Monthly Economic Review

A brief commentary on the Malawi Economy

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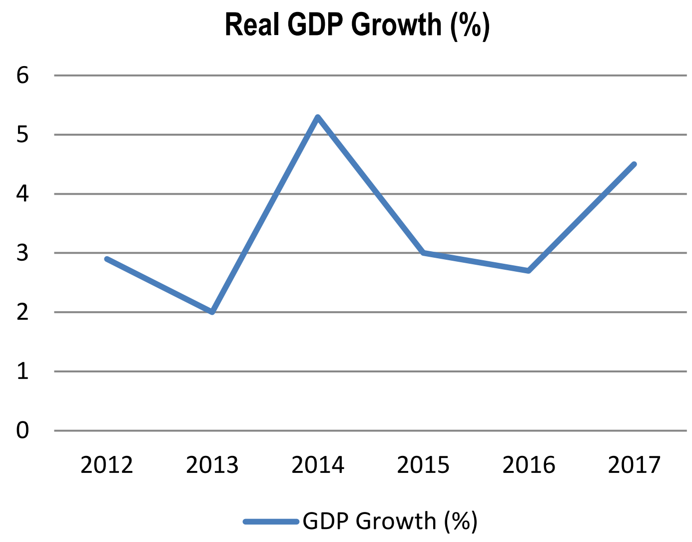
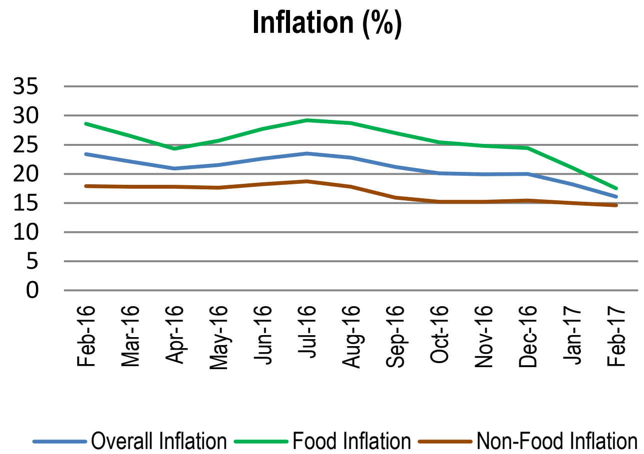
Malawi Economic Overview

ECONOMIC GROWTH



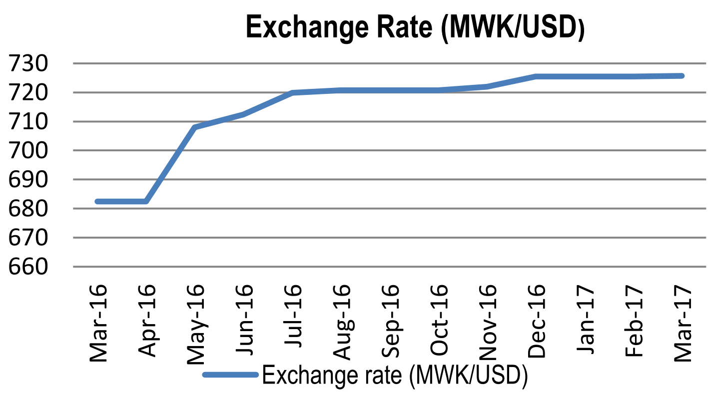
The Reserve Bank of Malawi expects the economy to rebound from 2.7 percent growth in 2016 and register a real growth of between 4 and 5 percent in 2017. This rebound will be driven by favourable weather conditions, and stable macroeconomic environment. These projections echo the ones made by the IMF team that was in the country in March, 2017 as they also placed their projections within the same range on the back of strong performance in agriculture, wholesale and retail, and telecommunications sectors.

