ANNUAL ECONOMIC REPORT 2019

NICO
Asset Managers

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Contents

LIST OF ACRONYMS

ADF:	African Development Fund
AfDB:	African Development Bank
BOE:	Bank of England
BHL:	Blantyre Hotels Plc
BWB:	Blantyre Water Board
CPI:	Consumer Price Index
DSI:	Domestic Share Index
ECB:	European Central Bank
ECF:	Extended Credit Facility
EIU:	Economist Intelligence Unit
ESCOM:	Electricity Supply Corporation of Malawi
EU:	European Union
EUR:	Euro
FEWS NET:	Famine Early Warning Systems Network
FAO-GIEWS:	Food and Agricultural Organization Global Information and Early Warning System
FISP:	Farm Input Subsidy Program
FMBCH:	FMB Capital Holdings Plc
FOB:	Free On Board
FSI:	Foreign Share Index
GBP:	British Pound
GDP:	Gross Domestic Product
GFS:	Government Finance Statistics
IDA:	International Development Association
IFAD:	International Fund for Agricultural Development
IMF:	International Monetary Fund
MASI:	Malawi All Share Index
MASL:	Meters Above Sea Level
MB/D:	Million barrels per day
MERA:	Malawi Energy Regulatory Authority
MITC:	Malawi Investment and Trade Center
MK:	Malawi Kwacha
MPC:	Monetary Policy Committee
MSE:	Malawi Stock Exchange
MT:	Metric Tonnes
MRA:	Malawi Revenue Authority
MVAC:	Mobile Vulnerability Assessment Committee
MW:	Mega Watts
NBM:	National Bank of Malawi Plc
NBS:	NBS Bank Plc
NGOs:	Non-Governmental Organisations
NICO:	NICO Holdings Plc
NITL:	National Investment Trust Plc
NSO:	National Statistical Office
OECD:	Organisation for Economic Co-operation and Development
OMO:	Open Market Operations
OPEC:	Organization of the Petroleum Exporting Countries
PCL:	Press Corporation Plc
RBM:	Reserve Bank of Malawi
RBZ:	Reserve Bank of Zimbabwe
Rmb:	Chinese Renminbi
RTGS:	Real Time Gross Settlement
SARB:	South Africa Reserve Bank
SDF:	Southern Dark Fired Tobacco
SSA:	Sub Sahara Africa
Sunbird:	Sunbird Tourism Plc
TB:	Treasury Bills
TC:	Tobacco Commission
TICAD:	Tokyo International Conference on African Development
TNM:	Telekom Networks Malawi Plc
WEO:	World Economic Outlook
WFP:	World Food Programme
WTO:	World Trade Organisation
TSH:	Tanzania Shillings
UBOS:	Ugandan Bureau of Statistics
UGX:	Ugandan Shillings
UK:	United Kingdom
UNOCHA:	United Nations Office for the Coordination of Humanitarian Affairs
USA:	United States of America
US$:	United States Dollar
ZAR:	South African Rand
ZimVAC:	Zimbabwe Vulnerability Assessment Committee
ZMK:	Zambian Kwacha

EXECUTIVE SUMMARY

Economic Outlook — Malawi

The Malawi Kwacha slightly depreciated against the United States Dollar in 2019 compared to 2018 by 0.71%. Considering the current account deficits, weak foreign direct investment inflows and the continued low levels of forex reserves deficits, the Kwacha is most likely to continue to depreciate at a slow pace against the major currencies in the short to medium term.

Food inflation for the month of December 2019 increased to 19.30% from 17.20% recorded in November 2019. This increase is mainly attributed to the rising prices of maize. The IFPRI in its December 2019 report indicated that the maize price continues to go up with an upward movement of 5% from the previous month. The average price in December 2019 is 190% higher than the December 2018 average price. Considering the price increase in December 2019 and expected increases in the subsequent months during the lean period, the food inflation is most likely to go up. It is with this view therefore that the headline inflation is also expected to continue to rise, at least in the lean period.

The reference rate for the month of December 2019 was 12.50% while that of January 2020 increased to 13.10%. The increase was likely a result of an increase in interbank rate for the month of December 2019 compared to that of November 2019. It is expected that the reference rate will hover between 12% to 13.50% in short term due to the continued lower treasury bill yields.

The Government of Malawi has pinned the GDP growth forecast for 2019 and 2020 at 5% and 7% respectively regardless of the effects brought about by the Cyclone Idai that hit the country in March 2019 and the lower proceeds realized from the sales of tobacco in 2019. This outlook is however optimistic considering the susceptibility of the Malawian economy to the continuing risk of weather-related shocks with poor rainfall having the potential to negatively impact both agriculture production and electricity supply. Taking into consideration these factors and the long-standing issue of intermittent power supply which in turn affect our manufacturing industry, the GDP is most likely to hover around 3.50% to 5.50%% within the forecast period.

The services account deficit will remain flat, averaging 1.60% of GDP in 2020-24, reflecting the high cost of transporting goods into a landlocked country and higher services imports for capital projects. The secondary income surplus, which covers private transfers and official aid receipts, will remain wide at 6.90% of GDP in 2020 (reflecting the boost to donor confidence provided by the ECF), but it will narrow once the programme concludes in early 2021. The deficit on the primary income balance is a reflection of profit repatriation by the mining sector and is expected to remain flat throughout the period

Key Economic Risks – Malawi

1. Insufficient power supply-will lead to lower productivity and dampen economic growth
2. High government debt levels-create a future obligation for the government to repay the debt plus interest
3. Persistently weak export base- affects the Kwacha's stability against the major currencies as import values exceed export values.
4. High population growth rates- may reduce the country's ability to allocate resources to more productive activities.
5. Prolonged political impasse arising from May 2019 elections- may lead to reduced business activity and erode investor confidence which may negatively impact economic growth.

Economic Highlights For 2019 — Malawi

The average headline inflation for 2019 increased to 9.38% in comparison to an average inflation of 9.21% recorded in 2018. The increase in the average headline inflation was mainly due to increase in food inflation for the period (Source: NSO).

The all-type Treasury bill yield for the year 2019 decreased to 9.69% from 14.28% for the year 2018 (Source: RBM).

Liquidity levels for the year 2019 increased to a daily average of K15.00 billion from K8.44 billion per day in 2018. Access to the Lombard facility (discount window borrowing) during 2019 averaged K11.15 billion at an average rate of 13.90% while that of 2018 averaged K5.85 billion per day at an average rate of 18.00% (Source: RBM).

The Malawi Kwacha depreciated against United States Dollar, British Pound and the South African Rand but appreciated against the Euro. As at 31 December 2019, the United States Dollar was trading at MK738.87/US$ from MK733.69/US$ as at 31 December 2018 representing a 0.71% annual depreciation (Source: RBM).

As at 31 August 2019, total reserves stood at US$1.02 billion (4.39 months of import cover) a decrease from US$1.03 billion (4.93 months of import cover) registered at the end of July 2019 (Source: RBM).

The stock market continued to be bullish as the Malawi All Share Index (MASI) experienced positive return of 4.38% in 2019 (2018:34.19%). The MASI closed at 30,252.20 points on 31 December 2019 from 28,983.53 points on 31 December 2018 (Source: MSE).

In its annual report produced in December 2019, the World Bank proposed two broad strategies that should be implemented to promote optimal maternal and child health, healthy environments, and early access to better food and care. The strategies include; Interrupting the intergenerational transmission of stunting by prioritizing women's health and nutrition and the second on is to improve livelihoods and resilience to promote access to and consumption of diverse diets among young children, especially during the complementary feeding period.

In a report released by the Malawi Vulnerability Assessment Committee in January 2020, about 1.88 million people will not be able to meet their annual food requirement during the 2019/20 consumption period. Of this population 39 211 are said to be in an emergency phase and the remaining group is in a crisis phase, both groups are in need of urgent help. Despite this upward revision, the affected population registers a decrease from 3.31 million people during the 2018/19 consumption period to 1.88 million people this consumption season. The affected population is in all 27 districts which were assessed with varying degrees of severity (Source: MVAC)

Average retail maize prices increased by 5% during the month of December 2019. The average retail maize price was MWK275/kg in the twenty-six markets IFPRI monitors. This is 190% higher than in December 2018. Prices rose in nineteen markets, remained constant in six markets and fell in one market. Retail prices were at or above MWK300/kg in fourteen markets (Source: IFPRI)

The Monetary Policy Committee (MPC) met four times in 2019. There were a number of changes that happened within the year including the Policy Rate, the Lombard rate and the Liquidity Requirement Ratios. Another major change that took place was the calculation of the commercial bank base lending rate. The rate was revised to include a weighted average of the Lombard rate (59%), the Interbank rate (30%), the 91-day Treasury bill rate (10%) and savings rate (1%) (Source: RBM).

The Malawi Government has missed its target to develop the mineral sector to contribute up to 20% to the country's gross domestic product (GDP) by the year 2020. The country has made little progress in attracting investors regarding the foreign direct investment (FDI) in the mining sector, which is currently contributing less than 1% to the GDP (Source: Mining and Trade Review)

1. ECONOMIC OVERVIEW

Inflation (Source: NSO)

The average headline inflation for 2019 increased to 9.38 in comparison to an average inflation of 9.21% recorded 2018.This increase was due to an increase in food inflation which offset the decrease in non-food inflation as can be seen in the table below;

	2018	2019	% Change
Headline inflation	9.21%	9.38%	↑ 0.17%
Food	9.76%	14.30%	↑ 4.54%
Non-food	8.95%	5.35%	↓ -3.60%

Government Securities (Source: RBM)

The all-type Treasury bill yield for the year 2019 decreased to 9.69% from 14.28% recorded in 2018 (Source: RBM).

Tenor	2018	2019	Change
91 days	13.59%	8.74%	↓ -4.85%
182 days	14.38%	9.85%	↓ -4.53%
364days	14.86%	10.60%	↓ -4.26%
All Type	14.28%	9.69%	↓ -4.59%

Total applications for Treasury bills for 2019 increased by 73.79% to K1,005.33 billion (2018: K578.47 billion) while total allotments decreased by 25.50% to K360.06 billion (2018: K490.17 billion). The 364 days paper accounted for the highest subscription rate at 46.64%, followed by the 182 days paper at 40.88% and the 91 days paper at 12.48%. On average, the yields for all the papers during the year 2019 decreased compared to the average yields recorded in 2018.

Below is a summary of the treasury notes for the year 2019.

Tenor	Application (K'bn)	Allotment (K'bn)	Average Rate
2 Years	135.81	53.06	12.65%
3 Years	221.89	101.54	13.76%
5 Years	117.02	66.73	15.78%
7 Years	155.33	59.52	21.18%
10 Years	15.08	12.63	17.47%
Total	**645.12**	**293.48**	

Foreign Currency Market (Source: RBM)

The Malawi Kwacha depreciated against United States Dollar, British Pound and the South African Rand but appreciated against the Euro as shown below:

CURRENCY	2018	2019	% Change
MK/US Dollar	733.69	738.87	↓ 0.71%
MK/GBP	926.83	969.19	↓ 4.57%
MK/ZAR	50.96	52.43	↓ 2.88%
MK/EUR	836.75	825.65	↑ -1.33%

The official forex reserves in August 2019 slightly increased to US$705.68 million (3.37 months' worth of import cover) from US$704.14 million (3.37 months' worth of import cover) as at July 2019. The private sector reserves decreased to US$310.79 million (1.48 months of import cover) as at end of August 2019 from US$325.10 million (1.56 months of import cover) recorded in July 2019.

As at 31 August 2019, total forex reserves stood at US$1.02 billion (4.85 months of import cover) a decrease from US$1.03 billion (4.93 months of import cover) registered at the end of July 2019.

	Aug-19 (US$ million)	Aug-18 (US$ million)	% 12 months change
Gross Official	705.68	753.52	↓ -6.35%
Private Sector	310.79	332.05	↓ -6.40%
Total	1,016.47	1,085.57	↓ -6.37%
	Import Cover (Months)	Import Cover (Months)	Import Cover (Months)
Gross Official	3.37	3.61	↓ -6.65%
Private Sector	1.48	1.59	↓ -6.92%
Total	4.85	5.20	↓ -6.73%

Interbank Markets and Interest Rates (Source: RBM)

Liquidity levels for the year 2019 increased to a daily average of K15.00 billion from K8.44 billion per day in 2018. Access to the Lombard facility (discount window borrowing) during 2019 averaged K11.15 billion at an average rate of 13.90% while that of 2018 averaged K5.85 billion per day at an average rate of 18.00% (Source: RBM).

Overnight borrowing between banks during the year 2019 increased to an average of K8.41 billion per day at an average rate of 10.38% from K8.20 billion per day in 2018 at an average rate of 14.79%.

Monetary Policy Update (Source: RBM)

The Monetary Policy Committee (MPC) met four times in 2019. There were several changes that happened within the year to the Policy Rate, the Lombard rate and the Liquidity Requirement Ratios.

On its first meeting held on 29 and 30 January 2019 Monetary Policy Committee decided to cut the Policy Rate by 1.50% from 16.00% to 14.50%. The committee also decided to reduce Liquidity Reserve Requirement (LRR) on foreign currency deposits by 50% to 3.75%, reduce LRR on local currency deposits by 33.30% to 5.00% and further reduced the Lombard rate from 200 basis points to 40 basis points above Policy rate (that is from 18.00% to 14.90%).

At its second meeting of 2019 held on 2 and 3 May 2019, the committee decided to reduce the Policy Rate by 100 basis points from 14.50% to 13.50%. The committee however, maintained the Lombard rate at 0.40% points above the Policy Rate, the Liquidity Reserve Requirement (LRR) on local currency deposits at 5% and the LRR on foreign currency deposits at 3.75%.

The base lending rate for the Commercial Banks was also revised to include a weighted average of the Lombard rate (59%), the Interbank rate (30%), the 91-day Treasury bill rate (10%) and savings rate (1%). Applying these weights to the end of April 2019 market rates and the Lombard rate of 13.90% the base lending rate was 10.70%.

On its third and fourth meetings held on 25 and 26 July 2019 and 29 and 30 October 2019, the Monetary Policy Committee, decided to maintain the Policy Rate at 13.50% and the Lombard Rate at 0.4% above the Policy Rate. The Committee also maintained the Liquidity Reserve Requirement (LRR) on local currency deposits at 5% and the LRR on foreign currency deposits at 3.75%. In arriving at this decision, the Committee observed that although rising maize prices may marginally push up headline inflation in the near term, this elevation is deemed temporary and does not pose a risk to the medium-term inflation objective of 5.00% by 2021.

Stock Market (Source: MSE)

The stock market was bullish in 2019 with the MASI increasing by 4.38% to settle at 30,252.20 points from 28,983.53 points in 2018. This however was very low return compared to the 34.16% realized in 2018.

