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1.0. GLOBAL ECONOMIC DEVELOPMENTS

1.1. World Economic Report

- Uncertainty continues to weigh down on global growth in 2016.
- Global economy remained weak in the first half of the year with a slowdown in growth of the United States due to inventory changes which has led to a cut in its growth forecast to 1.6 percent from 1.8 percent with expected gradual momentum only in the coming quarters.
- The Economist Intelligence Unit has thus lowered its 2016 global growth forecast from 2.2 percent to 2.1 percent but its 2017 global growth forecast is unchanged at 2.4 percent.
- Following the Brexit vote, the Bank of England cut its policy rate to 0.25 percent from 0.5 percent and relaunched its bond-buying programme in August 2016.
- The industrial raw materials and agricultural commodities indices will post their fifth successive year of declines in 2016 but the EIU expects the cycle to turn in 2017, with rises of 7.2 percent and 2.6 percent respectively and renewed falls in 2019-20.

1.2. Developments in Emerging Economies

- There have been improvements in economic conditions across a growing number of emerging markets on the back of continuing demand from China, reduced expectations of US monetary tightening and a renewed investor interest in higher-yielding assets in the emerging world due to unusually low bond yields in developed markets.
- However, the recovery in capital flows has not benefited all emerging markets, many of which continue to struggle in the face of depressed commodity prices.
- Moreover, the difficult economic conditions that key emerging markets, such as Brazil and Russia, experienced last year and in the first half of this year are gradually abating. Meanwhile, the Chinese economy stabilized in the second quarter as the resurgence of growth has been fueled by rising credit and a surge in government spending. However, the recent impulse to growth does not look sustainable and economic activity is set to slow in the coming quarter.
- Growth for Latin America as a whole is expected to pick up from 2017 as the gradual improvement in external conditions is sustained although the current downturn has exposed the region's enduring structural weakness of commodity dependence, and the need for policies to diversify economies and encourage productivity gains if the region is to free itself from boom-bust cycles. The region will also have to manage the legacy of a build-up in indebtedness (in particular hard-currency borrowing by the private sector) during the commodity boom in the medium term.

1.3. Developments in the Middle East and North Africa (MENA) Region

- Growth for the region has been projected to slow from 2.2 percent in 2015 to 2 percent in 2016. Despite a recovery in oil prices from their January pit, current price levels remain too low to enable a revival in the region's oil-dependent economies. Major oil producers continue to cut spending, by reducing investment and slashing politically sensitive subsidies, which in turn is depressing private consumption. This is weighing on regional economic growth.

- However, the outlook for 2017 and beyond is slightly better as it is projected that Iran, the second-biggest economy in the Middle East, which will experience a post-sanctions economic bounce-back, with annual real GDP growth of 5.3 percent in 2017-20 driven by a gradual recovery in crude oil exports, as well as a sharp increase in inward investment, notably into the country's infrastructure, which will provide a host of knock-on opportunities for the private sector.
- Rising oil prices in 2017-18 will also ease the strains in other energy-exporting countries coupled with the positive impact of a concerted drive to upgrade these countries' business environments in 2015-16, this will push economic growth slightly higher.

1.4. Developments in Sub Saharan Africa (SSA) Region

- Sub-Saharan African economies have failed to benefit from the modest rally in emerging-market currencies and capital inflows in the first half of 2016. The Rand, South Africa's currency, has recovered some ground against the US dollar so far this year, but like elsewhere on the continent economic performance is hindered by domestic constraints and continued low commodity prices.
- Economic growth is projected to slow in 2016 in Sub-Saharan Africa's three largest economies, South Africa, Nigeria and Angola as well as several of the region's smaller economies which will depress regional growth. At just 1.8 percent, Sub-Saharan Africa's pace of expansion will be the slowest in over two decades.
- Exchange rates also remain weak, notably in Nigeria and Angola, where authorities have had to devalue their currencies, as well as in Ghana and Tanzania.
- In Nigeria, Angola and other oil producers, the low oil price environment weighs on economic activity. External pressures including less investment and aid from China in addition to weak commodity prices will continue to expose the structural flaws that plague most African economies.
- However, slightly better external conditions, including a modest increase in commodity prices (compared with 2014-16 levels) and domestic policy improvements, will support stronger growth rates from 2017.