INFLATION

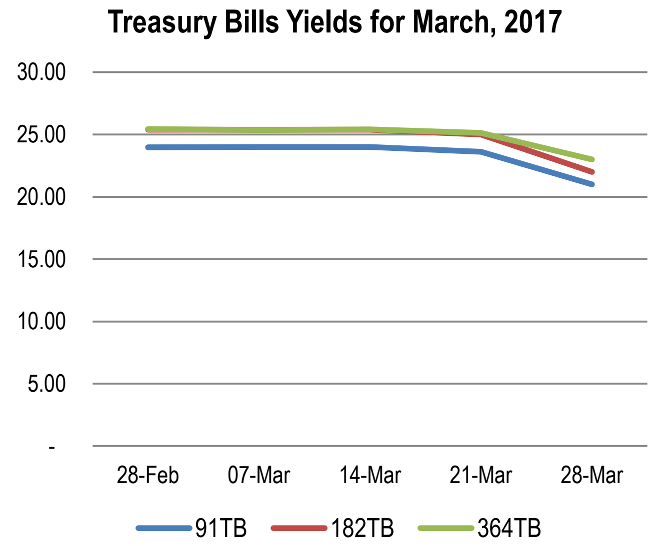


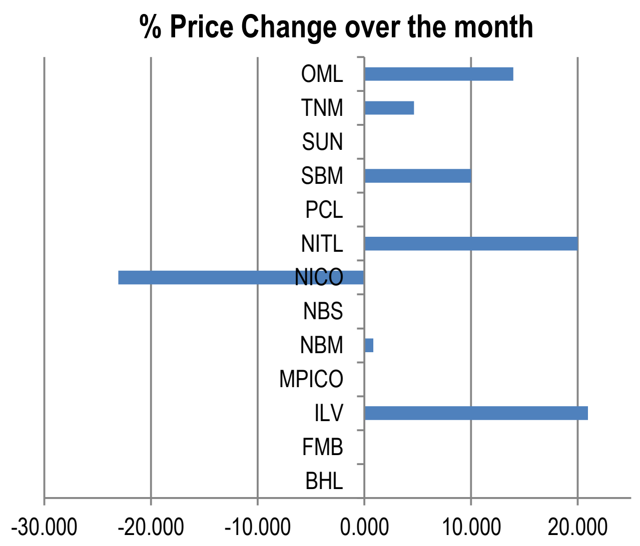
Inflation continued on its downward trend during the month of February, 2017. Headline inflation dropped to 16.1 percent from 18.2 the previous month. The drop emanated from a decline in both food and non-food inflation. Food inflation dropped by 360 basis points month-over-month to 17.5 percent whereas non-food inflation dropped by 40 basis points to 14.6 percent. The last time inflation was this low was in May, 2012. In light of the recent developments, RBM have adjusted the inflation projection from 16.1 to 14.2 percent in June, 2017.

FOREIGN EXCHANGE RATES



After staying firm against the USD for three straight months, the Malawi Kwacha yielded and marginally depreciated. The Malawi Kwacha closed March 2017 buying US$1.00 at MK 725.73, from an average rate of MK 725.43 for the past three months. The Kwacha is expected to be stable supported by the opening of tobacco marketing season set for April 2017. (Source: NBM).





MONEY MARKET DEVELOPMENTS

Money market yields were steady during the first three treasury bill auctions of March, 2017. The 91TB, 182TB and 364TB yields averaged 23.9 percent and 25.3 percent and 25.3 percent respectively. Following the decision of the Monetary Policy Committee (MPC) to slash the policy rate by 2 percent to 22 percent on 24th March, 2017, yields dropped on all the t-bill tenors. During the last auction held on 28th March, yields declined to 21.0 percent, 22.0 percent, and 23.0 percent for the 91TB, 182TB and 364TB respectively. The RBM continued to mop up excess liquidity in the system through repos whilst the overnight inter-bank lending rate dropped to around 21.7 percent from 23.3 percent at the end of February.

CAPITAL MARKET DEVELOPMENTS

The market was bullish during the month of February, 2017. The MASI was pushed up by 6.9 percent month-over-month to 14577.62 points resulting from gains on both the DSI and FSI. The DSI went up by 6.8 percent driven by gains on Illovo (+21.0%), NITL (+20%), NBM (0.8%), SBM (+10.0%) and TNM (+4.6%). NICO was the only counter to register a loss and declined by 23%. The FSI went up by 14.0 percent driven by a price gain on OML from MK 1,612.00 to MK 1, 837.00

Blantyre Hotels AGM Results

The Company had an AGM on the 9th of March 2017. All resolutions tabled were passed without amendments. The Company declared a final dividend of MK 25.8mln, representing 20t per share, bringing the total dividend for the year to MK 192.2mln or MK1.00 per share (FY2015: MK 103.4mln or 54 tambala per share).

