Monthly Economic Review

A brief commentary for the Malawi Economy

December 2016

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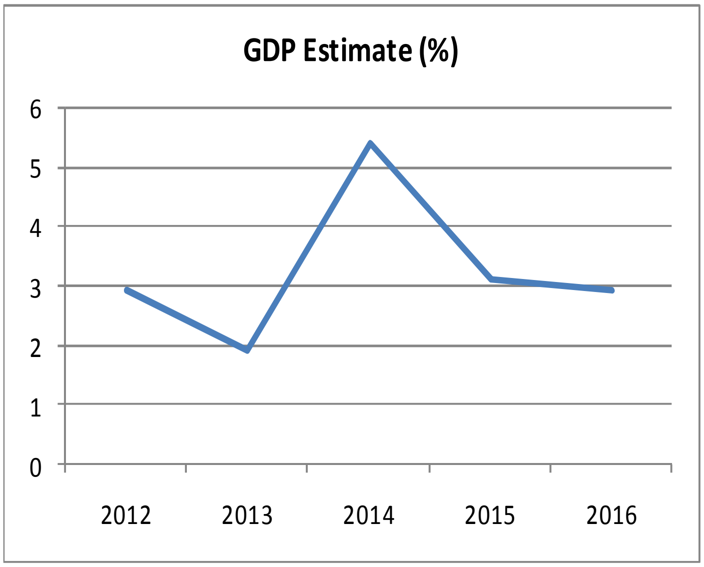

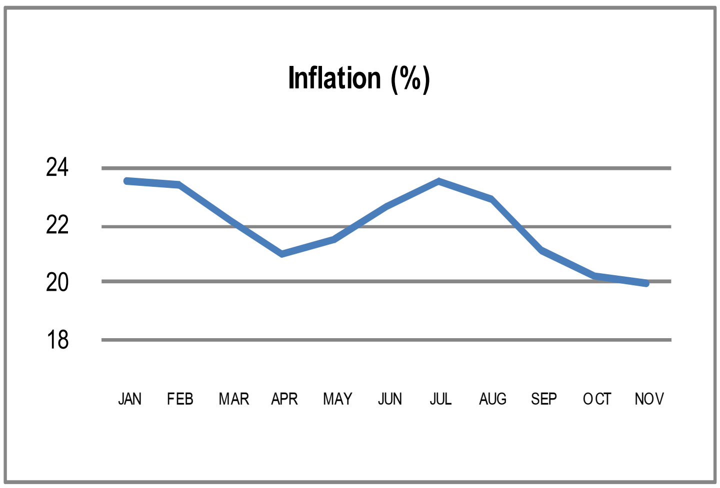

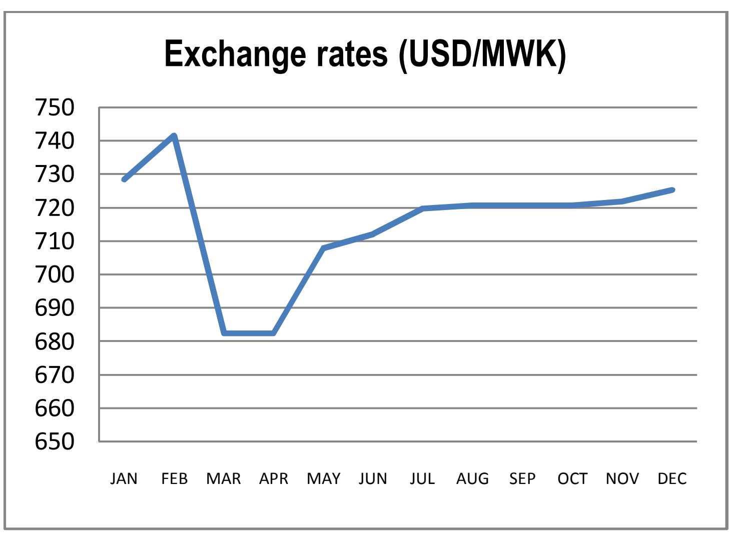

Gross Domestic Product

The GDP growth rate estimate for 2016 has been revised downwards to about 2.9% from the initial estimate of 5.1% due to adverse weather conditions that affected the agricultural sector as the harvest in most parts of the country was poor. The manufacturing industry has also been hit hard on the back of lower water levels in the county's water bodies which have resulted in the ongoing intermittent power and water supply. (Source*: Government*)

