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General Notes

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**HIGHLIGHTS****1.1 Gross Foreign Exchange Reserves<sup>1</sup>**

Total gross foreign reserves of the banking system decreased to US\$328.5 million (K49.5 billion) in January 2011 from \$371.6 million (K56.0 billion) in December 2010. This was equivalent to finance 2.6 months of imports from to 2.9 months of imports registered in the preceding month.

**1.2 Exchange rates**

The Malawi kwacha exhibited a mixed performance against all other currencies of its major trading partners whilst remaining relatively stable against the US dollar. This reflected mixed developments on currency markets on both international and regional scene.

**1.3 Money Supply**

Broad money supply (M2) contracted by K3.1 billion (1.5 percent) in January 2011 to K200.8 billion compared to an expansion of K7.5 billion (3.8 percent) in December 2010. This development was attributed to a decrease in net foreign assets as net domestic assets increased. On annual basis, however, M2 recorded an accelerated growth of 21.5 percent in January 2011 from 17.8 percent in December 2010.

**1.4 Interest Rates**

While the bank rate, commercial banks' prime lending rate and savings rate maintained at the August 2010 levels of 13.0 percent, 17.67 percent and 4.14 percent, respectively, slight movements were noted in the money market rates during the month of January 2011.

**1.5 Inflation**

In January 2011, inflation accelerated by 0.3 percent to 6.6 percent from 6.3 percent in December 2010. Inflationary pressures mounted on account of water and electricity tariff adjustments in addition to upward revision of road charges.

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<sup>1</sup> The figures exclude encumbered reserves and holdings by Crown Agents.

## **2.0 EXTERNAL SECTOR**

### **2.1 Gross Foreign Exchange Reserves**

Total foreign reserves of the banking system stood at US\$328.5 million (K49.5 billion) in January 2011 from US\$371.6 million (K56.0 billion) recorded in December 2010. This represented 2.6 months of imports down from 2.9 months of imports in the preceding month. This outturn was partly on account of a decline in gross official reserves from US\$279.6 million (K42.2 billion) in the preceding month to US\$234.3 million (K35.3 billion) in January 2011. However, commercial banks' reserves increased to US\$94.2 (K14.2 billion) million from US\$92.0 million (K13.9 billion) recorded in December 2010.

### **2.2 Foreign Exchange Market**

Net foreign exchange sales transactions conducted through the Reserve Bank of Malawi resulted into a deficit of US\$45.1 million (K6.8 billion) in January 2011 from a surplus of US\$124.6 million (K18.8 billion) registered in the month of December 2010. This outturn was explained by an increase in demand for foreign exchange during the month under review, while supply decreased.

Supply of foreign exchange dropped to US\$13.9 million (K2.1 billion) in January 2011. Total project funds formed the major source of foreign exchange during the month under review, amounting to US\$10.7 million (K1.6 billion).

Demand for foreign exchange rose to US\$59.0 million (K8.9 billion) in January 2011 from US\$15.2 million (K2.3 billion) registered in the preceding month. Major uses of foreign exchange in the month included sales to authorised dealer banks (ADB), transfers and government payments.

