

Malawi Economic Snapshot H2, 2017

Trade & Investment SWOT	
Strengths	Weaknesses
Good climate and soils supports important agriculture production.	High reliance on low productive agriculture. Agricultural exports account for over 80% of total exports.
Large domestic market with a population of more than 18 million.	Low consumer purchasing power.
Health economic growth rates expected over the coming decade.	Relatively low rate of urbanisation presents challenges to investors reliant on physical infrastructure to deliver their goods and services.
Recent improvements in macroeconomic policy, including a commitment to the flexible exchange rate regime.	Weakening currency makes imports expensive.
Opportunities	Threats
Reforms in government fiscal management will repair donor relations and drive donor aid higher.	High susceptibility to adverse weather conditions which will negatively impact on the country's agricultural sector.
Increased government expenditure on raising agricultural productivity would benefit the country's agricultural exports.	Breakdown in donor relations and further cutbacks in donor aid could lead to a persistent deterioration in current account and fiscal balances.
Private consumption accounts for 90% of gross domestic product (GDP), highlighting opportunities in wholesale and retail.	Economic weakness and policy uncertainty could deter potential investors.
Low mobile penetration and urbanisation rates underscore the need for mobile communication technology.	Widespread corruption - large networks of patronage exist in the public and private sector as well as judiciary.

Source: Business Monitor International (BMI), KPMG research

Economic structure - The primary sector employs two-thirds of the country's workers. The country's top export commodities by value are tobacco, sugar, coffee, tea and vegetables – accounting for 68% of export revenues during 2015. The vast majority of these crops are produced by smallholder operations who also cultivate maize, cassava and other grains for domestic consumption. The secondary sector has become less influential since the Kayelekera uranium mine was closed in 2014, with the small manufacturing sector focussed on agro processing and the production of clothing. The tertiary sector includes a small contribution from government services and a much larger share in activity associated with retail and banking. Household retail spending is vulnerable to adverse weather conditions affecting the country's food crop, fluctuations in inflation and the exchange rate, as well as fiscal austerity.

Recent economic developments – While the tobacco auction season started on a low note due to an expected decline in volumes, higher average prices resulted in tobacco earnings rising by 23% to \$212 million. The recently completed Extended Credit Facility (ECF) also broadly achieved its goal of macroeconomic stabilisation, according to a review by stakeholders in August 2017. In March 2017, Khato Holdings Limited - a South African-based firm owned by a Malawian Ashani Simbi Phiri - was given constructive justification for the cost and timeline of a \$500 million project to pipe water from Lake Malawi to the capital Lilongwe. This will also drive growth in foreign direct investment (FDI) since many companies consider water resources when making decisions about where to invest or locate their facilities. Khato Holdings said in August it plans to start construction of the pipeline in January 2018. The International Monetary Fund (IMF) commented in July 2017 that its staff had reached a broad understanding with authorities about the content of the 2017/18 fiscal budget. The government will continue efforts to curb domestic financing of the central government while shifting funds towards capital expenditure. Headline inflation decreased at a steady rate since reaching 20% y-o-y in December 2016, and is estimated at 8.4% y-o-y in September 2017. In the midst of a recovering economy after 2016's adverse weather, inflation is on a downward trend as food price shocks abate and tight monetary policy continues to push core inflation downwards.

