

Background

The British protectorate of Nyasaland became the independent nation of Malawi in 1964.

After three decades of one-party rule, the country held multiparty elections in 1994 under a provisional constitution, which took full effect the following year. National multiparty elections were held again in 1999.

Government

Government type:	Multiparty democracy
Capital:	Lilongwe
Independence:	6 July 1964 (from UK)
Chief of state:	President Bakili Muluzi (since 21 May 1994)
Elections:	President elected by popular vote for a five-year term; election last held 15 June 1999 (next to be held NA 2004)

Source: CIA World Factbook 2003

People

Population:	11,651,239 (July 2003 est)
Population growth rate:	2.21% (2003 est)
Life expectancy at birth:	Total population: 37.98 years Male: 37.57 years Female: 38.39 years (2003 est)
Ethnic groups:	Chewa, Nyanja, Tumbuka, Yao, Lomwe, Sena, Tonga, Ngoni, Ngonde, Asian, European
Religions:	Protestant 55%, Roman Catholic 20%, Muslim 20%, indigenous beliefs 3%, other 2%
Languages:	English (official), Chichewa (official), other languages important regionally
Adult literacy rate:	Total population: 62.7% Male: 76.1% Female: 49.8% (2003 est.)

Source: CIA World Factbook 2003, UNDP Human Development Report 2003



Geography

Area:	Total: 118 480 sq km water: 24 400 sq km land: 94 080 sq km
Land boundaries:	Total: 2,881 km Border countries: Mozambique 1 569km, Tanzania 475km, Zambia 837km
Climate:	Sub-tropical; rainy season (November to May); dry season (May to November)
Terrain:	Narrow elongated plateau with rolling plains, rounded hills, some mountains
Natural resources:	Limestone, arable land, hydropower, unexploited deposits of uranium, coal, and bauxite
Land use:	Arable land: 19.93% permanent crops: 1.33% other: 78.74% (1998 est)
Irrigated land:	280 sq km (1998 est)
Natural hazards:	Drought.
Environment:	Deforestation; land degradation; water pollution from agricultural runoff, sewage, industrial wastes; siltation of spawning grounds endangers fish populations

Source: CIA World Factbook 2003

Health

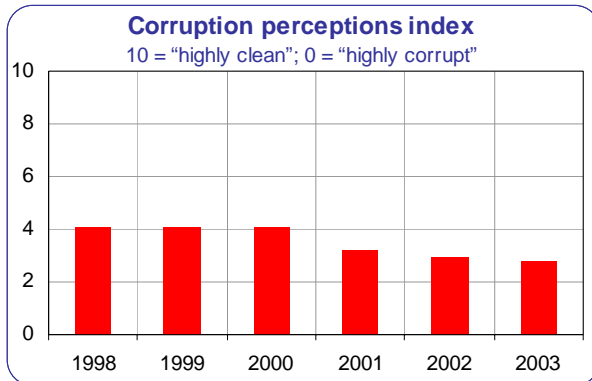
People living with HIV/Aids: Adults: (age 15-49) 2001: 15%
 Women:(age 15-49) 2001: 440 000
 Children: (age 0-14) 2001: 65 000

Tuberculosis cases: (per 100 000 people) 2001: 242

Undernourished: 33% of total population people (1998/00)

Source: UNDP Human Development Report 2003

Corruption perceptions index (2003)



2003 score: 2.8 (where 10 is "highly clean" and 0 is "highly corrupt").

2003 rank: 83 (133 countries surveyed, 1 = least corrupt, 133 = most corrupt).

(The surveys reflect the perceptions of business people, academics and country analysts. The surveys were undertaken over the past three years and no country has been included in the index without results from a minimum of three surveys).

Source: Transparency International

Restrictions on capital flows

The Reserve Bank of Malawi (RBM) manages exchange control in Malawi. For data collection purposes, foreign investment capital whether in the form of equity or loans needs to be registered with the RBM. The terms and conditions of foreign loans and investment in the form of equity and remittance of dividends (and capital in the event of disinvestment), technical and management and consultancy contracts with non-residents, licensing and royalty arrangements and similarly technology transfers require permission of the RBM.