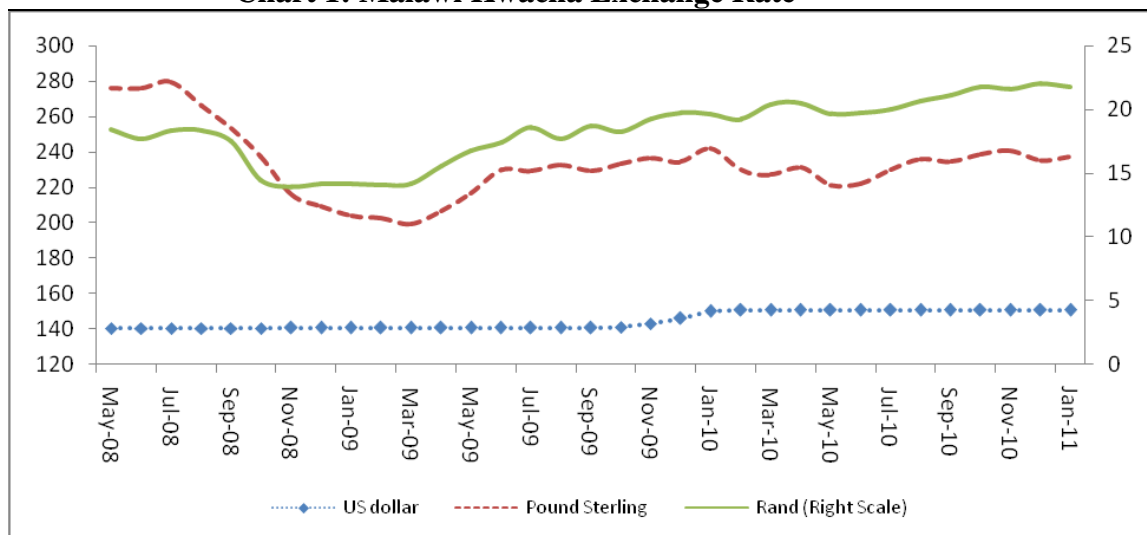
### **2.3 Exchange Rate Developments**

The Malawi kwacha performed variably against all other major trading partners' currencies while remaining relatively stable against the US dollar in January 2011.

The kwacha stood at K150.8008 per dollar during the month under review from K150.8009 in the preceding month. The Malawi kwacha depreciated by 2.4 percent and 2.6 percent against the euro and British pound, respectively to trade at K204.9081 per euro and K238.7026 per pound in January 2011. This development was on account of weakening of the US dollar against the euro and British pound owing to positive developments on euro zone's debt situation and an increase in German investor confidence. With regard to Japanese yen, the local unit appreciated albeit marginally by 0.6 percent to reach K1.8379 per yen in January 2011.

Within the region, the kwacha strengthened against both the South African rand and Zambian kwacha in January 2011. This was partly due to weakening of the country's major trading partners' currencies within the region against the US dollar. The kwacha appreciated by 7.5 percent against the South African rand to reach K22.0038 per rand. Similarly, the local unit gained 0.9 percent against Zambian kwacha and trade at K0.0313 per Zambian kwacha from K0.0316 per the Zambian kwacha registered in the preceding month.

**Chart 1: Malawi Kwacha Exchange Rate**

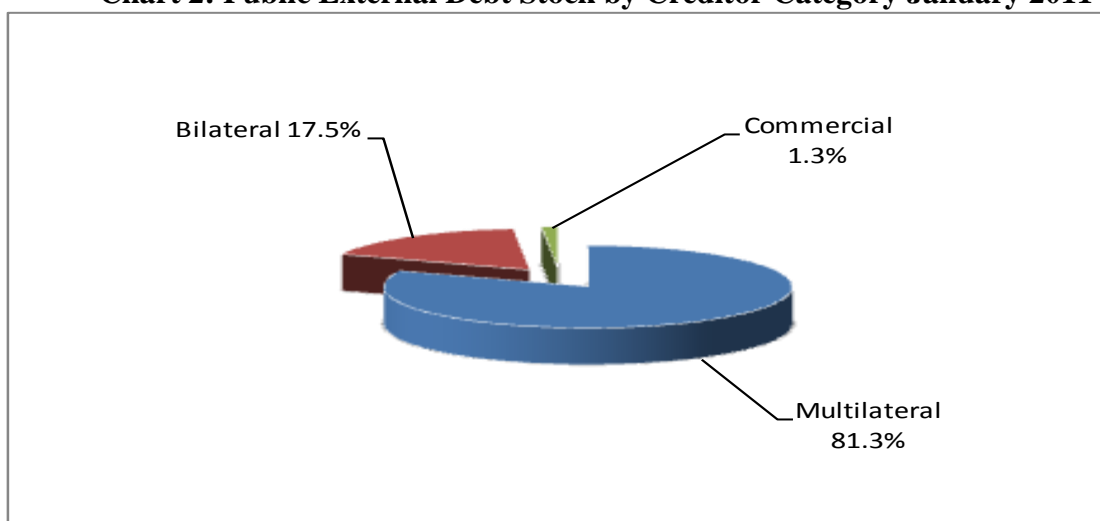


Source: Reserve Bank of Malawi

**2.4 External Debt Stock**

Outstanding public external debt totalled US\$845.3 million in January 2011, which was 16.5 percent of GDP. This was a slight decrease of 0.11 percent from US\$846.2 million recorded in the preceding month while during a corresponding period in 2010, the outstanding debt stock increased by 11.3 percent. The month on month decrease in the outstanding debt stock emanated from net principal amortisation of US\$0.9 million. In the month under review principal amortisation totalled US\$1.89 million while recorded disbursements were only US\$1.0 million from IDA.