The market registered eight gainers during the year, National Bank (58.12% increase), MPICO (47.95% increase), NBS (35.00% increase), PCL (22.81% increase), ICON (20.00% increase), NICO (12.77%), Standard Bank (8.96%) and NITL (6.67%). There were five losers registered on the market FMBCH (25.00% decrease), Illovo (23.50% decrease), Sunbird (18.62% decrease) TNM (7.14% decrease) and BHL (0.38% decrease)

As at 31 December 2019, the Domestic Share Index (DSI) increased by 10.70% to 23,599.75 points from 21,318.07 points recorded on 31 December 2018. The Foreign Share Index (FSI) decreased to 4,204.86 points as at 31 December 2019 from 5,265.12 recorded as at 31 December 2018.

The volume of shares traded in 2019 increased by 45.46% to 1.39 billion from 958.24 million traded in 2018. The traded value on the shares in 2019 decreased by 4.77% to MK46.37 billion from MK48.70 billion in 2018.

During the year 2019 the ICON Properties Plc conducted an initial public offering (IPO) where they invited investors to buy shares in the company. A total of 1.68 billion shares were offered at a price of MK8.75 per share with the aim of raising MK14.70 billion. The offer ran from 7 to 28 December 2018. According to a press release by the company, MK14.70 billion was raised. The company was listed on the Malawi Stock Exchange on 21 January 2019.

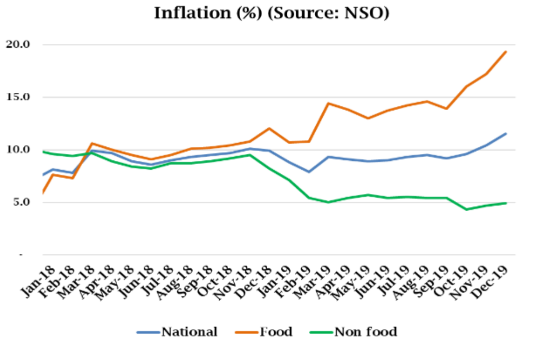
Airtel Malawi Plc is conducting an initial public offering (IPO) where investors are invited to buy shares in the company. A total of 1.65 billion shares are being offered at a price of K12.69 per share and an option of over-allotment of 550 million shares, with the aim of raising K27.92 billion before expenses. The offer opened on 27 December 2019 and it will run up to 31 January 2020. According to the prospectus, the company will be listed on the Malawi Stock Exchange on 24 February 2020.

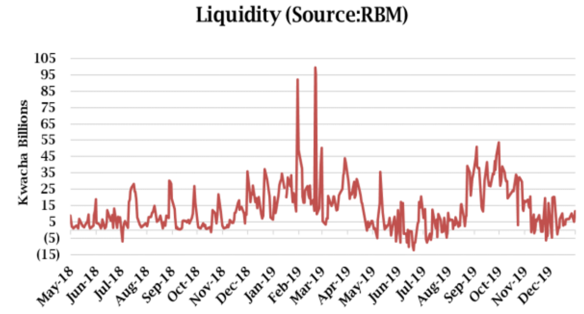
	Dec-18	Dec-19	Change (12 months)
	MK/Share	MK/Share	%
AIRTEL	NA	12.69	NA
BHL	13.00	12.95	-0.38%
ILLOVO	200.00	153.00	-23.50%
ICON	8.75	10.50	20.00%
MPICO	13.20	19.53	47.95%
NBM	332.02	525.00	58.12%
NBS	10.00	13.50	35.00%
NICO	43.00	48.49	12.77%
NITL	75.00	80.00	6.67%
PCL	1,140.00	1,400.00	22.81%
STANDARD	670.00	730.00	8.96%
SUNBIRD	145.00	118.00	-18.62%
TNM	28.00	26.00	-7.14%
FMBCH	100.00	75.00	-25.00%
OMU	2,513.25	2,499.99	-0.53%
MASI	28,983.53	30,252.20	4.38%
DSI	21,318.07	23,599.75	10.70%
FSI	5,265.12	4,024.86	-23.56%

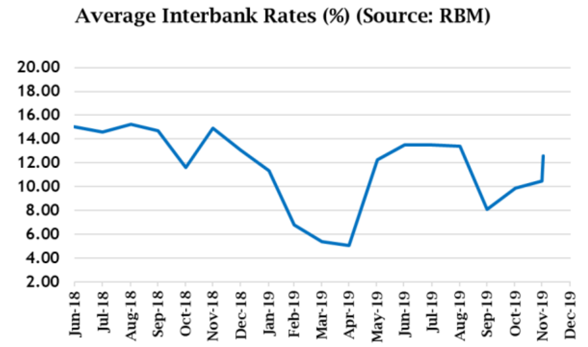
Below is a presentation of the published 2019 and 2018 half year financials for the respective companies.

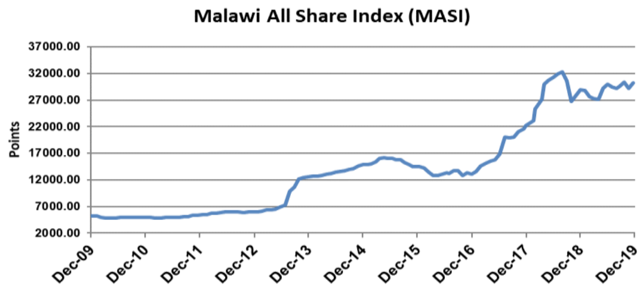
Published Half Year Financials for 2019 and 2018 (6 months)						
	Net Profit/(Loss) (MK'Billion)			Total Dividend (Per Share) (Kwacha)		
Period	**Feb-19**	**Feb-18**	**% Change**	**Feb-19**	**Feb-18**	**% Change**
ILLOVO	8.12	6.96	16.76%	0.00	0.00	0.00%
Period	**Mar-19**	**Mar-18**	**% Change**	**Mar-19**	**Mar-18**	**% Change**
BHL	0.20	0.17	18.18%	0.10	0.50	-80.00%
Period	**Jun-19**	**Jun-18**	**% Change**	**Jun-19**	**Jun-18**	**% Change**
ICON	2.52	NA	N/A	0.10	NA	N/A
MPICO	3.58	3.80	-5.74%	0.1	0.09	11.11%
NBM	9.13	8.54	6.86%	5.35	5.35	0.00%
NBS BANK	1.41	0.48	193.93%	0.00	0.00	0.00%
NICO	7.29	5.97	22.11%	0.60	0.60	0.00%
NITL	0.67	1.43	-53.15%	0.50	0.50	0.00%
STANDARD	8.09	5.53	46.31%	8.95	7.24	23.62%
SUNBIRD	1.20	1.17	2.56%	0.50	0.50	0.00%
PCL	11.16	23.08	-51.64%	6.00	6.00	0.00%
TNM	6.71	6.94	-3.31%	0.25	0.25	0.00%
	Net Profit/(Loss) (US$' million)			Total Dividend (Per Share) (US$)		
FMBCH	5.08	20.12	-74.75%	0.00	0.00	0.00%
TRADING STATEMENT FOR THE YEAR END						
BHL	Expects its profit after tax to be approximately 35% higher than the previous corresponding period					
NBS	Expects its profit after tax to be approximately 100% higher than the previous corresponding period					
STANDARD	Expects its profit after tax to be approximately 45% higher than the previous corresponding period					
PCL	Expects its profit after tax to be approximately 35% lower than the previous corresponding period					
ICON	Expects its profit after tax to be more than 200% higher than the previous two months period ended 31 December 18					
FMBCH	Expects its profit after tax to be approximately 70% lower than the previous corresponding period					

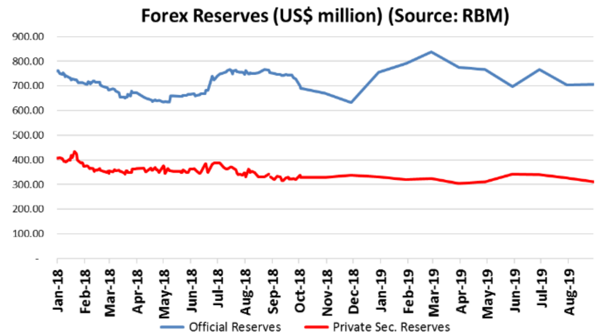
Trend Graphs

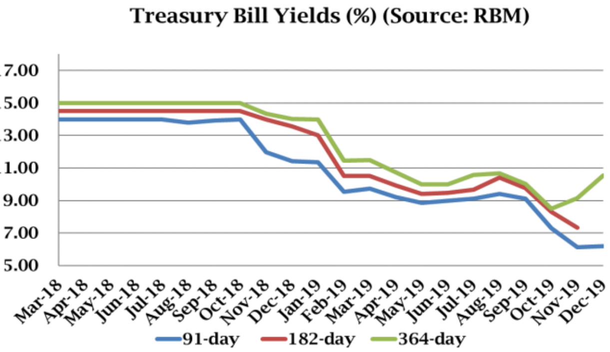


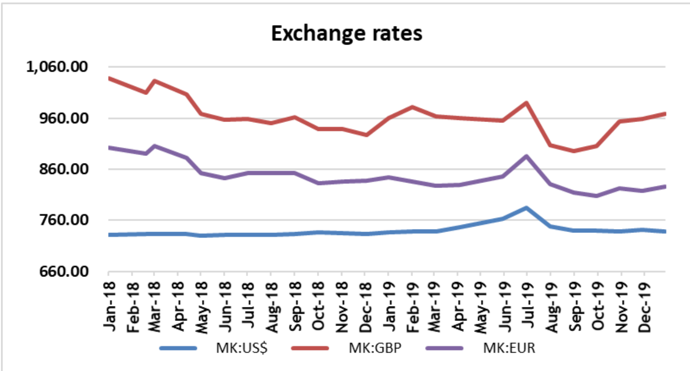








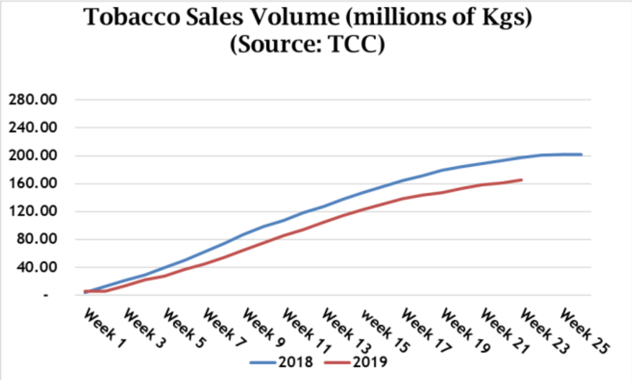




2. OTHER MARKET DEVELOPMENTS

2019 Tobacco Season End (Source: RBM)

The 2019 tobacco marketing season officially opened on 25 April 2019 and officially closed on 27 September 2019. Tobacco volume sales decreased by 18% to 165.6 million kilograms from 202.0 million kilograms recorded in 2018. Cumulatively, tobacco fetched an all-type average price of US$1.43 per kilogram in 2019. This was 14.30% lower than US$1.67 per kilogram fetched in 2018. Total realization from the 2019 tobacco sales amounted to US$237.00 million, a drop of 29.80% from US$337.5 million realized in 2018.



State of Food and Nutrition Security During the 2019/2020 Consumption Year (Source: MVAC)

The Malawi Vulnerability Assessment Committee (MVAC), carried out an annual food security assessment exercise which was completed end July 2019. 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 2019/20 consumption year. The results of the assessment showed that a total of 1.06 million people, out of the total estimated rural population of 14.75 million will not be able to meet their annual food requirement during the 2019/20 consumption period. This represented 7.00% of the total Malawi rural population.

However, in its recent report released in January 2020, the number of the affected population has been increased to 1.88 million. Of this population 39 211 are said to be in an emergency phase and the remaining in a crisis phase, all these needing urgent help. Despite this upward revision, the affected population registers a decrease from 3.31 million people during the 2018/19 consumption period to 1.88 million people this consumption season. The affected population is in all 27 districts which were assessed with varying degrees of severity.

The food crisis has been exacerbated by the destructive effects of cyclone Idai that hit Malawi, Mozambique and Zimbabwe during the month of March 2019. According to an assessment conducted by Farming and Early Warning System Network (FEWSNET), an estimated 25,000 to 35,000 hectares of matured crop were destroyed in the Southern region alone. This has significantly decreased the production of crops in the Southern region rendering it the worst hit area by the food crisis.

Fuel Price Adjustments for 2019 (Source: MERA)

During the year 2019 the Malawi Energy Regulatory Authority (MERA) adjusted the fuel prices just once. In all its price reviews throughout the year up to October 2019, the MERA board decided to hedge the increases in the landing costs of the fuel resulting from the effect of the movement of the Free On Board (FOB) prices and exchange rate of the Malawi Kwacha to the United States Dollar as well as changes in local factors by the Price Stabilization Fund (PSF).

However, in its November 2019 review, the Board noted that the liquidity position of the PSF declined and can no longer contain the importation losses as FOB prices remained high when compared to the base, December 2018 FOB prices. MERA Board therefore, resolved that pump prices for petrol and diesel be adjusted upwards to allow importers recover their importation costs directly as the PSF could no longer contain the difference between Deemed and Actual landed cost of petroleum products. Petrol and diesel pump prices were adjusted upwards by 7.14% and 5.72% respectively effective 9 November 2019.

2019/20 National Budget Statement (Source: The Ministry of Finance, Economic Planning and Development)

The Minister of Finance, Economic Planning and Development, presented the 2019/2020 financial budget to parliament on 9 September 2019. The 2019/20 Budget was prepared in line with MGDS III which provides the overarching guidance in policy formulation. The emphasis is on enhancing economic growth and empowerment with the aim of building a competitive and resilient economy.

He outlined major assumptions anchoring the budget including an estimated economic growth of 5% in 2019 and 7% in 2020, an average inflation rate of 8% during the fiscal year, a stable exchange rate of about K750/US dollar, a policy rate of 13.50%, an upward review of user fees and charges, coupon value of K15,000 for FISP and 900,000 beneficiaries and wages and salaries increase of between 10% to 15% depending on grade, with an average of 12%.

Total revenue and grants are projected at K1.58 trillion, representing 25.10% of GDP. Total expenditure is projected at K1.73 trillion which is 27.60% of GDP. The expected overall deficit for the 2019/20 fiscal year is estimated at K155.90 billion, which is 2.50% of GDP, which also represents a reduction of about 51.30% from the 2018/19 preliminary actual budget deficit outturn of K320.20 billion (Source: Ministry of Finance).

