

The policy rate was maintained at 18% and the Liquidity Reserve Requirement (LRR) at 7.5%. Real GDP growth projection for 2017 was revised upwards to 6.4% still owing to weather conditions and the stable macroeconomic environment. The MPC observed that inflation rate fell to 9.3% in August 2017, the first time it has dropped into single digit since December 2011, largely benefiting from drop in food inflation and tight monetary policy. Money supply growth averaged 18.4% during the first eight months of 2017, lower than 24.3% recorded during the same period in 2016. Net credit to government from the banking sector increased to K493.9 billion in August 2017 from K304.5 billion recorded in January 2017, while private sector credit from commercial banks declined marginally to K392.1 billion from K398.5 billion over the same period

19-20 December 2017

The policy rate was adjusted downwards to 16% from 18%, and the Liquidity Reserve Requirement (LRR) was maintained at 7.5%. The adjustment was attributed to disinflation effects that country experienced, the inflation outlook as well as the desire to consolidate the gains made in stabilising the economy. The real GDP growth for 2017 was revised to around 5% and 6% owing to weather conditions and the stable macroeconomic environment. The money supply growth rate was contained at an average rate of 17.9% during the first eleven months of 2017, with the inflation rate recorded at 7.7% in November 2017 mainly due to tight monetary policy, favourable base effects, improved food availability and a stable Kwacha.

2. OTHER MARKET DEVELOPMENTS

Revision of Commercial Banks' Base Lending Rates (Source: NBM,FMB,STD,NBS,FDH)

Financial institutions in Malawi reduced their base lending rates following the downward adjustment of the Monetary Policy Rate. The table below shows the interest rate trend for some selected banks:

	Dec-17	Aug-17	Jul-17	Apr-17	Nov-16
Standard Bank	23.00%	25.00%	27.00%	30.00%	32.00%
National Bank of Malawi	23.00%	25.00%	27.50%	30.50%	32.00%
First Merchant Bank	23.00%	25.00%	27.50%	31.00%	33.00%
NBS Bank	25.50%	27.50%	27.50%	31.00%	33.00%
Monetary Policy Rates	16.00%	18.00%	18.00%	22.00%	24.00%

The 2017/18 Fiscal Budget Statement (Source: Ministry of Finance)

The Minister of Finance, Economic Planning and Development presented the proposed 2017/18 national budget in parliament on 19 May 2017. Total value of revenue and grants was expected to increase by 13.3% to K1.11 trillion from a likely outturn of K977.8 billion in 2016/17 FY. Domestic revenue was expected to increase by 16.9% to K980.3 billion, while grants were expected to decline by 8.3% to K127.7. Total expenditure was projected at K1.29 trillion and register a 13.5% increase at current prices, with development budget increasing to K348.8 billion from K317.40 billion, and the recurrent budget to K946.6 billion from K815.50 in 2016/17. Overall, recurrent expenditure of 19.6% of GDP could be fully covered by domestic revenues, which were estimated to comprise 19.9% of total revenue and grants. The projected budget deficit for the 2017/18 FY was 3.9% of GDP, a decline from 4.0% of GDP of the previous year.

Net domestic borrowing was expected to be reduced from K63.6 billion (1.5% of GDP) to K27.5 billion (0.6% of GDP). The budgetary support would be used to repay domestic borrowing and huge arrears that were accumulated by June 2014. Domestically funded development expenditure was estimated at K132.6 billion while foreign financed expenditure was projected at K216.1 billion. The 2017/18 FY budget reflected a relative shift in priorities to education from agriculture, as the former received the largest proportion of the budget of any single sector. The table below shows a summary of the national budgets:

	2017/18 (proposed)	2016/17 (likely outturn)	% change
	Kwacha billions	Kwacha billions	
Total Revenue and Grants	1,108	978	13.29%
Total Expenditure	1,299	1,147	13.25%
Recurrent Expenditure	947	881	7.49%
Development Expenditure	349	264	32.20%
Overall Balance	(191)	(169)	13.02%
GDP	4,966	4,245	16.98%
Budget Defict to GDP (%)	(3.9)	(4.0)	-2.50%

2. OTHER MARKET DEVELOPMENTS (Continued…)

2017/18 State of the Nation Address: Harnessing Economic Gains for Sustainable Socio-Economic Development (Source: Malawi Government)

The President of Malawi delivered the State of the Nation Address on 5 May 2017 during the opening of the 6th Meeting in the 46th Session of Parliament and the 2017/18 budget meeting. He made the following key points:

1. Macroeconomic Environment

- The economy is showing signs of recovery and an estimated real GDP growth rate between 5% and 6% is expected in 2017. This is as a result of strong agricultural season due to favourable rains in most parts of the country and good performance in the manufacturing, wholesale and retail sectors.
- Annual inflation rate declined to 15.8% in March 2017. This trend was expected to continue due to the favourable agriculture season and an expected decline in international prices for petroleum products. A single digit inflation rate was projected by the end of 2018.
- The government managed to control expenditures in the first half of the 2016/17 mid year and domestic revenue mobilization performed well although the country's debts have increased over time. However, a debt sustainability analysis indicated that Malawi's debt ratios are below internationally agreed debt thresholds. Government would continue to strengthen its debt management strategies through adherence to public debt policies and medium term debt strategies.
- The ninth review of the IMF Extended Credit Facility was extended to 30 June 2017. The Government was on track with the Facility and believed that the IMF Executive would approve the completion of the Ninth Review of Malawi's economic performance.

2. Sustainable Economic Growth

- Malawi will have enough food largely due to good rains in most of the country. The preliminary crop estimates suggested maize production to increase by 37.5% from 2.4 million metric tons in 2015/16 season to 3.3 million metric tons in the 2016/17 season.
- The mining sector has potential to significantly contribute to the country's sustainable economic growth and development. The establishment of modern geo-management platform will provide investors with access to geo scientific information essential for making well informed investment decisions.

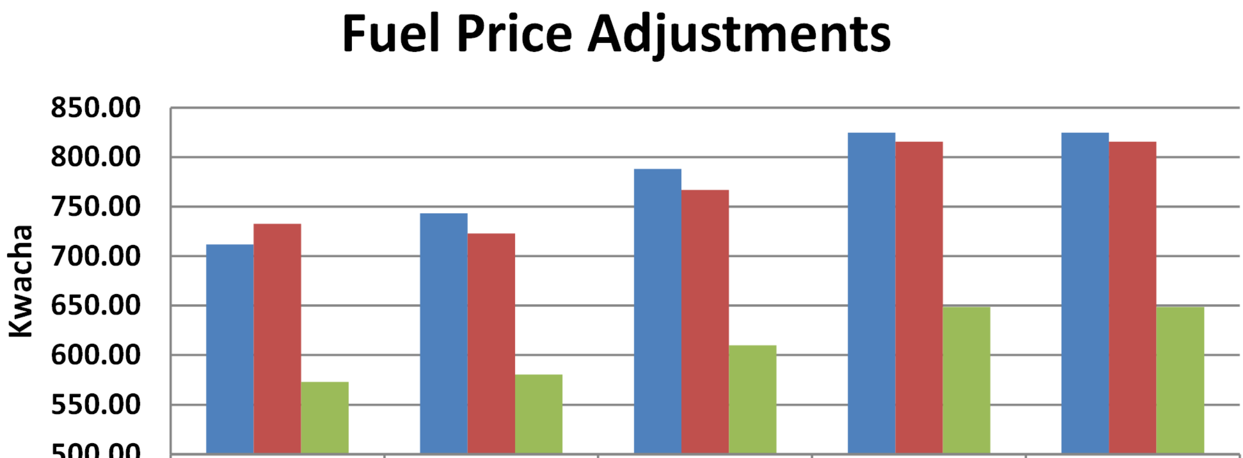
3. Social Development

- The government will continue improving the health and well being of Malawians through construction of the first cancer treatment centers, increasing HIV treatment sites and reducing maternal and child mortality rates.
- The government will also continue to construct classrooms, train more teachers and expand infrastructure in public universities to ensure high quality education across the country.
- Reliable transportation and access to services is a prerequisite for socioeconomic growth and development and the government will continue to improve road, air, water and rail transportation.

2. OTHER MARKET DEVELOPMENTS (Continued…)

Review of Fuel Prices (Source: MERA)

Malawi Energy Regulatory Authority (MERA) did two reviews on fuel prices in 2017, where it assessed the combined effect of the movement of the FOB prices and exchange rate of the Malawi Kwacha to the US Dollar as well as changes in local factors that determine the maximum pump prices. It was noted that the landed cost of Petrol, diesel and paraffin had increased in both reviews, thereby qualifying all the three petroleum products for an upward pump price adjustment. However, in both reviews, the Board resolved to maintain pump prices for all the three products at K824.70/litre, K815.80/litre and K648.70/litre respectively, and apply the accumulated funds in the Price Stabilisation Fund (PSF) to cover the increased landed cost of the three products. The last fuel price adjustment was done in November 2016 as shown in the graph below:



	Dec 2015	Mar 2016	Jun 2016	Nov 2016	Dec 2017
Petrol	711.90	743.30	788.30	824.70	824.70
Diesel	732.70	722.80	766.90	815.80	815.80
Paraffin	573.10	580.40	609.80	648.70	648.70

Revision of Electricity Tariffs (Source: MERA)

Since the electricity tariff was increased by 7.5% to K57.72/kWh from K53.69/kWh on 6 February 2016, the tariff has been maintained at this rate throughout 2017. In press releases made in June, August, September and November 2017, there were potential electricity tariff adjustments of 2.12%, 5.10%, 6.10% and 7.74% respectively. However, the MERA Board reviewed electricity tariffs under the ATAF but resolved to maintain them at the current average of K57.72/kWh due to some considerations. These include:

- The ATAF June 2017 outcome was within +/-5 statutory limit.
- For August and September 2017, the backlog of base tariff increase was not yet implemented.
- For November 2017, the backlog on the implementation of the 4th tranche of the second phase tariff for 2017/18 and the ESCOM's revenue loss emanating from the delay in implementing this tranche.

2. OTHER MARKET DEVELOPMENTS (Continued…)

Water Level and Power Generation Updates (Source: EGENCO)

Electricity Generation Company Malawi Limited (EGENCO) released a number of water level and power generation updates during the year 2017 to inform the nation of the status of its power generation capacity with respect to prevailing water levels.

As of December 2016, water levels in Lake Malawi reduced by 1.5 masl (meters above sea level) to 473.0 masl. There was a flow of 280 cubic metres per second (cumecs) of water in the Shire River to allow for maximum power generation capacity. However, the reduction in water levels led to regulation of the flow of water at the Liwonde barrage to a minimum flow of 115 cumecs against the required flow of 260 cumecs for normal power generation, resulting in a power generation reduction of almost 40%. ESCOM was producing an average 150 mega watts (MW) of power from a total installed capacity of 351 MW of hydro plants. Since the onset of rainfall in November 2016, the water level only improved by 0.26 masl due to the rainfalls in the downstream of Liwonde.

As at 19 March 2017, the water levels in Lake Malawi increased by only 0.65 metres above sea level (masl) to 473.65 masl which necessitated EGENCO to continue controlling the flow of the Shire River at Liwonde to ensure that there was adequate water harvested in Lake Malawi from the rains falling in the Central and Northern Regions. As at 3 April 2017, lake levels rose by 0.77 metres above sea level (masl) to 473.77 masl. In view of the rise in water levels, EGENCO increased the opening of the flows from 126 cumecs to 160 cumecs to allow more water for optimum power generation at its power stations which allowed improvements in power generation. However, EGENCO kept on controlling the flow of water from Lake Malawi to ensure that there is adequate water harvested in Lake Malawi.

