



**NICO ASSET MANAGERS  
JANUARY 2012  
MONTHLY ECONOMIC REPORT**

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## EXECUTIVE SUMMARY

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### Economic Highlights

- ⇒ During the month of December 2011, headline inflation rose to 9.8% from 8.9% in November 2011 mainly due to an increase in the non-food component.
- ⇒ The Treasury Note auction for the month was 79% undersubscribed. However, rates declined across all the tenors except the 2 year tenor.
- ⇒ The Malawi Kwacha weakened against all the major currencies during the month.
- ⇒ Total forex reserves as at 27 January 2012 stood at US\$374 million from US\$355 million as at 30 December 2011.
- ⇒ The stock market was marginally bullish during the month with the MASI gaining by 1.61% from 5,369.42 points as at 31 December 2011 to 5,456.01 points in January 2012. NICO was the top market mover gaining by 9.09%.
- ⇒ Yields on the property market recorded a decline in 2011 with the average gross yield on commercial property standing at 8.7% from 9.0% in 2010 and the average gross yield on residential property standing at 6.2% from 6.3%.

### Economic Outlook

- ⇒ Inflation is expected to increase due to the devaluation, fuel price increase and tax measures implemented in the 2011/12 National Budget. Non food inflation to be the main driver. Prospects for 2012 remain unfavorable.
- ⇒ Interest rates are expected to rise due to inflationary pressure, increased domestic borrowing by government and forex shortages. Another bank rate cut in the medium term is unlikely.
- ⇒ The IMF mission has indicated that the Kwacha is overvalued and must be devalued. Government remains averse to a devaluation of the Kwacha.
- ⇒ Economic growth is expected to slow down in 2012 on the back of high economic uncertainty, problems with subsidized fertilizer distribution, slow growth in uranium production and low domestic demand. EIU has reduced its projection to 4.3% from 5%.
- ⇒ Policy uncertainty expected to be high in 2012.

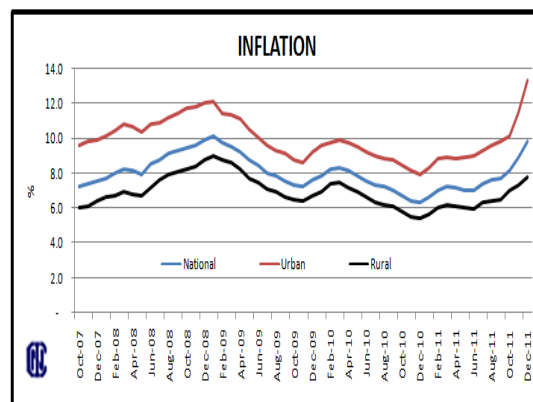
### About NICO Asset Managers:

NICO Asset Managers Limited is a specialist investment management firm, providing a premier range of investment management services and products to institutional and individual investors including: Fund Management, Corporate finance and Investment Advisory services. NICO Asset Managers Limited is 100% owned by NICO Holdings Limited. It is registered with the Reserve Bank of Malawi as a Portfolio/Investment Manager and licensed Investment Advisor.

**Inflation**

Year-on-year headline inflation for the month of December 2011 rose 90 basis points to 9.8% from 8.9% in November 2011 triggered by an increase in both food and Non food inflation. The average inflation for 2011 therefore stands at 7.6% compared to 7.4% in the previous year (Source: National Statistical Office). Inflation for January 2012 is not available.

	Dec-11	Nov-11	Dec-10	1 month	12 months
<b>Headline inflation</b>	9.80%	8.90%	6.30%	0.90%	3.50%
<b>Food</b>	5.20%	3.50%	2.90%	1.70%	2.30%
<b>Non-food</b>	14.40%	14.20%	9.90%	0.20%	4.50%
<b>Urban</b>	13.30%	11.50%	7.90%	1.80%	5.40%
<b>Rural</b>	7.80%	7.30%	5.40%	0.50%	2.40%



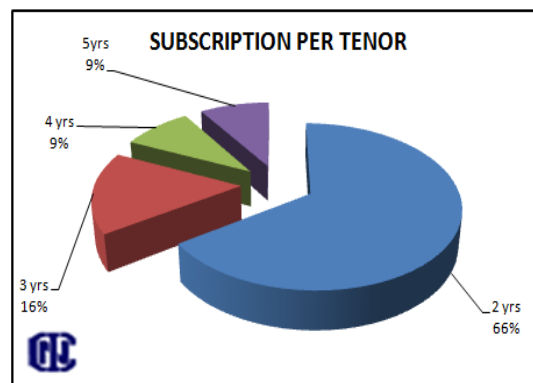
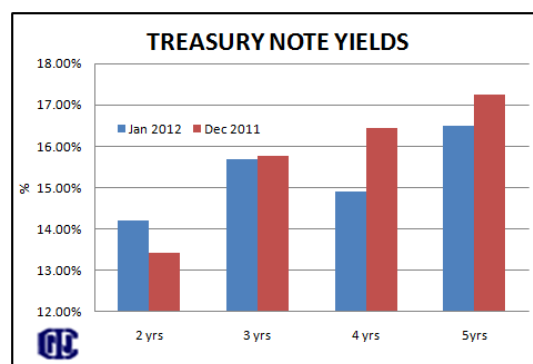
**Government Securities**

There were no Treasury bill auctions during the month of January 2012 following a decision by authorities to put short term securities on hold whilst conducting auctions for only long term instruments. The purpose is to lengthen the maturity structure of government debt, to refinance maturing T-bills. Therefore, the issuance of this Treasury bond will not contribute to mopping up excess liquidity.

Despite the move to suspend Treasury bills, during the Treasury Note auction that was conducted on 19 January 2012, authorities raised only K3.95 billion against the announced amount of K26.61 billion. Total subscriptions stood at 5.64 million, representing an undersubscription of 79% and a rejection rate of 30%. Of the subscribed amount, 66% was on the 2 year note. This is an indication that the market is more inclined towards investing for the short term.

The average rates decreased across all the tenors except on the 2 year note. See table below for details (Source: RBM).

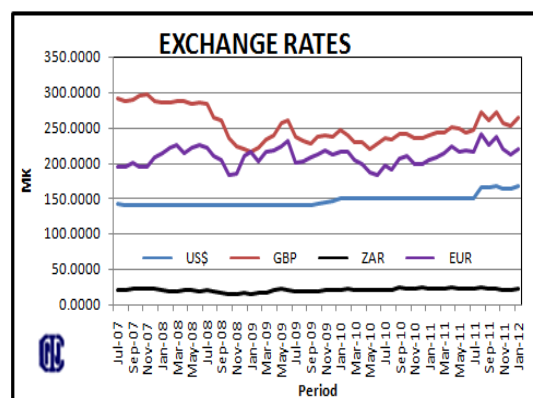
Tenor	2 yrs	3 yrs	4 yrs	5yrs
Jan 2012	14.20%	15.70%	14.90%	16.50%
Dec 2011	13.41%	15.77%	16.44%	17.25%
Change	0.79%	-0.07%	-1.54%	-0.75%



**Forex Market**

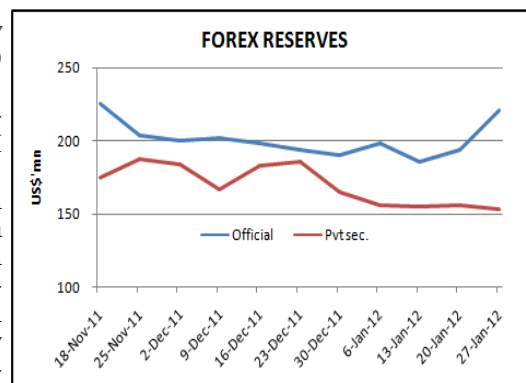
During the month under review, the Malawi Kwacha marginally weakened against all the major currencies. See the table below. According to the IMF report, Malawi's official exchange rate remains overvalued, causing a persistent imbalance in the foreign exchange (FX) market. Currently, the parallel market is at about K250/US\$.