Statement at the End of an IMF Staff Visits to Malawi (Source: IMF)

The International Monetary Fund (IMF) released a statement at the end of the IMF staff visit to Malawi on 14 March 2019. The statement reported that Malawi's economic outlook for 2019 was favourable with real economic growth projected at 5.00%. Inflation expected to ease to 8.0% for end 2019 before gradually easing to 5.0% over the medium term. The IMF also advised the government that fiscal consolidation was to be accelerated in the 2019-2020 fiscal year with key reform areas of focus being improvements in debt management and public financial management.

On its second visit, the International Monetary Fund (IMF) released a statement at the end of the IMF staff visit to Malawi on 17 September 2019. The statement reported that Malawi's economic outlook for 2019 remained favourable despite the impact of Cyclone Idai. Economic growth however was revised downwards by 50 basis points to 4.50% in 2019. The report also showed that over the medium-term, growth could rise further to 6-7%, backed by greater access to finance, crop diversification, an improved business climate, and more resilient infrastructure, including improved electricity generation.

IMF Executive Board Approves US$43.3 Million Disbursement (Source: IMF)

On 22 November 2019, the Executive Board of the International Monetary Fund (IMF) completed the second and third reviews of Malawi's performance under its program supported by a three-year arrangement under the Extended Credit Facility (ECF). Completion of the reviews enables Malawi to draw the equivalent of US$43.30 million, bringing total disbursements under the arrangement to US$73.90 million.

In completing the reviews, the Executive Board also approved an augmentation of access under the ECF arrangement of US$38.10 million. The additional financing will help the authorities meet new balance of payments needs associated with reconstruction following Cyclone Idai. It will bring Malawi's total access under the current arrangement to about US$145.30 million equivalent to 76.25% of Malawi's quota. The Executive Board also approved the authorities' request for waivers of nonobservance of the performance criteria on the primary fiscal balance at end-December 2018 and end-June 2019.

Monthly Maize Market Update (Source: IFPRI)

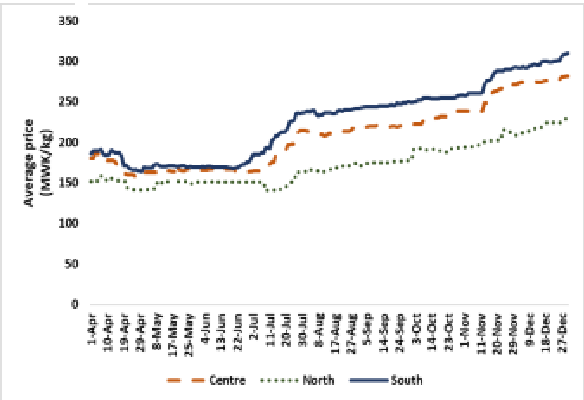
Average retail maize prices increased by 5% during the month of December 2019. The average retail maize price was MWK275/kg in the twenty-six markets IFPRI monitors. This is 190% higher than in December 2018. Prices rose in nineteen markets, remained constant in six markets and fell in one market. Retail prices were at or above

MWK300/kg in fourteen markets. The 5% price increase in December 2019 follows a 12% increase in November 2019, increases of 2% each month in August, September and October, and an atypical 23% increase in July 2019. The largest price increase was recorded in Nsanje 20% followed by a 17% in Chitipa. Liwonde market in Machinga was the only market that recorded a price decrease of 1%.

In November 2019, the Ministry of Agriculture, Irrigation and Water Development (MoAIWD) revised the purchase price of maize by ADMARC and NFRA to MWK230/kg for deliveries at rural depots/markets and MWK250/kg for deliveries to central depots. However, most traders have not been willing to sell to ADMARC or the NFRA at prices less than MWK280/kg to MWK300/kg. With humanitarian caseload rising to almost 1.88 million during the lean season, demand for maize for public distribution is likely to remain strong over the next few months.

Below is a graph showing the movements of the maize prices since April 2019 to December 2019.

Figure : Daily average maize retail prices April – December 2019



Malawi Economic Monitor (MEM) - Charting a New Course (Source: World Bank)

In its June 2019 edition of the MEM the World Bank pointed out that Malawi has achieved notable gains in macroeconomic stability, a reduction in ultra-poverty rates, and progress in key demographic outcomes, but it has yet to see a strong growth response. The report stated that a strong and decisive leadership is needed to chart a new course to enable the emergence of a vibrant economy that creates productive jobs and delivers quality basic services to its population.

The report pointed out four key areas of policy priorities that the government should focus on. These areas included; laying solid foundations for growth by implementing supportive macroeconomic policies and establishing an effective public service; transforming the economy and increase growth to create productive job opportunities, and to ensure food security; strengthening its human capital by improving education and reducing fertility rates and stunting and lastly, developing systems to increase resilience to shocks.

Malawi Economic Monitor: Strengthening Human Capital Through Nutrition (Source: World Bank)

The World Bank in its December 2019 edition of MEM, stated that despite Malawi making impressive strides in reducing childhood stunting over the past five years, 37% of children under the age of five continue to suffer from stunting, with significant disparities by geographical areas and wealth brackets. To make further progress towards reducing stunting, the report stated two broad strategies that should be implemented to promote optimal maternal and child health, healthy environments, and early access to better food and care.

The proposed policy and program options include; Interrupt the intergenerational transmission of stunting by prioritizing women's health and nutrition. To achieve this, it is vital to reduce or eliminate early marriage; to delay pregnancy among adolescents; and to ensure that women who do become pregnant do so with an optimal nutritional status that is sustained throughout pregnancy.

Improve livelihoods and resilience to promote access to and consumption of diverse diets among young children, especially during the complementary feeding period. This includes activities delivered through multiple sectors to promote food security, dietary diversification, and healthier environments for children. Investments in agriculture that support homestead farming or leverage existing platforms and mechanisms (such as community-based child care centers), while incorporating nutrition specific messaging have successfully been used in Malawi to promote the production and consumption of diverse foods among women and children.

EIB extends support to agriculture sector (Source: EIU)

In mid-November 2019 the European Investment Bank (EIB) and FDH, a local financial services provider, signed an agreement to extend a US$11.60 million credit line to support private-sector investment in Malawi.

The new Malawi credit line is part of EIB's larger, US$90.52 million private-sector financing scheme across Southern African countries. The credit extension to Malawi includes a US$3.17 million agreement to support agriculture projects in the country. According to the agreement, the FDH will

extend long-term loans to support smallholder farmers and agricultural businesses. The funding will primarily support projects intended to expand agricultural production and develop agro-processing businesses. The local financial service provider will also offer technical assistance, along with credit to all upcoming businesses. Another EIB programme currently being developed under this scheme, the KULIMA project (scheduled to start in 2020), is expected to help agro-based companies to modernise their equipment and increase export potential.

Efforts to maximise agricultural output and competitiveness stand to have a notable impact on economic growth, as well as reducing poverty levels. The sector accounts for about 28% of real GDP and, even more importantly, employs an estimated 64% of the population, making agriculture a key driver of household consumption and overall economic performance.

It is expected that the availability of credit to provide a boost to the local economy by supporting small businesses and upcoming entrepreneurs in the region. Furthermore, availability of long-term credit will open up opportunities for smallholders to expand and will address the long-term funding gap, which has been a major barrier to credit growth in the country. With agriculture expected to continue to drive economic growth in 2020, the new EIB facility, along with existing subsidies provided by the government such as the Farm Input Subsidy Programme (FISP) will bolster farming output and help improve rural livelihoods by boosting incomes and employment. However, it will have limited impact on headline growth.

Malawi Misses 2020 Target on Mining Development (Source: Mining and Trade Review)

According to the latest report by Malawi Extractive Industries Transparency Initiative (MWETI) the Malawi government has missed its target to develop the minerals sector to contribute up to 20% to the country's gross domestic product (GDP). The report stated that Malawi has made very little progress in attracting foreign direct investments (FDI) in the mining sector which is currently contributing less than 1% to GDP.

Few investors, particularly from Australia have moved in to set up mineral exploration and mining in the country. The report mentions that the mining sector is shrinking after the Kayelekera Uranium mine in Karonga was put on care and maintenance. Despite the closure of the Kayelekera due to low market demand, Malawi has several large mineral deposits with economic potential such as Phosphates, Bauxite and many others.

The report lamented the slow growth of the Artisanal and Small Scale Mining (ASM) subsector in Malawi which is generally carried out through labour intensive methods for limestone for lime production, clay for pottery and gemstones. ASM is largely unregulated and typically practiced in the most remote rural areas of Malawi by a population with little employment alternatives. Much of the actual economic potential for the ASM is lost due to lack of legal or fiscal framework and rudimentary production, processing and marketing techniques.

3. REGIONAL MARKET DEVELOPMENTS

Sub-Saharan Africa (SSA)

In IMF's World Economic Outlook (WEO) update released in January 2020, economic growth for the Sub-Saharan Africa is expected to strengthen to 3.50% in 2020–21 (from 3.30% in 2019). The projection is 0.1 percentage point lower than in the October 2019 WEO for 2020 and 0.2 percentage point weaker for 2021. This reflects downward revisions for South Africa (where structural constraints and deteriorating public finances are holding back business confidence and private investment) and for Ethiopia (where public sector consolidation, needed to contain debt vulnerabilities, is expected to weigh on growth). While the largest economies of the region are projected to continue their lackluster performance, many other economies typically more diversified ones are experiencing solid growth. About 20 economies in the region, accounting for about 45% of the sub-Saharan African population and 34% of the region's GDP (1% of global GDP), are estimated to be growing faster than 5% in 2019 (Source: IMF).

Zambia

The year on year inflation rate for December 2019 slightly increased to 11.70% from 10.80% recorded in November 2019. The increase in the annual rate of inflation was mainly attributed to the price increase in food items. The year on year food inflation rate for December 2019 was recorded at 15.20% compared to 13.50% recorded in November 2019. The year on year non-food inflation rate for December 2019 was recorded at 7.80% same as was recorded in November 2019 (Source: Zambia Statistics Agency).

The monetary policy committee at its meeting on 18 to 19 November 2019, decided to raise the policy rate by 125 basis points to 11.50%. Inflation is projected to remain above the upper bound of the 6-8% target over the period up to 2021. The decision to raise the policy rate is intended to counter inflationary pressures that include exchange rate pass-through effects and bring inflation back to the target range in the medium term and hence support overall macroeconomic stability. The committee also recognised that to address the prevailing economic challenges, monetary policy actions alone are not enough. They need to be complimented by the implementation of corrective measures by fiscal authorities and structural policy measures (Source: Bank of Zambia)

Zambia has cut its 2019 economic growth forecast, citing adverse weather conditions that have affected crop production and electricity generation at hydropower plants. The country is also struggling with high debt levels and shrinking foreign currency reserves, and the International Monetary Fund (IMF) has said growth is likely to remain subdued over the medium term.

The economic growth for 2019 has been cut to around 2% from an initial projection of 4%. The IMF also sees growth of 2% for 2019. Zambia's central bank expects economic growth of the country to rise to 3.20% in 2020 as weather conditions improve. Mining output in Africa's second-largest copper producer is also expected to improve as tax-related issues and other challenges in the mining sector are resolved.

Zambia will strive to dismantle domestic arrears and maintain debt within sustainable levels. Zambia's external debt rose to US$10.05 billion at the end of 2018, compared with US$8.74 billion a year earlier, raising fears that the country is headed for a debt crisis. The country has delayed the receipt of loans totalling US$2.60 billion contracted in 2018 in order to rein in its soaring debt. The government has also said it would delay some projects and cancel others to cut down on expenditure and debt (Source: Reuters).

Zambia's state power firm Zambia Electricity Supply Corporation (ZESCO) will increase the price of electricity by an average 113% for all customers from January 2020 as the nation seeks to attract investment into power generation. Zambia's Energy Regulation Board said it had allowed ZESCO to increase electricity tariffs by more than 200% for residential customers consuming the least amount of power. The energy regulator also increased the price of fuel, citing the depreciation of the Zambian Kwacha and higher crude oil prices. Africa's second biggest copper producer has seen electricity supply dwindle due to low water levels at hydropower dams as a severe drought sweeps through southern Africa due to climate change (Source: Reuters).

Zambia's trade surplus decreased by 23.10% from K146.90 million in October 2019 to K112.90 million in November 2019. The surplus means the country exported more than it imported in nominal terms. Both imports and exports recorded increases, though the increase in imports outweighed that of exports resulting into a reduction in the surplus.

Exports increased by 10.4 percent from K7.76 billion in October 2019 to K8.56 billion in November 2019. This increase was mainly attributed to the 10.20% increase in export earnings from the Intermediate goods category. Imports increased by 11.10% from K7.61 billion in October 2019 to K8.45 billion in November 2019. This increase in imports is mainly attributed to the 29.10% increase in the import bill for the capital goods category (Source: Zambia Statistics Agency).

Zimbabwe

Zimbabwe is facing extreme levels of food insecurity and the situation is likely to deteriorate. Currently, 60% of Zimbabwe's population of 14 million is considered food-insecure, living in a household that is unable to obtain enough food to meet basic needs. By the end of 2019, the food security situation is expected to worsen with an estimated 8 million people requiring urgent action to reduce food consumptions gaps and save livelihoods.

According to recent data released by the Zimbabwe Vulnerability Assessment Committee (ZimVAC), a staggering 5.50 million people, 38% of the rural population, is currently facing food insecurity. Periodic droughts, poor rains and erratic weather patterns negatively impacted agricultural production and livelihood prospects. Adverse weather conditions halved the 2019 cereal harvest in Zimbabwe. The number of food insecure people is expected to almost double in early 2020 compared to the same period in the prior year. The peasant community, which produces 70% of staple foods (maize, millet and groundnuts), is particularly vulnerable. It has access to less than 5% of irrigation facilities and is struggling to access productive resources due to cash shortages (Source: UN Human Rights Council).

Zimbabwe plans to start talks in early 2020 on clearing arrears on its international debt, as it seeks to rebuild confidence in an economy ravaged by high inflation and shortages of hard currency and basic goods. Arrears on World Bank and African Development Bank loans total almost US$2 billion and paying that is crucial to securing new funds to help lift the country out of crisis.

Zimbabwe is stuck in triple-digit inflation, rolling power cuts and shortages of United States Dollars, basic goods, medicines and fuel. That toxic economic cocktail has fuelled civil unrest. The government agreed a staff-monitored International Monetary Fund (IMF) programme in April 2019 that aims to restore stability by implementing reforms and correcting economic imbalances. After the IMF’s final review early 2020, the government is planning to go into negotiations on how to clear the international debt arrears (Source: Reuters).

Zimbabwe made its interim currency the country’s sole legal tender on 24 June 2019, ending a decade of Dollarisation and taking another step towards relaunching the Zimbabwean Dollar. The Central Bank also hiked its overnight lending rate to 50% from 15% as a part of a set of measures to protect the RTGS Dollar introduced in February 2019 (Source: Reuters).