EGENCO is undertaking the construction of power projects to increase the national power generation capacity as a way of addressing the persistent blackouts the country is experiencing. One of the projects include the construction of Tedzani IV hydropower station which is expected to add 18MW to the generation system, and is being implemented with funding from the Japanese government and additional local funding by EGENCO and the Malawi government. The project was is expected to cost about K52 billion, with the Japanese providing K49.1 billion and EGENCO to meet the K3 billion shortfall. The station is expected to be commissioned in 2019. Other projects include a 20MW solar power station and the installation of diesel generators. The diesel generators project comprises of a 20MW generators for Mapanga, 6MW for Mzuzu, and 5.7MW, 10MW and 10MW for Lilongwe A, B C respectively. As at December 2017, EGENCO managed to install the 2MW generator out of the 6MW in Mzuzu, with the remaining fully commissioned on 8 December 2018. EGENCO expects the whole installation process to end by March 2018, when 46MW are expected to have been commissioned.

ESCOM K4.4 Billion Investment Towards Increasing Electricity Supply (Source: ESCOM)

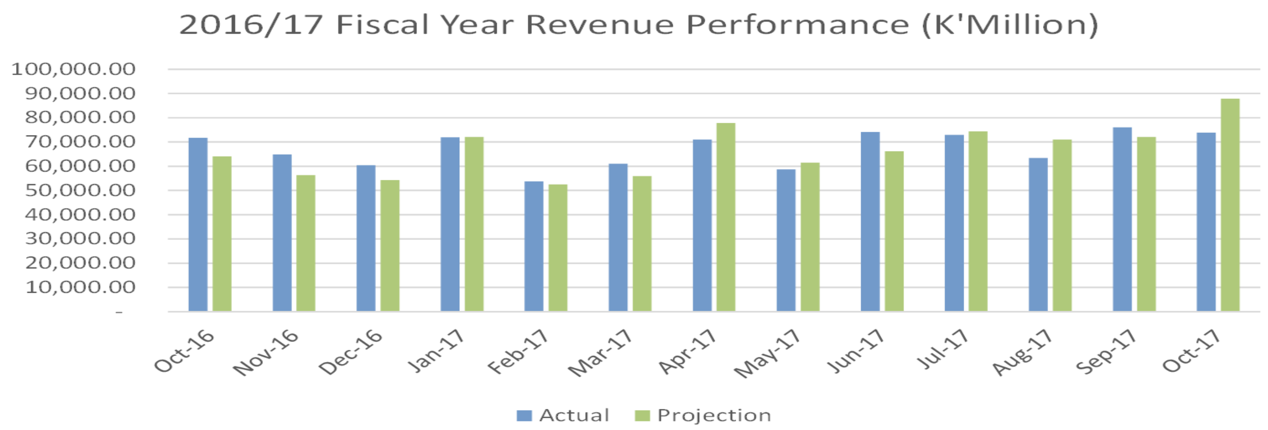
ESCOM invested K4.4 billion (US$6.0 million) for the construction and upgrade of 10 power distribution lines in a bid to increase the reliability and quality of electricity supply in the major load centers. This project is part of the World Bank financing component of the US$56 million investment which includes a major upgrade of existing sub-stations and construction of new substations to which the reference lines will connect. The construction of these distribution lines is expected to increase the power supply capacity that ESCOM can supply to its customers, thereby allowing ESCOM to provide more reliable power and also connect more customers to increase access to electricity. In its effort to achieve and ensure equity and fairness in sharing power amongst its customers, ESCOM released electricity management programmes in 2017, which allocated eight hours of power in a day to the three groups of its domestic customers. As at November 2017, the available capacity was between 145MW and 150MW against the average demand of 300MW.

2. OTHER MARKET DEVELOPMENTS (Continued…)

Revenue Performance Update (Source: MRA)

At mid year (June 2017), tax revenue collection amounted to K74.11 billion against a monthly projection of K66.18 billion, resulting in a surplus of K7.93 billion (12%) compared to K1.81 billion surplus in June 2016. Cumulatively, the tax revenues collected amounted to K767.61 billion against a target of K725.05 billion, resulting in a surplus of K42.56 billion (5.87% over target) compared to a cumulative K23.48 billion deficit registered as at June 2016. The good revenue performance in June 2017 was on account of taxpayers who made adjustments of tax payments as they were reconciling their books in readiness for the closure of the year.

The Malawi Revenue Authority's tax revenue performance report for October 2017 showed that total revenue collected amounted to K73.83 billion against a monthly projection of K87.93 billion, recording a deficit of K14.10 billion (October 2016: K7.87 billion surplus). Cumulatively, the tax revenues collected as at October 2017 amounted to K286.17 billion against a target of K305.39 billion, resulting in a deficit of K19.22 billion compared to a cumulative K23.24 billion surplus as at October 2016. The October 2017 performance was attributed to the weak performance in Pay As You Earn, corporate tax, fringe benefit tax, withholding tax and import taxes.



Introduction of Road Access Fee (Source: MRA)

Road Fund Administration (RFA) in conjunction with MRA announced on 19 September 2017, the introduction of a Road Access Fee for all vehicles entering the country at a fixed rate of US$20, effective from 1 November 2017. The fee is applicable on all foreign registered small vehicles and other vehicles that are currently not paying International Transit Fee (ITF) including motor cycles and trailers. The fee was introduced to help the Roads Fund Authority to carry out its function of developing road infrastructure.

Agriculture Production Estimates Survey Results (Source: Ministry of Agriculture, Irrigation and Water Development)

The Ministry of Agriculture released the Agriculture Production Estimates Survey in February 2017 which showed that the country's maize production was expected to increase by 35.9% in the 2016/17 season. The first round 2016/17 Agriculture Production Estimates Survey projected that maize production would increase to 3,220,712 metric tons, higher than the 2015/16 final round estimate of 2,349,493 metric tons.

The projected increase in maize production was an improvement after the worst food shortage in nearly a decade when the country recorded a 30% drop in maize production during the 2015/16 season. This left about 6.7 million people on the verge of food insecurity. Cotton production was expected to go up by 7.6% while tobacco production was expected to drop by 36.6%. .

2. OTHER MARKET DEVELOPMENTS (Continued…)

The 2017 Annual Economics Association of Malawi (ECAMA) Conference: Rethinking the Pillars and Structures for Malawi's Transformative and Inclusive Development (Source: ECAMA).

From ECAMA's 2017 conference held from 9th-10th November 2017, a number of resolutions were made following the deliberations which indicated that there are a number of bottlenecks hindering the country from attaining transformative and inclusive developments. Some of the highlights were as follows:

- **Agriculture sector—** There is a need for diversification, moving away from peasant agriculture to small, medium and large scale mechanised farming, and irrigation development needs to be made a priority to overcome challenges of low productivity and climate change effects. There is also need to holistically review the agricultural sector policies and some of the key stakeholders.
- **Education—** Despite the key role that education plays in economic growth, education levels, access to education and quality of education in Malawi remain low. In order to achieve inclusive economic growth, attainment of universal education at least up-to secondary school level will go a long way not only in improving literacy levels but also enhancing economic productivity.
- **Health Sector—** There is also need to address health sector challenges in order to achieve transformative and inclusive growth for Malawi.
- **Civil Service—** Civil service remains the biggest employer and very crucial for economic development therefore the need to revive civil service by removing bottlenecks to improved productivity and focus on development of the nation to performance based-recruitment.
- **Private Sector—** This sector was identified as a key pillar that Malawi needs to harness to achieve sustainable and inclusive growth. It was noted that Malawi's private sector is shrinking and has of late been negatively affected by: high cost of finance, electricity power outages, corruption, non-effective tax rates, high inflation rates, and poor infrastructure services. In order to revitalize the private sector, the conference stressed on the need to address the bottlenecks that impinge the sector.

Ease of Doing Business and Malawi Business Perspective Update (Source: MCCCI)

In November 2017, Malawi Confederation of Chambers of Commerce and Industry (MCCCI) issued a Business Perspective Report for October 2017 which showed that Malawi's economic outlook is still overshadowed by the gloomy global economic environment, mostly due to weak economic activity in most of its trading partners like the Republic of South Africa and China. It was argued that such developments should be expected to have devastating effects on the already worsened country's trade balance. The report also showed that the economic variables such as inflation rates, exchange rates have assumed a good direction but it is essential to sustain them. However, the report pointed out that market challenges of some exports such as pulses to India shall persist due to weak export base of the country as a result of inability to diversify the export basket.

On ease of doing business, MCCCI's Ease of Doing Business brief released in November 2017 showed that Malawi has moved 23 steps upwards in the World Doing Business ranking for 2018 due to good performance in most indicators (Refer to Appendix 12). This improvement was attributed to enforcement of the Credit Registration Bureau amendment Act of 2015 that is aimed at empowering institutions like banks to provide credit information of clients to the credit Reference Bureau without running risk of breaching bank client confidentiality. The improvement in the rank puts Malawi amongst the top ten African countries that have made significant improvements in the factors of doing business looking ahead to 2018.

2. OTHER MARKET DEVELOPMENTS (Continued…)

Mining Sector Update (Source: Mining and Trade Review)

The Malawi pavilion at the 2017 International Mining Indaba in Cape Town attracted investors to know what Malawi has to offer in the mining industry. A delegation from the Ministry of Natural Resources, Energy and Mining showcased the country's mineral wealth to international investor's using maps and information obtained through different exploration projects. Many global investors were specifically interested in high resolution airborne, gravity and magnetic data acquired through the countrywide high resolution geophysical survey, and this has increased Malawi's mining prospects.

Malawi hosts deposits of rare earth elements, uranium, niobium, heavy mineral sands, bauxite, graphite, coal, nickel, gold, copper and many other minerals, and Malawi has prospects for the discovery of oil and gas. The country also has gemstones such as sapphire and rubies which can out-price diamonds when well processed.

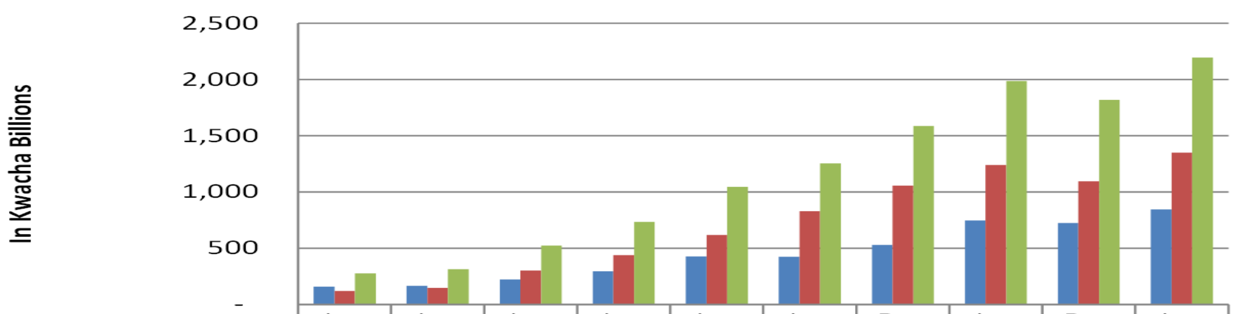
Government Raises K500 million for Fall Army Worms Mitigation (Source: Ministry of Agriculture, Irrigation and Water Development, FAO)

The Malawi Government raised K500 million through development partners, to control the spread of fall army worms. Fall army worms are caterpillars which mainly attack maize crops. They are considered serious pests and if they are left to multiply, they can destroy entire crop fields. It is estimated that fall army worms attacked 140 000 hectares during the 2016/17 farming season and may continue destroying the winter crops.

According to the Ministry of Agriculture, Irrigation and Water Development, more development partners have assured government of assistance in mitigating the armyworms. Researchers are currently screening 40 pesticides that will be recommended to farmers to apply against the fall army worms. So far these army worms have ravaged crops across more than 20 African countries. It has been estimated by the United Nations Food and Agriculture Organization that the army worms may cause damage worth US$3 billion during the 2017/18 season. It is hard to control an army worm invasion because they are fast breeders, strong flyers, can feed on a wide range of host plants and tend to develop a resistance to pesticides.