Mega trends		
Population	2017	Total: 18.30 million; female: 9.16 million; male: 9.14 million; age 0-14: 44.71% of total; age 15+: 55.29% of total; age 65+: 3.44% of total
Population growth rate	2015	2.9%
Life expectancy at birth	2015	Total: 62.54 years; female: 65.17 years; male: 60.04 years
HIV/AIDS	2016	Total number of people living with HIV: 1 million; total adult prevalence: 9.2%; HIV/AIDS orphans (age 0-17): 0.53 million
Adult literacy rate	2015	Total population: 65.96%; female: 59.03%; male: 73.02%
Urbanisation	2016	Urban population: 16.45% of total; annual urban population growth: 4.02%; rural population: 83.55% of total
Population below \$1.90/day poverty line	2010	70.91%
Unemployment rate	2017	Total: 6.8%; female: 7.1%; male: 6.4%; youth (15 - 24): 9.2%
Employment	2017	Agriculture: 69.9% of total; industry: 4.8% of total; services: 25.4% of total
Labour participation rate	2017	Total (ages 15+): 81.13% of total population
Business languages	n/a	English, Chichewa
Telephone & internet users	2013; 2016	Fixed telephone subscriptions: 0.01 million (2016); wired internet subscriptions: 0.87 million (2013); cell phone subscriptions: 7.18 million (2016)
Quality of infrastructure (1 = underdeveloped, 7 = developed)	2017	2.48
Sources: UNESCO Institute for Statistics, World Telecommunication/ICT indicator database, World Bank, UNAIDS, International Labour Organisation, Analyse Africa		

Business Environment

Human Development Index (HDI) 2015		Index of Economic Freedom 2017		Global Competitiveness Index (GCI) 2017-18		Doing Business 2018		Corruption Perceptions Index 2016	
170 th	out of 188 countries	149 th	out of 180 countries	132 nd	out of 137 countries	110 th	out of 190 countries	120 th	out of 176 countries

Source: World Bank, The Heritage Foundation, World Economic Forum (WEF), Transparency International

Economic policy – Malawi’s Vision 2020 was launched in 2000 to help the government, private sector and the people of Malawi to embark on a development path. It sets out a long-term development path for the country and emphasises a shared vision, strategic thinking, visionary leadership, national learning, strategic management and participation by the entire population. In order to achieve this long-term vision the country implemented medium-term plans called the Malawi Growth and Development Strategy (MGDS). The main aim of these strategies is to create wealth for the country’s people through sustainable economic growth and infrastructure development as a means of achieving poverty reduction. The third strategy (MDGS III) will be implemented in 2017-2022. For this period the key priority areas (KPA) are 1) agriculture, 2) water development, 3) climate management, 4) education and skills development; 5) the energy industry, 6) tourism development, 7) transport and ICT infrastructure, and 8) healthcare.

Sovereign Risk Ratings

S&P Global Ratings	Fitch Ratings	Moody’s Investors Service
-	-	-

Source: Trading Economics

Malawi does not currently have a sovereign rating from any of the three major rating agencies.

Finance & Banking

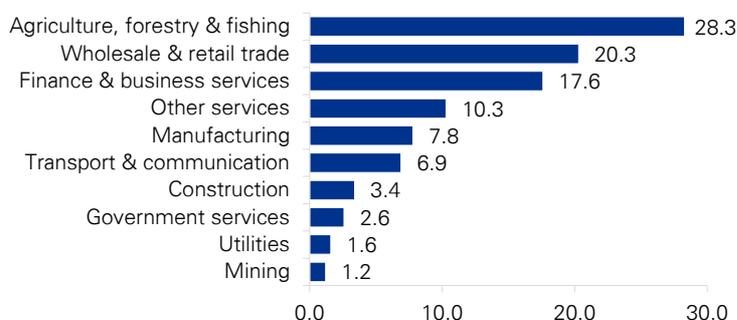
Central bank	Number of commercial banks	Bank branches per 100 000 adults	ATMs per 100 000 adults	Deposit accounts per 1 000 adults
Reserve Bank of Malawi (RBM)	10	3.28	4.92	103.47
Stock market	Listed companies	Market capitalisation*	Largest sectors	Weekly trading value*
Malawi Stock Exchange	14	\$1.1 million	Banking, food, beverages	\$0.4 million
Capital market	Level of development	Maturity range	Municipal bonds	Corporate bonds
Yes	Underdeveloped	21 days to 5 years	No	Yes

Sources: World Bank, African Alliance, Analyse Africa, KPMG research
*Week ending 27 October 2017