CURRENCY	Jan 12	Dec 11	Jan 11	% Movement 1 month	% Movement 12 months
MK/US Dollar	167.43	163.75	150.80	-2.2%	-11.0%
MK/GBP	263.03	252.44	238.70	-4.2%	-10.2%
MK/ZAR	21.35	20.03	21.00	-6.6%	-1.7%
MK/EUR	220.06	212.24	204.91	-3.7%	-7.4%



Forex market  
(continued)

Total foreign exchange reserves as at 27 January 2011 stood at US\$374 million, an equivalent of 2.9 months worth of import cover compared to US\$355 million, an equivalent of 2.75 months worth of import cover as at 30 December 2011. (Source: RBM daily market statistics). Of the total reserves US\$221 million was sitting with the authorities. The foreign exchange flows in Malawi are seasonal. The rich forex period extends from April to September with supply of forex emanating from exporters of agricultural products, especially tobacco. In the period September to March of each year, the RBM is usually the sole supplier of foreign exchange (the lean period), which comes primarily from the donor community.



Stock Market

During the month under review, the stock market was marginally bullish with the Malawi All Share Index (MASI) increasing by 1.61% to settle at 5,456.01 points from 5,369.42 points in the previous month. The year on year return stands at 9.59%.

	Jan-12	Dec-11	Jan-11	Change (1 month)	Change (12 months)
	MK/Share	MK/Share	MK/Share	%	%
BHL	7.00	7.00	6.40	0.00%	9.37%
FMB	6.50	7.00	6.50	-7.14%	0.00%
ILOVO	135.00	130.00	110.00	3.85%	22.73%
MPICO	3.00	3.00	3.10	0.00%	-3.23%
NBM	52.50	52.50	58.65	0.00%	-10.49%
NBS	10.00	10.00	11.00	0.00%	-9.09%
NICO	12.00	11.00	10.00	9.09%	20.00%
NITL	16.00	16.00	16.00	0.00%	0.00%
PCL	180.00	180.00	177.00	0.00%	1.69%
REAL	1.20	1.20	1.00	0.00%	20.00%
STANDARD	106.00	105.00	100.00	0.95%	6.00%
SUNBIRD	7.00	7.00	8.90	0.00%	-21.35%
TNM	1.90	1.90	1.75	0.00%	8.57%
OML	426.00	426.00	280.00	0.00%	52.14%
MASI	5,456.01	5,369.42	4,978.75	1.61%	9.59%
DSI	4,307.52	4,238.39	3,943.09	1.63%	9.24%
FSI	535.42	535.42	351.92	0.00%	52.14%

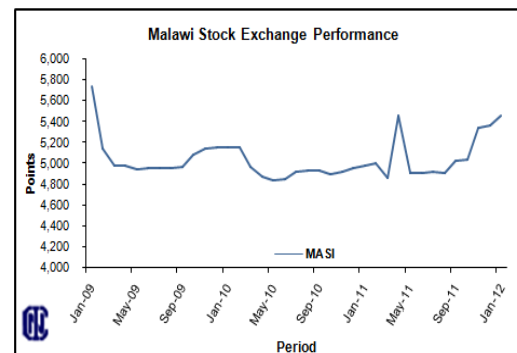
Market gainers of the month include; Illovo, NICO and Standard Bank gaining by 3.85%, 9.09% and 0.95% respectively. FMB was the only market loser declining by 7.14%.

During the period the Domestic Share Index (DSI) increased to 4,307.52 points from 4,238.39 points whilst the Foreign Share Index (FSI) remained stable at 535.42 points.

A total of 6.1 million shares were traded at a consideration of K125 million in 107 deals. In the previous month, 7.2 million shares were traded at a consideration of K203.3 million in 94 deals.

TNM was the only counter paying a dividend during the month. The interim dividend of 2 tambala was payable on 27 January 2012.

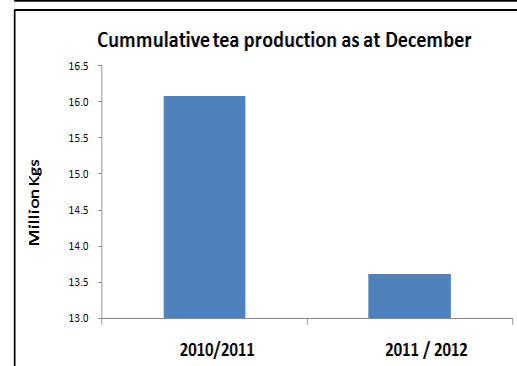
The average dividend yield on the domestic companies was 5.08% compared to 4.55% in the same period last year.



Other developments:  
Tea market

Cumulative production of processed tea stood at 13.6 million Kgs as at the end of December 2011 compared to 16.1 million Kgs in the same period last year. The tea season runs from July to June.

Tea exports for the month of November stood at K649 million. South Africa was the main export destination accounting for 41.8% of all tea exports, followed by UK (29.1%). Export figures for December 2011 are not available.

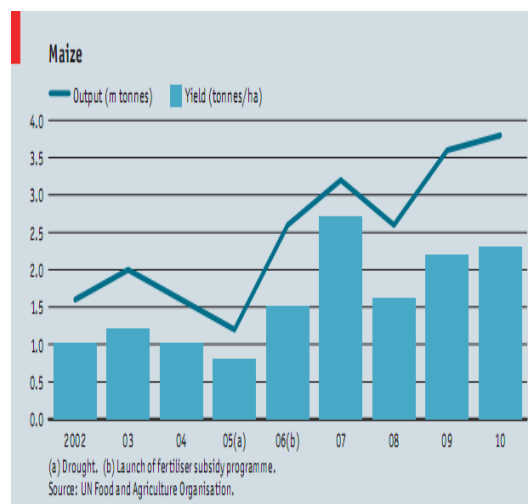


Maize

Maize exports were suspended towards end of 2011 as a result of an analysis that indicated that one third of districts in Malawi would be affected by food shortages in the period December 2011 to February 2012. Agriculture performance in the country appears to be on the downside due to unfavorable weather conditions and difficult economic conditions. The lower availability and usage of fertilizer and the erratic rains are likely to result in a poorer harvest in April–August and an increase in prices (Source: EIU).

The International Fund for Agricultural Development (IFAD) will provide a US\$22.85 million loan and US\$22.85 million grant to Malawi to help small-holder farmers improve food security and reduce rural poverty in the country (Source: www.reliefweb.int).

Maize exports are a fairly minor source of foreign exchange having accounted for only 4% of total exports, on average, for the last four years (Source: EIU).



Property Market

The retail sector of the property market has been experiencing a boom with new shopping malls still being erected. The sector is unmistakably the main source of growth in both Blantyre and Lilongwe. However, the retail sector has been greatly affected by forex shortages.

In the office property sector, Blantyre continues to suffer from an oversupply of office space. Lilongwe on the other hand is experiencing a construction boom due to shortage of office space.

Demand for residential properties is higher in Lilongwe owing to foreign government missions and organizations.