Inflation

Headline inflation for November, 2016 inched downward to 19.9 percent from 20.1 percent registered in the previous month. The figures released by the National Statistics Office indicate that the drop stemmed from a decline in food inflation which eased to 24.8 percent in November 2016 from 25.4 percent in October, 2016. Non-food inflation remained unchanged from the previous month at 15.2 percent. (Source*: NSO*)

Exchange rate

During the month of December, the Kwacha depreciated by 0.47% from K722/USD to K725.43/USD whereas in November it depreciated by 0.18% to K722/USD from K720.73/USD in October 2016. For the three months to October 2016, the local currency remained constant at 720.73. The constant exchange rate has made it much easier for Malawi to tackle inflation, which has plagued its economy for months. (Source*: NBM*)

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Telekom Networks Malawi Limited

Telekom Networks Malawi Limited has issued a trading statement advising that profit after tax for the year ending 31st December 2016 is expected to be at least 20% higher than the previous corresponding period.

A dividend of 10 Tambala per share in respect of the financial year ending 31st December 2016 payable on 20th January 2017 has been declared.

Illovo Sugar (Malawi) Limited

Illovo Sugar (Malawi) Limited has released unaudited financial statements for the six months to 30th September 2016. The company has registered an after tax profit of MK5.3 billion (2015:MK2.1 billion) representing a 149 percent increase.

Blantyre Hotels Limited

Blantyre Hotels Limited has released the financial statements for the year ended 30th September 2016. The company has registered a profit after income tax for the year of MK440 million (2015:K183 million), representing an increase of 141%.

NBS Bank Limited

An Extraordinary General Meeting of the members of the Company was held during which they adopted the Annual Financial Statements for the year ended 31st December, 2015 and agreed to make a rights issue of 3 billion ordinary shares.

Standard Bank Limited

Standard Bank Limited (the Bank) has advised that the forecast profit after tax for the financial year ending 31st December, 2016 will likely be 30% above the previous corresponding period.

Sunbird Tourism Limited

Sunbird Tourism Limited has announced that its profit after tax for the period ending 31 December 2016 is expected to exceed the previous corresponding period by more than 25%.

Press Corporation Limited

Press Corporation Limited has issued a trading statement advising that profit after tax for the year ending 31st December 2016 is expected to be at least 20% higher than the previous corresponding period.

MPICO

MPICO has issued a trading statement informing all shareholders and the general public that Group's profit for the year ended 31 December, 2016 is expected to increase by over 100% above the previous corresponding period.

NITL

NITL has issued a trading statement advising that the financial performance for the 12 months ending 31 December 2016 is expected to be more than 200% lower than the previous 15 Months period ended 31 December 2015.

AFDB grants Malawi Government MK29 billion

African Development Bank (AfDB) has granted Malawi Government with 12 million Units of Account (approximately MK12.5 billion) towards Food Crisis Response Sector Budget Support. The money will be used for procuring maize to replenish the Strategic Grain Reserves (SGR) for immediate distribution to households that are food insecure.

Government of Malawi and the AfDB has also signed a loan agreement amounting to US$22.4 million (MK16.5 billion) to finance the agricultural infrastructure and agribusiness among the rural youth. The loan secured will significantly contribute towards the promotion of economic growth of the country and at the same time improve food security through irrigation infrastructure development.

IMF extends Malawi Credit Facility

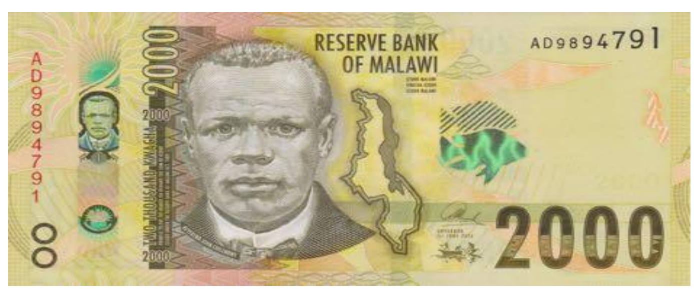
The International Monetary Fund (IMF) has approved that Malawi government authorities be granted more time to achieve the Extended Credit Facility (ECF) program objectives for which it borrowed US$146.7 million (about MK108.0 billion). The extension which was approved on 5th December 2016 is valid until June 2017.

An earlier extension of the arrangement from June 30, 2016 to December 2016 and an augmentation of access of about US$ 49.2 million were approved by the Board on June 20, 2016.According to the IMF; the decision was made in order to strengthen the country's response to the El Niño-induced drought.