Macroeconomic overview

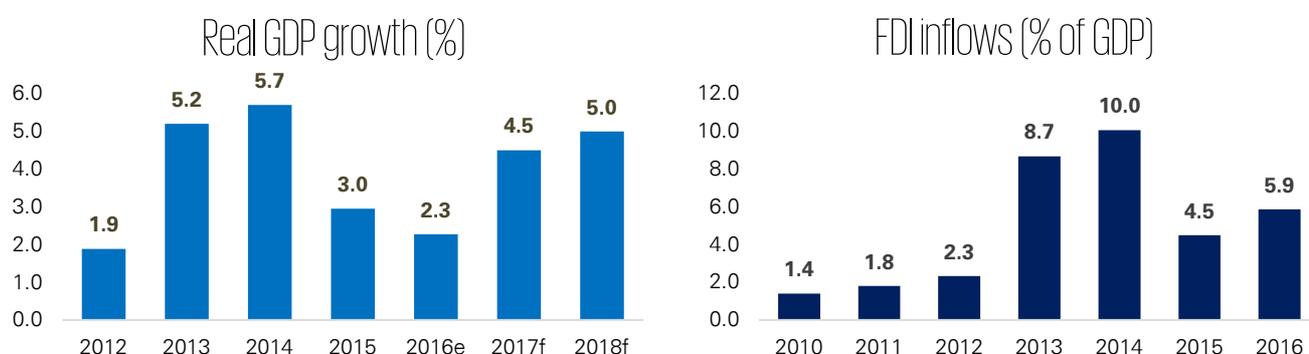


Economic structure (% of GDP), 2016



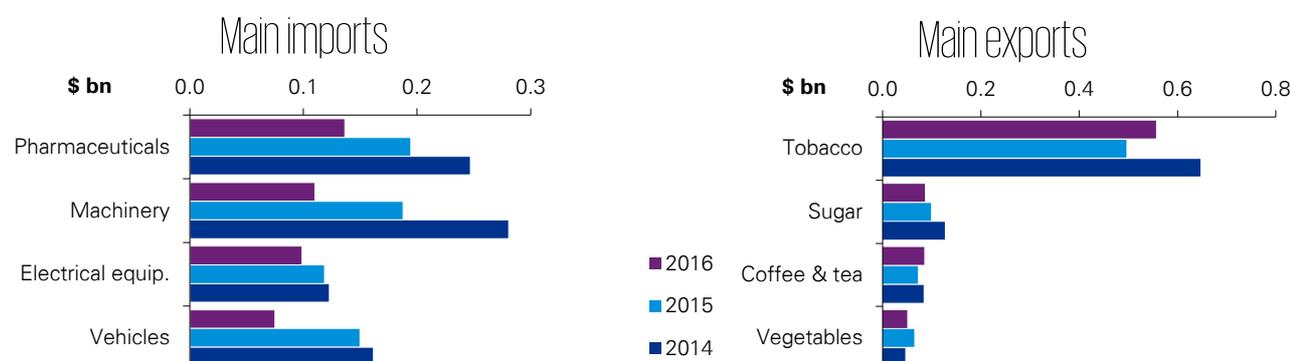
Source: African Economic Outlook (AEO)

Economic growth - Disruption of agricultural production due to droughts placed economic growth in Malawi on a downward trend during 2015-2016. The IMF expects growth in Malawi to recover in 2017-2018, due to better forecast weather conditions and consequently improved agricultural output of both food and export crops. While the tobacco auction season started on a low note due to an expected decline in production volumes, higher average prices resulted in tobacco earnings rising by 23% to \$212 million. The recently completed ECF also broadly achieved its goal of macroeconomic stabilisation, according to a review by stakeholders in August 2017. Looking ahead, the government will most likely increase investment into the agriculture sector in 2018 due to foreign donors resuming aid flows to Malawi, resulting in both higher productivity and crop yields which will further support economic growth. The IMF projects economic growth of 4.5% in 2017 and 5% in 2018. This is however very dependent on favourable weather conditions and political stability.