Malawi Public Debt Rises (Source: RBM)

Malawi's public debt stock rose by 6.80% to K2.20 trillion as at the end of the second quarter of 2017, from K2.06 trillion the previous quarter. Both external debt and domestic debt registered increases. External debt rose by 7.30% to US$1.86 billion (K1.35 trillion) from US$1.73 billion (K1.26 trillion) while domestic debt rose by 1.80% to K846.10 billion from K830.50 billion as at the end of the previous quarter. Below is the trend of public debt:



	Jun 2010	Jun 2011	Jun 2012	Jun 2013	Jun 2014	Jun 2015	Dec 2015	Jun 2016	Dec 2016	Jun 2017
Domestic	159	166	223	295	427	425	528	747	724	846
External	119	148	302	438	618	829	1,057	1,241	1,095	1,350
Total Public Debt	278	314	525	733	1,045	1,254	1,585	1,987	1,819	2,196

3. REGIONAL MARKET DEVELOPMENTS

Africa

⇒ The IMF's African Economic Outlook report for 2017 showed that the continent's performance was uneven in 2016 but prospects are favourable in 2017 and 2018. In 2017 and 2018, Africa would benefit from commodity prices which started to rise in the latter part of 2016, increasing private demand, sound economic policy management entrenched in many countries, a generally improving and favourable business environment, and a more diversified economic structure, particularly towards the services sector and light manufacturing. In October 2017, the African Development Bank projected a 3.0% real economic growth in 2017 up from 2.2% in 2016, and projected to expand further in 2018 to 3.7%.

⇒ In regional terms, East Africa remained the fastest growing, with an estimated growth of 5.1% in 2016 projected to grow by 5.4% and 5.8% in 2017 and 2018 respectively. Growth in the Eastern Africa region is mainly driven by strong domestic demand and high public infrastructure spending (Source: AfDB).

Sub-Saharan Africa

⇒ According to the IMF's October 2017 World Economic Outlook report, real economic growth for sub-Saharan Africa is expected to reach 2.6% in 2017 and 3.4% in 2018, a slight downward revision from the earlier projection of 2.7% for 2017. The downside risks rose because of idiosyncratic factors in the region's largest economies and delays in implementing policy adjustments. Beyond the near term, growth was projected to rise gradually, but barely above population growth, as large consolidation needs weigh on public spending. In 2016, growth slowed sharply averaging 1.4%, the largest decline in two decades due to an economic slow down in most countries in the region (Source: IMF).

⇒ The World Bank's Malawi Economic Monitor November 2017 report projected a 2.4% regional growth in 2017, up from 1.3% in 2016, which was said to be lower than the projected population growth rate. As a result, per capita incomes are likely to decrease. In particular, increased region growth in 2017 was being driven by increased economic activity in the region's largest economies, Nigeria and South Africa (Source: World Bank).

Zambia

⇒ The World Bank projected a 4.0% growth in Zambia's economy from 2.9% in 2016. However, the World Bank warned that stricter spending controls are needed to ease the country's large debt burden which stood at US$7.2 billion as at the end of May 2017, rising from US$6.9 billion in December 2016. The Bank of Zambia projected a 4.3% growth in 2017 and 5.1% in 2018, due to improved agriculture and mining output, and a recovery in electricity generation (Source: World Bank, Reuters).

⇒ Zambia's central bank revised its policy rate four times throughout the year which currently stands at 10.25%. Annual overall inflation ended the third quarter at 6.6% down from 6.8% at the end of second quarter, largely due to pass-through from the appreciation of the kwacha against the U.S dollar, and the seasonal increase in the supply of some food items. As at end 2017, annual inflation slowed further to 6.1% (December 2016: 7.5%). The Zambian Kwacha remained relatively stable in the third quarter of 2017 but appreciated by 3.5% against the US Dollar to K8.99, supported by the improved supply of foreign exchange reserves (Source: Bank of Zambia).

⇒ Zambia and IMF agreed in October 2017 to chart a new path towards debt sustainability after the IMF stated that the country was at high risk of debt distress. Zambia's publicly guaranteed debt increased from 36% of GDP at the end of 2014 to 60% of GDP at the end of 2016. The country expects to have the $1.3 billion IMF loan in 2018.

3. REGIONAL MARKET DEVELOPMENTS

Tanzania

⇒ Tanzania's economic growth is expected to be stable at 7.1% in 2017 supported by expected rebound of the global economy, continued improvement in power supply and implementation of major infrastructural projects. However, economic growth slowed to 5.7% during the first quarter of 2017 as a result of slower than expected performance in the construction, transport, agriculture and financial service sectors. This is a decline from 6.8% during the same period in 2016. The country is projected to register a 7.3% growth in 2018 (Source: Bank of Tanzania, Reuters).

⇒ In a monetary policy statement for the financial year 2017/18 released in June 2017, Tanzania's central bank reduced its discount rate in March 2017 from 16% to 12% to ease access to liquidity, which was maintained for the rest of 2017. However, overall commercial banks' lending rates rose to an average rate of 17.72% in April 2017 from 16.03% in June 2016 as a result of increased risk premium following a rise in non-performing loans and structural rigidities in the financial sector. (Source: Bank of Tanzania)

⇒ Tanzania's inflation registered a rising trend over the first quarter of 2017 to 6.4% from 5.0% in December 2016. Inflation has been declining since the second quarter of 2017, standing at 4.4% as at November 2017 compared to 4.8% in November 2016, showing a relatively stable movement of prices (Source: Tanzania Bureau of Statistics). The Tanzanian Shilling depreciated against the US Dollar by 2.52% to TSH2,241.24:US$1 as at December 2017 from TSH2,186.21 in December 2016 (Source: Bank of Tanzania).

⇒ The World Bank approved a US$345 million loan for the expansion of a port in Tanzania's commercial capital, Dar es Salaam. Tanzania plans to lift the port's capacity from 13.8 million tonnes in 2016 to 28 million tonnes by 2020. Tanzania has been trying to make Dar es Salaam a trade hub for landlocked countries but the port has been facing challenges due to congestion and inefficiency (Source: World Bank).

⇒ The African Development Bank pledged to grant a concessional loan to support Tanzania's government in the construction of the standard gauge railway (SGR). The railway line would run from Dar es Salaam to Rwanda's capital Kigali. The 2,561 kilometre long SGR project was estimated to cost US$7.6 billion (Source: Reuters).

⇒ Tanzania signed a US$154 million contract with a state-owned Chinese company to expand its main port in the commercial capital of Dar es Salaam. Tanzania hopes the expansion of the port will increase container throughput to 28 million tons by 2020 from around 20 million tons currently. The project was being funded by a US$305 million loan from the World Bank (Source: Reuters).

Uganda

⇒ The Ugandan economy is projected to grow by 5.0% in 2018 from 4.0% 2017 economic growth. The slow growth in 2017 was on account of subdued household consumption which makes up the highest percentage of the country's total GDP which consequently led to low private sector investment (Source: Bank of Uganda). The World bank projected a 5.2% growth in the 2017/18 fiscal year due to increased infrastructure spending and foreign investment in the oil industry. After years of delays, Uganda will start exporting oil by 2020 when construction of a pipeline through Tanzania is completed (Source: World Bank).

⇒ Uganda's government stated that it would increase spending by 10% in the 2017/18 fiscal year to UGX 29 trillion (US$8.09 billion) to support its flagging economic growth. Uganda is estimated to have expanded by about 4.0% in the 2016/17 fiscal year, well below an initial forecast of 5.5% mainly due to drought and sluggish private sector credit growth (Source: Reuters).

⇒ The Bank of Uganda revised its policy rate for the fourth time in 2017 to 9.5% in October 2017. The Monetary Policy Committee decided to maintain the rate at 9.5% at its December 2017 meeting based on its outlook for inflation and economic activity, together with expansionary fiscal policy in FY 2017/18. Uganda's inflation decreased to 3.3% in December 2017 from 5.6% reported in the same month last year. (Source: Bank of Uganda).

3. REGIONAL MARKET DEVELOPMENTS

Mozambique

⇒ On 15 September 2017, the Mozambican and Malawian governments signed an addendum to the agreement on the Nacala Development Corridor, which would pave the way for a further investment of US$2.5 billion. The funding would be used to expand the geographical coverage of the corridor and to modernize it (Source: Mozambique News Agency).

⇒ Mozambique's central bank reduced its benchmark lending rate by 25 basis points to 22.5% in August 2017. The Bank of Mozambique stated that the declining consumer price inflation and a firmer currency against the dollar had prompted the decision to reduce the rates (Source: IMF). In October 2017, the central bank reduced its benchmark lending rate by 50 basis points to 22% driven by slowing consumer price growth which fell to 10.76% in September 2017 from 14.13%. At its meeting held on 22 December 2017, the MPC decided to cut the policy rate to 19.50% (Source: Reuters).

⇒ The IMF visited Mozambique from 10 July 2017 to 19 July 2017 to discuss the findings of an audit by risk management firm Kroll into the country's US$2 billion hidden loans. The audit showed that roughly 25% of the money remained unaccounted for. The IMF therefore urged the government to take steps to fill in the information gaps and enhance its action plan to strengthen transparency, improve governance and ensure accountability (Source: IMF).

⇒ The World Bank projected that Mozambique's economy is likely to grow by 4.6% in 2017, driven by recovering of coal, aluminum, gas and improved farm output. In 2016, Mozambique was hit by an economic downturn brought by low commodity prices, droughts and internal conflicts (Source: World Bank).

South Africa

⇒ South Africa's central bank unexpectedly cut its benchmark lending rate for the first time in five years, citing weak economy growth and easing inflation. South Africa's policy rate was cut by 25 basis points to 6.75% in July 2017, and the South African Rand immediately fell by 1% after the decision while government bonds rose by more than 10 basis points. The central bank also reduced its 2017 growth forecast to 0.5% as the country continued to struggle with credit downgrades and massive corruption scandals (Source: Reuters).

⇒ South Africa held its benchmark repo rate at 6.75% on 23 November 2017, citing the increased risks of inflation posed by the weak currency, possible credit downgrades and political jostling. The bank kept its inflation forecasts for 2017 at 5.3% but raised the forecasts for 2018 and 2019, citing weaker exchange rate and rising global oil prices. The domestic economic growth outlook remained subdued but still positive, and was revised upward marginally to 0.7% for 2017 but revised down to 1.2% and 1.5% for 2018 and 2019 from 1.3% and 1.7% previously (Source: South African Reserve Bank).

⇒ South Africa raised its estimate for 2017 budget deficit as the country continued to face sluggish economic growth, shortfalls in revenue and costly bailouts of struggling state-owned companies. In the medium-term budget policy statement, the Treasury stated that the budget deficit will likely reach 4.3% of GDP in the 2017/18 fiscal year, the highest deficit since 2009 from a previous estimated of 3.1% of GDP (Source: Reuters).

3. REGIONAL MARKET DEVELOPMENTS

Other countries

⇒ Namibia's economy is expected to grow at 2.5% in 2017 and the growth rate is expected to double in 2018 as the mining sector emerges from years of contraction and the impact of recent severe drought eases, according to the finance minister of the country. Namibia cut its economic growth forecast for 2017 after shrinking by 1.7% in the second quarter. The Finance Minister stated that the country's economy is now expected to grow by between 1.8% and 2.3% in 2017, down from an initial estimate of 2.5%. The projected growth will be driven by the recovery in the agriculture sector after a drought last year and an expansion in the mining sector (Source: Reuters).

⇒ The African Development Bank (AfDB) approved a US$172 million financial package for South Africa's Nedbank Group for infrastructure, banking and housing projects. The package includes a US$140 million subordinated loan and US$30 million unfunded Risk Participating Agreement facility that will benefit African issuing banks in 20 regional member countries (Source: Reuters).