**Chart 2: Public External Debt Stock by Creditor Category January 2011**



Source: Reserve Bank of Malawi

Multilateral debt made up 81.3 percent of the outstanding debt stock at US\$686.9 million having decreased by US\$0.1 million from US\$687.0 million in December 2010. Principal repayments to multilateral creditors amounted to US\$1.1 million compared to disbursements of US\$1.0 million, resulting in net principal repayments of US\$0.1 million. Bilateral debt decreased to US\$147.7 million from US\$148.5 million in the preceding month to make up 17.5 percent of the total debt stock following principal repayments amounting to

US\$0.8 million paid to China (Taiwan) and Natixis (France). Commercial debt remained at US\$10.8 million which was 1.3 percent of the outstanding debt stock. The distribution of the debt stock is shown in chart 2.

## **2.5 External Debt Service**

Total public external debt service in January 2011 amounted to US\$2.7 million, slightly higher than the US\$2.6 million recorded in December 2010. In a corresponding month in 2010 public external debt service amounted to US\$2.8 million. The debt service made in the month under review included US\$2.6 million externalised by the Central Government and US\$0.2 million paid by ESCOM to DBSA in interest payments. The amount externalised by the central government was made up of amortization amounting to US\$1.9 million and interest payments totalling US\$0.7 million.

## **3.0 BANKING AND FINANCE**

### **3.1 Monetary Developments**

Broadly defined money supply (M2) declined by K3.1 billion (1.5 percent) to K200.8 billion in January 2011 from K203.9 billion in December 2010. This outturn was attributed to a K7.6 billion (37.1 percent) drop in net foreign assets that was partly offset by a K4.4 billion (2.4 percent) increase in net domestic assets. Consequently, annual M2 growth rose by 3.7 percentage points to 21.5 percent in January 2011 from 17.8 percent in the preceding month.

On the demand side, the contraction in broad money supply was attributed to narrow money which declined by K5.1 billion (4.9 percent) in contrast to quasi money which increased by K1.9 billion (1.9 percent).

Narrow money declined to K97.1 billion in January 2011 from the preceding month's position of K102.1 billion. Both currency in circulation and demand deposits explained the observed decline in narrow money. Currency in circulation dropped by K3.3 billion (10.2 percent) to K28.6 billion in the review month from K31.8 billion in December 2010. Similarly, demand deposits declined by K1.8 billion (2.6 percent) to close the review month at K68.5 billion. This development reflected slowdown in economic activity at the onset of the year.

Quasi money expanded to K103.7 billion in January 2011 from K101.8 billion in December 2010 on account of a K1.4 billion (1.7 percent) and K519.5 million (2.8 percent) increase in term (time and savings) deposits and foreign currency deposits, respectively. The accumulation of term deposits reflected precautionary demand for money balances whilst project receipts explained the observed increase in foreign currency deposits.

### **3.2 Net Domestic Credit**

Net domestic credit stood at K227.4 billion in January 2011, representing a monthly increase of K10.5 billion (4.8 percent). The increase emanated from net credit to government and private sector credit which recorded monthly increases of K9.8 billion (10.8 percent) and K716.3 million (0.6 percent), respectively. Meanwhile, credit to state-owned enterprises dropped marginally by K21.8 million (0.5 percent) during the review month.

The banking system's net credit to government rose to K100.4 billion in January 2011 from K90.6 billion in December 2010. The outturn was explained by a K9.4 billion (13.0

percent) increase in net credit extended by the monetary authorities coupled with a K380.8 million (2.1 percent) rise in credit extended by the commercial banks.

The monetary authorities' net claims on government increased to K81.9 billion in January 2011 from K72.5 billion recorded in December 2010. The outturn was attributed to K8.5 billion uptake of Ways and Means advances and K5.7 billion depletion of government's deposits that were somewhat offset by a K4.7 billion reduction in the stock of Treasury bills held by the authorities.

Net credit to government extended by the commercial banks stood at K18.4 billion in January 2011 from K18.1 billion in the preceding month largely due to K764.9 million issuances of Treasury bills that were partly offset by K300.0 million maturities of local registered stocks. Meanwhile, government accumulated K84.1 million in deposits during the month under review.

Gross credit to the private sector stood at K122.3 billion in January 2011 from K121.6 billion in December 2010. The bulk of the resources were allocated to the commercial and industrial sector (K2.1 billion), particularly to construction-related companies, reflecting rising demand for building materials, followed by mortgage loans and agriculture sector loans at K266.9 million and K104.0 million, respectively. These were, however, partly offset by partial repayments of personal loans and foreign exchange loans of K811.0 million and K224.2 million, respectively.