First Merchant Bank Limited "FMB"-Cautionary Statement

Corporate Restructuring

The Company reports that it has been advised by its three principal shareholders representing 55% of the issued share capital that they intend to transfer their shares in FMB to FMB Capital Holdings Plc (FMBCH), a company incorporated in Mauritius, in exchange for shares in FMBCH. FMBCH will make an offer on the same terms to acquire the remaining 45% of the issued shares of FMB by way of an offer document in line with the MSE Listings Requirements and the Companies Rules 2016 (Panel on Takeovers and Mergers). On conclusion of the offer period, an application will be made to the Malawi Stock Exchange to list the shares of FMBCH and delist the shares of FMB.

Acquisition of a controlling shareholding in Barclays Bank Zimbabwe Limited

The directors are also advising that FMB is in exclusive discussions with Barclays Bank PLC for the potential acquisition of its interests in Barclays Bank Zimbabwe Limited (BBZ). Discussions with BB PLC are on-going and may or may not result in the announcement of a transaction involving the acquisition by FMBCH of the interest of BB PLC in BBZ. The transaction will be subject to obtaining approval of the banking regulators in Malawi and Zimbabwe.

Shareholders are thus advised to exercise caution and to consult professional advisers when dealing in the shares of FMB. Additional announcements will follow.

First Merchant Bank Limited FY 2016 Results

FMB Malawi has issued its FY 2016 final results showing a 44% jump in the interest income to MK 34.0bln (FY 2015: MK: 23.6bln), whist a 31% increase in the net interest income to MK 21.0bln was recorded for FY 2016 compared to MK 16.1bln for the prior year. The non-interest income totalled MK13.3bln up from MK 8.3bln for FY 2015. The operating profit for the year amounted to MK 11.4bln up from MK 6.2bln for the prior year. The attributable profit for the period amounted to MK 7.7bln up from MK 4.3bln, translating to an EPS of MK2.7.3 (MK: 1.74). The company has declared a final dividend of MK1.2bln (50 tambala per share) up from FY 2015 MK 467.3mln (20 tambala per share).

MPICO

MPICO expects the Group's profit for the year ended 31 December, 2016 to increase by over 100% above the previous corresponding period.

National Bank of Malawi

National Bank of Malawi (NBM) paid out its second interim dividend for the 2016 financial year comprising MK 1.54bn or MK 3.30 per share. The first interim dividend for the 2016 profits (MK 3.0bn) was paid in September 2016, bringing the total dividend to MK4.54bn.

The National Investment Trust Limited FY2016 Results

The interest income for the period amounted to MK 32.1mln only, down from MK 37.3mln for the prior year as the company didn't have enough cash to place in money market instruments. However, management kept expenses under control as they totalled MK 98.9mln which is in line with MK 100.6mln incurred in the prior year.

Total fair revaluation loss on equity investments at MK 1.3bln is almost 600% down against a gain of MK 266.0mln that was recorded in FY2015. The overall bottom line is a loss before tax of MK1.1bln in FY2016 against a profit after tax of MK 548.0mln for the prior year. The loss per share for the period was 793 Tambala (FY2015: 406 Tambala).

Old Mutual Plc FY2016 Results

The Company released results for FY 2016 showing that total revenue for the year increased from GBP 13.2bln to GBP 18.7bln. A pre-tax adjusted operating profit of GBP 1.7bln was made, flat year on year in constant and reported currency terms. Profit attributable to equity holders decreased to GBP 570mln (FY 2015: GBP 614 mln). In addition, headline earnings per share (gross of tax) increased to GBP 14.8 pence per share (FY 2015: GBP 13.9 pence per share). A second interim dividend of GBP 3.39 pence (or its equivalent in other applicable currencies) per ordinary share in the Company has been declared by the Directors. The second interim dividend will be paid on 28 April 2017 to shareholders on the register at the close of business on 31 March 2017. The dividend will absorb an estimated GBP 162mln of shareholders' funds.

Sunbird Hotel and Resorts Malawi FY2016 Results

Sunbird reported revenue growth of 30% to MK 15.7bln (FY2015: MK 12.1bln) whilst the gross profit grew by 28% to MK 11.9bln (FY2015: MK 9.3bln) indicating a gross profit margin of 76% in line with last year's 77%. Management attributed this to positive performance from both the parent and the subsidiary company, Catering Solutions Limited. The revenue split was 10%:90% up from 8%:92% in favour of the subsidiary, as revenue from the parent increased by 27% to MK 14.2bln (FY2015: MK 11.2bln) while the subsidiary's revenue increased by 60% from MK 880.0mln to MK1.49bln. The company's occupancy level increased from 56.2% to 60.2%.