⇒ Cameroon's economic growth rate is expected to slip to 3.7% in 2017, down from an earlier estimate of around 4.0%, mainly due to falling oil production. The IMF approved a US$666 million three-year extended credit facility in June 2017 for Cameroon, which had been hit hard by the global decline in crude prices. In a statement at the end of the review mission, the IMF said that it had reached an agreement with the government on economic and financial policy ahead of the first review of the program (Source: IMF).

⇒ South Sudan's parliament passed its 2017/18 budget in August 2017 but acknowledged that after four years of war, it would be difficult to source funding for the budget. South Sudan's national budget has been increased by 30% to 46.5 billion South Sudanese Pounds from 29.6 billion South Sudanese Pounds in the 2016/17 fiscal year. South Sudan's finance ministry stated that it needs donors to fund more than a third of the budget of which many are reluctant to do so due to conflict, corruption and financial mismanagement concerns (Source: Reuters).

⇒ Although Nigeria was expected to emerge from recession in late 2017, the IMF stated that the threats to this recovery remain elevated and the economy may not grow enough to reduce employment and poverty. The IMF projected Nigeria's economy to grow by 0.8% in 2017. Nigeria slipped into a recession in 2016 as crude oil prices and oil production reduced government revenues, causing dollar shortages and crippled the economy (Source: Reuters).

⇒ Germany offered Egypt US$500 million to support its economic programme and the country's medium-sized and small businesses. It was agreed that Germany would provide US$250 million to support its economic programme and another US$250 million to support several other sectors including micro-enterprises, small and medium-sized enterprises. The support would come in the form of grants and concessional funds (Source: Bloomberg).

⇒ The U.S restored trade benefits to Gambia and Swaziland under the African Growth and Opportunity Act (AGOA) in December 2017, after these two lost their eligibility in 2015. AGOA trade program provides sub-Saharan countries duty-free access to the U.S on condition that they meet certain statutory eligibility requirements (Source: Reuters).

⇒ Angolan oil production is set to decline by 36% by 2023 which threatens the country's attempt to escape the economic crisis caused by the collapse in oil prices. The country remains almost wholly reliant on the commodity, with oil output responsible for 95% of foreign exchange revenue and more than 40% of GDP (Source: Reuters).

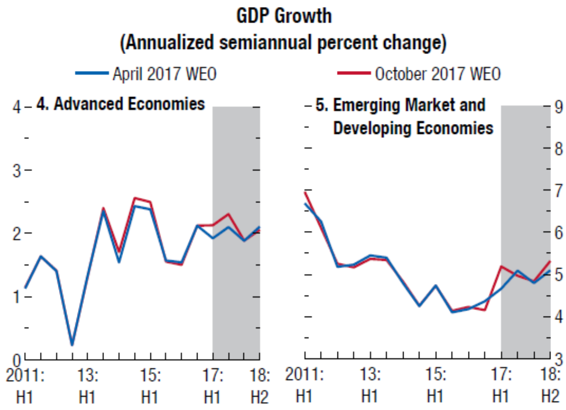
* Refer to the table in Appendix 2 for more details

4. GLOBAL DEVELOPMENTS

Economic growth

The IMF forecasted the global growth for 2017 and 2018 at 3.6% and 3.7% respectively, both 0.1% higher than projections made in July 2017. Pickups in investment, trade, and industrial production, coupled with strengthening business and consumer confidence, are supporting the recovery. With growth outcomes in the first half of 2017 generally stronger than expected, upward revisions to growth are broad-based, including for the Euro area, Japan, China, emerging Europe, and Russia. These more than offset downward revisions for the United States, the United Kingdom, and India. In July 2017, the IMF lowered its forecasts for U.S growth to 2.1% for 2017 and 2018 from earlier projections of 2.3% and 2.5% in 2017 and 2018 respectively. (Source: IMF).

Economic Growth Projections

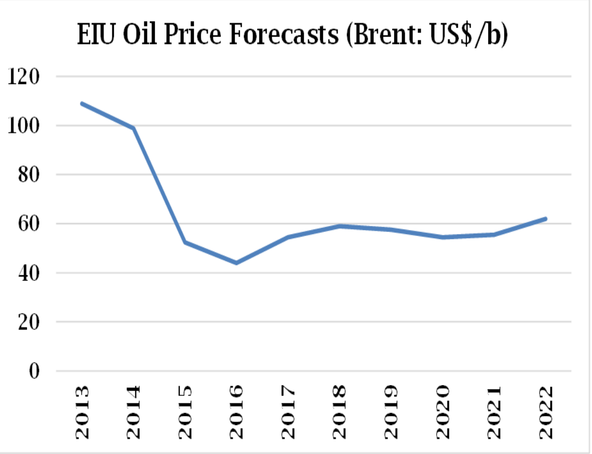


Sources: CPB Netherlands Bureau for Economic Policy Analysis; Haver Analytics; Markit Economics; and IMF staff estimates.

Global Oil Developments

OPEC members met on 30 November 2016 to finalize a deal to cut oil production in order to boost global prices which have slumped in the past 2 years. OPEC members agreed to produce 32.5 million barrels per day from 33.8 million barrels per day from January 2017. At the inception of this agreement, there was concern that the plan would be futile if the production cut is offset by non-OPEC production especially Russia. However, Russia continued to abide by its promises to cut fuel supply as the country's crude oil production remained below 11.3 million barrels/day since August 2017, equivalent to more than 100% of its pledged cut.

The authorities signaled their willingness to extend the agreement further into 2018, providing critical support to prices. Overall, OPEC and its key partners have shifted to a more pragmatic approach whereby they continue to bear short-term losses so that the global market can work through the excess supply. If participants were to abandon the agreement abruptly, or before global supply begins to tighten, this would bring about 1.8 billion barrels/day of frozen production back on line, causing prices to plummet again.



On oil price developments, Brent prices are forecast to average US$59 per barrel in 2018, up from an estimated US$54.5 per barrel in 2017. With currently frozen production capacity returning to market in 2019, prices are expected to moderate slightly, to US$57.5 per barrel before moving down to US$54.5 barrel in 2020 as the US enters a mild technical recession. Brent prices are projected to recover to US$62 per barrel by 2022, as global stocks tighten and US demand recovers (Source: EIU).

4. GLOBAL DEVELOPMENTS (Continued...)

Monetary policy

After cutting the policy rate in August 2016 to 0.25% from 0.50%, the Bank of England revised the rate back to 0.50% in November 2017 in order to return inflation sustainably to the 2% target after it noted overshoot of inflation forecasts. The European Central Bank maintained its interest rate on main refinancing operations at 0.00% at its Monetary Policy meeting held on 14 December 2017, and mentioned that this interest rate is expected to remain at this level for an extended period of time. The Bank of Japan also left their policy rate unchanged at negative 0.1% in 2017 during its meeting held in October 2017. Over the first half of 2017, the FOMC continued to gradually reduce the amount of monetary policy accommodation. Specifically, the Committee decided to raise the target range for the federal funds rate in March and in June 2017, bringing it to the current range of 1% to 1.25% (Source: Bank of England, European Central Bank, Bank of Japan, Federal Reserve Bank).

Currency movements

Despite further positive domestic data and progress on tax reform, the US dollar continued to weaken in December 2017. As at December 2017, the Dollar was trading at US$1.20:€1 compared to the rate of US$1.07:€1 recorded in January 2017. The US dollar is expected to firm modestly over 2018-19. However, the dollar is unlikely to recover to the levels seen following the US presidential election, when it surged on the expectation of aggressive fiscal stimulus, and it remains vulnerable to erratic policymaking and an unexpected economic slowdown. The depreciation of the US dollar in 2017 also reflects the extent to which other major advanced economies have exceeded financial market expectations.

Currency Movements: US$ vs Euro (€)

Source: Bloomberg

In the Euro zone, political uncertainty surrounding the German elections weighed on the Euro. However, the currency remained much stronger at the end of 2017 than at the beginning of the year as economic data went from strength to strength and some of the biggest political risks receded, particularly in France. The Euro appreciated to €0.83:US$1 in December 2017 compared to €0.95:US$1 at the beginning of the year 2017.

The British Pound appreciated by 7.44% to GBP0.74051:US$1 as at 31 December 2017 from GBP0.79999:US$1 as at 31 January 2017. The British pound rose in October 2017 when the Office of National Statistics (ONS) released data that the UK economy would end 2017 on a stronger note driven by improvements in the manufacturing sector.

3. GLOBAL DEVELOPMENTS (Continued...)

Currency Movements (Continued)

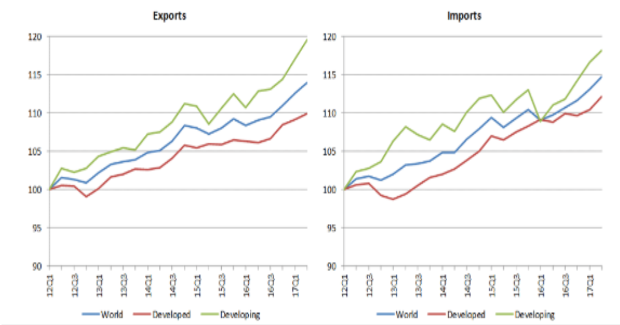
The Yen recovered only some ground in 2017 against the US Dollar since late 2016. This reflects the fact that the Central Bank of Japan remains committed to a very loose monetary policy. Over the medium term the Yen, like the Euro, will receive support from a large current-account surplus, and will also appreciate in nominal terms to offset relatively low inflation (Source: EIU).

Global trade

The World Trade Organisation (WTO) revised the 2017 trade expansion upwards following a sharp acceleration in global trade growth in the first half of the year. The estimate for growth in world merchandise trade volume in 2017 was raised to 3.6% from the previous estimate of 2.4%, though this was set within a range of 1.8%-3.6%, reflecting the high level of economic and policy uncertainty. The growth of 3.6% would represent a substantial improvement on the dreary 1.3% increase in 2016. Stronger growth in 2017 was attributed to a resurgence of Asian trade flows as intra-regional shipments picked up and as import demand in North America recovered after stalling in 2016.The strength of the revision is partly due to a modest improvement in the consensus forecast for world GDP growth (2.8% in 2017 at market exchange rates, up from 2.3% in 2016) and partly due to the composition of that growth.

Chart 1: Merchandise exports and imports by level of development, 2012Q1-2017Q1

(Volume index, 2012Q1=100)



Source: WTO

The rapid pace of trade growth in 2017 is unlikely to be sustained next year for a number of reasons. First, trade growth in 2018 will not be measured against a weak base year, as is the case this year. Second, monetary policy is expected to tighten in developed countries as the Federal Reserve gradually raises interest rates in the United States and the European Central Bank looks to phase out quantitative easing in the euro area. Third, fiscal expansion and easy credit in China are likely to be reined in to prevent the economy from overheating. All of these factors should contribute to a moderation of trade growth in 2018 to around 3.2% (the full range of the estimate being from 1.4% to 4.4%) (Source: WTO).

5. OUTLOOK FOR 2018 AND BEYOND - MALAWI

Exchange Rates

The Kwacha remained relatively stable in 2017, depreciating by only 0.47% to K732.03:US$1 in December 2017 compared K729.60:US$1 in January 2017. The tobacco season and the relatively lower tobacco revenues in 2017 did not disrupt the Kwacha stability, thereby defying the seasonal trends the local currency has experienced over the years. The subdued demand on the foreign exchange market and continued inflow of foreign exchange reserves lessened the pressure on the Kwacha. The Kwacha is expected to remain stable in 2018 as a result of continued inflow of foreign currency and subdued inflation. This overall trend towards stability in the value of the Kwacha reflects the improvements Malawi has attained in major macroeconomic variables.

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 upward pressure on the inflation rate.*

In the medium to long term, the Kwacha is expected to depreciate if the current downward trend in tobacco revenues is sustained as this would entail low forex reserves generated from tobacco sales. The Kwacha is also expected to depreciate in the medium to long term on account of significant current account deficits and weak foreign direct investment inflows. In the medium-term, Malawi's currency will weaken gradually but steadily from an estimated value of MK716.30:US$1 in 2016 to K949:US$1 in 2021 (Source: World Bank, EIU).

