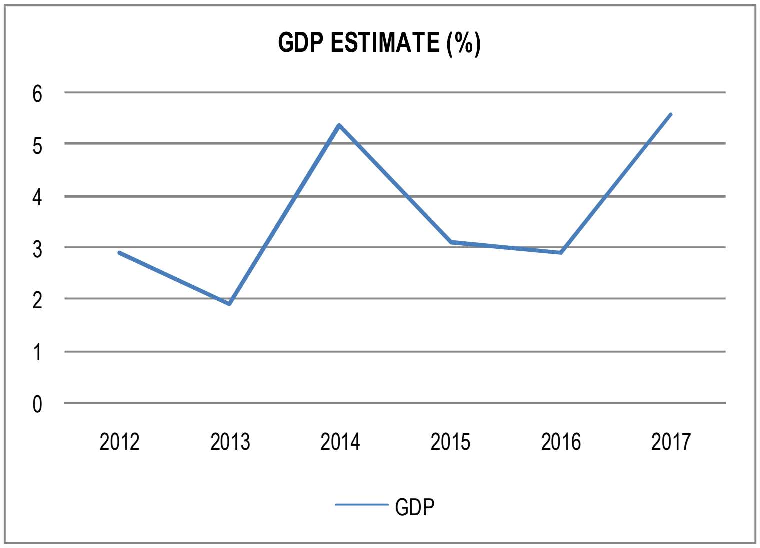
Monthly Economic Review

A brief commentary on the Malawian Economy

January 2017

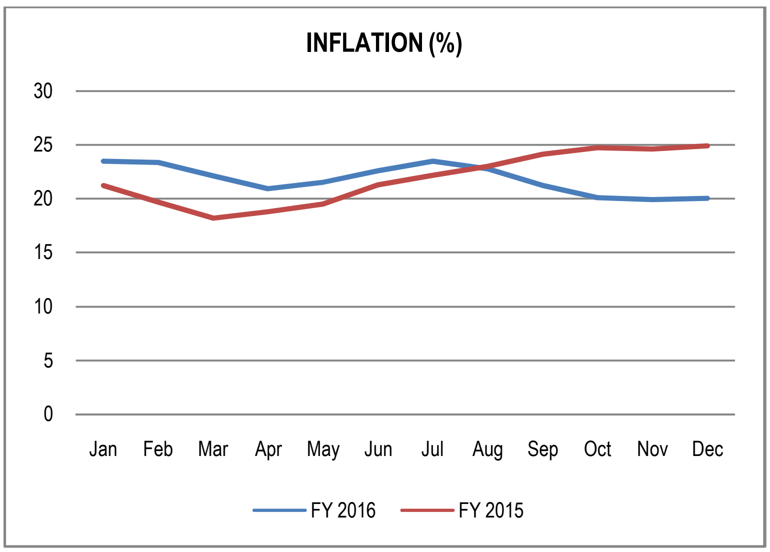
NBM Capital Markets Limited
1st Floor, NBM Towers
Corner Henderson & Hannover Streets
P.O. Box 945
Blantyre
MALAWI

Tel: 01 831 177 / 179
Email: nbmcapital@natbankmw.com



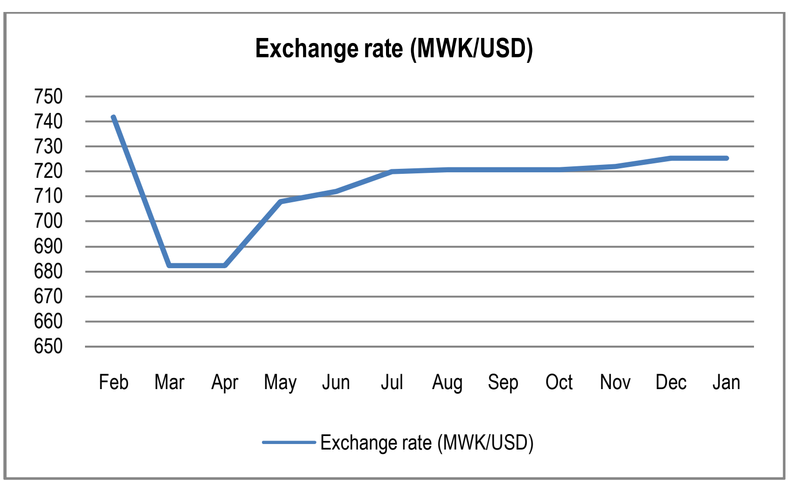
Gross Domestic Product

Malawi's GDP growth rate is expected to recover from a two year low, after adverse weather conditions hurt the country's agricultural sector. The sector is expected to record a strong expansion of 5.9% owing to normal rainfalls that are expected to result in good harvest. The government has projected that the economy will expand by 5.6% in 2017. The GDP growth moderated from a revised 3.1% in 2015 to 2.9% in 2016. (Source*: Malawi Government*)