The operating profit grew by 24% to MK 2.6bln (MK 2.1bln) while finance costs declined by 7% to MK 669mln (FY 2015: MK 717mln). The 7% decline in finance costs from MK 717mln to MK 669mln was as a result of repayment of borrowings during the year, and a reduction of interest rates towards the end of the year. The PBT for the period was MK 1.9bln an increase of 40% on prior year's MK 1.4bln while the attributable profit was MK 1.3bln (FY 2015: MK 1.0bln). Earnings per share improved from 391 Tambala in FY 2015 to 511 Tambala per share in the year under review. Overall the group's performance has been supported by growth in revenues from corporate and conference business, growth in occupancy levels and prudent cost management. A final dividend of MK 55mln or 21 tambala per share was declared bringing the total dividend for the year to MK 105.0mln. For the prior year, the dividend amounted to MK 75mln although only MK 44mln was paid as some shareholders waived the interim dividend.

Standard Bank Results

Standard Bank issued a good set of results for FY 2016 as interest income grew by 56% to MK 35.8bln, driven by growth in loans and advances to banks up 125% to MK 107.5bln (FY 2015: MK 47.9bln). Other drivers included growth in net fee and finance income up 44% to MK 9.5bln whilst non-interest income grew by 22% to MK 18.3bln driven by transactional business. The NIM registered a significant decline of 42% to 14.1% from 24.5%, reasons for the margin decline most likely include pressure from offering preferential rates to customers and the lower growth in savings with deposits from customers growing by only 22% compared to a 296% growth in deposits from banks. Expenses were up 32% to MK25.4bln, largely impacted by the high inflationary environment and depreciating currency. The

FY 2016 cost to income ratio thus came in at 47% down by only 7% from 51% for FY 2015.

The bottom line was up 45% to MK 19.4bln whilst the earnings per share increased from MK 57.00 in FY 2015 to MK 83.00 in FY 2016. A final dividend of MK 5.0bln was declared (FY 2015: MK 3.0bln) translating to MK 21.31 per ordinary share (FY2015: MK 12.82). Total assets grew by 35% from MWK 231.9bn in FY 2015 to MWK 313.5bn in FY 2016.

Telekoms Network Malawi FY 2016 Results Update

TNM released its FY 2016 trading results reporting a bottom line growth of 54% which is well above the trigger threshold of a profit warning of 20%. Total revenue grew by 31% to MK 64.6bln (FY 2015: MK 49.4bln) as the subscriber base grew by 13% to 3.4 mln from 2.89 mln representing a 27% penetration ratio. The ARPU (Average revenue per user) improved from MK 1,456.00 to MK 1,634.00; a 12% growth, also exceeding the country's targeted GDP growth rate of 5% . EBITDA grew by 31% to MK 23.0bln (FY2015: MK 17.6bln) maintaining the EBITDA margin at 35% on prudent cost containment. Net finance costs declined by 4.6% to MK 4.3bln (FY2015: MK 4.5bln),of which MK 815.0mln has been attributed to foreign exchange losses, an improved position against the prior year's loss of MK 1.5bln. The attributable profit grew from MK 5.4bln to MK 8.2bln indicating earnings per share of MK 0.82 (FY 2015: MK 0.54). The Company has proposed a dividend of MK 0.33 per share for the year, translating to a dividend yield of 4.7%.

On the balance sheet, the long term portion of interest bearing loans was maintained at MK 5.0bln while the current portion was reduced to a nil. The company also closed the year with a bank overdraft of MK 4.0bln down from MK 5.3bln for the prior year. On the asset side, non-current assets grew by 7% to MK 38.6bln (FY2015: MK36.2bln) while total assets also grew by the same percentile to MK 49.6bln as the company strives to strengthen its statement of financial position.

The Monetary Policy Committee cuts the Policy Rate

The Monetary Policy Committee (MPC) of the Reserve Bank of Malawi met on 23 to 24 March, 2017 to review the monetary policy stance in light of recent global and domestic economic developments, the MPC decided to reduce the policy rate by 200 basis points to 22 percent but maintained the Liquidity Reserve Requirement (LRR) at 7.5 percent. The policy move was adopted after taking into consideration the disinflation process in the recent past and the inflation outlook. The RBM has continued to implement a tight monetary policy stance, resulting in money supply growth of 15 percent in December, 2016 from 30 percent in June, 2016. Net domestic borrowing increased year-over-year to MK 565.7bln (13.3 percent of GDP) in December, 2016 from MK 448.5bln (12.8 percent of GDP).