Gross Average yield	Commercial Property		Residential Property	
	2011	2010	2011	2010
Blantyre	8.1%	8.1%	5.9%	6.0%
Lilongwe	8.7%	9.0%	6.4%	6.6%
Mzuzu	9.3%	9.7%		
Overall	8.7%	9.0%	6.2%	6.3%

Mining

Globe Metals & Mining has been granted a two year extension for the Kanyika Niobium Project exploration license in Malawi, with a further two year option to renew. The license covering Kanyika, which spans 607 square kilometres, is now due for renewal on 29 December 2013. The multi-commodity Kanyika Project, which will begin production of ferro-niobium in 2014, is the company’s main focus. Globe is currently carrying out a Definitive Feasibility Study on the project, which is planned for completion in December 2012. Importantly, the company therefore expects to be able to submit an application for a mining license for Kanyika well before the expiry of the current exploration license (Source: www.proactiveinvestors.com).

**Global developments:**  
**Euro area**

With intensifying strains in the Euro area weighing on the global outlook, the International Monetary Fund (IMF) has sharply cut its forecast for 2012 world growth to 3.3% from the earlier forecast of 4.0%. The Euro area is expected to fall into mild recession in the year whilst the rest of the world will slowdown. The IMF believes that a comprehensive package is needed to restore financial stability. The United States and Japan also need to adjust their large deficits, while major emerging markets should work to develop domestic consumption.

On 25th January 2012, the World Bank announced that it is making US\$27 billion in funding available over the next two years to countries in emerging Europe and Central Asia (ECA) that have been impacted by the Euro crisis through trade, finance and worker's remittances (Source: www.worldbank.org).

**USA**

The USA has recorded an improvement in most economic indicators and growth in the fourth quarter of 2011 is estimated at above 3% in annualized terms. The EIU has raised its GDP growth forecast for 2012 to 1.8%, from 1.3% previously, to reflect the improvement in current conditions. However, the US economy is still weak by almost any standard and cannot fully escape the drag that the euro zone's recession will create.

**Japan**

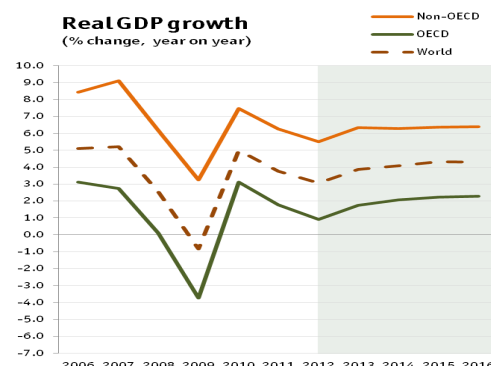
Japan has largely overcome the disruption to supply chains that crippled its economy in the wake of the natural disaster in March 2011. A surge in residential construction in the third quarter suggests that rebuilding following the disaster is well under way. Reconstruction is expected to boost the economy throughout 2012. Weak external demand and a strong yen will, however, limit the strength of Japan's recovery. EIU expects GDP growth of 2%.

**Sub-Saharan Africa**

For Sub-Saharan Africa, downside risks related to a fall in merchandise exports, commodity prices, tourism revenues, remittances and aid inflows remain significant risks. And for a number of countries these externally originating risks are lesser weightier than domestic risks related to adverse weather conditions or potential political upheavals (Source: www.worldbank.org). The EIU forecasts growth of 4% in 2012.

**Exchange rates**

The US dollar has soared against the Euro in recent weeks. In mid-January the dollar was trading at around US1.26/€, its highest level since August 2010. The Euro is expected to remain relatively weak against the dollar in 2012. Upward pressure on the yen will continue. Meanwhile, emerging-market currencies can be expected to remain under downward pressure until risk aversion subsides.



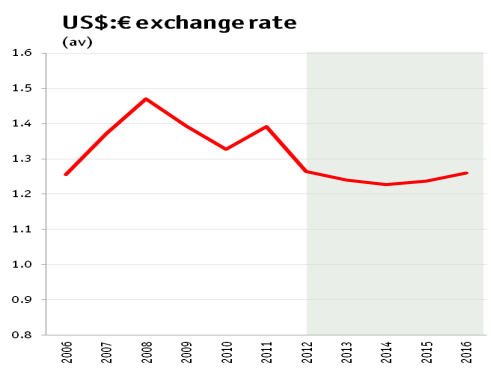
Source: Economist Intelligence Unit, Global Forecasting Service.



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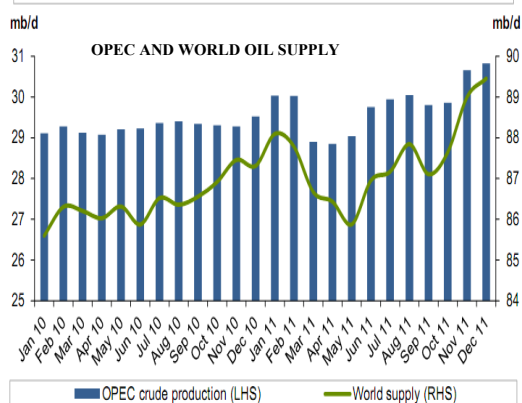
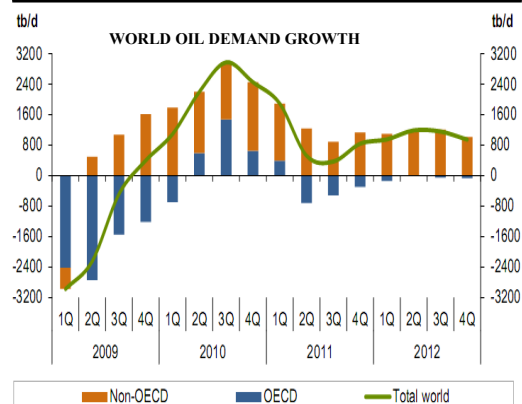
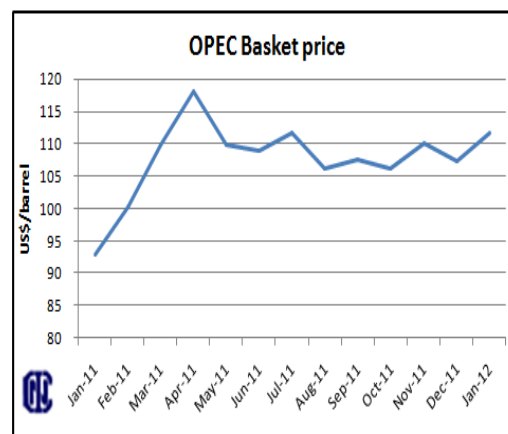
*Global Oil Prices*

The OPEC reference basket price increased marginally during the month of January 2011 to average US\$111.76/barrel from US\$107.34/barrel in the previous month (Jan 2011: US\$92.83/barrel). The downward movement of the Basket in December 2011 was driven by revived fears about Europe's debt crisis, concerns about economic growth in Europe and China, and a slumping euro exchange rate. Supportive bullish US economic data, as well as geopolitical concerns in the Middle East helped change the course of the market.

Oil demand will grow in 2012, but not without a great amount of uncertainty. The OECD region will consume less oil than last year; however, the Non-OECD region will consume about 1 million barrels/day more. It is worth noting that some parts of the Non-OECD region are likely to experience less economic prosperity than anticipated. World oil demand for 2012 is forecast at 88.9 million barrels/day from 87.8 million barrels/day in 2011 (1.3% increase) (Source: January 2012 OPEC Monthly Report). The EIU forecasts that oil consumption growth will average nearly 2% year on year in the period 2013-16, led by rising demand in the developing world.

In 2012, non-OPEC supply is forecast to increase to an average of 53.10 million barrels/day from 52.41 million barrels/day in 2011 (1.3% increase). Growth is expected to come mainly from Brazil, the US, Canada, Colombia and the FSU, while Syria, Norway, Mexico, Sudan and the UK are seen to decline in 2012 (Source: January 2012 OPEC Monthly Report). According to the EIU, The prospect of a resumption of Libyan output in the next 1-2 years has also improved the supply outlook.