Zimbabwe’s finance minister has maintained that the country’s economy would grow 3% in 2020 despite poor rains that have hurt some crops and persistent power cuts that have hit mines and industry. The southern African nation is experiencing its worst economic crisis in a decade, compounded by shortages of foreign exchange, fuel and power as well as a drought in 2019 that has left half the population in need of food aid. The finance minister reiterated that he felt the government undervalued the contribution of the informal sector to the economy. Less than 20% of the working population hold formal jobs.

The minister said the economy, which contracted by 6.50% in 2019, would in 2020 rebound as agriculture and mining output improved. But many economic analysts expect the economy to worsen. The United Nations has warned that Zimbabwe faced another poor harvest this year because of patchy rains. The minister has said the government will spend US$133 million this year on subsidies for maize meal to keep the price of the most consumed food affordable (Source: Reuters)

Tanzania

Annual average headline inflation rate in the year 2019 (from January to December 2019) has decreased to 3.4% from 3.5% recorded in 2018 (from January to December 2018). Annual average inflation rate for food Items has increased to 4.3% in 2019 from 3.7% in 2018. On the other hand, annual average non-food inflation rate in 2019 has decreased to 4.0% from 4.3% recorded in 2018. Annual average inflation rate which excludes food and energy has increased to 3.0% in 2019 from 1.9% recorded in 2018 (Source: Tanzania National Bureau of Statistics).

Tanzania has received a US$1 billion syndicated loan arranged by the Trade and Development Bank (TDB) for infrastructure projects and is seeking an additional US$500 million from the regional lender, the presidency said. The government said in 2016 it had agreed a US$7.60 billion loan from China's Export-Import Bank (Exim) to build a railway line that will link it to neighbours, but the funds were never disbursed.

In total, Tanzania wants to spend US$14.20 billion over the next five years to build a 2,561 km (1,591 mile) standard gauge railway network connecting its main Indian Ocean port of Dar es Salaam to its hinterland. The high-speed electric rail network that Tanzania is building is expected to boost trade with landlocked neighbours in the region (Source: Reuters).

Uganda

The annual headline inflation for the year ending December 2019 is recorded at 3.60% compared to the 3.00% recorded during the year ended November 2019. The increase in annual headline inflation is largely attributed to the annual food crops and related items inflation, which increased to 3.40% for the year ending December 2019 compared to the 0.0% registered for the year ended November 2019. In addition, the annual energy, fuels and utilities (EFU) inflation increased to 8.80% for the year ending December 2019 compared to the 7.40% recorded for the year ended November 2019.

The annual average headline inflation for the 2019 calendar year rose by 2.90% from the 2.60% recorded during the 2018 calendar year. The increase is due to the annual average core inflation that rose by 3.60% during the 2019 calendar year from the 2.40% registered for the calendar year 2018. However, the annual average food crops and related items inflation declined by minus 3.20% for the calendar year 2019 from the minus 1.50% registered during the 2018 calendar year. Also, the annual average energy, fuels and utilities (EFU) inflation declined by 4.20% for the 2019 calendar year from the 10.70% rise registered during the 2018 calendar year (Source: Uganda Bureau of Statistics).

The Ugandan government said its economy was 11.60% larger than earlier thought after it rebased its calculations, a move made to incorporate new sectors whose output had grown in recent years. The east African country's gross domestic product (GDP) now stood at 122.70 trillion Shillings at the end of the 2018/2019 fiscal year in June 2019. The previous GDP figure had been given as 109.90 trillion Shillings. The Ugandan Bureau of Statistics (UBOS) had changed the base year for its GDP calculations to 2016/2017 from 2009/2010. Some African countries have been rebasing their economies to try to capture the output of new sectors such as information technology and entertainment services.

Uganda's rebasing was to mainly capture new sectors such as oil and gold. Gold was virtually not there when the UBOS last did the rebasing, oil activities have expanded tremendously and the value of all these needed to be captured. UBOS last rebased Uganda's GDP in 2014. Uganda is expected to start pumping crude oil as early as 2022 from fields in the west of the country where reserves were discovered in 2006.

France's Total, China's CNOOC and UK's Tullow Oil, which own the oil fields, were expected to spend billions of Dollars in investments ahead of production including on infrastructure such as an export pipeline. Uganda's gold exports have skyrocketed in the last three years thanks to three refineries including the largest, Africa Gold Refinery, in the lakeside town of Entebbe south of the capital. Shipments of the gold more than tripled to about US$1.10 billion in the financial year ended June, compared to US$343.30 million in the previous period.

The larger economy means Uganda should now have more room to borrow since the debt level, measured as a percentage of GDP, is now lower. The IMF projected in May 2019 Uganda's debt would rise above 50% of GDP, a closely watched benchmark, by 2021/22 (Source: Reuters).

Mozambique

The International Monetary Fund (IMF) visited Mozambique between 6 to 12 November 2019. At the end of the mission the Fund noted that as a result of Tropical Cyclones Idai and Kenneth, real GDP growth decelerated to 2.25 % (year-on-year) in the second quarter of 2019, affected by a weak performance in agriculture. Inflation declined to 2.25% (year-on-year) in October 2019, from about 5.00% a year earlier, as tight monetary conditions more than offset the supply shock to prices induced by the cyclones. The exchange rate has been broadly stable; and international reserves at the Bank of Mozambique increased to about US$3.90 billion at end-October 2019, covering 6.75 months of 2020's projected non-megaprojects imports.

The Fund observed that the outlook for 2020 is for a strong rebound in economic activity and low inflation. Real GDP growth is projected to reach 5.50% in 2020, from 2.10% projected for 2019, supported by post-cyclones reconstruction efforts, a recovery in agriculture, and economic stimulus from further gradual easing of monetary conditions and clearing of domestic payments arrears to suppliers. Construction and other activities should also be boosted by investments in the liquefied natural gas (LNG) megaprojects. Inflation is projected to remain low, increasing slightly to 5.00% at the end 2020, from 3.00% at the end of 2019.

The mission noted that there is ample room for the Bank of Mozambique to continue easing monetary policy given well-anchored inflation expectations, provided this easing is supported by a prudent fiscal policy stance. It welcomed the Bank of Mozambique's strong commitment to maintain a flexible exchange rate and safeguard financial sector stability. It also welcomed the authorities' comprehensive diagnostic of governance and corruption challenges in Mozambique, which was published in August 2019 and was supported by IMF technical assistance. It encouraged the Government to implement the reforms under the

The mission welcomed the progress in the development of the LNG megaprojects in the northern province of Cabo Delgado. It reiterated the importance of building stronger institutions to help ensure that the fiscal revenue from such projects transform the lives of the Mozambican people, playing a significant role in sustainable development and poverty reduction. In this context, the mission welcomed the Government's intention to save part of the capital gains tax—from the sale to Total of Anadarko/Occidental's share in one of the projects—into a developing, future sovereign wealth fund (Source: IMF)

On 23 October 2019 the World Bank approved an International Development Association (IDA) grant of US$35 million equivalent from the institution's Crises Response Window as additional financing to scale up the Government of Mozambique's safety net programs in response to the devastating effects of the cyclones Idai and Kenneth on people's livelihoods in affected communities. This financing is accompanied by a US$10 million grant from a Multidonor Trust Fund supported by the Department for International Development, United Kingdom, the Netherlands, and Sweden.

Climate-related shocks disproportionally affect the most vulnerable, and the two cyclones have destroyed their precarious dwellings and decimated the livelihoods of the poorest families in Mozambique. The existing Social Protection Project supports the implementation of key social assistance programs that are now scaled up in the affected areas. These extreme events pose serious threats to poverty reduction efforts and emphasize the need to strengthen social protection systems to rapidly respond to support consumption smoothing among vulnerable families (Source: World Bank).

South Africa

South Africa faces a prolonged period of weak economic growth marked by rising unemployment, inequality and greater credit-rating risk if the government does not act fast to implement reforms. Africa's most industrialised economy has seen growth slow to a trickle over the last decade, while government borrowing has climbed rapidly to plug a widening budget deficit and fund bailouts of state firms plagued by mismanagement.

In October, the IMF slashed its 2019 gross domestic production (GDP) forecast for South Africa to 0.5% from 1.20%. On 25 November 2019, the IMF said growth would remain subdued in 2020 and beyond if the government pursued its current policies and failed to quickly implement reforms.

In a statement at the conclusion of a two-week, "Article IV" assessment visit to the country the IMF recommended that the FY20/21 budget to be presented in February 2020 should articulate measures to address fiscal and SOE (state-owned entities) challenges and stabilize government debt. Failure to implement the needed adjustment in government and SOE spending and efficiency will worsen debt dynamics, erode financial stability, and further raise the country risk premium (Source: IMF & Reuters)

Crisis-hit South African power company Eskom was handed an additional US$4 billion lifeline by parliament on 22 October 2019. The special bill passed by parliament to grant the funding was first proposed by South Africa's Finance Minister in July 2019 as Eskom struggled to service its ballooning US$30 billion debt pile and keep the lights on throughout 2019 as its creaking fleet of coal-fired plants buckled.

Eskom unleashed a bout of nationwide blackouts following repeated power cuts in February 2019 and March 2019, which dragged the economy into contraction. The Finance minister said in July 2019 that the Eskom should adhere to strict conditions to receive the bailout, including assurance that it would be used only to service debt and not operational costs. Eskom's woes are rooted in massive cost overruns on two huge coal power stations, years of low tariff awards and steep rises in coal and salary costs. It made a loss of more than 20 billion Rand in the last year (Source: Reuters).

Other Countries

The International Monetary Fund (IMF) visited Gaborone during 13 to 27 November 2019 to hold discussions for the 2019 Article IV Consultation with Botswana. After the meeting the Fund noted that after a relatively good performance in 2018, the economy is facing headwinds in 2019 related to weaknesses in the diamond market, a severe drought, and slower growth in neighboring countries. Growth is expected to slow to about 3.50% in 2019, while inflation will remain low. The current account is projected to move to negative territory, contributing to a decline in reserves. The fiscal deficit is expected to reach 5.75% of GDP due to lower-than-expected revenue, higher-than-expected increase in public wages and other recurrent spending. Despite these challenges, the banking sector remains well capitalized and liquidity has improved (Source: IMF).

The Board of Directors of the African Development Bank Group on 29 October 2019 approved a US$165 million loan to finance part of Angola's three-year economic diversification support program intended to restore the country's macroeconomic stability. The Angolan government is implementing reforms to diversify its oil-dependent economy and has adopted measures to improve human and social development to restore fiscal balance after the economy was hit by a global slump in oil prices and repeated droughts (Source: ADB)

Egypt carried out discussions of possible further assistance from the International Monetary Fund (IMF) to help it carry out structural reforms once its current three-year IMF programme ends in November 2019. The government and the IMF are reviewing to see if there is any area for cooperation. Egypt signed a three-year, US$12 billion Extended Fund Facility on 11 November 2016, after allowing its currency to weaken sharply, reforming valued-added tax and raising fuel prices to reduce its budget deficits. A new IMF programme would reassure investors and reduce the cost of borrowing (Source: Reuters).

** Refer to Appendix 2 for more details on historical inflation and currencies for selected countries.*

4. GLOBAL DEVELOPMENTS

Economic growth

According to the IMF's January 2020 World Economic Outlook (WEO) update, global growth is projected to rise from an estimated 2.90% in 2019 to 3.30% in 2020 and 3.4% for 2021—a downward revision of 0.10% for 2019 and 2020 and 0.20% for 2021 compared to those in the October 2019 WEO. The downward revision primarily reflects negative surprises to economic activity in a few emerging market economies, notably India, which led to a reassessment of growth prospects over the next two years. In a few cases, this reassessment also reflects the impact of increased social unrest. On the positive side, market sentiment has been boosted by tentative signs that manufacturing activity and global trade are bottoming out, a broad-based shift toward accommodative monetary policy, intermittent favorable news on US-China trade negotiations, and diminished fears of a no-deal Brexit, leading to some retreat from the risk-off environment that had set in at the time of the October 2019 WEO. However, few signs of turning points are yet visible in global macroeconomic data.

While the baseline growth projection is weaker, developments since the fall of 2019 point to a set of risks to global activity that is less tilted to the downside compared to the October 2019 WEO. These early signs of stabilization could persist and eventually reinforce the link between still resilient consumer spending and improved business spending. Additional support could come from fading idiosyncratic drags in key emerging markets coupled with the effects of monetary easing. Downside risks, however, remain prominent, including rising geopolitical tensions, notably between the United States and Iran, intensifying social unrest, further worsening of relations between the United States and its trading partners, and deepening economic frictions between other countries. A materialization of these risks could lead to rapidly deteriorating sentiment, causing global growth to fall below the projected baseline.

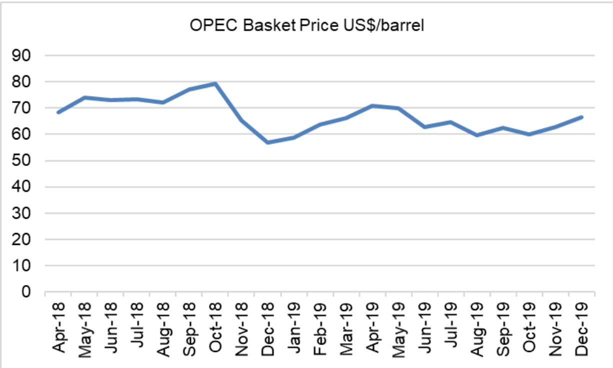
Stronger multilateral cooperation and a more balanced policy mix at the national level, considering available monetary and fiscal space, are essential for strengthening economic activity and forestalling downside risks. Building financial resilience, strengthening growth potential, and enhancing inclusiveness remain overarching goals. Closer cross-border cooperation is needed in multiple areas, to address grievances with the rules-based trading system, curb greenhouse gas emissions, and strengthen the international tax architecture. National-level policies should provide timely demand support as needed, using both fiscal and monetary levers depending on available policy room (Source: IMF).

Global Oil Developments

The Organization of the Petroleum Exporting Countries (OPEC) Reference Basket (ORB) value rose by US$3.54, or 5.6%, month-on-month in December 2019, to average US$66.48 per barrel, the highest value since April 2019. Oil prices were supported by optimism about the outlook of oil market fundamentals, following easing trade tensions between the US and China and continued market stabilization efforts conducted under the Declaration of Cooperation (DoC). Money managers increased their speculative net long positions on the back of more bullish sentiment.