Source: Werksmans Attorneys

Taxation

Tax is levied on income from actual and deemed Malawi sources at the following rates:

- 30% for companies and trading trusts (35% for branch companies) and 21% for life assurance businesses.
- 25% for ecclesiastical, charitable or educational institutions of a public character or trust.
- Graduated rates up to 30% (based on annual income) for individuals and partnerships.
- No tax is payable by approved companies operating in export processing zone;
- No tax for 10 years or 15% for companies operating in priority industries.

Source: Werksmans Attorneys

Sovereign Credit Rating

Standard & Poors:

Local currency: not rated

Foreign currency: not rated

Long-term definition: "A" indicates a strong capacity to meet financial commitments. "+" indicates upper end of category.

Short-term definition: "A-1" indicates strong capacity to meet financial commitments and is the highest short-term rating category offered by S&P.

Outlook definition: "Stable" indicates that the rating is unlikely to change over the next 2 to 3 years.

Moody's Investor not rated

Service:

Botswana not rated

Government:

Long-term definition: "A" indicates good credit quality and "1" indicates top-end and "2" mid-range within category.

Short-term definition: "P-1" indicates superior credit quality and a very strong capacity for timely payment.

Outlook definition: "Stable" indicates that the rating is unlikely to change over medium-term.

Human development

HDI Ranking 2001

162 out of 175 countries

(1=most developed, 175= least developed)

Norway	1
Seychelles	36
Mauritius	62
South Africa	111
Gabon	118
Egypt	120
Namibia	124
Botswana	125
Ghana	129
Swaziland	133
Lesotho	137
Zimbabwe	145
Kenya	146
Uganda	147
Madagascar	149
Nigeria	152
Tanzania	160
Ivory Coast	161
Malawi	162
Zambia	163
Angola	164
DRC	167
Mozambique	170
Sierra Leone	175

The Human Development Index (HDI) measures a country's achievements in three aspects of human development: longevity, knowledge and a decent standard of living. Longevity is measured by life expectancy at birth; knowledge is measured by a combination of the adult literacy rate and the combined gross primary, secondary, and tertiary enrolment ratio; and standard of living, as measured by GDP per capita.

Source: UNDP Human Development Report 2003

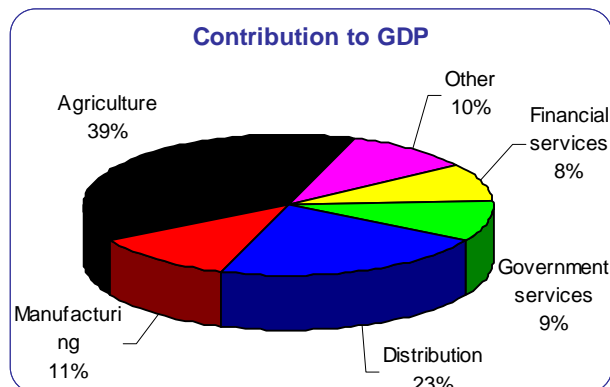
		1998	1999	2000	2001	2002	2003e	2004f
Population	(million)	10.4	9.8	10.0	10.1	10.4	10.6	11.7
Nominal GDP¹	(US\$m)	2 570	1 745	1 815	1 713	1 780	1 818	1 860
GDP/head¹	(US\$)	246	162	165	151	171	171	166
Exchange reserves² - excluding gold	(US\$m)	162	270	251	247	207	162.1	136.5
Import cover	(months)	2.5	5.6	4.5	4.4	3.6	2.4	2.3
External debt²	(US\$bn)	-	-	-	2.67	2.74	2.78	2.86
% of GDP	%	-	-	-	156	154	153	154

1) Year beginning in July. 2) End of period. 3) Preliminary or estimates.