The demand for OPEC crude in 2011 is estimated at 30 million barrels/day in both 2011 and 2012 (Source: January 2012 OPEC Monthly Report).



*Uganda*

Uganda headline inflation for the month of January 2012 declined to 25.7% from 27% in December 2011 mainly driven by a decline in food inflation to 27.3% from 34.6%. Inflation for Energy, Fuels and Utilities on the other hand rose to 23.5% from 11.6% in the previous month. Inflation is expected to ease in 2012 owing to a sharp fall in credit and monetary growth, the strengthening of the exchange rate and the fall in global commodity prices that have occurred over the last few months (Source: Bank of Uganda).

The Uganda Shilling (UGX) appreciated against all the major currencies during the month.

CURRENCY	Jan 12	Dec 11	Jan 11	% Movement 1 month	% Movement 12 months
UGX/US Dollar	2,339.41	2,493.28	2,292.21	6.17%	-2.06%
UGX/GBP	3,668.42	3,837.41	3,632.01	4.40%	-1.00%
UGX/ZAR	297.52	304.43	319.35	2.27%	6.84%
UGX/EUR	3,067.43	3,220.08	3,123.14	4.74%	1.78%

**Tanzania** Year-on-year inflation for the month of December 2011 rose to 19.8% from 19.2% in the previous month. The increase was mainly due to an increase in food and fuel costs. The inflation rate is expected to continue to rise in Tanzania over the coming months because the rains have been erratic and global oil prices are still high. The recent hike in power tariffs will also push consumer prices up (Source: Reuters).

The Tanzania Shilling (Tsh) weakened against all the major currencies during the month under review.

CURRENCY	Jan 12	Dec 11	Jan 11	% Movement 1 month	% Movement 12 months
Tsh/US Dollar	1,575.69	1,566.66	1,483.28	-0.58%	-6.23%
Tsh/GBP	2,479.44	2,414.84	2,353.15	-2.67%	-5.37%
Tsh/ZAR	201.62	191.52	207.00	-5.27%	2.60%
Tsh/EUR	2,078.26	2,027.17	2,017.70	-2.52%	-3.00%

**Zambia** Headline inflation for the month of January 2012 stood at 6.4%, after a rebasing of the consumer price basket to 2009 that made comparisons to previous months nearly impossible. Inflation for December 2011 stood at 7.2% under the previous calculations. Analysts have said inflation might edge up when the rebasing of the currency comes into effect in the next six months (Source: www.ukzambians.co.uk).

The Zambia Kwacha (ZMK) weakened against all the major currencies during the month (Source: Bank of Zambia)

CURRENCY	Jan 12	Dec 11	Jan 11	% Movement 1 month	% Movement 12 months
ZMK/US Dollar	5,133.15	5,117.04	4,841.56	-0.31%	-6.02%
ZMK/GBP	8,097.55	7,923.99	7,706.32	-2.19%	-5.08%
ZMK/ZAR	658.88	631.59	673.83	-4.32%	2.22%
ZMK/EUR	6,763.70	6,621.96	6,511.06	-2.14%	-3.88%

**Mozambique** The Mozambican Metical (MTN) weakened against all the major currencies except the US dollar during the month under review (Source: Bank of Mozambique).

CURRENCY	Jan 12	Dec 11	Jan 11	% Movement 1 month	% Movement 12 months
MTN/US Dollar	27.10	27.13	32.10	0.09%	18.45%
MTN/EUR	35.55	34.96	43.97	-1.70%	23.67%
MTN/ZAR	3.46	3.32	4.48	-4.37%	29.34%

**Zimbabwe** Inflation for the month of December 2011 stood at 4.9% from 4.2% in the previous month driven by high prices of food and beverages as well as communications and utility charges (Source: www.newzimbabwe.com).

## OUTLOOK FOR FEBRUARY AND BEYOND

### Inflation

Inflation is expected to increase in the forecast period on account of an increase in non-food inflation. Non-food inflation is expected to accelerate in 2012 owing to the recent fuel price increase, 2011/12 National budget tax measures and the devaluation of the Kwacha against the US\$. Food inflation may also increase owing to problems faced with distribution of subsidized fertilizer as well as erratic rainfall which may affect production and hence boost food prices. The EIU forecasts inflation of 11.3% in 2012 and thereafter a moderation to 7.7% in 2016 as the Kwacha depreciates more gradually and the increase in international oil prices remain modest. We expect a higher inflation rate in 2012.

**POSSIBLE IMPACT:** *High inflation levels will erode returns on investments, hence discouraging investment.*

*High inflation will erode the purchasing power of money hence resulting in lower disposable incomes and reduced savings. A reduction in savings will in turn reduce funds available for capital investments resulting in low private sector activity and slow economic growth.*

*High inflation also hurts the rural poor and will put strain on government to provide social support.*

### Exchange rates

According to the IMF report released in December 2011, Malawi continues to experience a severe shortage of foreign exchange in the context of an overvalued official exchange rate. Government is averse to a weaker currency because it wants to contain imported inflation and fertilizer prices. However, it also needs to get aid inflows back on track, partly by resuscitating the Extended Credit Facility (ECF). The EIU believes that Government will allow a gradual correction of the Kwacha to a market-determined rate by the end of 2012. The consequent recovery in aid, combined with lower oil and fertiliser prices, would support the currency's underlying value. The EIU forecasts that the Kwacha will be devalued. At opening of the budget review parliamentary session, the President stated that the Kwacha would not be devalued on the basis that it would only hurt the poor people in rural areas. As such, there is high risk to the EIU forecast as authorities may entirely resist any further devaluation of the exchange rate or may make only occasional adjustments which are insufficient to get the ECF back on track (Source: EIU Monthly Economic Report, January 2012). The major implications of these courses of action would be continued withholding of aid by donors which would exacerbate the current forex shortages as well as fiscal deficit, resulting in a major slow down of the economy.

**POSSIBLE IMPACT:** *The major implication of not devaluing the Kwacha is the continued withholding of aid by donors. This would exacerbate the current forex shortages which would negatively affect the ability to import items such as fuel, fertilizer and other materials. Overall, this will affect production in various sectors of the economy resulting in low economic growth.*

*Withholding of funds by donors will also result in widening of the fiscal deficit raising governments demand for borrowing. However, Malawi's ability to borrow may be affected by forex shortages since donors may be reluctant to lend to a nation that may not be able to repay in the agreed currency.*

*Forex shortages will also affect Foreign Direct Investment, as foreign investors will be uncertain about their ability to convert investment returns to foreign currency.*

*A devaluation of the Kwacha will also cause imports to become more expensive hence worsening the inflationary environment and causing the trade deficit to widen. In addition, this will put a strain on profits of importing companies and also on the wider economy.*

Interest rates

The bank rates has been stable at 13% since August 2010. It is unlikely that the bank rate will be decreased in the short to medium term owing to rising inflation and persistent forex shortages. The Reserve Bank of Malawi will continue to use monetary aggregates, rather than the discount rate, as the main instruments of monetary policy, as financial markets are thin. Though authorities are attempting to keep rates on Government securities low, we believe that this is unsustainable due to the high under-subscription during the recent auctions and the high demand for funds by Government.

**POSSIBLE IMPACT:** *Increase in yields will benefit investors through higher investment returns. On the other hand, high interest rates deter capital investments as they increase the cost of living. This is likely to reduce private sector growth and lower economic growth.*

International relations

Malawi's relations with other countries in Southern Africa will remain favorable in the forecast period although the diplomatic spat with the newly elected president of Zambia could sour relations with the country. Relations with its main donors including UK, EU and World Bank have deteriorated sharply, owing to the police crackdown on protests in July and other governance concerns. However, Government-donor relations are expected to improve as growing fiscal pressure forces the government to make concessions, but this is likely to be a drawn-out process. Malawi's extended credit facility (ECF) with the IMF was declared off-track owing to the government's management of the exchange rate. Negotiations to revive the program are currently underway. The program is essential as some donors base their funding decisions on the outcome of the IMF's review (Source: EIU Monthly Economic Report, January 2012).