Global oil demand growth for 2019 is revised lower by 0.05 million barrels / day compared with the previous month's assessment and is now estimated at 0.93 million barrels/day. Demand growth in OECD Americas is revised lower for first half of 2019 due to sluggish middle distillate demand. Slower-than-expected industrial fuel demand in OECD Asia Pacific also necessitated slight downward revisions. For 2020, oil demand growth is revised up by 0.14 million barrels/day from the previous month's assessment and is forecast at 1.22 million barrels/day, mainly reflecting an improved economic outlook for 2020. As a result, total world oil demand is projected to rise from 99.77 million barrels/day in 2019 to 100.98 million barrels/day in 2020. Oil demand growth in the OECD region is forecast to increase by 0.09 million barrels/day supported by OECD America, while non-OECD is expected to lead demand growth by adding 1.13 million barrels/day mainly in Other Asia, especially India and China.

Non-OPEC oil supply growth for 2019 is revised up by 0.04 million barrel/day from the previous month's assessment and is now estimated at 1.86 million barrels/day, for an average of 64.34 million barrels/day. The upward revision is led mainly by US liquids output growth, which is revised up by 46 thousand barrels/day, resulting in annual growth of about 1.66 million barrels/day in 2019. Non-OPEC oil supply growth in 2020 is also revised up by 0.18 million barrels/day from last month's assessment and is forecast at 2.35 million barrels/day for an average of 66.68 million barrels/day. The upward revisions in Norway, Mexico and Guyana are partially offset by downward revisions to the supply forecasts of the US, Russia and other OECD Europe. The US, Brazil, Canada and Australia are the key drivers for growth in 2019, and continue to lead growth in 2020, with the addition of Norway and Guyana. In December 2019, OPEC crude oil production dropped by 161 thousand barrels/day m-o-m to average 29.44 million barrels/day.



Currency movements

The Euro, the Pound and other trade-sensitive currencies rallied as the United States Dollar slid to a six-month low on 31 December 2019, as investor confidence in global growth prospects and the Phase 1 of U.S.-China trade deal spurred a risk-on move. The Dollar index was down 0.36% to 96.388, its fourth consecutive session and its weakest level since 1 July 2019. The Phase 1 trade agreement, which was reached earlier in December 2019, has reduced demand for the safe-haven currency, pulling the dollar down by 1.92%. December's move has undone much of the Dollar's strong 2019 owing to the relative outperformance of the United States economy and a long period of uncertainty in the negotiations between Washington and Beijing. On the last trading day of the year, the Dollar was up just 0.25% for 2019 compared to 4.40% in 2018. At the end of November 2019, it was up 2.18% for the year. The shift also reflects investor bets that the Dollar will most likely continue to weaken further in 2020.

Investors' appetite for risk also helped drive the Euro to $1.124, a five-month high. Signs that the Euro zone economy may be stabilizing have lifted the currency in recent weeks. Versus the Japanese Yen, the Dollar fell to a near three-week low of 108.50 Yen and was last down by 0.4%. Against the Chinese Yuan, it shed 0.4% to 6.9586 Yuan per Dollar in the offshore market, a two and a half week low, as strong Chinese economic data helped boost the Chinese currency. The Pound Sterling has gained around 3.50% against the Dollar in 2019 and 5.40% versus the Euro as fears of an imminent disorderly exit from the European Union eased and then lifted with the passing of Brexit withdrawal agreement in parliament (Source: Reuters).

Global trade

Higher tariff barriers between the United States and its trading partners, notably China, have hurt business sentiment and compounded cyclical and structural slowdowns underway in many economies over the past year. The disputes have extended to technology, imperiling global supply chains. The rationale for protectionist acts has expanded to include national security or currency grounds. Prospects for a durable resolution to trade and technology tensions remain elusive, despite sporadic favorable news on ongoing negotiations. Further deterioration in economic relations between the United States and its trading partners (seen, for example, in frictions between the United States and the European Union), or in trade ties involving other countries, could undermine the nascent bottoming out of global manufacturing and trade, leading global growth to fall short of the baseline.

Temporary factors that had slowed global manufacturing—auto sector adjustments to new emissions standards, a lull in the launch of new tech products, and inventory accumulation— appeared to fade. Business sentiment and the outlook of purchase managers in the manufacturing sector ceased deteriorating, but remained pessimistic overall. World trade growth appeared to be bottoming out. Service sector activity on the other hand weakened somewhat but remained in expansionary territory, supported by still-resilient consumer spending—which, in turn, helped maintain tight labor markets, low unemployment, and modestly rising wages Source: IMF)

Interest Rate Movements

The year 2019 has seen the Federal Reserve Bank shifting to a more cautious approach towards rising interest rates. The Bank moved to reduce the Federal Rate from 2.50% recorded in 2018 to 1.75%. The reduction was done in three phases, the first one was carried out on 31 July 2019 which reduced the Rate from 2.50% to 2.25%. The second phase was carried out on 18 September 2019 reducing the rate from 2.25% to 2.00% and the last phase was carried out on 30 October 2019 reducing the Rate further to 1.75%.

As a result of the reductions the US Libor rates declined in 2019 compared to 2018. The 3 months US Libor decreased to average 1.56% in December 2019 from an average of 2.81% in December 2018 while the US Libor for 6 months decreased to an average of 1.58% in December 2019 from 2.88% in December 2018. The US Treasury yield (10 years) decreased to an average of 1.86% in December 2019 from 2.69% recorded in December 2018 (Sources: Wall Street Journal & Reuters).

	Dec-18	Dec-19	%Change
US Fed Rate	2.500%	1.750%	-0.75%
US Libor (3 months)	2.810%	1.560%	-1.25%
US Libor (6 months)	2.880%	1.580%	-1.30%
US Treasury yield (10 years)	2.690%	1.860%	-0.83%
Bank of England Rate	0.750%	0.250%	-0.50%
European Central Bank Rate	0.000%	0.000%	0.00%

5. OUTLOOK FOR 2020 AND BEYOND – MALAWI

Exchange Rates

The Malawi Kwacha slightly depreciated against the United States Dollar in 2019 compared to 2018 by 0.71%. Considering the current account deficits, weak foreign direct investment inflows and the continued low levels of forex reserves deficits, the Kwacha is most likely to continue to depreciate at a slow pace against the major currencies in the short to medium term. Downside risks, however, remain prominent, including a drastic drop in global commodity prices, a significant drop in the maize production due to weather shocks and the fall army worms. Materialisation of these risks could lead to a significant depreciation in the Kwacha.

POSSIBLE IMPACT: *The depreciation of the Kwacha in the short to medium could lead to higher import costs and relatively cheap domestic exports on the international market.*

Inflation

According to the Economist Intelligence Unit (EIU), inflation is expected to average 8.80% in 2020 (down from an estimated 9.20% in 2019), owing to lower global oil prices. Furthermore, currency depreciation is also expected to be slow during this period, which will keep inflation low. The rate of inflation is expected to edge back up in 2021-23 as global oil prices rise steadily and domestic demand strengthens, supported by increased disposable income as agricultural output grows. Inflation is expected to average 10.10% a year in 2020-23. However, adverse weather, pest-related disruptions to crop production and a sharper than expected depreciation of the Kwacha pose major upside risks (Source: EIU).

Food inflation for the month of December 2019 increased to 19.30% from 17.20% recorded in November 2019. This increase is mainly attributed to the rising prices of maize. The IFPRI in its December 2019 report indicated that the maize price continues an upward movement of 5% from the previous month which as compared to December 2018 the prices have risen by 190%. Considering the price increase in December 2019 and expected increases in the subsequent months during this lean period, the food inflation is most likely to go up. It is with this view therefore, that the headline inflation is also expected to continue to rise in the short run at least up to the end of the lean period. The inflation is expected to ease at the end of the lean period, however, this will depend on the maize output being adequate and no sharper increases in global fuel prices are registered.

POSSIBLE IMPACT: *High inflation rates raise the cost of investment thereby hampering private sector growth. Alternatively, lower inflation rates may lead to reduced interest rates which could increase private sector investments and disposable income for expenditure.*

External Sector

Export performance will be supported by higher production of cash crops, including tea and soybeans but also from sugar. A more diversified export basket will also shield earnings from global price volatility on agricultural goods. Receipts from tobacco, Malawi's biggest source of foreign exchange, have been low as a result of the declining global demand. Overall, export growth will also continue to be held back by infrastructure bottlenecks, a lack of finance for farmers and low-tech agricultural techniques.

The services account deficit will remain flat, averaging 1.60% of GDP in 2020-24, reflecting the high cost of transporting goods into a landlocked country and higher services imports for capital projects. The secondary income surplus, which covers private transfers and official aid receipts, will remain wide at 6.9% of GDP in 2020 (reflecting the boost to donor confidence provided by the ECF), but it will narrow once the programme concludes in early 2021. The deficit on the primary income balance is a reflection of profit repatriation by the mining sector and is expected to remain flat throughout the period.

Overall, the current-account deficit will narrow, from an estimated 12.10% of GDP in 2019 to 10.10% of GDP in 2020, as import growth falters in 2020) and agricultural exports increase. The deficit will gradually widen to 12.10% of GDP in 2024, as global fuel prices pick up. However, the forecasts are contingent on normal rainfall patterns, and any significant disruption would prompt a downward revision to agricultural exports and an upward revision to food imports, thereby causing the deficit to widen. The deficits will be financed primarily by project-related grants (some of which, in line with the IMF's International Financial Statistics, appear in the capital account), concessional borrowing and inward investment in infrastructure, services and manufacturing.

POSSIBLE IMPACT: *Lower export values may decrease the inflow of forex which could widen the trade balance if inflows are unsustainable.*

Monetary Policy

The Reserve Bank of Malawi (RBM) closed the year 2019 with the monetary policy rate at 13.50%. Considering that the recent rises in headline inflation is attributed to a rise in food inflation which is usually cyclical and the loose monetary policy the RBM is advocating, it is expected that it will continue to maintain the monetary policy rate, at least in the short run.

The reference rate for the month of December 2019 was 12.50% while that of January 2019 marginally increased to 13.10%. The increase was likely a result of an increase in interbank rate for the month of December 2019 compared to that of November 2019. It is expected that the reference rate will hover between 12% to 13.50% due to the continued lower treasury bill yields.

POSSIBLE IMPACT: *Low lending rates reduce the cost of borrowing which stimulate private sector activity, resulting in economic growth. However, it may also lead to low propensity to save as savings rates also decline.*

International Relations

Given the continuing allegations of corruption, as well as persistent institutional weaknesses, and more recently the allegations pertaining to electoral fraud, Malawi had been experiencing a fall in grants from international donors. However, we expect this to ease from 2020 as the electoral fraud case concludes and IMF continues to support the country through the ongoing three-year (2018-21) extended credit facility (ECF). More recently, Malawi has seen an increase in aid flows in the form of specific project-based grants and loans such as US$11.6m credit line from the European Investment Bank for the development of the agricultural sector and a US$13.2m boost from the African Development Bank for the fisheries and aquaculture project.

The government is now seeking external support from non-traditional partners, including China and India, and their economic presence in Malawi is expected to grow. The post-electoral protests have also drawn considerable attention to the country from the Southern African Development Community, which at its recent meeting focused on the need to resolve Malawi's internal political problems. (Source: EIU).

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

Fiscal Policy

Operations of the central government closed the month of November 2019 with a budget deficit of K26.0 billion. This was lower than a deficit of K54.50 billion registered in the same month in 2018. Total revenues and expenditures amounted to K83.90 billion and K109.90 billion, respectively. This brings the cumulative deficit from January to November 2019 to K202.10 billion.

Total revenues recorded a decrease of K14.90 billion from K98.80 billion, following another decline of K11.30 billion from K110.10 billion recorded in the preceding month. The reported decrease was attributed to declines in domestic revenues as foreign receipts declined albeit marginally. Under domestic revenues, tax revenue collections dropped by K16.00 billion to K71.20 billion in November 2019. On the contrary, non-tax revenues reported an increase of K2.70 billion to K6.0 billion, on account of an increase in receipts from government departments and agencies.

Foreign receipts declined marginally by K1.70 billion to K6.60 billion (US$8.90 million) in the review month. There was one major grant received from International Development Association (IDA) for Malawi Digital program, amounting to K3.60 billion (US$4.90 million). The rest of the grants totalling

K3.00 billion (US$4.10 million) were transfers towards various government projects.

Expenditures for the month of November 2019 amounted to K109.90 billion. This was a decrease of K1.80 billion from K111.70 billion recorded in the previous month. The marginal decrease in expenditures resulted from a drop-in development expenditure by K4.40 billion which more than offset the increase by K2.60 billion in recurrent expenditures reported in the review month.

The government is expected to follow a pro-poor stance (as highlighted in the 2019/2020 budget speech) implying that fiscal spending in the near term will remain high. Overall, it is expected that the fiscal deficit will narrow marginally to 5.90% of GDP in 2021. Assuming that greater control is exercised over current spending (in line with IMF recommendations), the deficit will narrow to 3.70% of GDP in 2024. The government is likely to finance the deficits by taking on bilateral concessional loans, mostly from China and India (Source: RBM & EIU)

POSSIBLE IMPACT: *A wider fiscal deficit may lead to higher government domestic borrowing which could raise interest rates and in turn increase crowding out private investment.*

Economic Growth

Various institutions have revised their projections for the Malawian economy and based on these revised projections the economy will grow by an estimated average of 4.50% in 2019, 5.24% in 2020 and 5.10% in 2021. See table below;

Real GDP Growth Projections				
	2018	2019	2020	2021
EIU	3.50%	4.10%	4.40%	4.70%
IMF	3.20%	4.00%	5.00%	5.50%
WORLD BANK	3.50%	4.40%	4.70%	5.10%
GOVERNMENT	4.00%	5.00%	7.00%	
RBM	4.00%	5.00%	5.10%	
Average Real GDP	**3.64%**	**4.50%**	**5.24%**	**5.10%**

Despite a drought in early 2018 and excessive flooding due to Cyclone Idai in 2019, the agricultural sector (which accounts for nearly 30% of GDP) is expected to pick up in 2019. According to government statistics, maize output increased by 24% in the 2018/19 harvest season (November-April). In its December 2019 report the EIU expects the real GDP growth will pick up to 4.40% in 2020 owing to an increase in support to the agricultural sector to boost cash crop production. Economic growth will also be supported by measures to promote the private sector. Loose monetary conditions will also be a boost to credit growth, and since the government has not reformed the Farm Input Subsidy Programme (FISP) it will result in stability for small farms for now (Source: EIU).

Real Gross Domestic Product (GDP) growth for 2018 is maintained at 4.00% as reported by the RBM in August 2018, but the growth estimate for 2019 was revised upwards from 4.10% as estimated in August 2018 to 5.00% in February 2019. In 2020, GDP is projected to grow by 5.10%. The February 2019 Business Interview Survey revealed a number of factors necessitating the revision of the GDP forecast. For example, while the Department of Climate Change and Meteorological Services forecasted El Nino conditions for the 2018/19 rainy season, which were expected to have severe effect on agricultural production, the negative effects were less than anticipated, resulting in an increased agricultural production in almost all crops compared to the previous season. This is expected to increase disposable income and demand for products and services from other sectors of the economy. Considering that Malawi is an agro-based economy, rebound in agriculture translates into higher overall GDP growth.