1.3. Global Fuel price

- The value of OPEC Reference Basket (ORB) rose by 1 percent and averaged US$43.1 per barrel in August 2016 after undergoing a 7 percent reverse decline against a backdrop of less-than-anticipated demand, high stocks, particularly of refined products and rising supply in July 2016 (refer to figure 1 below).
- The basket price had registered significant recovery for five consecutive months leading to July 2016 from its lowest value in years on account of better oil demand and oil supply disruptions over some months.
- In its August 2016 report, OPEC forecasts improved demand of its product due to better than expected economic performance in advance European economies and some Asian ones including India in the first half of the year. Nonetheless, oversupply still persists and the forecast casts doubt on the viability of oil output freezes at the cartel's meeting of September 2016.
- The EIU has however revised its 2016 price forecast for dated Brent Blend up to US$43 per barrel from US$40 per barrel.
- Decreases in average energy commodity prices in July were led by falling crude oil, while natural gas and coal prices advanced. In the group of non-energy commodities, agricultural prices

declined on expectation of ample supplies, while base metals were supported by manufacturing expansion in China. Average gold prices increased on expectations of lower interest rates in the US in the aftermath of the Brexit referendum.

1.8. Implications of the Global Economic Outlook to Malawi

- In Malawi just as most other SSA countries, the global economic outlook sustains down sided risks. The outlook for many agricultural commodities exported by Malawi remains volatile with prices declining in July and August due to expectations of increased supplies for instance.
- The risk of a sharper than anticipated slowdown in China and suppressed demand which may reflect the dampened economic growth projected in South Africa, our largest export destination within the SSA region, may affect our exports in the remainder of the year.
- However, projected improvements in commodity prices may present an improved external environment for Malawi.

2.0. LOCAL DEVELOPMENTS

2.1. GDP Growth Performance

The country's Real GDP was recorded at 3.1 percent in 2015 and is likely to drop further this year owing to the region-wide El Niño-induced drought that has affected performance of the agricultural sector and has been passed on to other sectors such as manufacturing. Government authorities project a GDP growth rate of 5.1 percent in 2016 and 7.0 percent in 2017 but the World Bank and the International Monetary Fund project slower rates of 2.6 percent and 2.7 percent respectively for 2016 (see table 1 on the annex page).

2.2. Inflation and Interest Rates

- Headline inflation for July 2016 was recorded at 23.5 percent rising from 22.6 percent recorded in June 2016.
- Headline inflation for the same period last year (July 2015) was slightly lower at 21.3 percent.
- There have been rises in both food inflation and non-food inflation from 27.7 percent and 18.2 percent to 29.20 percent and 18.7 percent respectively.
- The policy rate and Liquidity Reserve Requirement (LRR) stand at 27 percent and 7.5 percent respectively and commercial bank lending and savings rates were also maintained at averages of 38 percent and 8.5 percent respectively (refer to figure 2 on annex page below*)*

2.3. Foreign Currency Market

- The Malawi Kwacha registered a 2 percent appreciation against the South African Rand whilst maintaining relative stability against the British Pound and the United States Dollar (figure 3 in the annex page refers).
- At the close of the month, one United States Dollar was traded at MK721.05 from MK720. 5 as at the close of July 2016, one British Pound was trading at MK944.72 from MK944.91 whilst a South African Rand was trading at a rate of MK49.78 from MK50.91 in July 2016
- Political stability concerns following the local Government elections in South Africa as well as heightened pressures of the Federal Reserve's move to raise interest rates weighed down on the Rand in the month as as investors preferred to invest on the dollar counters hence the Kwacha's appreciation.

- Foreign reserves fell in August 2016 and totalled US$948.32 million (translating to 4.54 months of import cover from US$966.19 million (4.62 months of import cover) reported at the close of July 2016.
- There were reductions in reserves held by Government authorities and those with the private sector but with huge falls in the official reserves which were reported at US$629.14 million (2.93 months of import cover) down from US$629.14 million (3.01 months of import cover) in July 2016.

2.3. Domestic Credit to Private Sector

- Commercial banks extended loans amounting to K11.5 billion to the private sector during the month of May 2016 recording an increase in outstanding stock of credit to the private sector for the first time since February, 2016.
- The increase in lending was largely noticed in foreign currency denominated loans which grew by K10.5 billion largely on account of revaluations of the facilities following the movement of the kwacha with growth in lending to manufacturing, transport, wholesale, financial services, construction and mining sectors rising by K6.6 billion, K4.2 billion, K2.4 billion, K516.1 million, K227.3 million and K31.3 million to K51.2 billion, K21.7 billion, K86.7 billion, K7.1 billion, K12.0 billion and K721.1 million, respectively.

3. ECONOMIC OUTLOOK

- The short to medium term growth outlook is still not certain. Domestic supply constraints, such as infrastructure shortcomings, especially on electricity undermine private sector production output while adding to inflationary pressures and producing large current account deficits as imports increase to meet demand. Policy mismanagement remains a risk with inconsistent application of fiscal and monetary policies fueling increased domestic borrowing which will sustain the high lending rates. In addition to that, there should be expectation of increased pressure on exchange rate and foreign reserves in the next coming months following the underperformance of tobacco market in 2016 due to subdue in both prices and sold volumes compared to last year. But on overallthe private sector will thus continue to be held back by difficult operating environments.