**POSSIBLE IMPACT:** *Declining inflow of donor funds may push government towards domestic borrowing and hence result in crowding out of the private sector. High Government domestic borrowing is also likely to exert pressure on interest rates to increase resulting in high investment returns.*

*Low donor inflows will also exacerbate the current forex shortage being faced in the country.*

*A reduction in aid will increase government debt which will put pressure on future revenues, as funds will be directed towards debt repayment as opposed to development activities.*

*Short term decline in government capital spending will affect Malawi's long term growth prospects.*

*A decline in donor funding could also result in government resorting to printing of money which could boost money supply and increase inflation.*

Economic growth—Malawi

The EIU has reduced its growth forecast for 2012 to 4.3% from 5% owing to problems associated with the distribution of subsidized fertilizer, slow growth in uranium production, low domestic demand due to weaker currency, and economic uncertainty. Growth of the Agriculture sector is forecast to moderate to 5% by 2016 as the potential for raising maize output through fertilizer usage declines. The mining sector is expected to register some growth due to oil explorations projects on Lake Malawi and rare earth exploration in some o-

**POSSIBLE IMPACT:** *Weak economic growth is likely to scare away foreign direct investments which would deter growth.*

*A slowdown in economic growth is usually associated with increasing unemployment levels. Though government has allocated K3 billion for recruitment into the public service it may not be enough to cater for graduating candidates, already existing unemployed individuals and those who may*

ther parts. Uranium output on the other hand is expected to stabilize. Growth in the construction, manufacturing and services sector is expected to recover in 2013 but will dip in 2014 due to the increase in political uncertainty associated with the general elections. Thereafter, growth in these sectors is expected to pick up gradually. Overall, real GDP growth is forecast at between 4.8% and 5.2% in the period 2013 to 2016. Downside risks to the forecast include: severe drought; delays in anticipated recovery of aid; and sharp slump in prices for tobacco (Source: EIU Monthly Economic Report, January 2012).

External sector

Exports are expected to pick up in 2012 as lower domestic tobacco production props up prices. Export growth for the period 2013 to 2016 is expected to average 5.7% as tobacco exports are supported by favorable international price trends. Uranium prices are also expected to strengthen in the period 2014 to 2016. Growth in imports is expected to slow as a weaker currency encourages consumption of domestic goods and services. Overall the current account deficit is forecast to narrow from an estimated 11.9% of GDP in 2011 to 8.7% of GDP in 2012 and 7.7% of GDP in 2016. The deficit will be financed by Foreign Direct Investment and external borrowing Source: EIU Monthly Economic Report, January 2012).

*Be affected by a slowdown in private sector activity.*

*Increasing unemployment and declining private sector activity will result in declining disposable incomes for some individuals and hence reduced savings.*

**POSSIBLE IMPACT:** *Increase in exports and declining imports will result in improved forex availability hence supporting the value of the local currency and attracting foreign direct investment. Overall, this is expected to boost economic growth.*

## ECONOMIC RISKS

ECONOMIC RISKS	IMPACT ON ECONOMY	MITIGATION MEASURES
Risk of capital and import controls (Source: EIU Monthly Economic Report, July 2011)	<ol style="list-style-type: none"> <li>Declining Foreign Direct Investment (FDI).</li> <li>Increased market distortion.</li> </ol>	
Unfavorable international relations i.e UK, MCC, World Bank.	<p>The most likely impact is the decline in donor support. 2011/12 National budget projects a 24% decline in grants. Declining donor support may result in the following;</p> <ol style="list-style-type: none"> <li>Increased domestic borrowing by government hence an increase in interest rates and crowding out of the private sector.</li> <li>Decline in funds available for development expenditures hence increasing fiscal deficit and slow down in economic growth.</li> <li>Increase in taxes in order to raise revenues to cover expenditures.</li> <li>Decline in forex levels and hence import cover. This will result in more fuel and forex problems.</li> <li>Increased government debt.</li> </ol>	
Fuel price volatility	<p>Increase in inflation. May result in the following:</p> <ul style="list-style-type: none"> <li>Increase in cost of living.</li> <li>Decrease in real returns from investments.</li> <li>Low savings hence a slow down of the economy.</li> </ul>	<ol style="list-style-type: none"> <li>Storage facilities to be constructed by Government.</li> </ol>
Fuel shortages	<ol style="list-style-type: none"> <li>Will result in a decline in economic activity.</li> <li>Will reduce farmers accessibility to markets.</li> <li>Will result in delayed fertilizer distribution and hence negatively affecting maize production.</li> <li>Declining economic activity as people spend time queuing at filling stations.</li> <li>Rising black market which is likely to result in inflationary pressure through increased transportation cost.</li> </ol>	<ol style="list-style-type: none"> <li>Diversify into other forex generating sectors</li> <li>Storage facilities to be constructed by Government - Pipeline construction projects from Beira (Mozambique) to Malawi.</li> <li>Possible gradual reduction in allocation to the fertilizer subsidy program.</li> </ol>
Persistent forex shortages	<ol style="list-style-type: none"> <li>To affect business productivity and lead to lost revenue.</li> <li>Curtail growth in imports.</li> <li>Decline in production.</li> <li>To affect the sustainability of the subsidy program</li> <li>Drug shortages to affect labor productivity.</li> </ol>	<ol style="list-style-type: none"> <li>Diversify into other forex generating sectors such as mining, tourism e.t.c.</li> <li>Explore local production of goods currently imported.</li> </ol>

## ECONOMIC RISKS

ECONOMIC RISKS	IMPACT ON ECONOMY	MITIGATION MEASURES
Uncertainty in the external environment e.g. Euro crisis	Slower global recovery could result in: <ol style="list-style-type: none"> <li>1. Dampening export demand for major export commodities i.e. tobacco, tea, cotton and sugar.</li> <li>2. Declining investor interest in Malawi.</li> <li>3. Declining remittances from abroad, hence contributing to lower forex levels.</li> <li>4. Reduced access to foreign capital, hence financing not available or difficulties in accessing letters of credit.</li> <li>5. Impaired growth and Balance of Payments (BOP) due to declining exports and low foreign investments.</li> <li>6. Decline in tourism levels leading to lower forex revenues.</li> <li>7. Lower donor funding. This could lead to printing of money hence boosting money supply growth and inflation.</li> </ol>	
Insufficient power supply.	<ol style="list-style-type: none"> <li>1. Low industrial productivity in the manufacturing sector resulting in low economic productivity.</li> <li>2. Decline in tourism levels.</li> <li>3. Deferment of development by investors.</li> </ol>	<ol style="list-style-type: none"> <li>1. New coal power plant project in Karonga.</li> <li>2. Millennium Challenge Corporation donation of USD350mn for improvement of Malawi's electric power system (Has currently been put on immediate hold).</li> <li>3. World Bank K12.7bn funding for Malawi's energy sector.</li> <li>4. Encourage use of energy saver bulbs.</li> </ol>
Slow down in economic growth	<ol style="list-style-type: none"> <li>1. Dwindling private sector growth and reduced capital investments.</li> <li>2. Increasing unemployment.</li> <li>3. Reduced savings by individuals directly or indirectly affected by unemployment and dwindling private sector growth.</li> </ol>	<ol style="list-style-type: none"> <li>1. Provide incentives to the private sector e.g. tax incentives</li> </ol>
2011/12 National Budget Tax measures (New taxes introduced)	<ol style="list-style-type: none"> <li>1. Increase in inflation of most consumer goods.</li> <li>2. Reduced savings due to reduced disposable income.</li> <li>3. Declining profitability of some companies directly affected by the tax measures.</li> </ol>	