Sources: IMF, United Nations Conference on Trade and Development (UNCTAD)

Foreign investment – Foreign investment is seen as a key factor in terms of job and wealth creation by the Malawian government. The agricultural sector is the main driver of FDI inflows from mostly South Africa, Germany and the US. In March 2017, the Ministry of Industry, Trade and Tourism disclosed plans to secure a pigeon peas market in India, world's biggest importer of the crop. The export plan was expected to boost FDI inflows from India in 2018-2019. However, it was reported in August 2017 that a maximum of 200 000 tonnes of this commodity could be imported by India for the period April 2017-March 2018 to protect domestic prices due to a record production. This dampened the outlook for FDI inflows in 2018. On a positive note, in March 2017, Khato Holdings Limited - a South African-based firm owned by a Malawian Ashani Simbi Phiri - was given constructive justification for the cost and timeline of a \$500 million project to pipe water from Lake Malawi to the capital Lilongwe. This will also drive growth in FDI since many companies consider water resources when making decisions about where to invest or locate their facilities. Khato Holdings said in August it plans to start construction of the pipeline in January 2018.

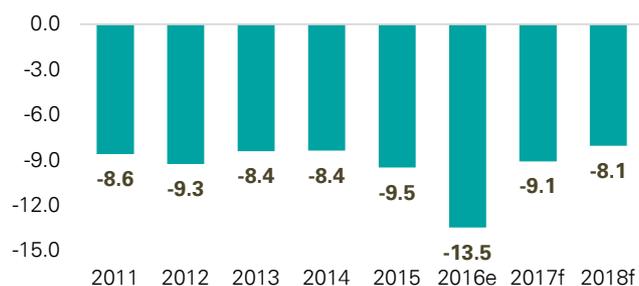


Main Imports: % share of total	2014	2015	2016	Main Exports: % share of total	2014	2015	2016
Pharmaceuticals	8.8%	8.4%	11.9%	Tobacco	45.5%	45.9%	63.5%
Machinery	10.0%	8.1%	9.6%	Sugar	8.9%	9.1%	9.8%
Electrical equipment	4.4%	5.1%	8.6%	Coffee & tea	5.9%	6.6%	9.7%
Vehicles	5.8%	6.5%	6.6%	Vegetables	3.3%	6.0%	5.7%

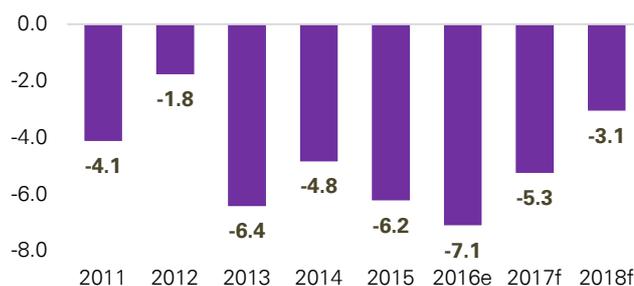
Source: Trade Map

External trade – Malawi's four main export products (tobacco, sugar, coffee & tea and vegetables) represent more than 88% of total exports. While the 2016 drought and other adverse weather conditions negatively impacted Malawi's trade balance during 2016, external trade improved in 2017 and helped the current account deficit narrow to 9.1% of GDP from a much larger reading of 13.5% of GDP during 2016. In 2018, as agricultural exports and donor aid recover, the current account deficit is set to narrow further to 8.1% of GDP. However, if the government is not able to successfully implement fiscal consolidation and rein in corruption, foreign donors will be reluctant to provide donor aid to Malawi and the current account balance would suffer. Import cover - the number of months of imports covered by a country's foreign reserves - is projected by BMI to equal four months in 2018, compared to a global benchmark of at least three months.