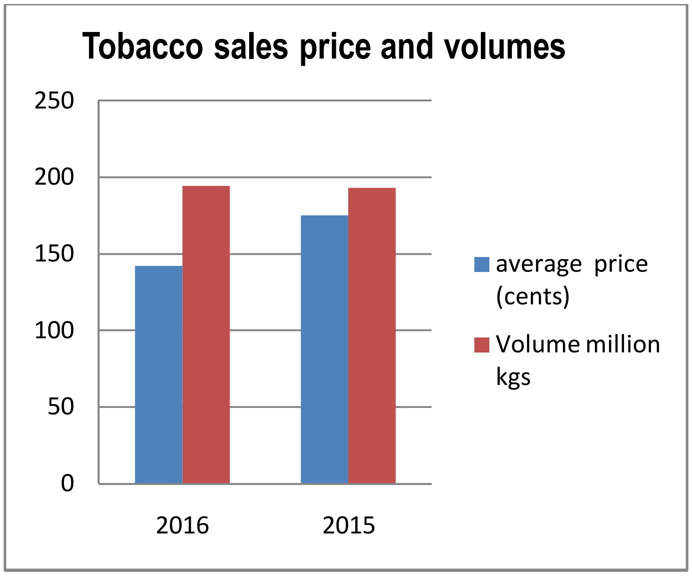
K2000 Bank Note Hits the Market

The newly introduced MK2, 000 bank note finally hit the market on 19th December 2016. The decision to introduce the higher denomination note was formulated following the decreased monetary value of the MK1, 000 note. According to the Reserve Bank of Malawi Governor Charles Chuka, in 2012 the same note was equivalent to US$ 5.06 way above the recommended US$ 5 level for the country's higher note. Since then, the value of the MK1, 000 note has dropped considerably to US$1.3 as of December 2016, necessitating the introduction of a MK2, 000 note. The governor also hinted that another higher note may be introduced in the near future.

The back of the banknote depicts the Malawi University of Science and Technology. The front of the banknote bears the portrait of John Chilembwe.



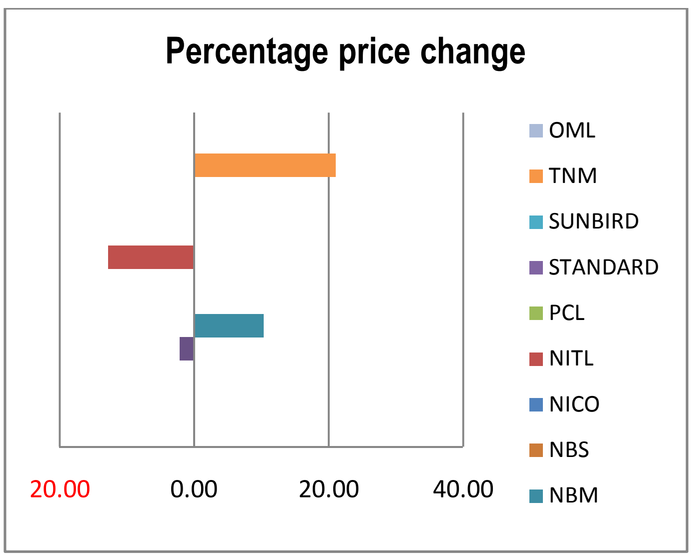
Tobacco Trading Statistics



The country's tobacco marketing season has finally closed after 37 weeks of trading with US$275.7 million earnings compared to US$337 million realized last year representing a drop of 18%.

The lower revenues are attributable to lower average price of US$1.42 per kilogram as compared to last year's US$1.75 per kg. In terms of sales volume, 194.6 million kilograms have been sold in 2016 as compared to 193 million kilograms sold in 2015. (*Source: TCC*)

Stock Market Performance



A total of 187.9 million shares were traded at a consideration of K1, 606 million in December. The local bourse was bullish as it registered a positive return of 3.50% as the DSI moved from 10,103.29 to 10,456.92 during the month.

Price gains during the month were recorded on three counters – NBM (10.29%), TNM (21%) and STANDARD (0.02%). The price losers during the month were NITL (-12.85%) and MPICO (-2.13%). (Source: MSE).