## ECONOMIC RISKS

ECONOMIC RISKS	IMPACT ON ECONOMY	MITIGATION MEASURES
Global tobacco lobby (anti-smoking)	<ol style="list-style-type: none"> <li>1. Decline in demand for Malawi tobacco and services from supporting industries.</li> <li>2. Reduction in export earnings (tobacco accounts for 60% of Malawi's forex earnings).</li> <li>3. Reduced employment opportunities in the tobacco and supporting industry.</li> <li>4. Lower income for farmers- small holder and commercial</li> </ol>	<ol style="list-style-type: none"> <li>1. Diversify into other sectors such as mining and cotton e.t.c.</li> <li>2. Engage in an aggressive tourism marketing.</li> </ol>
Decline in allocation to development spending in the 2011/12 National Budget	Slowdown in economic activity and hence economic growth.	
Drop in Malawi's rating on the ease of doing business index by World Bank	May result in declining Foreign Direct Investment (FDI) hence decline in forex.	1. Need to stabilize the economy.
Scaling down of the fertilizer subsidy program	<ol style="list-style-type: none"> <li>1. Reduced maize production and hence reduced food security.</li> <li>2. May have inflationary effects (Food accounts for 58% of the CPI)</li> </ol>	

## APPENDIX

### SELECTED ECONOMIC INDICATORS FOR MALAWI

	Feb-11	Mar-11	Apr-11	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11	Jan-12	Jan-11
<b>Exchange rates</b>													
MK : US\$	150.80	150.80	150.80	150.80	150.80	150.80	166.20	165.97	167.86	164.48	163.75	167.43	150.80
MK : GBP	242.86	242.37	250.81	248.44	242.21	246.92	271.68	259.38	270.48	256.53	252.44	263.03	238.70
MK : ZAR	21.53	22.10	22.86	21.75	22.18	22.40	23.31	20.84	21.77	19.72	20.03	21.35	21.00
MK : EURO	207.37	213.04	223.52	215.37	217.68	216.16	240.63	225.67	237.37	219.03	212.24	220.06	204.91
<b>Forex reserves</b>													
Gross reserves (US\$mn)	346.00	314.00	329.00	319.10	323.50	431.00	418.00	407.50	393.60	391.00	380.00	355.00	385.00
Import cover (months)	2.68	2.43	2.55	2.47	2.51	3.34	3.24	3.16	3.05	3.03	2.95	2.75	2.98
<b>Inflation</b>													
Headline inflation	7.00	7.20	7.10	7.00	7.00	7.40	7.60	7.70	8.10	8.90	9.80	N/A	6.60
Food	3.60	3.70	3.30	2.70	2.20	2.40	2.40	2.70	2.90	3.50	5.20	N/A	2.90
Non food	11.10	11.20	11.40	11.70	11.80	12.10	12.40	12.50	13.10	14.20	14.40	N/A	10.70
Urban	8.80	8.90	8.80	8.90	9.00	9.30	9.60	9.80	10.10	11.50	13.30	N/A	8.30
Rural	6.00	6.20	6.10	6.00	5.90	6.30	6.40	6.50	7.00	7.30	7.80	N/A	5.60
<b>TB Yields</b>													
91 day yield	6.08	5.29	5.26	6.52	7.31	7.10	7.51	6.00	5.41	6.86	6.77	-	6.38
182 day yield	6.33	5.59	5.59	6.62	7.20	7.17	7.32	7.01	6.96	7.34	7.38	-	7.08
273 day yield	6.42	5.79	5.76	6.61	7.92	7.39	7.48	7.28	7.32	8.32	8.87	-	7.35
<b>Stock market</b>													
MASI	5,002.73	4,863.41	4,876.28	4,919.67	4,914.30	4,922.90	4,905.96	5,039.30	5,027.27	5,341.64	5,369.42	5,456.01	4,978.75
DSI	3,962.02	3,846.81	3,855.94	3,889.11	3,878.68	3,887.14	3,869.64	3,974.84	3,866.49	4,216.21	4,238.39	4,307.52	3,943.09
FSI	354.43	398.42	410.99	427.33	477.61	477.61	521.60	535.42	521.60	535.42	535.42	535.42	354.92
<b>GDP</b>													
Government	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	N/A	6.00%
EIU statistics	5.60%	5.60%	5.60%	5.60%	5.60%	5.60%	5.60%	5.60%	5.60%	5.60%	5.60%	4.30%	5.60%
IMF Stats	4.60%	4.60%	4.60%	4.60%	4.60%	4.60%	4.60%	4.60%	4.60%	4.60%	4.60%	N/A	4.60%

### SELECTED ECONOMIC INDICATORS FOR TANZANIA, UGANDA, ZAMBIA, MOZAMBIQUE AND ZIMBABWE

	Feb-11	Mar-11	Apr-11	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11	Jan-12	Jan-11
<b>TANZANIA</b>													
<b>Exchange rate</b>													
US\$	1,501.66	1,490.75	1,497.06	1,518.32	1,579.68	1,569.65	1,604.84	1,631.20	1,646.35	1,655.94	1,566.66	1,575.69	1,483.28
GBP	2,443.21	2,398.77	2,493.50	2,511.84	2,544.71	2,564.74	2,632.26	2,544.68	2,630.38	2,583.77	2,414.84	2,479.44	2,353.15
ZAR	215.67	218.39	226.80	219.54	233.10	233.01	228.31	204.58	210.06	198.67	191.52	201.62	207.00
EUR	2,074.10	2,107.85	2,220.14	2,184.26	2,291.97	2,249.16	2,329.83	2,209.06	2,305.22	2,209.11	2,027.17	2,078.26	2,017.70
Inflation %	7.50	8.00	8.60	9.30	10.90	13.00	14.00	16.80	17.90	19.20	19.80	N/A	6.40
Base lending rate %	14.59	14.59	14.59	15.04	15.04	15.71	15.79	14.76	14.91	N/A	N/A	N/A	14.59
<b>UGANDA</b>													
<b>Exchange rate</b>													
US\$	2,352.01	2,403.92	2,387.61	2,392.30	2,579.34	2,610.59	2,823.78	2,853.36	2,609.72	2,565.29	2,493.28	2,339.41	2,292.21
GBP	3,780.61	3,839.35	3,985.06	3,938.21	4,138.04	4,285.54	4,596.26	4,474.06	4,213.91	4,004.41	3,837.41	3,668.42	3,632.01
EUR	3,233.54	3,381.22	3,538.20	3,411.18	3,738.00	3,752.20	4,075.84	3,894.83	3,699.79	3,420.55	3,220.08	3,067.43	3,123.14
Inflation %	6.00	11.10	14.10	16.00	15.80	18.70	21.40	28.30	30.50	29.00	27.00	25.70	5.00
Base lending rate %	19.58	19.97	19.97	19.87	19.94	21.47	21.31	23.34	23.55	25.35	N/A	N/A	20.09
<b>ZAMBIA</b>													
<b>Exchange rate</b>													
US\$	4,761.56	4,703.03	4,700.94	4,771.35	4,841.67	4,795.52	4,964.17	4,811.77	4,907.40	5,096.95	5,117.04	5,133.15	4,841.56
GBP	7,725.16	7,537.30	7,824.48	7,846.48	7,752.24	7,844.99	8,093.83	7,497.71	7,867.80	7,992.53	7,923.99	8,097.55	7,706.32
ZAR	683.25	689.28	713.31	696.52	712.96	713.94	699.71	591.55	629.34	624.01	631.59	658.88	673.83
Inflation %	9.00	9.20	8.80	8.90	9.00	9.00	8.30	8.80	8.70	8.10	7.20	6.40	9.00
Base lending rate %	19.10	19.10	19.10	19.10	19.00	19.00	19.00	19.00	19.00	18.60	17.00	N/A	19.20
<b>MOZAMBIQUE</b>													
US\$	31.13	31.13	30.63	29.65	28.69	27.86	27.18	27.13	27.03	26.88	27.13	27.10	32.10
EUR	42.90	42.90	45.49	42.85	41.39	39.90	39.48	37.00	38.31	35.87	34.96	35.55	43.97
ZAR	4.47	4.47	4.66	4.41	4.20	4.16	3.87	3.42	3.52	3.23	3.32	3.46	4.48
Inflation%	16.00	13.78	12.80	11.40	10.00	10.20	10.24	N/A	8.34	7.74	N/A	N/A	16.50
<b>ZIMBABWE</b>													
Inflation%	3.00	2.70	2.70	2.50	2.90	3.30	3.50	4.30	4.20	4.20	4.90	N/A	3.30