Inflation

For December 2016, consumer prices rose 4.69% from the previous month, coming in mildly below the 4.78% increase observed in November. According to statistics, higher prices were recorded for non food products. Overall inflation climbed from 19.9% in November to 20.0% in December 2016. The annual average inflation slightly dropped from 21.95% in November to 21.78% in December. The central bank's target is for inflation to fall further in 2017. (Source*: RBM*)



Exchange rate

The Kwacha continued to maintain its stability against the USD, settling at MWK725.43 per USD, since December 2016. Taking a look at exchange rate movements since January of 2016, the kwacha has moved up by a marginal 0.42% from MWK 728.48 per USD but has depreciated by 0.77% of its value since the start of the second half of 2016 when it traded at MWK 719.85 per USD. (Source*: NBM*)

MRA surpasses December Revenue target

The Malawi Revenue Authority (MRA) has recorded yet another strong performance in its revenue performance report for December, 2016. Total revenue for the month of December exceeded the monthly target of MK 54.3bn by over 11% as they stood at MK 60.4 bn.

On a semiannual basis, tax revenue for the first half of the 2016/17 fiscal year stood at MK 377.01 bn as at 31st December, 2016 beating the MK 339.1bn target by the same percentage. The tax collector has attributed this performance to several initiatives. (Source: MRA)

MERA Maintains fuel pump prices

Landed Cost of fuel has gone up with petrol, diesel and paraffin recording increases of 8.3 percent, 11.4 percent and 11.9 percent respectively but the use of the Price stabilization fund by the Malawi Energy Regulatory Authority (MERA) has cushioned the impact on pump prices of the fuels in the country. The MERA Board has resolved to maintain the pump prices for petrol, diesel and paraffin for the month of January, 2017 at MK 824.74/litre, MK 815.80/litre and MK 648.70/litre respectively.

The board last revised the pump prices in November, 2016 when the pump prices had been revised upwards by 5 percent to MK 824.70 from MK 788.30; 6 percent to MK815.80 from MK766.90; and 6 percent to MK648.70 from MK609.80 respectively. (Source: MERA)

Current account deficit recorded in 2016

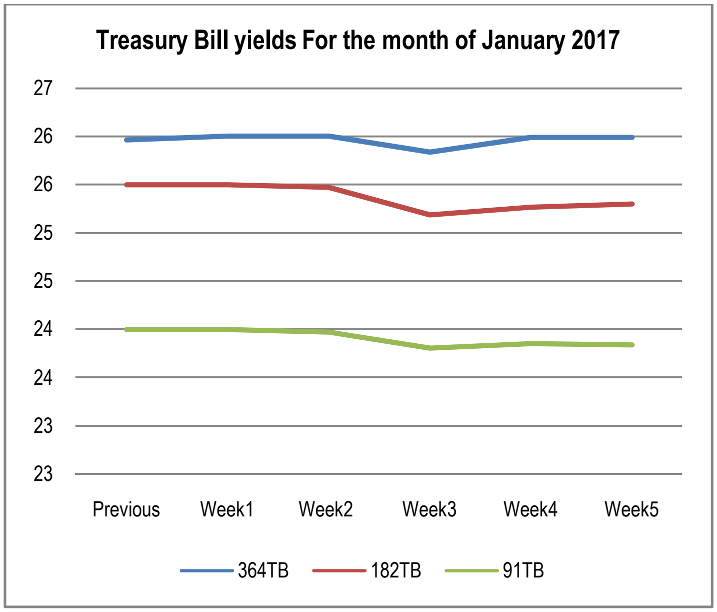
The Reserve Bank of Malawi has released the Balance of Payments figures for the year 2016. The current account recorded another deficit of US$ 1,336.8mn, 8.7 percent higher than the US$1,022.0mn deficit recorded in the previous year.

The year saw Direct Foreign Investment expand by 36.8% to US$ 458.9mn from the US$ 317.7mn that was recorded in 2015. On the other hand, investment in equity securities by foreigners remained depressed at US$ 0.1mn, almost unchanged from the previous year.

In line with the expansion in Direct Foreign investment, income paid to foreign entities increased by 29.5 percent to US$ 270.4mn from the US$ 201.0mn that was paid in 2015. To help finance the deficit, US$ 106.3mn was drawn from reserve assets, an amount 38.4 percent higher than the US$ 72.4mn drawn for the same purpose in the previous year.