The stock of the state-owned enterprises' outstanding debt with the banking system declined marginally to K4.6 billion in January 2011 from K4.7 billion in the preceding month. This development was explained by a K40.5 million repayment of the parastatals' outstanding debt with the commercial banks which was partly offset by K18.7 million of credit availed by the monetary authorities during the month of January 2011.

**Table 1: Money Supply and its Sources**

<i>(In billion Malawi Kwacha)</i>										
	2010									2011
	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan
Money Supply (M2)	169.7	179.0	175.3	172.8	180.5	191.3	193.7	196.4	203.9	200.8
Narrow money (M1)	81.5	88.4	89.1	84.3	90.8	98.7	102.4	99.4	102.1	97.1
Quasi-money	88.2	90.7	86.2	88.5	89.7	92.6	91.3	96.9	101.8	103.7
Net Foreign Assets 1/	2.1	1.0	9.9	9.3	5.4	7.1	6.6	2.1	20.4	12.8
Net Domestic Assets	167.6	178.0	165.4	163.5	175.1	184.2	187.1	194.3	183.5	187.9
Net Domestic Credit	201.4	213.4	198.2	206.9	219.1	222.9	223.1	235.9	216.9	227.4
Government (Net)	92.4	100.9	80.5	89.3	102.3	104.1	99.6	112.4	90.6	100.4
Private Sector	102.2	106.0	111.3	110.7	110.4	112.4	117.0	118.4	121.6	122.3
Other Pub. Sector (net)	6.8	6.6	6.4	6.9	6.4	6.5	6.5	5.1	4.7	4.6
Other Items (Net)	-33.7	-35.4	-32.7	-43.4	-44.0	-38.7	-36.0	-41.6	-33.4	-39.4
Annual M2 growth	13.5	21.6	12.8	9.2	9.7	9.6	12.7	14.3	17.8	21.5
Monthly M2 growth	1.1	5.5	-2.1	-1.4	4.4	6.0	1.2	1.4	3.8	-1.5
Reserve Money	52.8	57.0	53.9	55.4	58.6	56.4	62.4	59.6	57.4	56.0
Money Multiplier	3.2	3.1	3.3	3.1	3.1	3.4	3.1	3.3	3.6	3.6
<i>Source: Reserve Bank of Malawi</i>										
<i>1/ Exclude encumbered reserves at RBM</i>										

### 3.3 Other Financial Institutions (OFIs)

The consolidated balance sheet position of Other Financial Institutions (OFIs) indicated that resources grew by K718.0 million to K41.7 billion during the month of January, 2011. The major source of funds for OFIs were private sector deposits which rose by K1.2 billion to K29.0 billion. Likewise, capital accounts liabilities of OFIs went up by K304.6 million to K5.6 billion on account of increase in retained earnings.

Notwithstanding these developments, official sector placements with OFIs dropped by K221.2 million to K2.5 billion. OFIs borrowing from domestic banks also reduced as liabilities to other domestic banks recorded a drop of K488.9 million to K1.9 billion as at end-January as OFIs continued to repay their obligations to domestic banks.

Reflecting increased resources, activities of OFIs also increased during the month under review. OFIs increased their transactions with domestic banks reflected by an increase in claims on domestic banks of K1.2 billion to K4.2 billion partly indicating an improvement in liquidity position in the financial system. Furthermore, other assets of OFIs increased by K405.3 million to K5.3 billion on account of increases in accrued interest receivable from borrowers. Nevertheless, OFIs' investments abroad declined and were indicated by a decrease in claims on banks abroad of K423.9 million to K188.2 million. OFIs also reduced investment in government securities as holdings of Treasury Bills dropped by K296.9 million to K5.8 billion.

### 3.4 Discount Houses

Total resources of discount houses increased by K9.7 million to K6.0 billion during the month of January, 2011 compared to an increase of K447.6 million registered in the preceding month. The major source of funds were REPO transactions with the general public as they grew by K55.9 million to K1.8 billion. Notwithstanding this, borrowing on the interbank market dropped by K43.0 million to K3.3 billion as discount houses collected more deposits which improved their liquidity position during the month under review.

Capital accounts liabilities also declined marginally by K3.3 million to K918.4 million on account of a decrease in profits realised.

Following increased resources, discount houses increased their activities during the month of January, 2011. The discount houses used most of their funds to invest on the interbank market as placements with Authorised Dealer Banks grew by K204.2 million to K945.7 million. Balances with commercial banks recorded an increase of K57.9 million while discount houses invested K42.9 million in reverse REPOs during the month.