Inflation

In the short term, food inflationary pressures are less likely to occur, and we expect food inflation to remain subdued even during the farming season due to the continued slowdown in food prices arising from above average maize stocks the country holds.

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.*

Non-food inflation may increase due to the possible rise in global oil prices if the global reduction in oil production succeeds and if the rising tensions in the Middle East persist. Other factors that may put pressure on non-food inflation include the demand for wage increases, housing cost increases, and high costs of production arising from power outages which has forced firms to opt for more expensive power generation alternatives. Inflation is forecast to continue falling to an average of 9.9% in 2019 to 8.1% in 2021, provided tight fiscal and monetary policy stance is maintained and weather conditions remain favourable.
(Source: IMF, EIU).

5. OUTLOOK FOR 2018 AND BEYOND - MALAWI (Continued…)

Interest Rates

The monetary policy rate is expected to be maintained at 16.00% in the short term. However, if inflationary pressures are low and a good harvest is sustained in the 2017/18 season, the monetary policy rate may be reduced further. Interest rates on the interbank market are dependent on the volatility of liquidity and unlikely to be stable. Treasury bill yields are expected to be around the Monetary Policy Rate level plus a premium.

POSSIBLE IMPACT: *Low lending rates will keep the cost of borrowing low. If households are encouraged to borrow there will be high demand for goods and services in the economy which will in turn increase inflation rates through a rise in prices. It may also lead to higher property values as demand improves by low mortgage rates. The low cost of borrowing results in lower default risk of existing liabilities and higher demand for credit.*

Foreign Trade

Exports may improve in 2018 on the back of the normalization of harvesting patterns, but growth potential is limited owing to weak global demand and low commodity prices. Medium-term export growth will be driven by the gradual expansion of soya beans, tea, sugar and other cash crops, although growth will continue to be held back by infrastructure challenges, a lack of finance for farmers and low technology agricultural techniques.

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

Import growth is expected to accelerate in 2017/18 driven by a possible increase in global oil prices arising from reduction of global oil supply. However, this rate of growth is expected to be somehow offset by the subdued domestic demand for other imports, which has also led to subdued demand for foreign currency and the stability of the Kwacha. The structure of Malawi's merchandise trade account poses great external risks to the country as the export base is predominantly agrarian while the import base is dominated by manufacturing and petroleum items. The trade balance will remain in deficit, owing to high cost of transporting goods into and out of a landlocked country. Overall, the current account deficit is forecast to contract gradually from 18.8% of GDP in 2016 to 15.9% of GDP in 2021 as a rebound in export earnings boots the trade balance (Source: EIU).

POSSIBLE IMPACT: *Higher export values will increase the inflow of forex and improve the trade balance, thereby improving the county's Balance of payment position.*

5. OUTLOOK FOR 2018 AND BEYOND — MALAWI (Continued...)

International Relations

The government will continue to seek external support from non-traditional partners, including China and India, and their economic presence in Malawi is expected to grow. The bulk of aid will, however, continue to be disbursed as project-based grants and off-budget support to non-government agencies (Source: EIU).

POSSIBLE IMPACT: *Lack of donor funds may hamper government reform efforts as the government revenue will not be sufficient to sustain the programs, thereby increasing government borrowing to fund expenditures. Lack of donor funds will also reduce the availability of forex which would in turn cause continued depreciation of the Kwacha.*

Fiscal Policy

Fiscal policy will focus on preserving debt sustainability while spurring inclusive economic growth. The FY 2017/18 budget contains measures to boost domestic revenue, including some policy adjustments and measures to strengthen tax compliance. These measures, together with the resumption of some grants from donors, will increase the government's resource envelope.

On the expenditure side, the government is attempting to consolidate and simultaneously rebalance spending in favour of capital investment as evidenced by the shift in the ratio of recurrent to development spending in recent fiscal years. Political pressure to protect subsidies and public-sector workers' wages will also keep recurrent and overall spending high before the 2019 election. The fiscal deficit is expected to contract from 3.7% of GDP in 2016/17 to 3.2% of GDP in 2018/19. (Source: EIU).

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 2018 AND BEYOND— MALAWI (Continued...)

Economic Growth

After an estimated economic growth rate of 4.4% in 2017 based on a bumper harvest, the EIU has revised the rate downwards to 4.1% in 2018, which is below World Bank's 4.5% projection. Farmers will find it difficult to exceed maize production levels in 2017, and also lack the incentive and capital to do so alongside market distortions, namely export bans that have previously caused over supply of maize on the local market and depressed prices to extreme lows in recent months. The downward revision is also partly attributed to expected slow growth in tobacco production and the industry sector, which is unlikely to re-emerge as the key driver of growth as it will struggle to compete on the international market.

Assuming restrictions are eased, 2019/22 should be stronger years for maize. Plans to expand other cash crops are expected to register some success, supported by firmer global prices for soybeans, tea and sugar, and the introduction of some pro-market reforms in the agricultural sector, which accounts for just under 30% of GDP. This will be an important force behind a 4.8% average real growth rate during the period 2019 to 2022.

However, one major drawback will be tobacco, with production set to register little or no growth throughout the forecast period as a quota system introduced in 2017 by the Tobacco Control Commission, a marketing board, which kept output flat to support auction prices is set to be repeated. Beyond the agricultural sector, higher aid inflows and public capital investment will be important growth drivers, especially for construction activity, as the government seeks to expedite projects that address the country's infrastructure deficit.

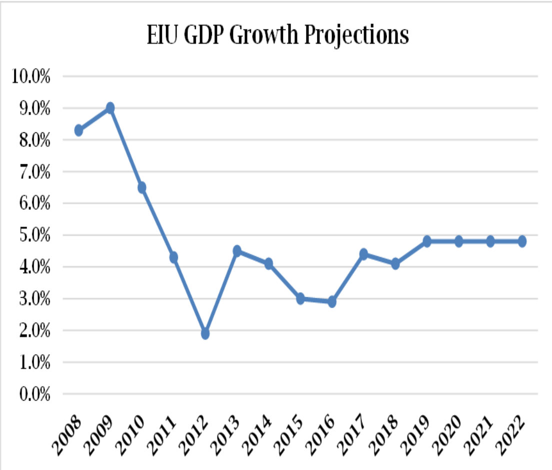
Growth elsewhere in the industrial sector is, however, expected to remain fairly dreary. Given higher world prices, coal production will stabilise and improve slightly from recent contractions, but the sector is unlikely to re-emerge as a key driver of growth in 2018- 22 since Malawi's mines will struggle to compete with their counterparts in neighbouring countries (Source: EIU).

Some of the risks to economic growth in 2018 include insufficient power supply, high lending rates, increase in government debt, weak export base, high population growth rates and weather pattern volatility.

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.*

Real GDP Growth Projections

	2016	2017	2018	2019	2020
EIU	2.90%	4.40%	4.10%	4.80%	4.80%
IMF	2.30%	4.50%	5.00%		
WORLD BANK	2.50%	4.40%	4.50%	4.50%	
GOVERNMENT	2.70%	5.00%			
RBM	2.70%	6.40%			
Average Real GDP	2.62%	4.94%	4.53%	4.65%	4.80%



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. 4. The entrance of Independence Power Producers (IPPs) may help boost power generation
High population growth rates	1. Reduced per capita income. 2. Over-crowding on public resources. 3. Resources which could have been allocated to more productive activities are used to take care of the growing population.	1. Civic education to raise aware ness on the need to have less children.
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. Reduction of the Monetary Policy Rate.

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.
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 commercial.	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

Key Economic Risks-Malawi

Appendix 1: SELECTED ECONOMIC INDICATORS FOR MALAWI

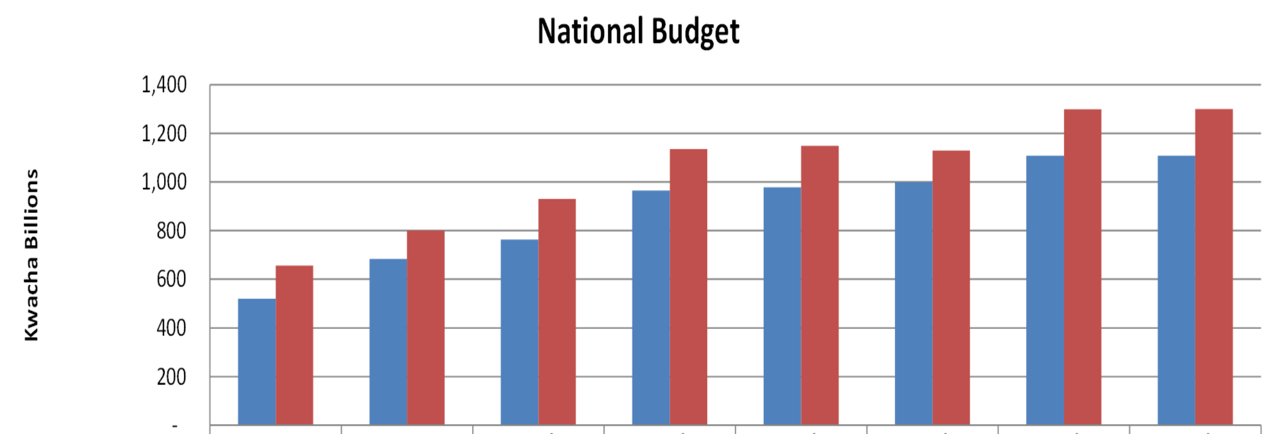
	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	M-O-M movement	Y-O-Y movement
Exchange rates (Source: RBM)															
MK : US$	728.62	729.60	730.83	732.00	730.86	730.24	728.51	730.55	732.11	731.63	730.58	732.25	732.03	0.03%	-0.47%
MK : GBP	893.83	914.66	906.93	904.75	941.01	935.14	948.08	957.66	943.99	977.49	959.06	977.13	979.53	-0.25%	-9.59%
MK : ZAR	52.81	53.94	56.21	53.69	55.07	55.67	55.91	56.11	56.10	53.85	51.90	53.34	59.04	-10.70%	-11.80%
MK : EUR	766.03	779.61	771.39	778.14	792.67	815.96	831.47	858.44	861.65	860.14	850.46	860.43	869.07	-1.00%	-13.45%
Forex reserves (Source: RBM)															
Gross Official Reserves (US$'mn)	606.96	619.93	599.26	552.85	552.91	611.25	678.70	693.43	655.08	750.23	764.42	757.40	757.08	-0.04%	24.73%
Private Sector Reserves (US$'mn)	336.60	328.45	334.61	333.01	342.95	323.58	356.40	350.91	372.25	346.46	338.08	376.55	412.98	9.67%	22.69%
Total Reserves (US$'mn)	943.56	948.38	933.87	885.86	895.86	934.83	1,035.10	1,044.34	1,027.33	1,096.69	1,102.50	1,133.95	1,170.06	3.18%	24.00%
Total Import Cover (months)	4.51	4.53	4.47	4.21	4.29	4.47	4.96	5.00	4.91	5.25	5.28	5.42	5.60	3.32%	24.17%
Inflation (Source: NSO)															
Headline Inflation	20.00%	18.20%	16.10%	15.80%	14.60%	12.30%	11.30%	10.20%	9.30%	8.40%	8.30%	7.70%	N/A	-0.60%	-12.20%
Food	24.40%	21.10%	17.50%	17.00%	14.70%	11.20%	9.30%	7.40%	6.20%	5.10%	4.80%	4.70%	N/A	-0.10%	-20.10%
Non Food	15.40%	15.00%	14.60%	14.50%	14.40%	13.50%	13.20%	12.70%	12.20%	11.60%	11.70%	11.00%	N/A	-0.70%	-4.20%
Urban	15.40%	13.60%	13.40%	13.00%	12.50%	10.30%	9.90%	9.30%	8.90%	8.20%	8.10%	7.40%	N/A	-0.70%	-8.70%
Rural	23.20%	21.20%	18.20%	18.00%	16.20%	13.80%	12.50%	11.00%	9.80%	8.90%	8.70%	8.20%	N/A	-0.50%	-14.70%
Interbank Rates (Source: RBM)															
Monetary Policy Rate	24.00%	24.00%	24.00%	22.00%	22.00%	22.00%	22.00%	18.00%	18.00%	18.00%	18.00%	18.00%	16.00%	-2.00%	-8.00%
Average Interbank Rate	23.90%	23.08%	22.88%	22.69%	21.60%	21.50%	21.42%	18.72%	16.70%	16.02%	16.80%	16.61%	15.89%	-0.72%	-8.01%
Average Base Lending Rates	33.73%	33.73%	33.73%	31.64%	31.64%	31.64%	31.64%	27.77%	27.55%	27.55%	27.55%	27.55%	27.55%	0.00%	-6.18%
Treasury Bill Yields (Source: RBM)															
91 day Treasury Bill yield	23.89%	23.89%	23.99%	23.23%	21.45%	21.37%	21.42%	18.03%	16.31%	15.03%	13.18%	14.52%	14.73%	0.21%	-9.16%
182 day Treasury Bill yield	25.50%	25.35%	25.41%	24.45%	22.47%	22.11%	21.94%	19.25%	16.91%	15.21%	14.26%	14.88%	15.10%	0.22%	-10.40%
364 day Treasury Bill yield	25.91%	25.96%	25.59%	24.73%	23.40%	23.19%	22.92%	20.00%	17.80%	15.63%	14.64%	15.97%	15.77%	-0.20%	-10.14%
Stock Market Indices (Point) (Source: MSE)															
MASI	13,320.51	13,127.73	13,635.67	14,577.62	15,203.97	15,573.68	15,772.51	16,877.16	20,049.44	19,920.42	20,049.06	21,122.43	21,598.07	2.25%	62.14%
DSI	10,456.92	10,303.61	10,707.55	11,437.62	11,935.73	12,228.65	12,386.77	13,265.14	15,780.73	15,687.31	15,760.94	15,850.21	16,272.64	2.67%	55.62%
FSI	2,026.07	2,026.07	2,026.07	2,308.87	2,308.87	2,325.21	2,325.21	2,325.21	2,425.75	2,425.75	2,474.85	3,516.49	3,519.43	0.08%	73.71%
Fuel Prices per Litre (Source: MERA)															
Petrol	824.70	824.70	824.70	824.70	824.70	824.70	824.70	824.70	824.70	824.70	824.70	824.70	824.70	0.00%	0.00%
Diesel	815.80	815.80	815.80	815.80	815.80	815.80	815.80	815.80	815.80	815.80	815.80	815.80	815.80	0.00%	0.00%
Paraffin	648.70	648.70	648.70	648.70	648.70	648.70	648.70	648.70	648.70	648.70	648.70	648.70	648.70	0.00%	0.00%