e = estimate, f = forecast

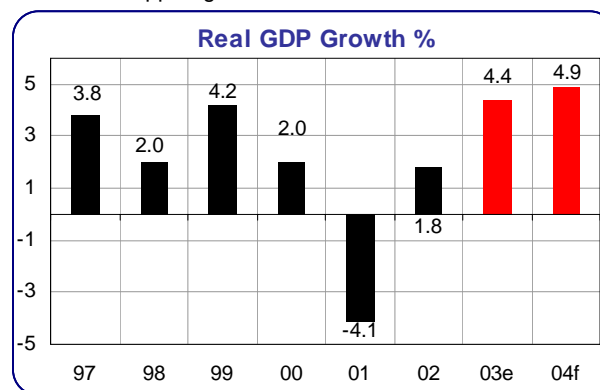
Economic structure

- Malawi's economy is small and not well diversified. Agriculture is the main economic activity. Smallholder agricultural production accounts for almost 80% of agricultural value-added while commercial agriculture accounts for the balance. The main crops are tobacco, tea, sugarcane and maize. Close to 80% of the labour force in Malawi is employed in the agriculture sector.
- Distribution, which is wholesale and retail trade, is the second largest sector in the economy accounting for 22% of GDP. Distribution is driven by growth in commercial agriculture particularly the transportation of sugarcane and tobacco.
- The manufacturing sector, which accounts for 11% of GDP, is dominated by agro processing industries. The sector's growth is constrained by high interest rates and an unstable exchange rate. Some of the notable industries are tea factories, cotton spinning, textile weaving, tobacco processing, grain milling and meat processing.
- The finance sector has witnessed growth following the privatisation of state-controlled banks. In addition, high local interest rates led to higher growth in the sector.
- Government services make up 9% of GDP but are declining as the pace of privatisation increases.
- The mining sector is the fastest growing although it makes up less than 1% of GDP. The sector went through a number of years of decline following little reinvestment and inappropriate tax policy. In a bid to diversify the economy the government is increasing its focus on the sector.



Real GDP growth

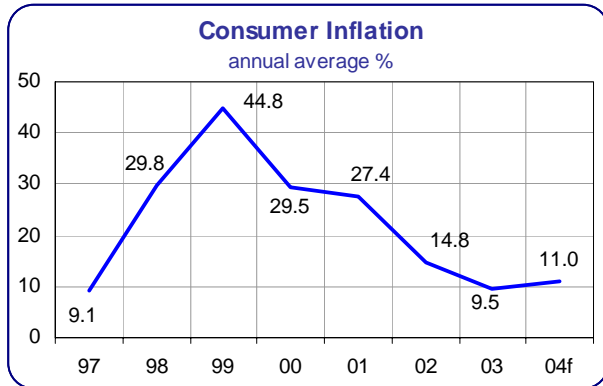
- Malawi's dependence on agriculture makes its economic growth rates sensitive to weather patterns and commodity markets. As a result, the country's economic performance has been mixed with some years posting higher growth rates and others negative growth rates.
- Malawi has a narrow tax base and the government is unable to raise the requisite revenue to finance the budget. As a result it relies heavily on the support of foreign donors and multi-lateral agencies to finance its operations.
- In 2001 the economy receded 4.1% following a severe drought and the withdrawal of foreign budgetary assistance. The government then borrowed heavily from the local money markets pushing out the private sector.
- Economic growth will be constrained until economy is diversified and with it a lesser dependence on limited sources of foreign exchange, particularly from tobacco.
- An expected recovery in agricultural output following various measures to improve availability of critical inputs should support growth of about 4.9% in 2004.



Consumer inflation

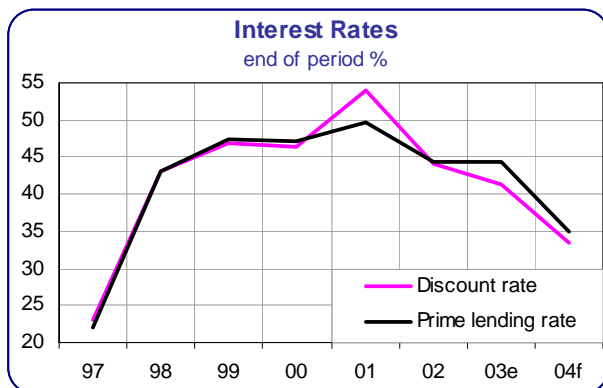
- Food prices account for 58.1% of the overall consumer price index, this means that changes in food prices dominate changes in overall inflation. Improvement in economic management and improved food security has seen inflation falling much lower in recent years.