The favourable weather conditions and other interventions such as the Malawi- Zambia power interconnection project improved the country's power supply since the beginning of 2019. In this regard, apart from good performance of the agriculture sector, the real GDP growth of 5.00% for 2019 is underpinned by growth in different economic activities including Manufacturing; Electricity, Gas and Water Supply; Construction; Transportation and Storage; and Information and Communication.

In 2020, the projected real GDP growth of 7.00% will be driven by the following sectors: Agriculture; Manufacturing; Mining and Quarrying; Electricity, Gas and Water; Information and Communication; and Financial and Insurance Services. Apart from the positive developments, Government arrears continue to negatively affect the performance of many sectors particularly Construction and Wholesale and Retail Trade (Source: Ministry of Finance).

The manufacturing industry will be held back by limited power supply. The services sector will be negatively affected by lower government demand over the medium term as the authorities attempt to rebalance the fiscal account (Source: RBM, EIU, AfDB, IMF, World Bank)

Risks to the economic outlook remain tilted to the downside owing to continued internal and external shocks. Malawi has faced various one-off shocks in the last two years which have had adverse impact on growth and fiscal consolidation. Malawi faces several key risks moving forward. First, it continues to be vulnerable to climate-related weather shocks, which can adversely impact growth. Secondly, the risk of weak fiscal consolidation – due to poor public financial management (PFM) – could contribute to higher debt levels and reduce fiscal sustainability. Third, risks of weak governance and poor policy implementation are heightened by the stalemate following the May election, which can reduce policy reform momentum (Source: World Bank)

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.*

6. ECONOMIC RISKS

ECONOMIC RISKS	IMPACT ON THE 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 Independent 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 awareness 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.
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 etc. 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.

7. APPENDIX

Appendix 1: Selected economic indicators for Malawi (RBM, MSE, MERA, NSO)

	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19
MK : US$	733.69	729.77	729.89	731.79	746.74	762.22	785.22	748.05	739.41	739.26	737.96	741.68	738.87
MK : GBP	926.83	957.82	970.98	956.52	960.97	954.43	989.94	907.76	894.98	906.12	953.95	959.02	969.19
MK : ZAR	50.96	54.83	52.42	50.17	51.74	51.61	55.37	52.82	48.03	48.80	49.13	50.49	52.43
MK : EUR	836.75	839.52	830.18	822.02	829.00	846.30	885.15	830.56	814.65	808.13	823.41	817.23	825.65
Forex reserves (Source: RBM)													
Gross Official Reserves (US$'mn)	755.22	790.28	837.49	775.45	766.10	696.30	765.82	704.14	705.68	NA	NA	NA	NA
Private Sector Reserves (US$'mn)	330.84	319.12	324.27	305.05	309.91	343.28	340.20	325.10	310.79	NA	NA	NA	NA
Total Reserves (US$'mn)	1,086.06	1,109.40	1,161.76	1,080.50	1,076.01	1,039.58	1,106.02	1,029.24	1,016.47	NA	NA	NA	NA
Total Import Cover (months)	5.19	5.31	5.56	5.17	5.15	4.97	5.28	4.93	4.85	NA	NA	NA	NA
Inflation													
Headline Inflation	9.90%	8.80%	7.90%	9.30%	9.10	8.90	9.00	9.30	9.50	9.20	9.60	10.40	11.50
Food	12.00%	10.71%	10.80%	14.40%	13.80	13.00	13.70	14.20	14.60	13.90	16.00	17.20	19.30
Non Food	8.20%	7.10%	5.40%	5.00%	5.40	5.70	5.40	5.50	5.40	5.40	4.30	4.70	4.90
Interbank Rates (Source: RBM)													
Monetary Policy Rate	16.00%	14.50%	14.50%	14.50%	14.50%	13.50%	13.50%	13.50%	13.50%	13.50%	13.50%	13.50%	13.50%
Average Interbank Rate	14.48%	11.35%	6.81%	5.42%	5.06%	12.15%	13.51%	13.50%	13.41%	8.10%	9.89%	10.48%	12.58%
Average Base Lending Rates	24.78%	14.90%	14.90%	14.90%	14.90%	13.90%	13.90%	13.90%	13.90%	13..40%	12.00%	12.30%	12.50%
Treasury Bill Yields (Source: RBM)													
91 day Treasury Bill yield	11.42%	11.36%	9.55%	9.50%	9.20%	8.84%	8.97%	9.10%	9.40%	9.13%	7.29%	6.13%	6.19%
182 day Treasury Bill yield	13.00%	13.01%	10.30%	10.50%	9.94%	9.41%	9.48%	9.67%	10.41%	9.77%	8.31%	7.33%	
364 day Treasury Bill yield	14.02%	14.00%	11.47%	11.50%	10.74%	100.00%	10.00%	10.58%	10.67%	10.03%	8.51%	9.15%	10.54%
Stock Market Indices (Point) (Source: MSE)													
MASI	28,983.53	28,808.89	27,687.33	27,303.65	27,138.65	29,246.08	29,956.00	29,413.02	29,197.17	29,546.27	30,344.49	29,215.33	30,252.20
DSI	21,318.07	21,159.22	20,829.45	20,483.29	20,334.43	22,235.79	22,877.77	22,387.89	22,420.52	22,735.48	23,445.64	22,664.27	23,599.75
FSI	5,265.12	5,265.12	4,521.94	4,521.94	4,521.94	4,521.93	4,520.31	4,520.31	4,272.58	4,272.58	4,272.58	4,024.86	4,024.86
Fuel Prices per Litre (Source: MERA)													
Petrol	933.50	868.00	868.00	868.00	868.00	868.00	868.00	868.00	868.00	868.00	868.00	930.00	930.00
Diesel	946.60	874.00	874.00	874.00	874.00	874.00	874.00	874.00	874.00	874.00	874.00	924.00	924.00
Paraffin	781.80	710.50	710.50	710.50	710.50	710.00	710.00	710.00	710.00	710.00	710.00	710.00	710.00

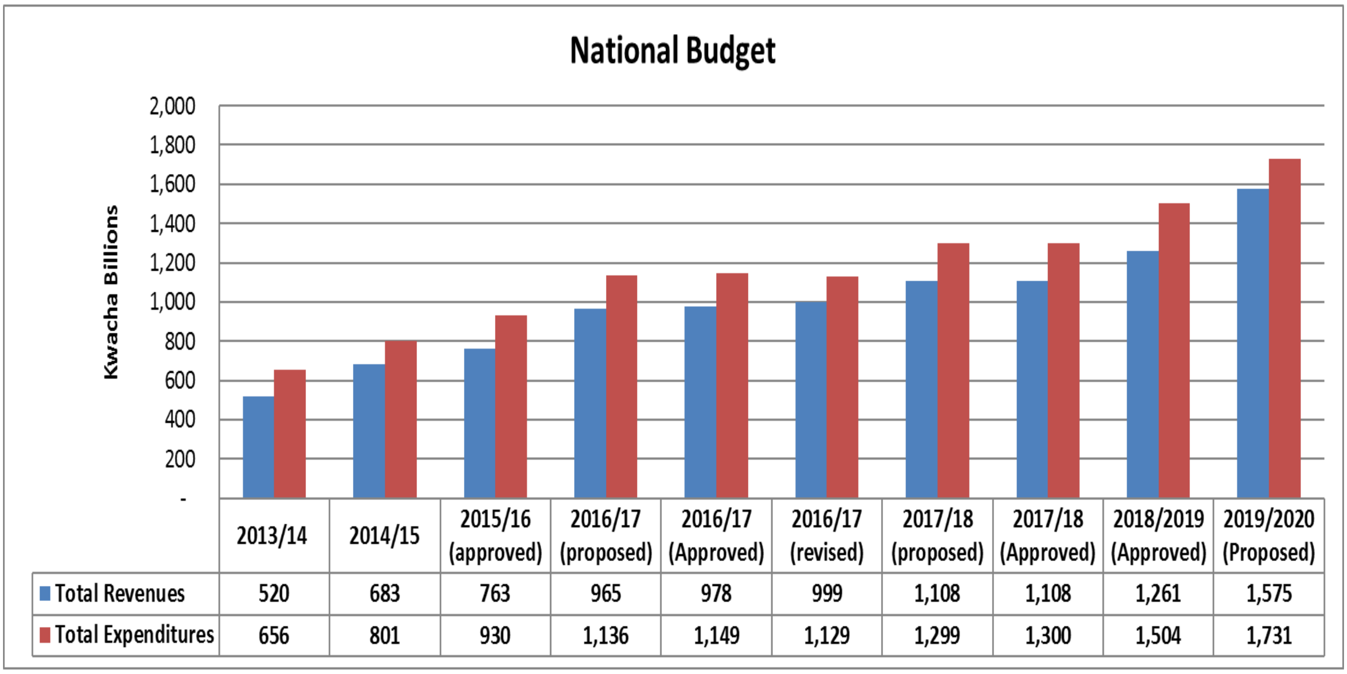
Appendix 2: Selected economic indicators for Tanzania, Uganda, Zambia and Mozambique

	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19
TANZANIA														
Exchange rate														
US$	2,278.77	2,281.23	2,283.45	2,288.99	2,300.94	2,300.78	2,288.55	2,287.13	2,289.18	2,289.40	2,289.41	2,288.79	2,288.32	2,287.93
GBP	2,909.54	2,895.34	2,985.84	3,049.51	3,020.21	3,004.00	2,889.19	2,788.28	2,786.84	2,794.21	2,820.45	2,948.30	2,953.30	3,002.91
ZAR	166.98	158.40	167.57	165.13	162.34	161.00	156.38	158.23	161.28	149.65	152.10	153.68	155.15	162.75
EUR	2,593.25	2,615.09	2,608.62	2,605.79	2,581.65	2,583.30	2,548.19	2,645.21	2,552.20	2,534.71	2,504.62	2,549.97	2,518.18	2,559.96
Inflation %	3.00	3.30	3.00	3.00	3.10	3.20	3.50	3.70	3.70	3.60	3.40	3.60	3.80	3.80
Bank rate %	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00
UGANDA														
Exchange rate														
US$	3,728.21	3,714.13	3,721.17	3,687.50	3,733.83	3,745.54	3,759.00	3,695.29	3,701.67	3,689.33	3,684.13	3,726.04	3,699.50	3,665.21
GBP	4,754.77	4,695.12	4,724.94	4,882.17	4,914.92	4,844.21	4,748.01	4684.10	4,528.04	4,508.53	4,543.82	4,799.74	4,763.10	4,799.28
EUR	4,204.12	4,235.83	4219.97	4188.91	4,195.21	4,181.22	4,188.77	4203.49	4,120.75	4,086.09	4,030.34	4,141.42	4,068.96	4,092.01
Inflation %	3.00	2.20	2.70	3.00	3.00	3.50	3.30	3.40	2.60	2.10	1.90	2.50	3.00	3.60
Central Bank Rate %	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	9.00	9.00	9.00
ZAMBIA														
Exchange rate														
US$	11.95	11.78	11.93	12.04	10.05	12.72	13.27	12.83	12.89	13.08	13.16	13.29	14.57	14.05
GBP	15.24	15.60	15.35	16.01	15.72	16.56	16.69	16.29	15.69	15.95	16.17	17.22	18.79	18.56
ZAR	0.87	0.87	0.86	0.86	0.86	0.89	0.90	0.91	0.91	0.86	0.87	0.88	1.00	1.00
Inflation %	7.80	7.92	7.90	7.80	7.50	7.70	8.10	8.60	8.80	9.30	10.50	10.70	10.80	11.70
Bank rate %	9.75	9.75	9.75	9.75	9.75	9.75	9.75	10.25	10.25	10.25	10.25	10.25	10.25	10.25
MOZAMBIQUE														
US$	61.47	61.46	62.35	62.65	64.16	64.52	62.24	61.30	61.64	61.32	61.92	57.12	63.67	62.07
ZAR	4.48	4.26	4.54	4.53	4.58	4.51	4.28	4.45	4.33	4.02	4.12	4.79	4.35	4.34
EUR	69.87	70.37	70.35	71.31	72.10	71.98	69.82	68.75	68.55	67.70	67.63	70.74	70.91	69.87
Inflation%	4.27	3.91	3.78	3.72	3.41	3.27	2.42	2.30	2.16	2.02	2.01	2.25	2.58	NA

(Source: Bank of Zambia, Bank of Tanzania, Bank of Mozambique, Bank of Uganda)

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

K'Billion	2015/2016 (Approved)	2016/2017 (Approved)	2016/2017 (Revised)	2017/2018 (proposed)	2017/2018 (Approved)	2018/2019 (Approved)	2019/2020 (Proposed)
Tota Revenues	**763**	**978**	**999**	**1,108**	**1,108**	**1,261**	**1,575**
Domestic revenues	666	783	841	980	980	1,052	1,425
Grants	97	197	159	128	128	209	150
Budgetary support	7			36	36		
Earmarked grants	90						
Total Expenditure	**930**	**1,149**	**1,129**	**1,299**	**1,300**	**1,504**	**1,731**
Reccurent expenditure	704	823	869	947	947	1,104	1,293
Wages & Salaries	229	272	271	304	304	392	443
Interest on debt	125	144	169	186	186	183	244
Investment Expenditure	224	322	257	349	350		438
Deficit/Surplus	**(167)**	**(171)**	**(130)**	**(191)**	**(192)**	**(243)**	**(156)**
Deficit as a % of Reven	**-22%**	**-17%**	**-13%**	**-17%**	**-17%**	**-19%**	**-10%**