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

	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17
TANZANIA													
Exchange rate													
US$	2,172.62	2,221.96	2,226.32	2,223.92	2,227.61	2,229.47	2,230.14	2,231.59	2,234.88	2,237.77	2,237.78	2,232.67	2,236.89
GBP	2,660.38	2,777.45	2,762.65	2,770.78	2,865.89	2,864.21	2,892.50	2,923.61	2,880.99	3,001.85	2,952.97	2,989.55	3,020.74
ZAR	158.84	163.17	171.65	172.87	167.66	165.47	171.44	171.55	170.69	165.23	159.02	162.85	180.69
EUR	2,270.28	2,364.16	2,356.01	2,387.60	2,426.75	2,451.11	2,542.37	2,619.88	2,659.29	2,636.20	2,597.39	2,642.03	2,683.97
Inflation %	5.00	5.20	5.50	6.40	6.40	6.10	5.40	5.20	5.00	5.30	5.10	4.40	4.00
Bank rate %	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00
UGANDA													
Exchange rate													
US$	3,610.50	3,588.51	3,586.69	3,614.19	3,644.63	3,602.63	3,590.90	3,611.03	3,600.38	3,603.08	3,651.63	3,634.53	3,633.15
GBP	4,414.20	4,491.02	4,472.61	4,513.77	4,699.75	4,633.70	4,666.38	4,760.42	4,651.69	4,843.98	4,849.36	4,874.14	4,906.30
EUR	3,786.70	3,835.40	3,806.92	3,879.11	3,959.89	4,027.02	4,102.61	4,257.41	4,288.78	4,246.23	4,253.79	4,305.89	4,359.32
Inflation %	5.70	5.90	6.70	6.40	6.80	7.20	6.40	5.70	5.20	5.30	4.80	4.00	3.30
Central Bank Rate %	12.00	12.00	11.50	11.50	11.00	11.00	10.00	10.00	10.00	10.00	9.50	9.50	9.50
ZAMBIA													
Exchange rate													
US$	9.90	9.89	9.48	9.58	9.33	9.25	9.14	8.90	9.16	9.65	10.02	10.13	10.08
GBP	12.20	12.33	11.88	11.93	12.05	11.89	11.75	11.67	11.79	12.97	13.26	13.64	13.62
ZAR	0.72	0.74	0.74	0.74	0.70	0.71	0.70	0.68	0.70	0.72	0.71	0.74	0.81
Inflation %	7.50	7.00	6.80	6.70	6.70	6.50	6.80	6.60	6.30	6.60	6.40	6.30	6.10
Bank rate %	15.50	15.50	14.00	14.00	14.00	12.50	12.50	12.50	11.00	11.00	11.00	10.25	10.25
MOZAMBIQUE													
US$	71.34	70.47	70.05	67.90	64.77	59.62	60.45	61.16	61.42	61.29	60.88	60.49	58.91
ZAR	5.22	5.19	5.41	5.27	4.89	4.56	4.67	4.78	4.71	4.50	4.31	4.43	4.76
EUR	74.54	74.86	74.14	72.81	70.59	66.49	68.96	71.33	73.36	72.05	70.92	71.70	70.68
Inflation%	23.67	20.37	20.88	21.57	21.27	20.45	18.10	16.17	14.13	10.76	8.35	7.15	5.65

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

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



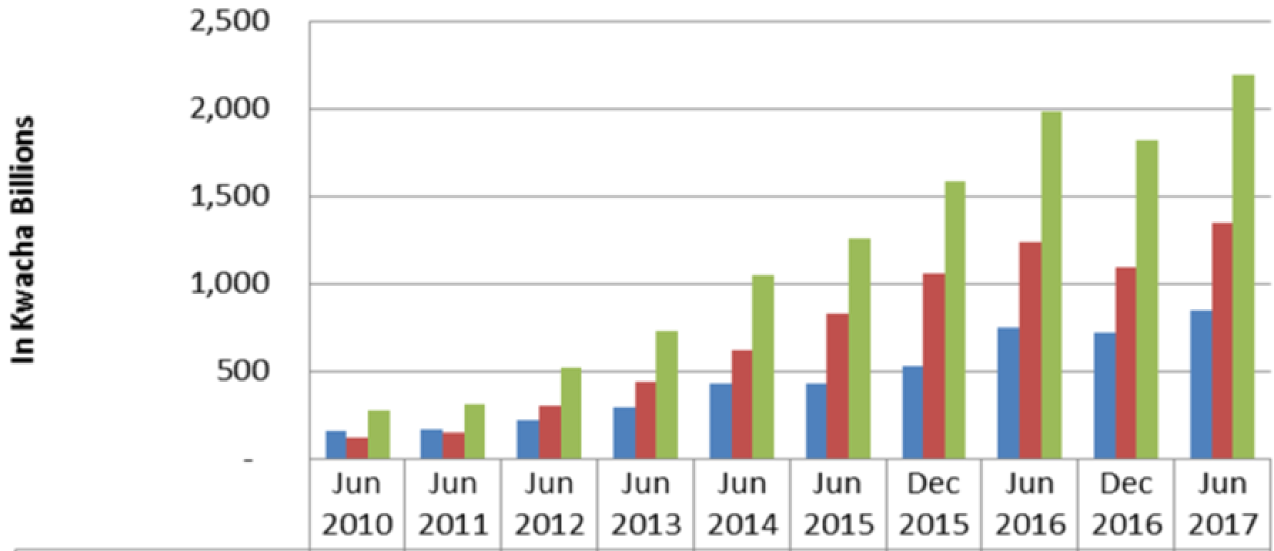
	2013/14	2014/15	2015/16 (approved)	2016/17 (proposed)	2016/17 (Approved)	2016/17 (revised)	2017/18 (proposed)	2017/18 (Approved)
Total Revenues	520	683	763	965	978	999	1,108	1,108
Total Expenditures	656	801	930	1,136	1,149	1,129	1,299	1,300

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

	2016		2017										
	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
Total Revenues	75.1	82.8	92.5	55.4	72.2	92.0	70.5	82.5	83.9	80.4	80.4	81.6	80.1
Domestic Revenues	72.0	77.4	75.4	53.2	67.4	88.9	63.3	65.5	81.6	71.8	73.6	78.7	69.4
Tax Revenue	68.0	60.6	72.5	48.1	63.9	70.5	60.5	61.3	78.9	68.3	71.3	75.8	65.0
Non Tax revenue	4.0	16.8	2.9	5.1	3.5	18.4	2.8	4.2	2.7	3.5	2.3	2.9	4.4
Departmental Receipts	1.9	4.6	1.6	1.8	3.1	2.0	2.5	3.8	2.2	3.0	1.6	2.3	4.1
Other Receipts	2.1	12.2	1.3	3.3	0.4	16.4	0.4	0.4	0.5	0.5	0.7	0.6	0.3
Grants	3.0	5.4	17.1	2.2	4.7	3.1	7.2	17.1	2.3	8.6	6.8	2.9	10.7
Expenditures	77.4	75.9	79.0	87.1	93.0	71.6	91.0	83.9	112.2	99.1	106.9	101.9	120.4
Recurrent Expenditure	60.9	65.0	71.5	79.9	77.2	60.8	78.8	70.5	95.9	83.5	93.5	81.6	107.3
Interest Payments	*14.0*	*3.9*	*23.6*	*6.5*	*16.1*	*16.0*	*20.9*	*15.3*	*5.5*	*24.1*	*14.9*	19.1	*13.0*
Domestic	*13.3*	*3.7*	*22.8*	*5.5*	*15.9*	*13.0*	*20.2*	*14.0*	*5.4*	*23.4*	*14.6*	16.0	*12.3*
Foreign	*0.7*	*0.2*	*0.8*	*1.0*	*0.2*	*3.0*	*0.7*	*1.3*	*0.1*	*0.7*	*0.3*	3.1	*0.7*
Development	16.5	10.9	7.5	7.2	15.8	10.9	12.2	13.4	16.3	15.6	13.4	20.4	13.1
Deficit/Surplus	-2.3	6.9	13.6	-31.8	-20.8	20.4	-20.5	-1.3	-28.3	-18.6	-26.5	-20.3	-40.3
Financing (net)	22.3	-22.1	-27.0	67.1	-9.7	-15.8	52.9	-9.2	30.0	24.6	-38.9	29.7	38.1
Foreign	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	22.3	-25.6	-30.9	71.3	-8.8	-15.8	52.9	-9.2	30.0	24.6	-38.9	29.7	38.1
Banking System	38.8	-27.5	-33.0	79.1	-0.5	2.2	59.7	1.2	29.6	22.9	-45.9	38.1	30.2
Non-Bank Sector	-16.5	1.9	2.1	-7.8	-8.3	-18.0	-6.9	-10.4	0.4	1.7	7.0	-8.4	7.9
Errors and Omissions	20.0	-15.2	-13.4	35.3	-30.5	4.6	32.4	-10.5	1.7	6.0	-65.3	9.4	2.3