Notwithstanding these developments, discount houses reduced financing of government activities indicated by a decrease in holdings of Treasury Bills of K584.1 million to K1.8 billion mainly due to maturities, a turnaround from an increase of K425.5 million registered in the preceding month.

**Table 2: Interest Rate Structure**

	2010									2011
	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan
Bank Rate	15.00	15.00	15.00	15.00	13.00	13.00	13.00	13.0	13.0	13.0
Base Rate	19.25	19.25	19.25	19.25	17.75	17.75	17.75	17.75	17.75	17.75
Savings Rate	3.33	3.33	3.33	3.33	3.75	3.75	3.75	3.75	3.75	3.75
Inter-bank rate										
Minimum	4.00	13.80	13.83	14.28	14.28	2.00	3.20	3.50	4.50	4.50
Maximum	14.50	15.00	16.6	16.60	13.00	7.90	7.00	8.75	12.00	12.00
Treasury bills Yields										
91 Days	9.96	9.48	10.20	10.54	10.43	9.12	7.91	7.30	7.30	7.30
182 Days	7.25	7.04	7.23	7.50	7.51	7.14	7.01	6.93	6.20	6.20
273 Days	11.12	10.66	11.34	11.63	11.39	9.75	7.83	7.20	7.15	7.15
Government Bonds	11.50	10.75	11.93	12.48	12.38	10.47	8.90	7.78	7.39	7.39
Mortgage (min)	35.00	35.00	35.00	35.00	35.00	35.00	35.00	35.00	35.00	35.00
	19.00	19.00	19.00	19.00	19.00	19.00	19.00	19.00	19.00	19.00

Source: Reserve Bank of Malawi

### 3.5 Interest Rates

In the month of January 2011, the bank rate, commercial bank's prime lending rate and average savings rates sustained the August 2010 levels of 13.0 percent, 17.67 percent and 4.14 percent, respectively. Slight movements were, however, observed in the interbank rate and all-type Treasury bills yields.

### 3.6 Money Market

#### 3.6.1 Government Securities Market

Total Treasury bills subscriptions in January increased by 76.4 percent to K9.7 billion, reflective of the abundant liquidity available in the market. Despite the increase, subscriptions fell short of the rollover target for the month of K11.6 billion.

A total of K14.9 billion in Treasury bills were issued during the month under review, of which K5.9 billion were normal issues (weekly auction Treasury bills issues) and the remainder were conversions of Ways and Means advances. The normal issues at K5.9 billion, more than doubled the previous month's allotments of K2.7 billion. Total maturities in January 2011 amounted to K11.6 billion, the bulk of which were normal maturities (K6.4 billion). These developments led to net issuance of K3.3 billion thereby increasing the

Treasury bill stock to K133.9 billion from its previous month's closing position of K130.6 billion.

**Table 3: Treasury Bills Primary Market**

<i>(In billion Malawi Kwacha)</i>										
	2010									2011
	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan
Total subscription	9.5	6.0	7.1	7.7	12.4	31.2	17.4	8.5	5.5	9.7
Issues	13.5	39.2	16.3	14.3	16.1	13.6	14.4	16.0	2.7	14.4
Maturities	17.1	27.2	21.2	17.4	9.7	12.2	15.3	10.6	16.4	11.6
Normal Treasury bills	6.0	10.5	11.2	11.9	9.7	12.2	5.6	5.2	5.5	6.4
OMO Stock	11.1	16.7	10.0	5.5	-	-	9.7	5.4	10.9	5.2
Net Issues(+)/maturities(-)	-3.6	12.0	-4.8	-3.1	6.4	1.4	(0.9)	5.4	(13.7)	2.8
Conversions (period total)	6.0	33.3	9.9	6.6	6.6	-	10.2	10.6	0.0	9.0
T-bill debt stock at cost value	118.1	129.3	125.0	122.0	127.7	128.8	128.1	133.3	120.7	124.0

Source: Reserve Bank of Malawi

### 3.6.2 Domestic Debt Stock

Total domestic debt stock increased by 1.8 percent to K157.5 billion in January 2011 from K154.7 billion in December 2010. This was mainly due to 2.7 percent increase in Treasury bills, the major component of domestic debt. The major holder of Treasury bills, Reserve Bank of Malawi, increased its holdings by 5.1 percent. Commercial banks and Discount Houses also increased their holdings by 2.6 percent and 6.5 percent, respectively. There were no outstanding Ways and Means advances and no issues of Local Registered Stocks (LRS) during the month under review. A total of K0.5 billion LRS were however redeemed on 31 January, thereby reducing the LRS stock to K2.9 billion as at the close of the month. Treasury notes held by the Reserve Bank remained at K30.6 billion.