- The withdrawal of the IMF's financial support led to a rising trend in overall inflation as the government used local borrowing to fill the revenue shortfall.
- The lack of macroeconomic stability including a volatile exchange rate, high and unpredictable interest rates as well as unclear fiscal and monetary policies distort the inflationary outlook for the economy.
- In 2003 inflation declined to one of its lowest levels in recent years due to a restrictive monetary policy stance adopted by the Reserve Bank of Malawi. However, inflation is expected to be much higher in 2004 due to the depreciation of the kwacha in 2003 and the possibility of fiscal laxity in the first half of 2004 ahead of the elections in May.

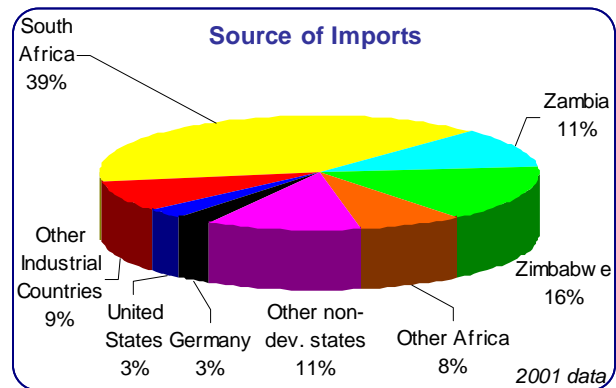
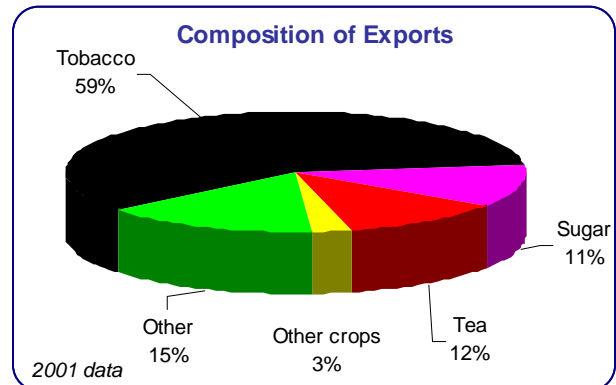
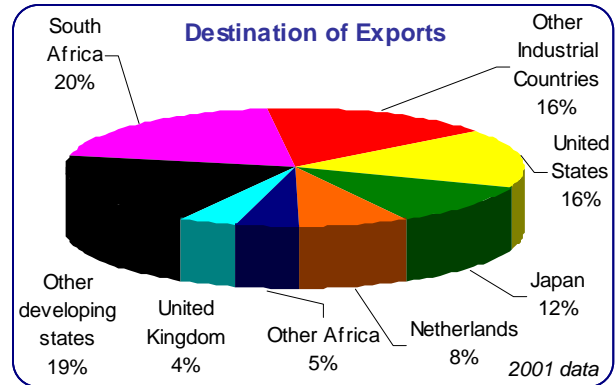


Interest rates

- Following the withdrawal of budgetary support by the IMF the government has had to borrow heavily from the local money markets. To compensate for the expansionary effects in money supply the reserve bank has had to adopt a restrictive stance keeping interest rates high, above 45%.
- Owing to high interest rates the private sector has been pushed out of the lending market and, in some instances, it has led to business closures or downsizing.
- Towards the end of 2003 the IMF resumed a lending programme triggering a 10% cut in the key repo rate by the reserve bank.
- The reserve bank's hands are tied and it is unlikely to cut interest rates further until fiscal policy is re-aligned to be less stimulatory to inflation by cutting back on expenditure and/or securing foreign budgetary assistance.