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	Dec 2015	Jun 2016	Dec 2016	Jun 2017
Domestic	159	166	223	295	427	425	528	747	724	846
External	119	148	302	438	618	829	1,057	1,241	1,095	1,350
Total Public Debt	278	314	525	733	1,045	1,254	1,585	1,987	1,819	2,196

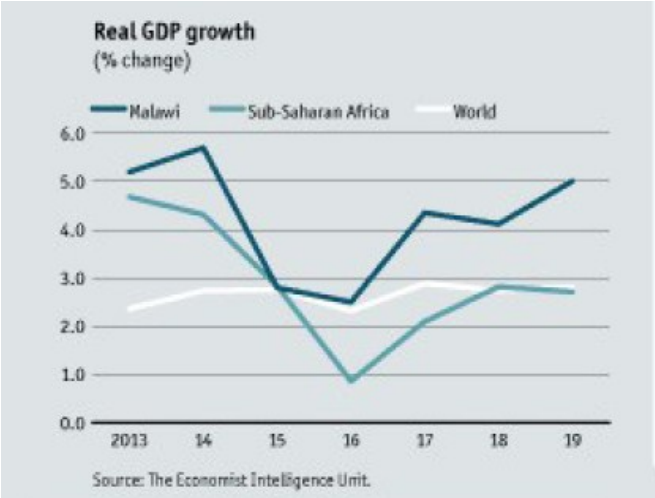
Appendix 6: MALAWI SELECTED ECONOMIC INDICATORS (source: IMF)

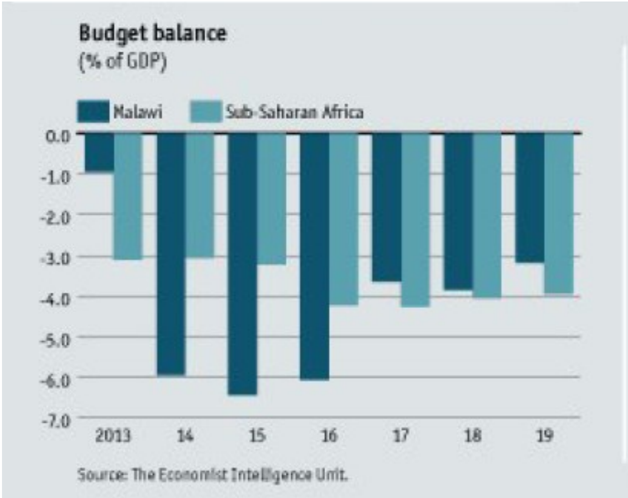
TABLE 1. MALAWI SELECTED ECONOMIC INDICATORS 2011-17

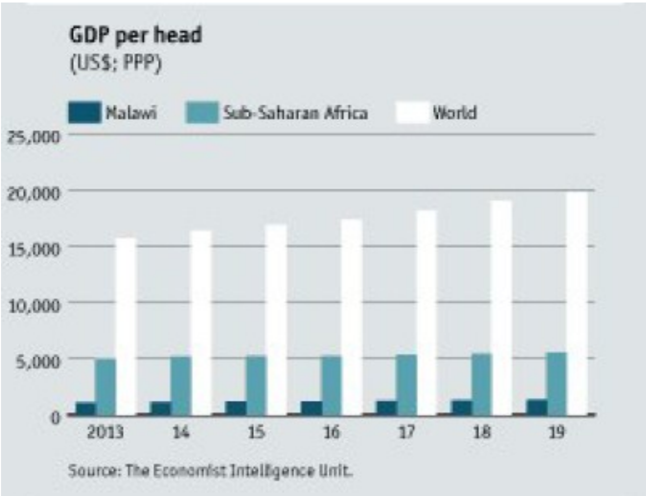
	2011	2012	2013		2014		2015	2016	2017
			Prog.	Actual	Prog	Estimate			
National accounts and prices (percent change, unless otherwise stated)	4.3	1.9	5.0	5.2	6.1	5.7	5.5	5.7	6.0
GDP at constant market prices	881	1,056	1,412	1,415	1,744	1,809	2,224	2,556	2,893
Nominal GDP (billions of Kwacha)	4.0	17.7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

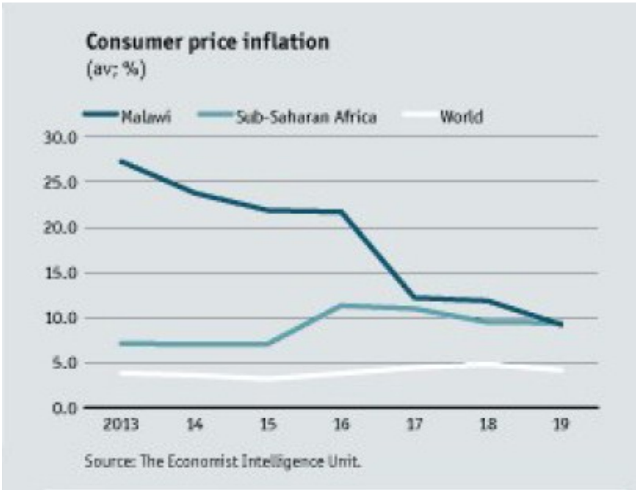
Sources: Malawian authorities and IMF staff estimates

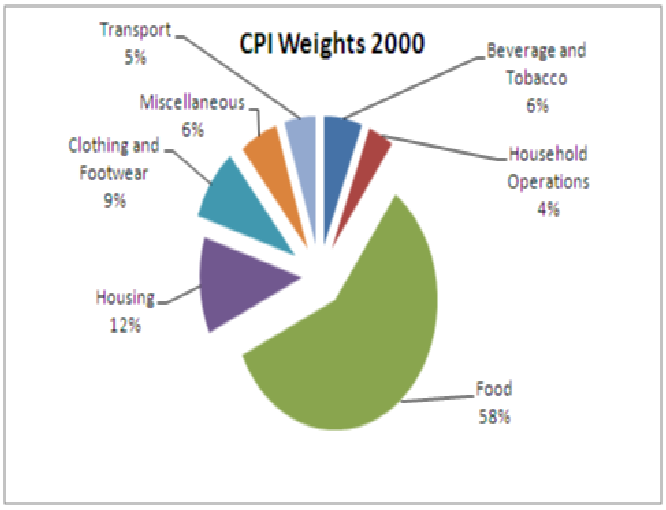
Appendix 7: GDP—MALAWI (source: EIU)

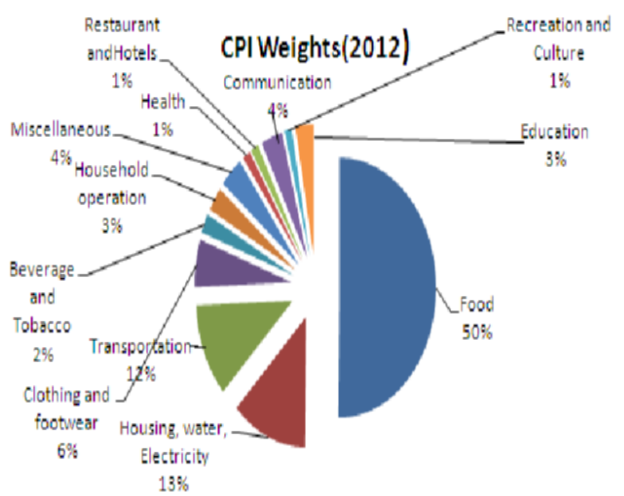




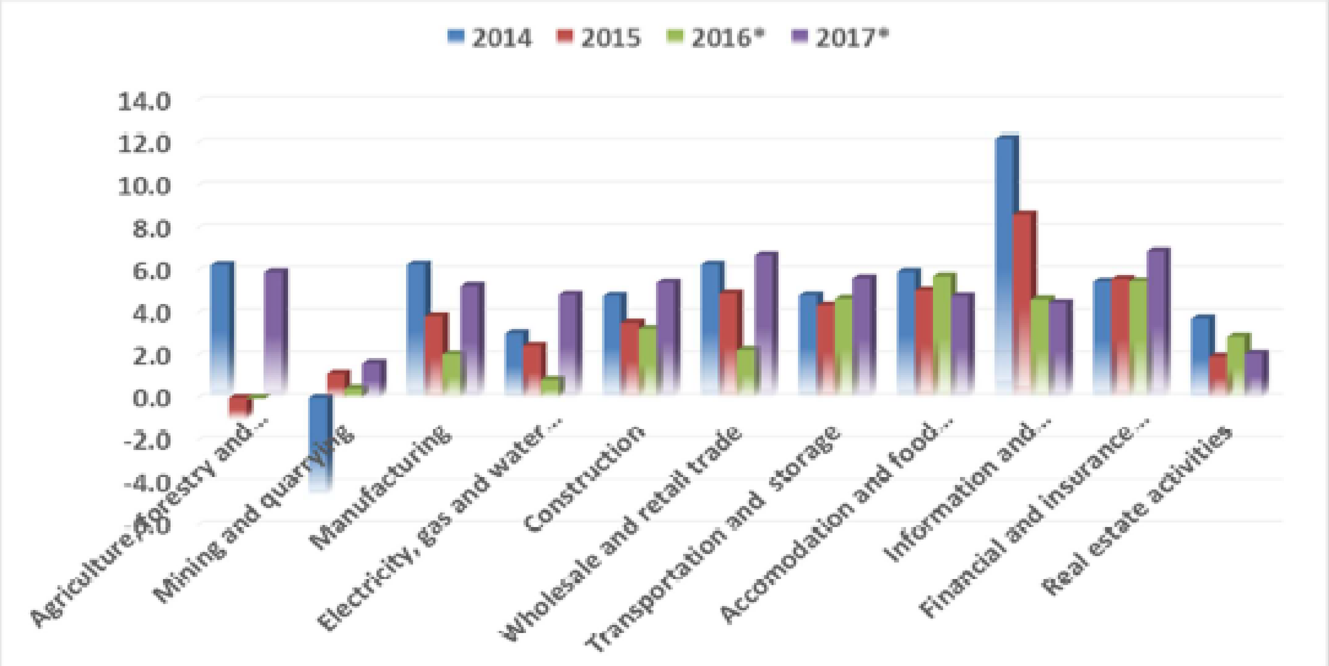








Appendix 8: CONTRIBUTION TO GDP BY SECTOR



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

Appendix 9: MALAWI ECONOMIC GROWTH (Source: EIU)

Economic growth

%	2017[a]	2018[b]	2019[b]	2020[b]	2021[b]	2022[b]
GDP	4.4	4.1	5.0	4.9	4.5	4.8
Private consumption	8.0	5.3	5.1	5.2	5.3	5.0
Government consumption	3.8	3.0	3.8	2.1	1.9	1.0
Gross fixed investment	2.0	3.1	1.6	3.5	3.7	3.7
Exports of goods & services	3.0	4.6	4.4	4.8	5.0	5.1
Imports of goods & services	6.4	5.1	4.1	4.6	5.1	4.7
Domestic demand	6.7	4.8	4.5	4.7	4.7	4.4
Agriculture	5.4	2.9	5.3	5.7	5.1	5.1
Industry	1.2	3.6	3.5	3.3	3.9	4.6
Services	4.2	4.8	4.9	4.2	4.4	4.4