Current account balance (% of GDP)



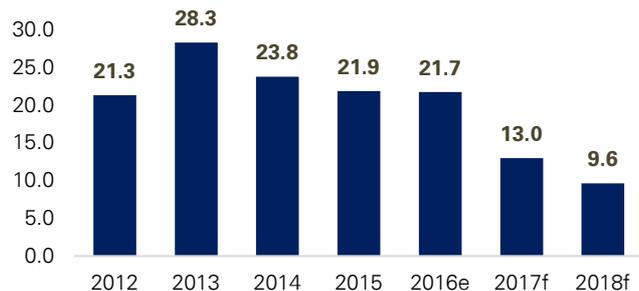
Fiscal Balance (% of GDP)



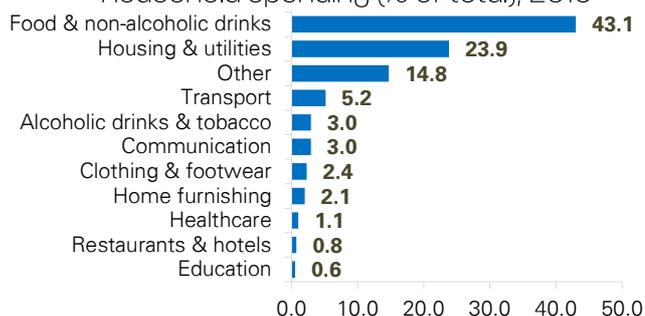
Source: IMF

Fiscal policy – Deep fiscal deficits have persisted over the last decade in Malawi. The government is however determined to implement reforms to state expenditure via fiscal consolidation, which will involve a gradual increase in expenditure efficiency and revenue generation, easing the budget deficit. The fiscal deficit narrowed in 2017 following a boost to revenues from the elimination of value-added tax (VAT) zero ratings and exemptions as well as the repealing of customs-related industrial rebate schemes. This resulted in an income fillip equal to 0.8% of GDP. On the expenditure side, a combination of arrears clearance payments, domestic interest payments and maize purchases resulted in higher-than-expected spending in the latter part of the financial year. Conversely, outlays on the country's fertilizer subsidy program were reduced following the implementation of reforms. As a result, the fiscal deficit is expected to narrow to 5.3% of GDP in 2017. The outlook for 2018 is favourable with a projected narrowing in the deficit to 3.1% of GDP. The IMF commented in July that its staff had reached a broad understanding with authorities about the content of the 2017/18 fiscal budget. The government will continue efforts to curb domestic financing of the central government while shifting funds towards capital expenditure. From a revenue collection perspective, the state is likely to introduce an additional tax bracket for high income earners, further strengthen tax compliance and modernise tax administration.

Inflation (% change)



Household spending (% of total), 2016



Source: IMF, BMI, country statistics agencies

Monetary policy - Headline inflation jumped into double digits during 2012 and peaked at 37.9% y-o-y in February 2013. The IMF detailed in a March 2017 publication its findings of an investigation into the role of the pass-through of the exchange rate and policy determinants on consumer price inflation. The study found that following the switch to a floating exchange rate regime in 2012, non-food prices had a direct effect on headline inflation and also a significant impact on food inflation via second round effects. The IMF found that the pass-through effect of the exchange rate to headline inflation has jumped from 0% to 11% under the new regime, after controlling for other factors. Most recently, inflation decreased at a steady rate since reaching 20% y-o-y in December 2016, and is estimated at 9.3% y-o-y in August 2017 and 8.4% y-o-y in September 2017. In the midst of a recovering economy after 2016's adverse weather, inflation is on a downward trend as food price shocks abate and tight monetary policy continues to push core inflation downwards. The lower inflation rate will boost the competitiveness of Malawian export products on international markets. The easing of the inflation rate is however constrained by weaknesses in the economy, such as the persistent current account and fiscal deficit, and thus inflation expectations remain very close to double digits. The IMF forecasts inflation to average 13% and 9.6% in 2017 and 2018, respectively.

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