4.0 BUSINESS NEWS

Malawi Records Least Number of perceived market barriers in Sub Saharan Africa

- Malawi has and South Africa reported the least perceived barriers to trade in 2015-2016 in a study report that the World Bank recently released. The report 'breaking down barriers; unlocking Africa's potential through vigorous competition policy" provides a special focus on competition enforcement and effective market regulatory environments in cement, fertilizer and telecommunications in Africa.
- Trade barriers have the potential of reducing competitive pressure in the domestic tradable goods market and the report indicates that Malawi limits the competitive ability of imported goods to a relatively lesser extent in Sub-Saharan Africa.

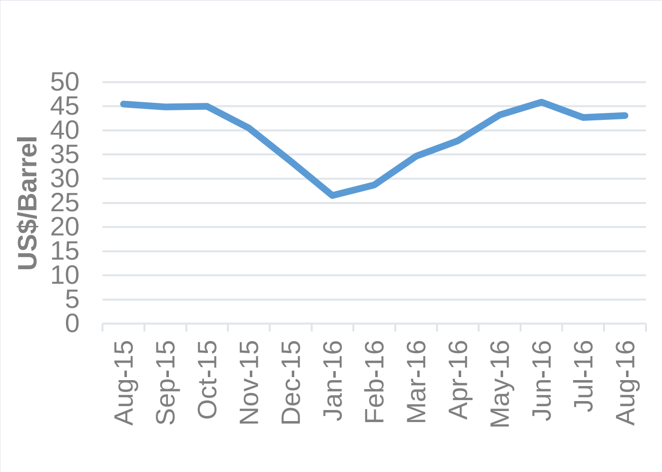
5.0 ECONOMIC INDICATORS

Table 1: Real GDP Growth

YEAR	2013	2014	2015	2016e[1]	2017p[2]
GDP Growth (%)	6.3	6.0	3.1	5.1	7.0

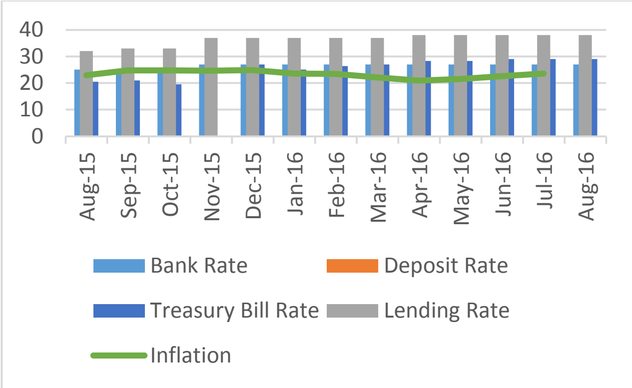
Source: RBM

Figure 1: OPEC Monthly Basket Prices



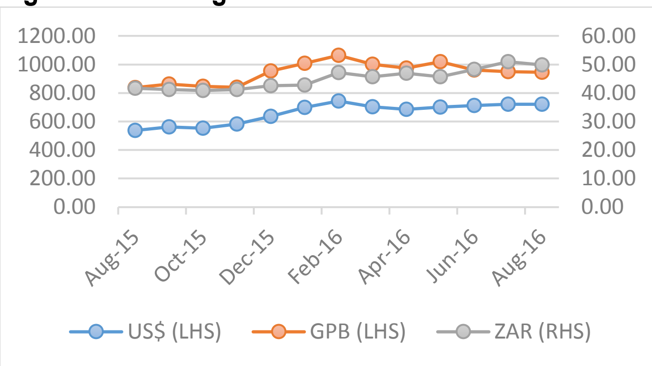
Source: OPEC

Figure 2: Interest Rates and Inflation Movements



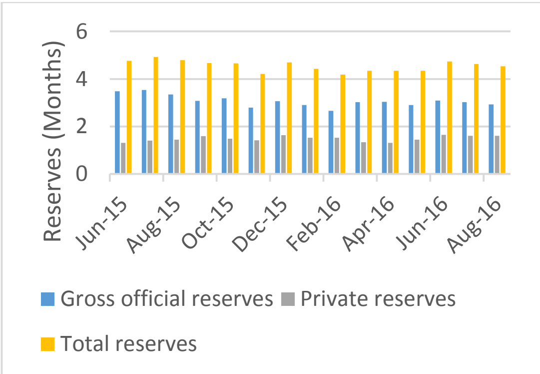
Source: Reserve Bank of Malawi and National Statistics Office

Figure 3: Exchange Rate Movements



Source: Reserve Bank of Malawi

Figure 4: Foreign Reserves Performance



Source: Reserve Bank of Malawi

[1] Estimate

[2] Projection