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

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

Sector	2014	2015	2016	2017*	2018*
Agriculture, forestry and fishing	*6.3*	*-1.0*	*-0.2*	*6.8*	*3.4*
Mining and quarrying	*-4.6*	*1.1*	*0.4*	*1.6*	*2.3*
Manufacturing	*6.3*	*3.8*	*1.4*	*4.9*	*6.0*
Electricity, gas and water supply	*3.0*	*2.4*	*0.4*	*2.2*	*4.5*
Construction	*4.8*	*3.5*	*3.4*	*5.1*	*5.9*
Wholesale and retail trade	*6.3*	*4.9*	*2.0*	*6.6*	*3.8*
Transportation and storage	*4.8*	*4.3*	*4.7*	*6.3*	*5.9*
Accommodation and food services	*5.9*	*5.1*	*5.7*	*4.6*	*3.9*
Information and communication	*12.2*	*8.6*	*4.8*	*4.3*	*3.5*
Financial and insurance services	*5.5*	*5.6*	*5.5*	*7.3*	*8.1*
Real estate activities	*3.7*	*1.9*	*3.1*	*2.8*	*2.7*
Professional and support services	*7.4*	*5.0*	*3.7*	*5.8*	*5.2*
Public administration and defense	*5.1*	*6.3*	*6.2*	*4.6*	*7.2*
Education	*4.0*	*6.1*	*7.9*	*7.0*	*6.7*
Health and social work activities	*4.2*	*3.6*	*7.2*	*7.1*	*6.2*
Other Services	*5.4*	*5.9*	*5.5*	*4.3*	*5.3*
GDP at constant market prices	***6.2***	***3.3***	***2.7***	***6.1***	***5.0***
GDP at current prices	***31.5***	***26.5***	***18.7***	***22.6***	***12.4***

Source: National Statistical Office and Department of Economic Planning and Development (DEPD)
*Projections

GLOBAL PROJECTIONS (Source: EIU)

	2017	2018	2019	2020	2021	2022
Economic growth (%)						
US GDP	2.2	2.2	2.2	0.8	1.8	1.9
OECD GDP	2.3	2.0	2.0	1.3	1.9	1.9
World GDP	2.9	2.7	2.8	2.3	2.7	2.5
World trade	4.6	3.5	3.6	2.6	3.6	3.6
Inflation indicators (% unless otherwise indicated)						
US CPI	2.1	2.2	2.3	1.3	1.8	1.9
OECD CPI	2.1	1.9	2.0	1.7	1.8	1.9
Manufactures (measured in US$)	3.3	4.0	4.1	3.0	4.0	3.3
Oil (Brent; US$/b)	54.9	59.0	57.5	54.5	58.0	62.0
Non-oil commodities (measured in US$)	7.4	1.4	0.9	-2.1	2.2	1.4
Financial variables						
US$ 3-month commercial paper rate (av; %)	1.1	1.7	2.1	2.2	1.7	1.9
US$:€ (av)	1.13	1.17	1.16	1.20	1.20	1.24
¥:US$	111.72	108.88	106.70	104.00	100.00	100.20

Appendix 11: PROJECTIONS

GLOBAL PROJECTIONS (Source: IMF)

	Year over Year				Difference from April 2017 WEO Projections 1/		Q4 over Q4 2/		
		Estimate	Projections				Estimate	Projections	
	2015	2016	2017	2018	2017	2018	2016	2017	2018
World Output	**3.4**	**3.2**	**3.5**	**3.6**	**0.0**	**0.0**	**3.2**	**3.5**	**3.7**
Advanced Economies	**2.1**	**1.7**	**2.0**	**1.9**	**0.0**	**–0.1**	**2.0**	**1.9**	**1.9**
United States	2.6	1.6	2.1	2.1	–0.2	–0.4	2.0	2.0	2.3
Euro Area	2.0	1.8	1.9	1.7	0.2	0.1	1.8	1.9	1.7
Germany	1.5	1.8	1.8	1.6	0.2	0.1	1.8	1.9	1.5
France	1.1	1.2	1.5	1.7	0.1	0.1	1.2	1.7	1.5
Italy	0.8	0.9	1.3	1.0	0.5	0.2	1.1	1.1	1.0
Spain	3.2	3.2	3.1	2.4	0.5	0.3	3.0	3.0	2.1
Japan	1.1	1.0	1.3	0.6	0.1	0.0	1.6	1.2	0.5
United Kingdom	2.2	1.8	1.7	1.5	–0.3	0.0	1.9	1.4	1.4
Canada	0.9	1.5	2.5	1.9	0.6	–0.1	2.0	2.3	2.0
Other Advanced Economies 3/	2.0	2.2	2.3	2.4	0.0	0.0	2.5	2.1	2.7
Emerging Market and Developing Economies	**4.3**	**4.3**	**4.6**	**4.8**	**0.1**	**0.0**	**4.2**	**4.9**	**5.2**
Commonwealth of Independent States	–2.2	0.4	1.7	2.1	0.0	0.0	0.6	1.5	2.0
Russia	–2.8	–0.2	1.4	1.4	0.0	0.0	0.3	1.5	1.8
Excluding Russia	–0.5	1.8	2.5	3.5	0.0	0.0	...	...	...
Emerging and Developing Asia	6.8	6.4	6.5	6.5	0.1	0.1	6.3	6.6	6.5
China	6.9	6.7	6.7	6.4	0.1	0.2	6.8	6.4	6.4
India 4/	8.0	7.1	7.2	7.7	0.0	0.0	6.0	8.0	7.6
ASEAN-5 5/	4.9	4.9	5.1	5.2	0.1	0.0	4.8	5.2	5.2
Emerging and Developing Europe	4.7	3.0	3.5	3.2	0.5	–0.1	3.3	2.0	4.2
Latin America and the Caribbean	0.1	–1.0	1.0	1.9	–0.1	–0.1	–1.3	1.6	2.1
Brazil	–3.8	–3.6	0.3	1.3	0.1	–0.4	–2.5	1.5	1.7
Mexico	2.6	2.3	1.9	2.0	0.2	0.0	2.3	0.9	3.2
Middle East, North Africa, Afghanistan, and Pakistan	2.7	5.0	2.6	3.3	0.0	–0.1	...	...	...
Saudi Arabia	4.1	1.7	0.1	1.1	–0.3	–0.2	2.2	0.6	1.4
Sub-Saharan Africa	3.4	1.3	2.7	3.5	0.1	0.0	...	...	...
Nigeria	2.7	–1.6	0.8	1.9	0.0	0.0	...	...	...
South Africa	1.3	0.3	1.0	1.2	0.2	–0.4	0.4	1.3	1.1
Memorandum									
Low-Income Developing Countries	4.6	3.6	4.6	5.2	–0.1	–0.1	...	...	...
World Growth Based on Market Exchange Rates	2.7	2.5	2.9	3.0	0.0	0.0	2.6	2.8	3.0
World Trade Volume (goods and services) 6/	**2.6**	**2.3**	**4.0**	**3.9**	**0.2**	**0.0**	...	...	...
Advanced Economies	4.0	2.3	3.9	3.5	0.2	–0.1	...	...	...
Emerging Market and Developing Economies	0.3	2.2	4.1	4.6	0.1	0.3	...	...	...
Commodity Prices (U.S. dollars)									
Oil 7/	–47.2	–15.7	21.2	0.1	–7.7	0.4	16.2	6.2	–0.8
Nonfuel (average based on world commodity export weights)	–17.5	–1.8	5.4	–1.4	–3.1	–0.1	9.9	0.1	0.1
Consumer Prices									
Advanced Economies	0.3	0.8	1.9	1.8	–0.1	–0.1	1.2	1.7	2.0
Emerging Market and Developing Economies 8/	4.7	4.3	4.5	4.6	–0.2	0.2	3.7	4.0	3.9
London Interbank Offered Rate (percent)									
On U.S. Dollar Deposits (six month)	0.5	1.1	1.6	2.2	–0.1	–0.6	...	...	...
On Euro Deposits (three month)	–0.0	–0.3	–0.3	–0.2	0.0	0.0	...	...	...
On Japanese Yen Deposits (six month)	0.1	0.0	0.0	0.1	0.0	0.1	...	...	...

Appendix 12: Malawi Ease of Doing Business Update (source: MCCCI)

Table 1: Doing Business raking for selected factors for Malawi

	Doing Business 2018	Doing Business 2017	Change in Rank	Change Movement
Starting Business	152	150	-2	Upward
Dealing with construction permits	144	65	-79	Downward
Getting electricity	166	169	3	Upward
Registering Property	96	95	-1	Downward
Getting Credit	6	101	95	Upward
Protecting Minority Investors	96	132	36	Upward
Paying Taxes	134	102	-32	Downward
Trading Across borders	117	118	1	Upward
Enforcing Contracts	151	148	-3	Downward
Resolving Insolvency	138	162	24	Upward

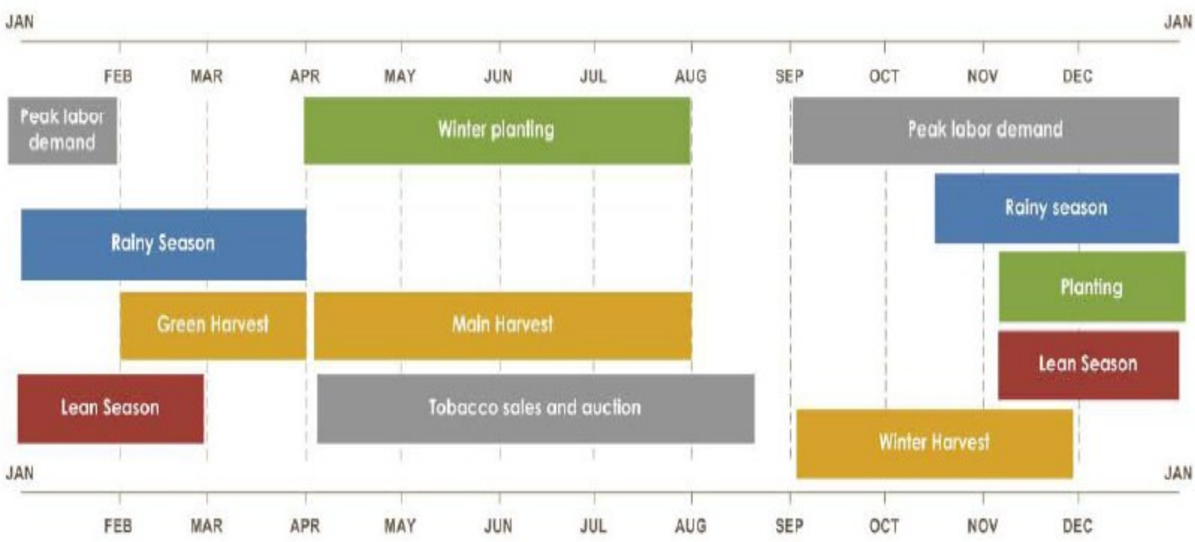
Source: The 2017 to 2018 Doing Business Report

Table 2: Distance to Frontier

Doing Business 2018 Rank	Doing Business 2017 Rank	Change in Rank	Change Movement
110	133	23	Upwards

Doing Business 2018 DTF(% Points)	Doing Business 2017 DTF(% Points)	Change in DTF (% Points)	Change Movement
58.94	54.39	4.55	Upwards

Appendix 13: SEASONAL CALENDAR FOR A TYPICAL YEAR



Source: *FEWS NET*

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

	2015	2016*	2017*
Tobacco	649.7	750.0	648.3
Tea	66.5	55.5	67.0
Sugar	125.7	142.0	177.4
Cotton	9.4	3.9	4.7
Coffee	4.3	4.3	3.2
Pulses	74.4	74.4	74.4
Edible Nuts	107.1	30.0	36.3
Uranium	-	-	-

Source: National Statistical Office and Department of Economic Planning and Development

*Projections

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- Trust fund management
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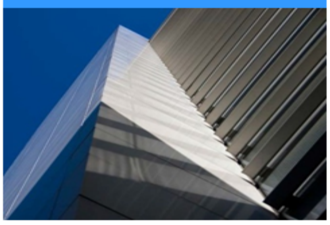
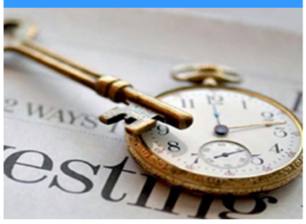
Corporate Finance



- Capital raising
- Feasibility studies
- Company valuation
- Mergers and Acquisitions
- Company set up

Investor Services



- Transfer Secretarial Services
- Economic Research
- Company Secretarial Services

Infrastructure Development

- Property development
- Development Viability Analysis
- Project Monitoring
- Project Management
- Property Management
- Property Investment Company Services

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