The Central Bank has also released the Financial Stability Report for December 2016. The report, which covered the period from March to September 2016, highlights that the banking, life assurance and general insurance sectors were financially sound. However, credit risks posed a major threat to the banking sector. The life assurance sector was threatened by exposure risk to the equity asset channel while the general insurance sector was threatened by declining solvency and weakening liquidity. (*Source*: RBM)

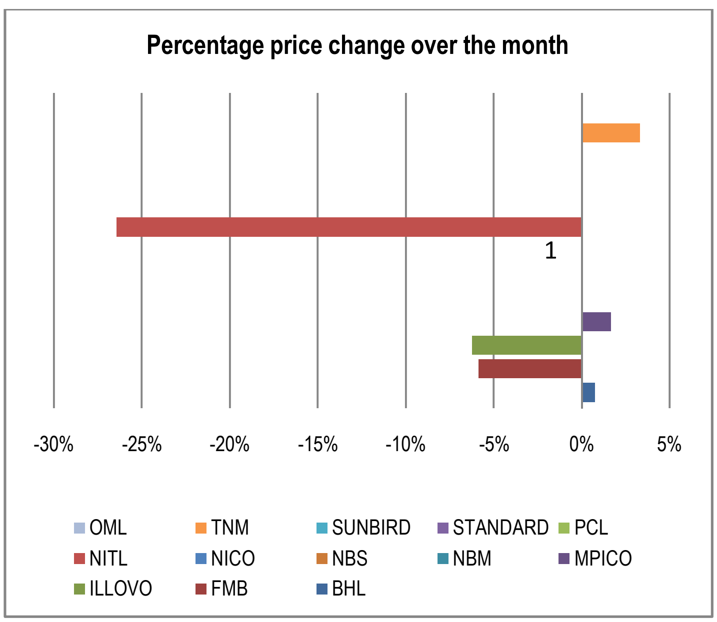
Treasury bill Yields



During the month under review, the Central Bank raised a sum MWK 49.8bn in five Treasury Bills auctions that were held. Of the MWK 72 bn that was applied for, only MWK 60bn was allotted representing 83% allotment.

Yield on the 91 days T-bill increased by 1.49 basis points from 23.8206% to 23.8355% whilst the 182 days T-bill and the 364 days T-bill decreased by 19.83 basis points from 25.5000% to 25.3017 and by 1.27 basis points from 26.0000% to 25.9873% respectively. (*Source: RBM*)

Company Trading Statistics



The Malawi Stock Exchange (MSE) registered a negative return on index as reflected in the downward movement of the Malawi All Share Index (MASI) from 13 320.51 points registered in December 2016 to 13 127.73 points registered in January 2017, giving a return on index of –1.45%, (-1.45% in US$ terms).

Price gains during the month were recorded on three counters – BHL (0.75%), TNM (3.31%) and MPICO (1.66%). The price losers during the month were NITL (-26.47%), FMB (-5.88%), and ILLOVO (-6.25%). (Source: MSE).

South Africa

South Africa's economy has been in the doldrums for a prolonged period of time due to subdued global demand and a myriad of political and economic problems. Economic activity recorded another dismal expansion in the third quarter of 2016, thus likely bringing overall growth last year to the slowest pace in seven years.

Downside risks persist for South Africa's economy in 2017. Ongoing political scandals, the dire state of the labor market and the potential effect of Trump's protectionist policies will weigh on growth. On a positive note, a gradual improvement in the world economy and a recovery in commodity prices will support South Africa's economy.

Mozambique

Mozambique's economic growth in 2016 is likely to have been the slowest in many years, with public debt at a crippling level and inflation rampant. The gloomy economic picture was compounded on 16 January when the government announced it will be unable to honor a USD 60.0mn coupon payment due to creditors, prompting credit rating agency S&P to downgrade the country's foreign currency rating.

Mozambique's economy should gain speed in 2017 thanks to greater gas and coal production, but the suspension of international aid and subdued foreign direct investment will hamper growth.

Tanzania

Tanzania's economy decelerated from a 7.9% expansion in the second quarter to a 6.2% rise. The slowdown stemmed from a near stagnation in the crucial agricultural sector, which suffered from unfavorable weather conditions. Stronger growth was seen in the rest of activities, with transport and construction faring particularly well.

Although Tanzania's tailwinds remain largely in place, the looming risk of a liquidity crunch due to the government's heavy borrowing from domestic sources could jeopardize the economy's performance.

Zambia

In December, the Zambian parliament approved the 2017 budget, which foresees a 21% increase in spending. Part of the increase will go towards dismantling the arrears run-up over the past year and which the IMF had flagged as increasingly worrisome. However, the government appeared to climb down from an earlier commitment to refinance USD 2.8bn in Eurobonds. It is exploring the feasibility of issuing new bonds at a lower interest rate to repay the debt as part of its efforts to reduce its debt servicing bill, which currently amounts to about 20% of revenue.

GDP growth is expected to firm up this year, supported by a strengthening copper market and a planned IMF program, which should be announced early this year.

How else can we help you?

We offer a full range of investment management solutions***......***

- Pension Fund management
- Wealth management
- Cash management
- Financial advisory
- Trustees training
- Shares Brokerage
- Bidding on behalf of clients (TN, TB & REPO)

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

NBM Capital is a wholly-owned investment management subsidiary of National Bank of Malawi. It is duly licensed as an Investment / Fund Manager and Financial Advisor under the Financial Services Act, 2010. It is regulated by the Reserve Bank of Malawi. The company currently manages over MK60 billion of investment assets