EXPORTS AND IMPORTS (source: RBM, EIU, NSO)

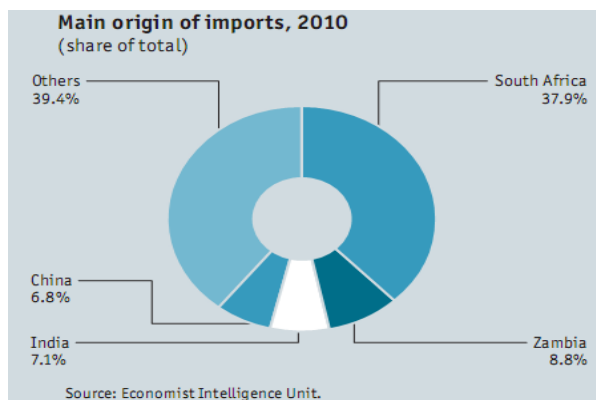
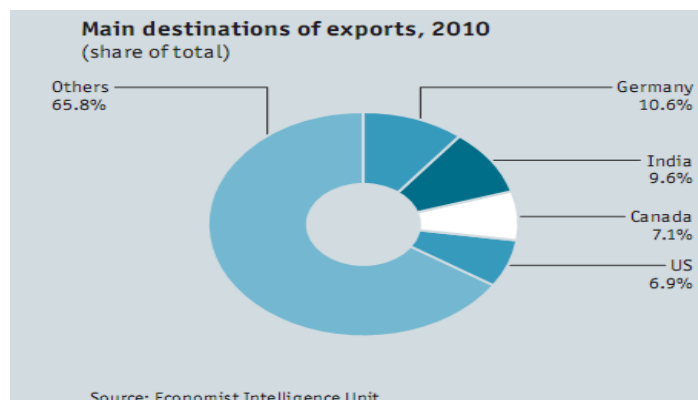
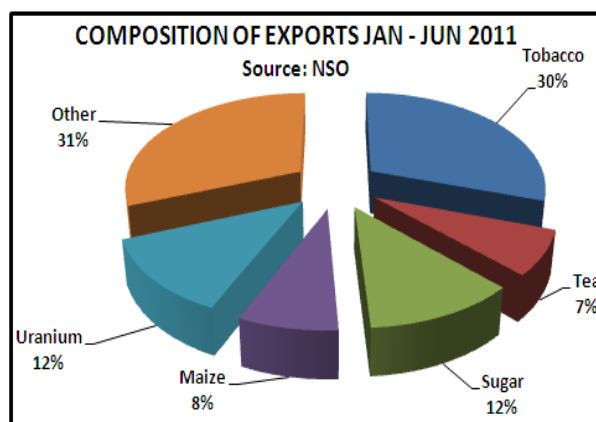
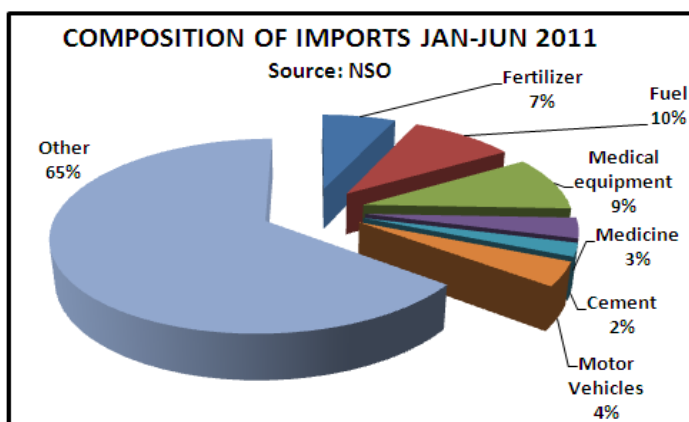
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009*	2010*
Imports	32.28	39.48	53.66	76.65	101.55	140.18	162.50	156.39	278.48	255.12	325.58
Exports	23.62	31.82	31.41	51.67	52.63	59.64	91.09	98.40	123.40	166.55	159.44
Trade balance	(8.66)	(7.66)	(22.25)	(24.98)	(48.92)	(80.54)	(71.41)	(57.99)	(155.08)	(88.57)	(166.14)
Tobacco exports	12.60	18.36	17.89	22.54	22.30	31.62	55.84	51.73	82.11	94.10	n/a
Tobacco exports % Total exports	53%	58%	57%	52%	42%	100%	61%	53%	67%	56%	n/a