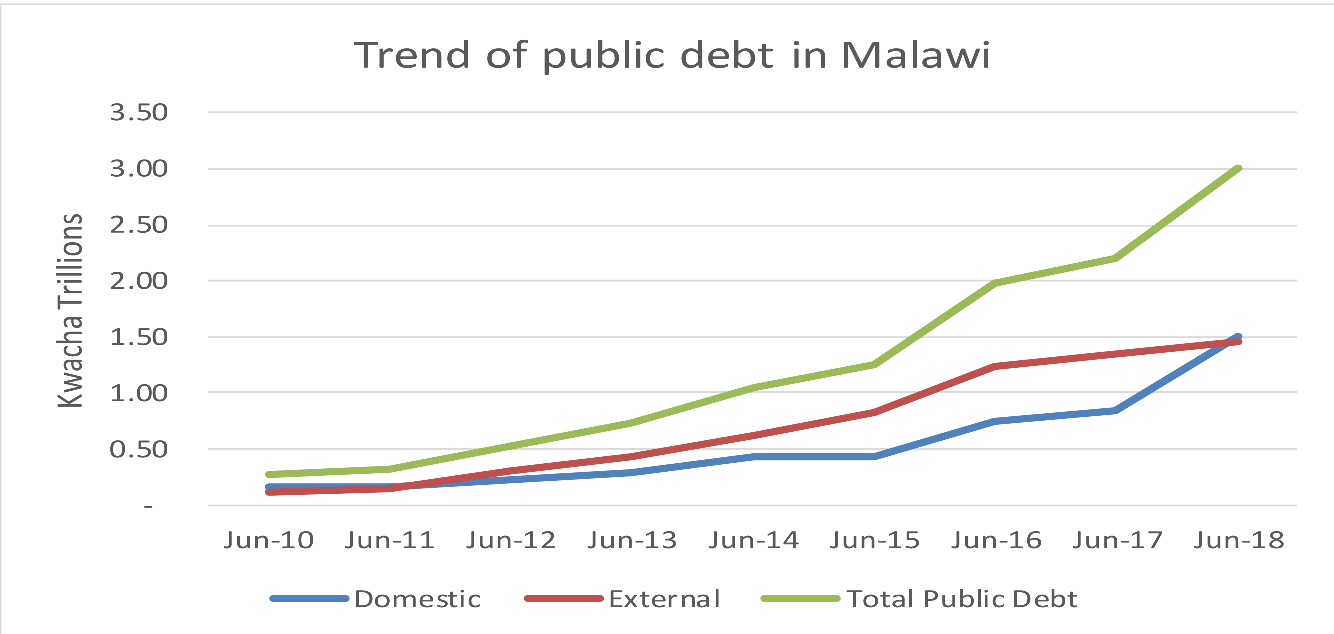


Appendix 4: Central Government Budgetary Operations in billions of Kwacha (Source: RBM)

	2018		2019										
	Nov	Dec	Jan	Feb	Mar	April	May	June	July	Aug	Sep	Oct	Nov
Total Revenues	**92.7**	**89.8**	**92.4**	**87.2**	**96.3**	**88.5**	**100.0**	**132.7**	**97.3**	**86.4**	**110.1**	**98.8**	**83.9**
Domestic Revenues	85.6	83.2	87.5	82.8	74.3	81.2	86.4	85.1	94.6	81.4	100.9	90.5	77.2
Tax Revenue	80.4	79.8	84.9	78.4	69.9	77.1	81.8	78.5	88.9	77.8	93.3	87.2	71.2
Non Tax revenue	5.2	3.4	2.6	4.4	4.4	4.1	4.6	6.6	5.7	3.6	7.6	3.3	6.0
Departmental receipts	4.1	3.0	1.9	4.0	3.5	2.5	4.0	3.2	3.8	3.0	4.7	2.4	5.4
Other Receipts	1.1	0.4	0.7	0.4	0.9	1.6	0.6	3.4	2.0	0.6	2.9	0.9	0.6
Grants	7.1	6.7	4.9	4.4	22.1	7.4	13.5	47.6	2.6	5.0	9.2	8.3	6.6
Total Expenditures	**147.2**	**103.0**	**107.8**	**103.3**	**138.0**	**109.5**	**131.0**	**77.8**	**131.4**	**127.5**	**127.7**	**111.7**	**109.9**
Recurrent Expenditure	129.5	86.7	87.0	84.3	114.0	92.2	110.9	61.5	118.5	113.4	113.8	96.9	99.5
Interest Payments	14.5	7.9	10.4	11.6	34.0	7.2	35.7	15.7	12.1	13.5	39.0	25.3	22.9
Domestic	13.8	6.6	9.3	11.2	31.3	5.9	35.6	15.6	12.0	12.1	36.7	23.3	22.1
Foreign	0.7	1.3	1.2	0.4	2.6	1.3	0.1	75.7	0.0	1.4	2.3	2.0	0.9
Development	17.8	16.3	20.8	19.0	24.0	17.3	20.1	16.3	12.9	14.1	14.0	14.7	10.3
Deficit/Surplus	**-54.5**	**-13.2**	**-15.4**	**-16.1**	**-41.6**	**-21.0**	**-31.1**	**54.9**	**-34.1**	**-41.1**	**-17.7**	**-12.9**	**-26.0**
Financing (net)	60.0	17.7	22.5	21.3	79.2	53.8	55.0	-22.2	2.2	29.11	47.2	-1.7	43.3
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	60.0	17.7	22.5	21.3	79.2	53.8	55.0	-22.2	-2.2	29.1	47.2	-1.7	43.3
Banking System	72.7	-45.7	-56.2	15.0	81.6	43.0	60.2	-17.4	-41.4	67.4	65.0	15.5	13.3
Non-Bank Sector	-12.7	63.4	178.7	6.3	-2.4	10.8	-5.1	5.0	39.2	-38.3	-17.8	-17.2	30.0
Errors and Omissions	5.5	4.5	7.1	5.2	37.6	32.9	23.9	32.7	-36.3	-12.0	29.5	-14.6	17.3

Source: Reserve Bank of Malawi

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

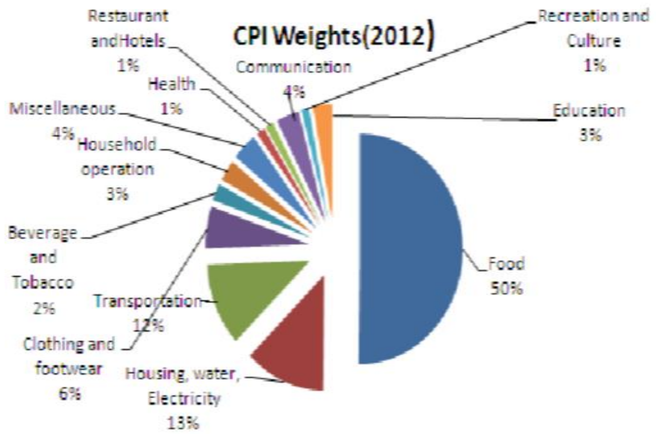


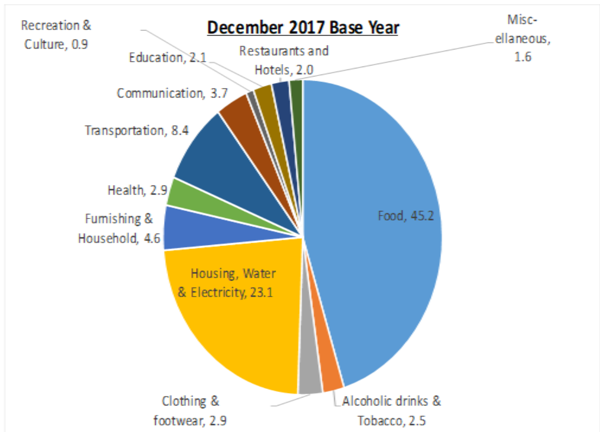
Appendix 6: Malawi selected Economic indicators (Source: RBM)

	2012	2013	2014	2015	2016	2017	2018	2018 Nov	2019 Nov
Real Sector									
Population (million)	14.8	15.3	15.8	16.3	16.8	17.4	17.9	17.9	18.5
GDP at current market prices	1,425.2	1,924.1	2,534.5	3,212.7	3,812.6	4,631.9	5,266.3	5,266.3	5,970.1
Real GDP growth (percent)	2.1	6.3	6.2	3.3	2.7	5.1	4.0	4.0	5.0
GDP per capita (K'000)	102.5	133.6	160.4	197.1	226.9	266.6	293.7	293.7	322.6
GDP per capita (US$)	411.6	361.9	378.0	394.5	318.1	365.1	401.0	401.0	440.5
Consumer Price Index (CPI)[2]	403.4	127.3	157.6	192.0	233.7	260.7	104.7	108.7	119.4
Average annual inflation rate (percent)	21.3	27.3	23.8	21.9	21.7	11.5	9.2	10.1	10.4
Fiscal Sector									
Total Revenue	363.3	476.4	535.9	661.3	810.0	946.6	1,079.1	92.7	83.9
Domestic Revenues	265.2	373.0	483.0	614.2	742.0	858.7	988.6	85.6	77.2
Grants	97.9	103.4	52.9	47.1	67.0	87.9	90.5	7.1	6.6
Total expenditure	388.6	539.3	593.1	762.7	964.3	1,136.1	1,316.7	147.2	109.9
Recurrent	349.8	459.9	534.4	667.2	832.5	973.1	1,119.9	129.5	99.5
Development	72.1	79.4	58.7	95.5	131.8	163.0	196.9	17.8	10.3
Deficit/GDP ratio (after grants)	-6.5	-3.4	-2.6	-3.2	-4.0	-4.1	-4.5	-1.0	-0.4
Monetary Sector									
Net Foreign Assets	31.9	134.2	241.6	339.5	355.8	455.7	372.6	251.6	241.3
Net Domestic Credit	369.6	452.4	458.2	604.4	755.0	937.8	1,098.1	1,151.3	1,333.5
Government	140.6	184.1	153.4	209.0	337.5	519.9	606.8	652.6	735.4
Statutory bodies	19.4	17.8	4.3	5.1	9.2	8.1	34.5	32.5	59.9
Private (gross)	220.1	250.4	300.5	390.3	408.3	409.8	456.7	466.2	538.2
Money Supply (M2)	386.5	522.0	629.8	778.8	897.3	1,074.4	1,196.5	1,168.4	1,222.5
M2 Growth Rate (annual percent)	22.9	35.1	20.7	23.7	15.2	19.7	11.4	12.8	4.6
Reserve Money	113.2	156.9	212.3	206.0	240.6	278.9	289.4	20.7	-8.3
Banks Deposits	42.2	61.6	92.4	66.0	56.2	78.2	59.6	100.1	61.7
External Sector									
Overall Balance	6.3	68.6	76.3	45.1	-48.0	43.9	2.2	..	..
Current Account	-208.9	-449.1	-482.1	-411.5	-532.4	-555.4.	-996.3	..	..
Exports (fob)	313.8	472.0	641.9	562.0	754.0	694.5	574.4	..	..
Imports (cif)	584.5	1002.5	1140.6	1105.1	1537.0	1807.7	2023.6	..	..
Trade balance	-270.7	-530.5	-498.7	-543.1	-783.0	-1113.2	-1449.2	..	..
Capital account balance	89.6	222.7	194.1	114.0	171.6	219.1	294.0	..	..
Gross foreign exchange reserves	139.1	278.4	389.6	549.2	586.7	586.7	658.8	530.5	507.3
Official	72.2	173.0	276.6	445.3	438.6	438.6	546.9	444.6	436.6
Commercial banks	66.9	105.4	113.0	103.9	148.1	148.1	111.9	85.9	70.7
Import cover (Official reserves in months)	1.1	2.1	3.1	3.2	2.9	2.9	3.6	2.9	2.8
Current account balance/GDP (percent)	-19.0	-27.6	-19.7	-16.9	-20.5	-24.0	-14.7	..	..
Debt/GDP (percent)	28.9	34.1	33.6	33.0	35.0	44.4	62.7	..	..
Debt Service/Exports (percent)	1.2	2.5	3.4	3.8	4.1	5.4	4.9	..	..
MK/US Dollar (eop)	335.127	435.229	435.229	664.365	725.01	730.46	733.69	741.11	741.68
MK/US Dollar (pd avg)	330.457	369.181	369.181	499.607	713.85	726.65	732.33	736.58	740.20

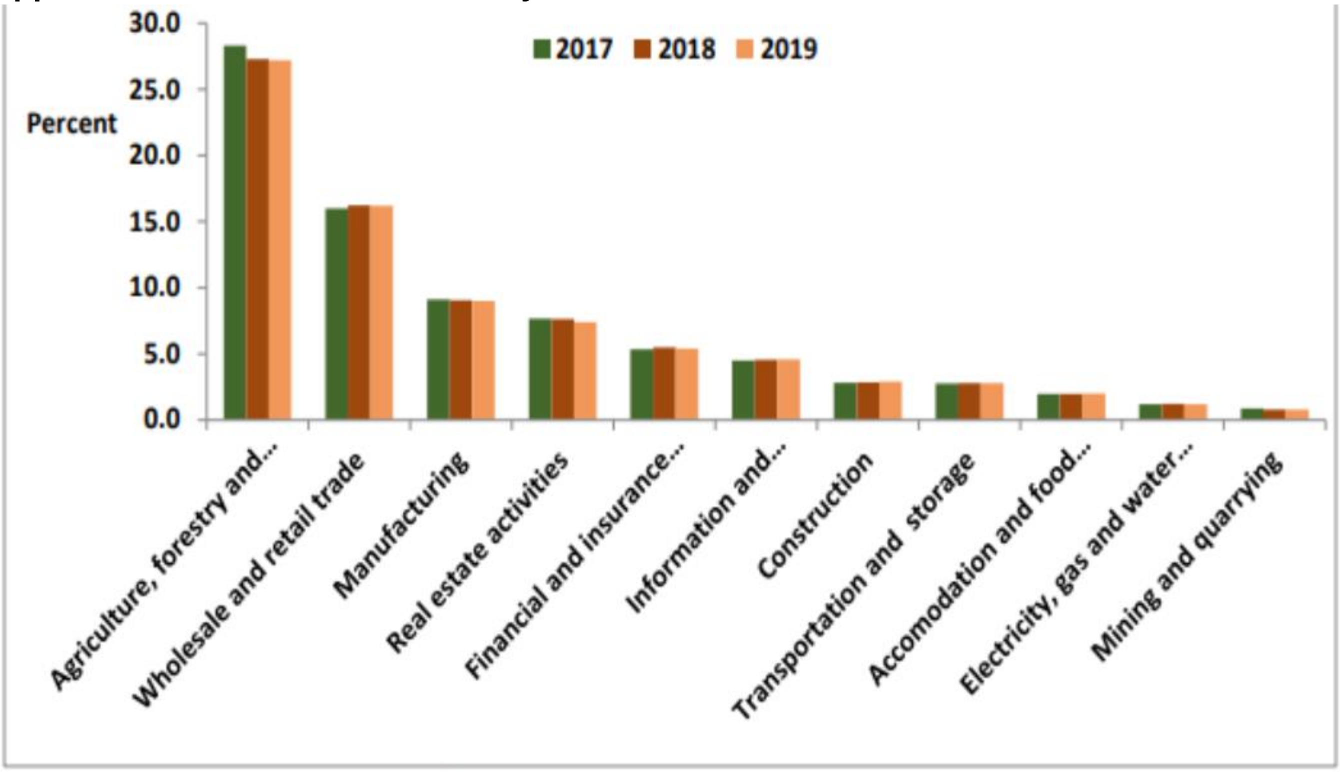
Source: National Statistical Office, Reserve Bank of Malawi and Ministry of Finance

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 Projections (Source: EIU)