MRA Beats February Target

The Malawi Revenue Authority beat its February target after the Authority collected MK 53.7bln against the monthly projection of MK 52.5bln.

The authority underperformed on taxes on income and profits as it only collected MK 24.6bln against a MK 27.2bln target. The poor performance on corporate tax was attributed to a decline in productivity owing to massive in power (not sure- is it electricity power or) reduction as well as delays in remittance of Pay As You Earn (PAYE).

The week performance in tax on the income and profit category was offset by a 14 percent increase on revenue on goods and services as MK 23.4bln was collected against a MK 20.3bln target.

At the end of February, cumulative tax revenue stood at MK502.7 billion, MK39.0 billion above target.

The IMF Completes Review Mission to Malawi

A team from the International Monetary Fund (IMF),were in the country from March 8–23, 2017, to conduct discussions on the ninth and final review under the Extended Credit Facility (ECF) arrangement. The Head of Delegation, Mr Williams, expressed his satisfaction on the overall performance of the economy. He cited the reduction in inflation and stability of the exchange rate as key factors in further improving the economy. He also emphasised that prudent fiscal policy, when combined with monetary policy geared toward maintaining positive real interest rates should facilitate the achievement of the program's objective of single digit inflation.

MERA Board Maintains Pump Prices for Fuel

The MERA Board has resolved to maintain the prices for petrol, diesel and paraffin as implemented on 4th November, 2016. Movement in foreign exchange rates and free on board (FOB) prices resulted in increase of landed cost for petrol, diesel and paraffin by 12.27 percent, 15.33 percent and 16.11 percent respectively, resulting in all three products qualifying for upward price adjustment. The Board resolved to tap into the Price Stabilisation Fund to cushion the increase in landed cost for all products. Prices per litre for petrol, diesel and paraffin have been maintained at MK 824.70, MK 815.80 and MK 648.70 respectively.

Republic of South Africa

The South African president announced a major cabinet overhaul on 30th March which saw the firing of the finance minister Pravin Gordhan. The South African Rand plunged by 8 percent on the international foreign exchange markets after an announcement and the banking sector stocks were down more than 5 percent on the next day and bond yields climbed sharply. Major credit rating agencies S&P, Moody's and Fitch have since downgraded South Africa's credit to junk status.S&P explained its decision, stating that: "Internal government and party divisions could, we believe, delay fiscal and structural reforms, and potentially erode the trust that had been established between business leaders and labour representatives (including in the critical mining sector an additional risk that businesses may now choose to withhold investment decisions that would otherwise have supported economic growth." (*Source*: Reuters).

The IMF Completes Review Mission to Zambia

An IMF team led by Tsidi Tsikata visited Zambia during March 9-24, to conduct the 2017 Article IV consultation and hold discussions on an economic program that could be supported by an IMF financial arrangement. The country's economy is expected to post a real growth of 3.5 percent in 2017 from 3 percent in 2016. The IMF team welcomed the government's plans to put public finances on a sustainable path. The team also welcomed the loosening of monetary policy after a period of tight monetary stance that succeeded in stabilizing the exchange rate and lowering the annual rate of inflation from a peak of 22.9 percent in February 2016 to 6.8 percent in February 2017, but at a cost of elevated stress in the banking system.

United Kingdom

On March 29th, the British prime minister, Mrs Theresa May triggered Article 50, the legal procedure for leaving the European Union and in doing so starting the two-year countdown for Britain to negotiate its exit from the European Union. Despite initial fears of a recession after the Brexit vote, the economy has remained resilient and the Bank of England have pegged economic growth of the United Kingdom at 2.0 percent in 2017 (*Source*: BBC).

United States of America

The Open Market Committee of the Federal Reserve voted 9-1 to increase its benchmark interest by 0.25 percent. The federal funds rate – the overnight interbank lending rate – was raised to a range of 0.75 percent to 1.0 percent from 0.5percent to 0.75 percent. The bank has kept the rates at near zero since the financial crisis of 2008 and this signals growing confidence in the recovery of the American Economy. Inflation has increased to within the 2.0 percent range and unemployment rate dropped to 4.7 in February (*Source*: Reuters).

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