MAIN EXPORTS

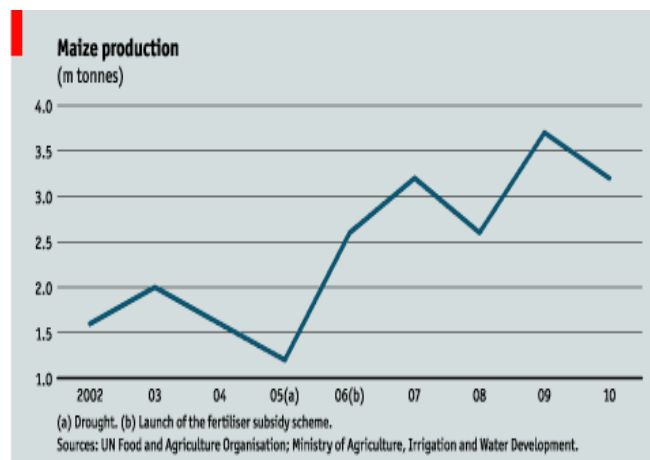
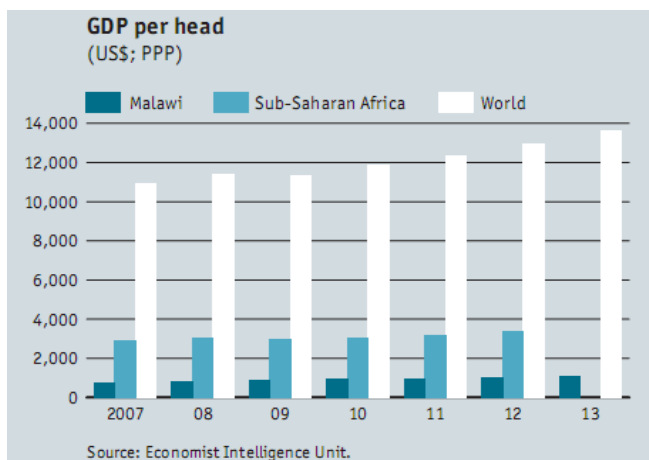
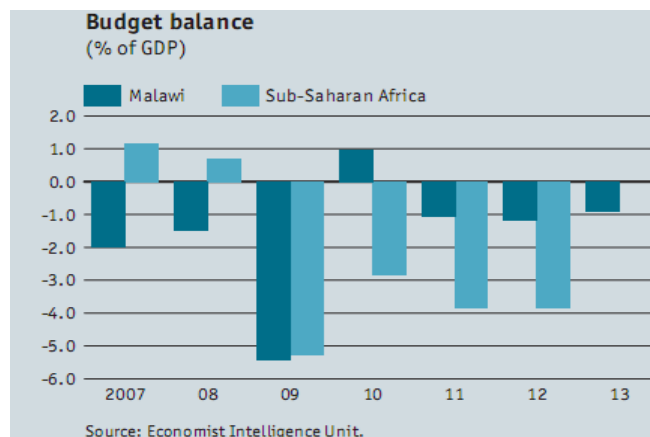
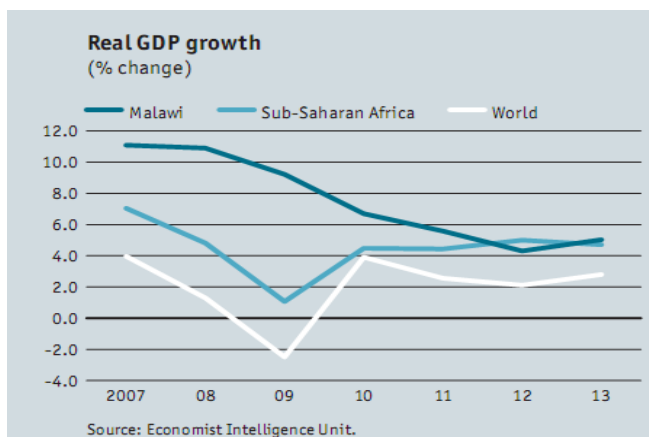
	2005	2006	2007	2008	2009	2010 <sup>a</sup>
<b>Value (US\$ m)</b>						
Tobacco	278.2	289.6	407.2	433.1	403.7	415.0
Tea	49.9	47.9	51.4	72.3	60.1	68.8
Sugar	41.3	46.5	48.3	54.5	70.2	76.7
Cotton	15.6	13.5	21.9	26.5	41.1	39.8
Uranium	0.0	0.0	0.0	0.0	50.0	92.3
<b>Share (%)</b>						
Tobacco	55.7	53.8	56.6	54.3	45.6	42.3
Tea	10.0	8.9	7.2	9.1	6.8	7.0
Sugar	8.3	8.6	6.7	6.8	7.9	7.8
Cotton	3.1	2.5	3.0	3.3	4.6	4.1
Uranium	0	0	0	0	5.6	9.4

<sup>a</sup> Economist Intelligence Unit estimates

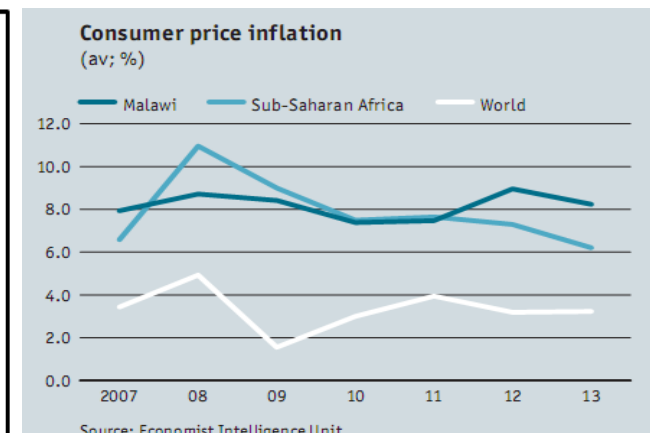
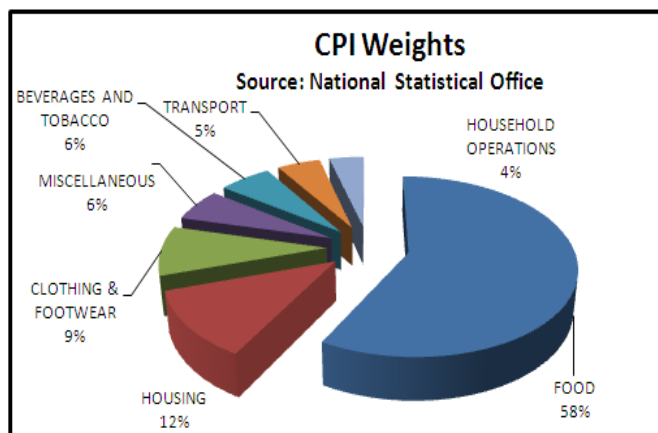
Source: Reserve Bank of Malawi



**GDP—MALAWI (source: EIU)**



**INFLATION (source: NSO, EIU)**



**PROJECTIONS (source: EIU)**

**MALAWI PROJECTIONS**

	2010	2011	2012
Real GDP growth*	6.70%	4.60%	4.20%
Inflation*	7.40%	8.60%	11.50%
Money Supply (M2) growth	17.20%	17.60%	18.00%
External debt stock (US\$' mn)	1,269.00	1,349.00	1,442.00
Trade balance (US\$' mn)	(701.00)	(761.00)	(597.00)

**GLOBAL PROJECTIONS (source: EIU)**

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Real GDP growth (%)</b>										
World (PPP* exchange rates)	5.2	2.5	-0.9	4.9	3.8	3.2	3.9	4.1	4.3	4.3
World (market exchange rates)	4.0	1.3	-2.5	3.9	2.6	2.0	2.7	2.9	3.0	3.0
US	1.9	-0.3	-3.5	3.0	1.7	1.3	1.8	2.2	2.3	2.3
Japan	2.3	-1.2	-6.3	4.1	-0.2	2.2	1.3	1.3	1.4	1.4
Euro area	2.9	0.3	-4.2	1.7	1.4	-1.2	0.6	1.4	1.3	1.7
China	14.2	9.6	9.2	10.4	9.2	8.2	8.5	8.0	8.0	8.0
Eastern Europe	7.5	4.5	-5.6	3.3	3.5	2.3	3.4	3.9	3.9	4.0
Asia & Australasia (excl Japan)	9.3	5.7	5.2	8.3	6.6	6.3	6.8	6.6	6.7	6.5
Latin America	5.6	4.0	-2.1	5.9	4.0	3.5	4.2	4.3	4.1	4.2
Middle East & North Africa	4.9	5.3	1.5	4.1	3.2	4.0	4.6	4.8	4.9	4.9
Sub-Saharan Africa	7.0	4.8	1.1	4.4	4.3	4.6	4.8	4.6	4.8	5.0
<b>World inflation (%; av)</b>	3.4	4.9	1.6	3.0	3.9	3.2	3.2	3.2	3.2	3.2
<b>World trade growth (%)</b>	7.1	2.8	-12.0	14.1	6.6	4.2	5.9	6.3	6.6	6.7
<b>Commodities</b>										
Oil (US\$/barrel; Brent)	72.71	97.66	61.86	79.63	111.00	95.00	97.50	100.00	104.00	110.00
Industrial raw materials (US\$; % change)	11.3	-5.3	-25.6	45.4	22.5	-13.0	2.4	-1.3	1.2	2.2
Food, feedstuffs & beverages (US\$; % change)	30.9	28.1	-20.3	10.7	30.3	-12.5	-6.8	-1.8	4.5	3.3
<b>Exchange rates (av)</b>										
¥:US\$	118	103	94	88	80	78	80	81	82	83
US\$:€	1.37	1.47	1.39	1.33	1.39	1.28	1.25	1.23	1.24	1.26

\* PPP = Purchasing-power parity.  
Source: Economist Intelligence Unit.

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