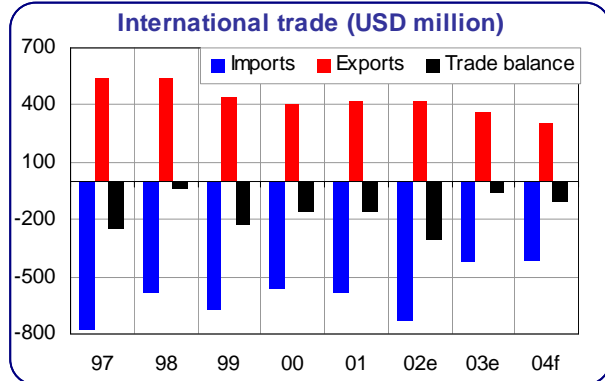


International trade



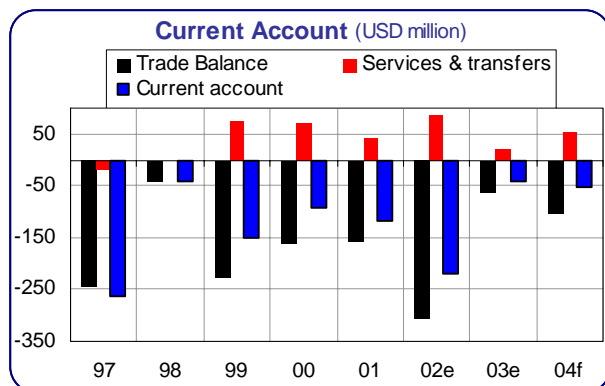
- Malawi's largest trading partner is South Africa, the anchor state in the regional economic grouping, Southern African Development Community (SADC). Other significant trading partners include the United States of America, Euro zone states of Germany and United Kingdom, Japan and Zimbabwe.
- Malawi's principal exports are tobacco, accounting for close to 60% of total exports, sugar and tea. Available data does not provide a breakdown of imports but petroleum products, agricultural inputs and food are mentioned as some of the major import categories.
- Tobacco exports have declined due to lower prices and solid growth in other export commodities; mainly tea, sugar, cotton and other non-traditional exports (including textile and apparel to the US under AGOA) have not been enough to compensate for declines in tobacco exports.

- Malawi has a trade deficit owing to the declining value of tobacco exports coupled with slow diversification of its export base leading to a declining trend in exports. At the same time imports increased, particularly in times of food deficits in the country.
- Expected weaker prices of tobacco will lead to lower export proceeds, however, improved food availability from local sources will require less food imports. Additionally the sharply weaker kwacha together with high interest rates will constrain import demand translating into a smaller trade deficit in 2004.



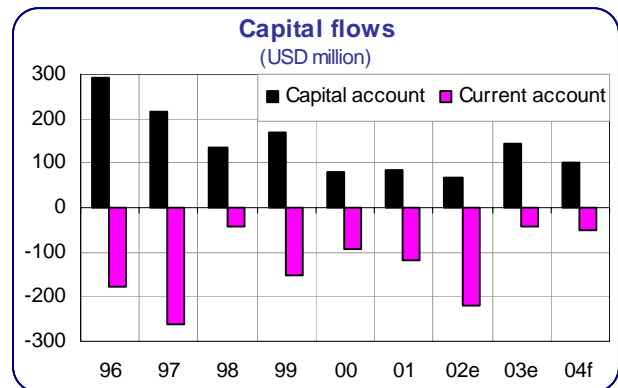
Current account

- Malawi's services account over the past six years has also been in deficit but has been supported by large official transfers of financial aid through the financial account, resulting in surpluses in most of the years.
- The official transfers are expected to continue over the foreseeable future as long as the government remains within the parameters agreed with the donor community.
- Malawi has maintained a large current account deficit over recent years due to the large trade deficit and small services and transfers surpluses. A lower estimated trade deficit due to import contraction led to a smaller current account deficit in 2003.
- A further decline in exports in 2004 is expected to lead to a wider trade deficit, which is unlikely to be compensated by a surplus in the service account resulting in a wider current account deficit.
- Malawi needs to diversify its economic base if it is to eliminate its current account deficits.