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South Africa

South Africa recorded another weak expansion in the third quarter as growth continues to be dragged down by high political uncertainty, still weak global demand and a lack of much-needed structural reforms. The country remains under high scrutiny and risks a credit rating review if economic conditions do not improve. Calls for the ruling president's resignation have heightened lately. The political infighting is undermining the investment environment, negatively affecting the rand and thereby constraining GDP growth rate.

Mozambique

The Mozambican economy has suffered the spillovers of its hidden-debt crisis so far this year, causing it to fall short of the requirements of most international aid programs. The country will likely experience the lowest growth rate in more than a decade in 2016: the metical has lost nearly half its value this year due to international investors' lack of confidence, and sharply rising inflation is constraining household consumption. In the third quarter of 2016, the economy only expanded 3.7% from the same period last year. On 30 November, Fitch Ratings downgraded the country's rating from CC to RD (Restricted Default).

Tanzania

Tanzania's economy has been gathering pace ever since John Magufuli was elected president a year ago. Under his reformist and infrastructure-oriented agenda, the country has embarked on several multi-billion projects, including converting the Central Railway Line to standard gauge, developing natural gas plants and improving several strategic ports. GDP growth has benefited from his ambitious goals, with the Tanzanian economy accelerating markedly in the second quarter of 2016. Nonetheless, concerns over a potential liquidity crunch are hampering credit growth in the economy. Infrastructure spending and reforms aimed at reducing the share of government deposits in commercial banks have triggered a plunge in private lending. With the manufacturing sector taking the biggest hit, a currency shortage could jeopardize the economy's robust performance as well as the pace of infrastructure implementation.

Zambia

Zambia's economy shifted into a lower gear in 2016, with sluggish reform implementation and tight credit conditions adding to the woes caused by the commodity price slump. Against a background of dwindling copper-related revenues, the government failed to limit public spending in order to rein in the widening fiscal deficit. However, the 2017 budget presented by Finance Minister Felix Mutati, in office since September, foresees a fiscal deficit of 7.0% of GDP, a substantial improvement from the shortfall projected for 2016. In a bid to avoid reducing government expenditure, Mutati announced the refinancing of USD 2.8 billion in Eurobonds next year.

GDP growth poised to improve

Prolonged drought and erratic rains earlier in the year affected agricultural output in most parts of the country, forcing the government to step in and declare a national state of disaster. The manufacturing sector also suffered during the year as the prolonged drought also resulted in intermittent power and water supply. In light of these bottlenecks, the economy failed to match the GDP growth rate of 5.1 percent that was initially projected and is expected to have grown by only 2.9 percent according to Malawi government.

The intermittent power supply will continue to take its toll on the economy during the first half of 2017. However, the economy is poised to recover with GDP expanding between 3 and 6.9 percent in 2017 on account of normal rains expected in the 2016/17 growing season.

Headline Inflation to slow down

Rising food prices pushed food inflation to levels above 24% throughout the year but could subside in the coming months on crop harvest as we expect a normal rainfall during the 2016/17 growing season. Non food inflation on the other hand was also maintained above 15% partly attributable to the depreciation of the local currency and partly to the rising fuel prices. The Kwacha lost more than 8.5% of its value during the year under review. Average headline inflation was therefore pushed above 20%.

Looking beyond 2016, there is great uncertainties on non food inflation as there remain red lights that fuel prices may be pushed up. We do not expect the Kwacha to depreciate by more than 15% as the central bank is expected to maintain strict forex controls. We therefore forecast that during the financial year 2017, average inflation will hover around 16% and 19.5%.

Money market yields soared to 29 percent in 2016, amidst RBM's attempts to control runaway inflation via contractionary monetary policy as real interest rates on treasury bills averaged 6.1 percent in 2016 (up to November). We expect yields to fall to within ±1 percent of the inflation rate as it had been the norm before 2015.

The MSE on the road to recovery

The MSE registered negative returns as a direct consequence of weather induced shocks on the economy. Most listed companies that were affected seem to be recovering from the slump and this further boosts the chances of a revival on the MSE. We therefore expect the local bourse to register positive returns in 2017.

Summary of forecasts

Indicator	Worst Case	Best Case	Likely
GDP Growth	3.0%	6.9%	5.0%
Inflation	19.5%	16.0%	17.5%
T-bill yield	20.0%	15.0%	17.0%
DSI Gains	0.0%	15.0%	10.0%
MK/USD	835	735	790

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OUR VISION

To be the most preferred Investment / Fund Manager in Malawi

OUR MISSION

To ensure that our services translate into financial prosperity and satisfaction for all stakeholders

ABOUT US

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