Economic growth

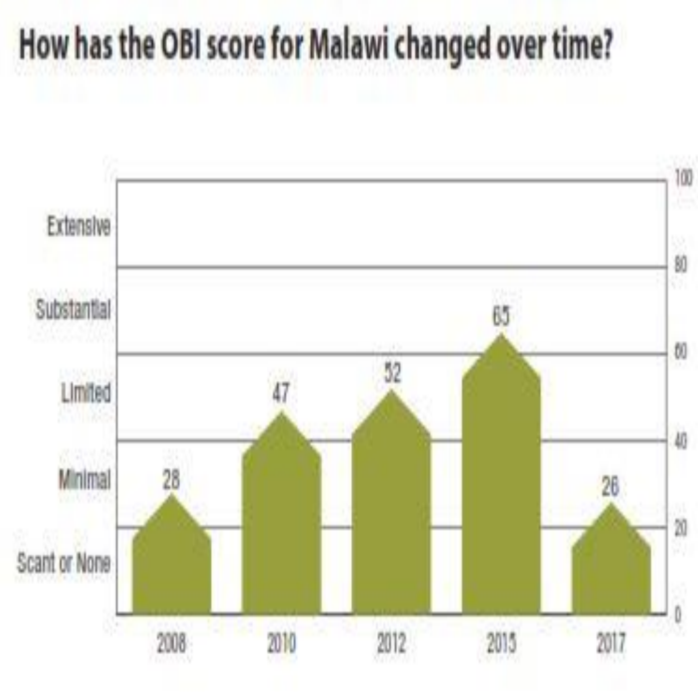
%	2019[a]	2020[b]	2021[b]	2022[b]	2023[b]	2024[b]
GDP	4.1	4.4	4.7	5.1	5.2	5.7
Private consumption	3.0	2.8	4.3	4.9	4.7	5.7
Government consumption	3.0	1.0	2.0	1.0	1.0	2.0
Gross fixed investment	5.0	3.5	8.0	7.5	7.3	7.4
Exports of goods & services	3.7	3.3	5.3	5.0	5.8	6.2
Imports of goods & services	3.0	1.9	5.0	4.8	5.2	6.0
Domestic demand	3.3	2.7	4.5	4.8	4.7	5.6
Agriculture	3.3	4.2	4.5	4.7	4.6	5.5
Industry	4.1	5.1	5.5	6.4	7.5	7.9
Services	4.5	4.3	4.5	5.0	4.8	5.3

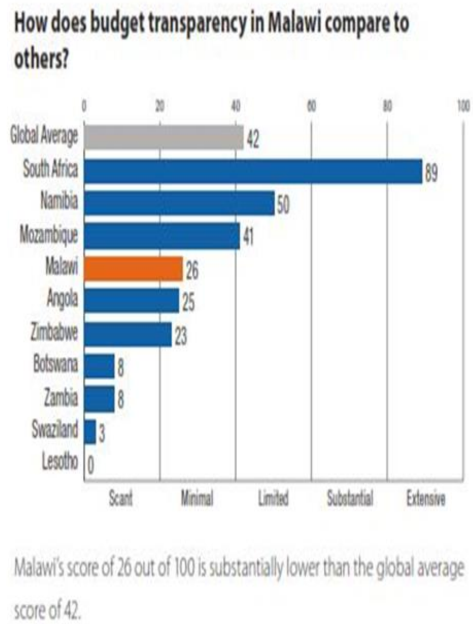
[a] Economist Intelligence Unit estimates. [b] Economist Intelligence Unit forecasts.

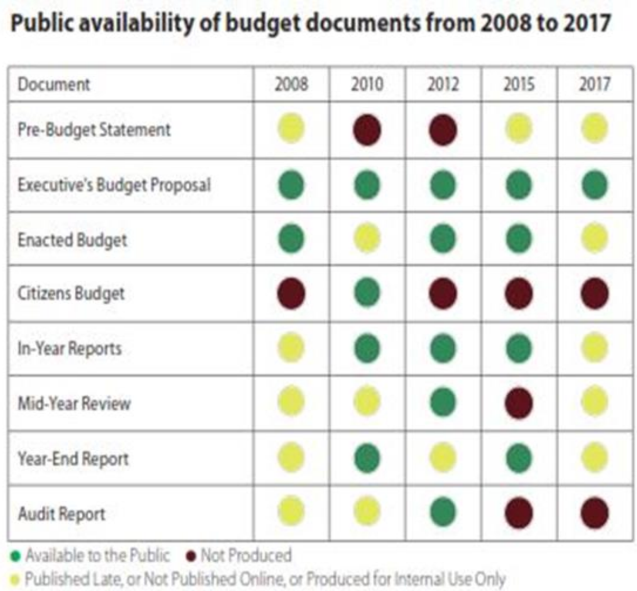
Appendix 10: Global Projections (Source: IMF)

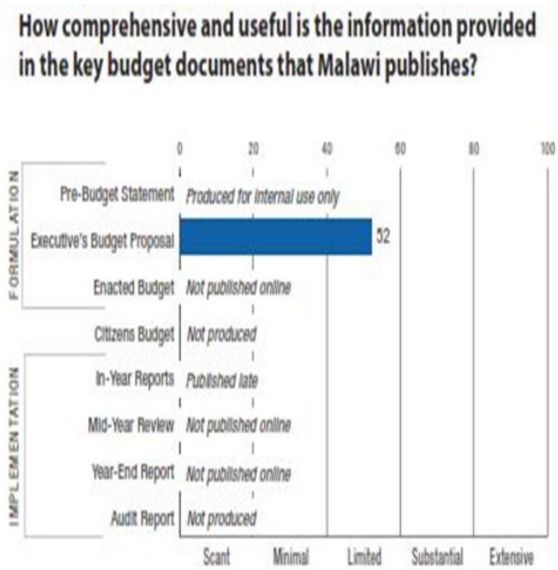
	Average 2000–09	2010	2011	2012	2013	2014	2015	2016	2017	Projections 2018	2019	2023
World	**3.9**	**5.4**	**4.3**	**3.5**	**3.5**	**3.6**	**3.5**	**3.3**	**3.7**	**3.7**	**3.7**	**3.6**
Advanced Economies	**1.8**	**3.1**	**1.7**	**1.2**	**1.4**	**2.1**	**2.3**	**1.7**	**2.3**	**2.4**	**2.1**	**1.5**
United States	1.9	2.6	1.6	2.2	1.8	2.5	2.9	1.6	2.2	2.9	2.5	1.4
Euro Area	1.4	2.1	1.6	–0.9	–0.2	1.4	2.1	1.9	2.4	2.0	1.9	1.4
Japan	0.5	4.2	–0.1	1.5	2.0	0.4	1.4	1.0	1.7	1.1	0.9	0.5
Other Advanced Economies[2]	2.8	4.6	3.0	1.9	2.4	2.9	2.1	2.1	2.6	2.4	2.2	2.1
Emerging Market and Developing Economies	**6.1**	**7.4**	**6.4**	**5.3**	**5.1**	**4.7**	**4.3**	**4.4**	**4.7**	**4.7**	**4.7**	**4.8**
Regional Groups												
Commonwealth of Independent States[3]	5.9	4.6	5.3	3.7	2.5	1.1	–1.9	0.4	2.1	2.3	2.4	2.1
Emerging and Developing Asia	8.1	9.6	7.9	7.0	6.9	6.8	6.8	6.5	6.5	6.5	6.3	6.1
Emerging and Developing Europe	4.0	4.3	6.6	2.5	4.9	3.9	4.7	3.3	6.0	3.8	2.0	2.7
Latin America and the Caribbean	3.0	6.1	4.6	2.9	2.9	1.3	0.3	–0.6	1.3	1.2	2.2	2.9
Middle East, North Africa, Afghanistan, and Pakistan	5.2	4.6	4.4	4.8	2.6	2.9	2.5	5.1	2.2	2.4	2.7	3.0
Middle East and North Africa	5.2	4.8	4.5	4.9	2.4	2.7	2.4	5.2	1.8	2.0	2.5	3.0
Sub-Saharan Africa	5.6	7.1	5.1	4.6	5.2	5.1	3.3	1.4	2.7	3.1	3.8	4.1
Memorandum												
European Union	1.7	2.0	1.8	–0.3	0.3	1.9	2.4	2.0	2.7	2.2	2.0	1.6
Low-Income Developing Countries	6.3	7.4	5.1	4.6	6.1	6.1	4.7	3.6	4.7	4.7	5.2	5.4
Analytical Groups												
By Source of Export Earnings												
Fuel	5.7	5.1	5.2	5.0	2.6	2.2	0.3	1.9	0.9	1.2	1.9	2.0
Nonfuel	6.2	8.0	6.7	5.4	5.7	5.3	5.2	4.9	5.6	5.4	5.2	5.3
Of Which, Primary Products	3.8	6.8	4.9	2.3	4.2	2.1	2.8	1.7	2.8	1.6	2.1	3.6
By External Financing Source												
Net Debtor Economies	4.9	6.9	5.4	4.2	4.8	4.6	4.2	3.8	4.7	4.8	4.8	5.2
Net Debtor Economies by Debt-Servicing Experience												
Economies with Arrears and/or Rescheduling during 2013–17	4.7	4.2	2.7	1.5	3.2	1.9	1.0	2.8	3.2	3.9	4.4	5.0
Memorandum												
Median Growth Rate												
Advanced Economies	2.4	2.3	1.9	1.0	1.5	2.5	2.0	2.2	2.9	2.8	2.5	1.9
Emerging Market and Developing Economies	4.5	4.6	4.7	4.2	4.3	3.8	3.3	3.2	3.4	3.5	3.7	3.7
Low-Income Developing Countries	5.0	6.4	6.1	5.1	5.3	4.8	3.9	4.2	4.5	4.0	4.8	5.0
Output per Capita[4]												
Advanced Economies	1.1	2.5	1.1	0.7	0.9	1.6	1.7	1.2	1.9	1.9	1.7	1.1
Emerging Market and Developing Economies	4.4	5.9	4.9	3.6	3.6	3.2	2.8	2.9	3.2	3.3	3.3	3.6
Low-Income Developing Countries	3.7	5.0	3.5	1.6	3.7	3.8	2.3	1.2	2.4	2.4	3.0	3.2
World Growth Rate Based on Market Exchange Rates	**2.6**	**4.1**	**3.1**	**2.5**	**2.6**	**2.8**	**2.8**	**2.5**	**3.2**	**3.2**	**3.1**	**2.8**
Value of World Output (billions of US dollars)												
At Market Exchange Rates	46,626	66,011	73,230	74,619	76,750	78,832	74,602	75,653	80,051	84,835	88,081	108,712
At Purchasing Power Parities	66,722	89,402	95,018	99,891	105,088	110,805	115,729	120,693	127,489	135,236	143,089	177,424

Appendix 11: Open Budget Survey Results (Source: International Budget Partnership)

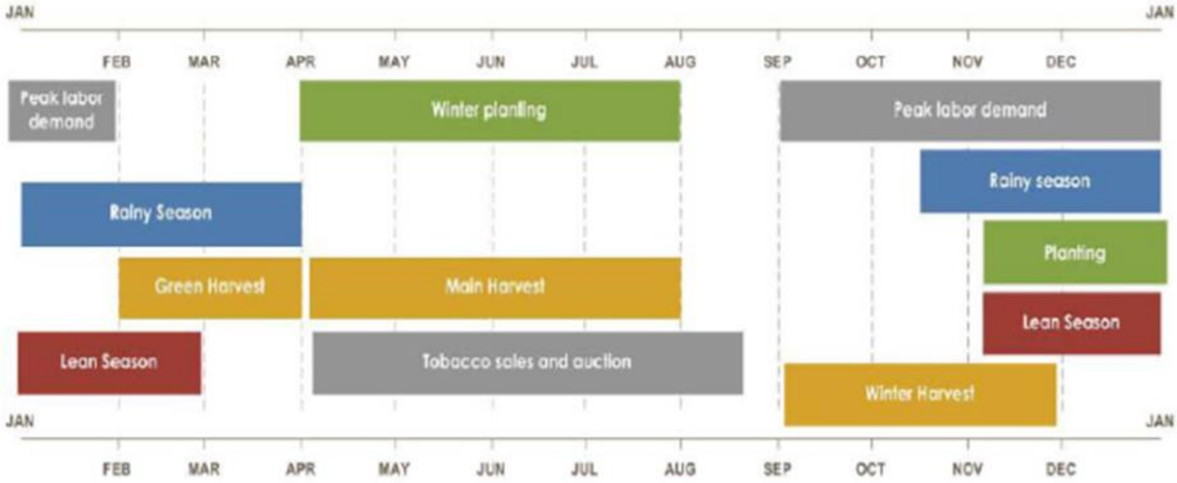








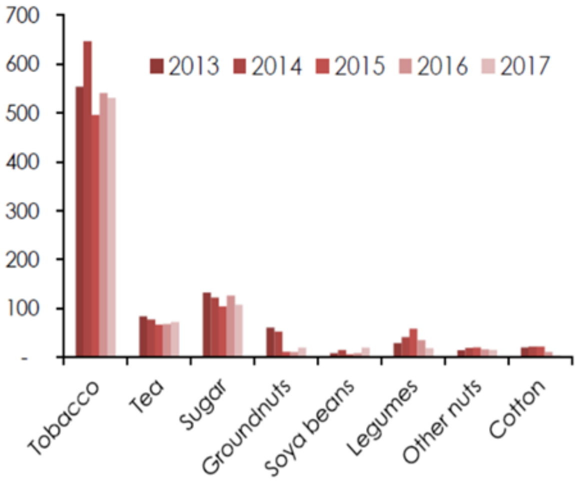
Appendix 12: Seasonal calendar for a typical year



Source: *FEWS NET*

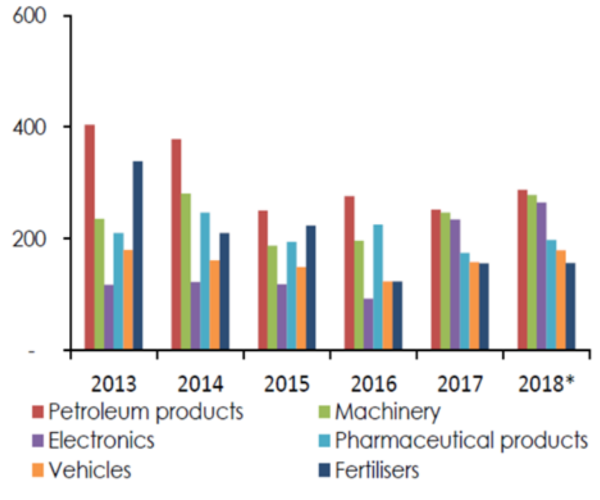
Appendix 13: Malawi's main export commodities in US Dollar millions (Source: World Bank)

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



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

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



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

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