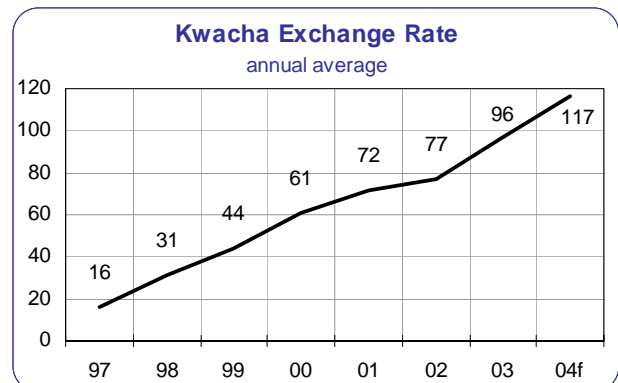


Capital flows

- Capital inflows are dominated by disbursements from the IMF for budgetary assistance and the World Bank for project aid.
- The relatively large foreign direct investment inflows, have tapered off as local conditions inhibited aggregate demand making the country less attractive as an investment destination. This, together with the suspension of IMF assistance in 2000, resulted in lower net capital inflows.
- The combination of lower net capital inflows and growing current account deficits caused serious balance of payments problems depleting the country's foreign exchange reserves.
- Despite an improvement in the trade account the country will continue to rely on foreign donors for balance of payments support. Maintenance of an IMF programme with its accompanying constraints is critical to obtaining balance of payment support.



Kwacha exchange rate

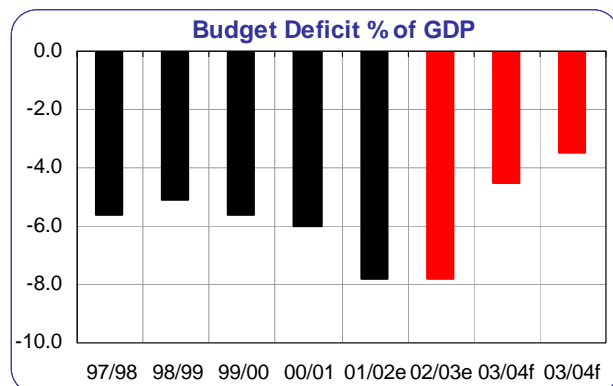


- The kwacha has depreciated sharply against the US\$ since 1997. This was mainly the result of falling export earnings caused by lower tobacco prices while imports remained at relatively high levels, especially in 2002 due to food import requirements.
- Tobacco revenues and foreign aid inflows support the kwacha. Any disruptions to these two sources of foreign exchange force the kwacha to depreciate sharply.
- Additionally, poor rainfall leading to food shortages exerts pressure on the country's reserves to pay for food imports. Therefore, in years of poor rainfall the kwacha is put under pressure.

- Following the resumption of donor support and prospects of a good harvest we expect the kwacha to come under moderate pressure due to declining export receipts.

activities, which should gradually absorb under-performance in traditional industries.

Government finances



- Owing to the country's narrow tax base and small formal sector the government is not in a position to raise adequate revenues from local sources resulting in recurrent budget deficits. The government, therefore, has to enter into IMF-led agreements to raise budgetary shortfalls.
- The government has not been able to stay within agreed limits on spending resulting in the withdrawal of lending facilities and large budgetary deficits. Additionally weak economic conditions in the past few years have resulted in similarly weak tax revenue.
- Following the resumption of IMF lending the budget deficit is expected to narrow in the 2003/2004 fiscal year. Government spending could be higher than it would like as 2004 is an election year.
- Over the longer term any successes in diversifying the economic structure will assist in widening the tax base and eliminating the heavy reliance on tobacco for domestic revenue.

Economic outlook

- Malawi's immediate economic outlook depends on the country maintaining its programmes with the IMF, World Bank and other donors.
- The economy requires diversification and further restructuring despite the significant inroads that have been made. A greater focus on fiscal discipline is required to moderate inflationary pressure and the resultant crowding out of the private sector through domestic budget financing. This should lead to lower real interest rates supportive of domestic industries.
- Over the short term the economy is expected to improve with better performance in the agricultural sector particularly, tobacco, and the resumption of foreign aid which has already contributed to lowering interest rates in Malawi.
- Increased investment in infrastructure including energy should be supportive of economic activity. The recent growth of exports to the US under the Africa Growth Opportunity Act (AGOA) has acted as a stimulant to the, previously moribund, textile industry. The economy is expected to benefit increasingly from textile and related

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