The Reserve Bank remained the largest holder of Treasury Bills with 61.9 percent of total Treasury bill holdings, followed by commercial banks with 22.0 percent. The non-bank sector held 12.2 percent while discount houses held 3.9 percent of the total Treasury bill holdings. Treasury bill holdings by the Reserve Bank, Commercial banks and Discount Houses increased to K76.7 billion (from K73.0 billion), K27.3 billion (from K26.6 billion) and K4.9 billion (from K4.6 billion) respectively. On the other hand, the non-banks sector reduced their holdings to K15.1 billion from K16.5 billion in December. With no holding in January, the foreign sector remained dormant on the Treasury bill primary market.

**Table 4: Domestic Debt Holdings by Sector (Cost Values)**

<i>(in billion of Malawi kwacha)</i>										
	2010									2011
	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	
<b>Total Domestic Debt Stock</b>	<b>166.3</b>	<b>159.1</b>	<b>156.1</b>	<b>166.3</b>	<b>162.9</b>	<b>162.2</b>	<b>168.8</b>	<b>154.7</b>	<b>157.5</b>	
<b>Total Treasury bills Stock</b>	<b>129.3</b>	<b>125.0</b>	<b>122.0</b>	<b>127.7</b>	<b>128.8</b>	<b>128.1</b>	<b>133.3</b>	<b>120.7</b>	<b>124.0</b>	
Residents										
Reserve Bank	74.7	74.5	75	81	80.2	80.1	85.7	73.0	76.7	
Commercial Banks	24.5	23.0	21.9	21.7	22.9	22.7	25.1	26.6	27.3	
Discount Houses	6.2	5.0	3.4	3.3	5.2	5.4	5.3	4.6	4.9	
Other Residents	23.2	22.5	21.7	21.7	20.5	19.9	17.2	16.5	15.1	
Non-residents	0.7	-	-	-	-	-	-	-	-	
<b>Total Local Registered Stocks</b>	<b>3.5</b>	<b>3.5</b>	<b>3.5</b>	<b>3.5</b>	<b>3.5</b>	<b>3.5</b>	<b>3.4</b>	<b>3.4</b>	<b>2.9</b>	
Reserve Bank	-	-	-	-	-	-	-	-	-	
Commercial Banks	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.2	
Discount Houses	0.9	0.9	0.9	0.9	0.9	0.9	0.8	0.8	0.7	
Non Banks	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	
<b>Holdings of Treasury Notes by RBM</b>	<b>30.6</b>	<b>30.6</b>	<b>30.6</b>	<b>30.6</b>	<b>30.6</b>	<b>30.6</b>	<b>30.6</b>	<b>30.6</b>	<b>30.6</b>	
<b>Ways and Means advances</b>	<b>2.9</b>	<b>-</b>	<b>-</b>	<b>4.5</b>	<b>-</b>	<b>-</b>	<b>1.5</b>	<b>0.0</b>	<b>0.0</b>	

*Source: Reserve Bank of Malawi*

### 3.6.3 Treasury Bill Yields

Treasury bill yields declined across all tenors except for the 91-day tenor which gained 20 basis points to close the month at 6.4 percent. The 273 paper shed the most points settling at 7.22 percent from 7.39 percent at the close of the previous month. The 182 paper followed suit and dropped 17 basis points to 6.99 percent. The changes in yields for these tenors pushed down the all type yield to 6.87 percent in January from 6.91 percent in December 2010.

## 3.7. Banking System Liquidity Position

### 3.7.1 Inter-bank Money Market

The banking system was awash with liquidity following expansionary monetary and fiscal operations in January 2011. Average excess reserves more than doubled to K6.5 billion a day from K2.9 billion during the previous month. The abundant liquidity depressed trading on the interbank market pushing down inter-bank market rates to as low as 2.77 percent but closed the month slightly higher at 3.16 percent.

**Table 5: Banking System Liquidity**

<i>(in billion of Malawi kwacha)</i>											
	2010										2011
	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan
Total Reserves	22.2	21.8	21.7	21.78	21.63	23.62	25.13	27.9	28.81	30.2	30.5
Required Reserves	21.2	21.6	21.7	22.4	22.2	22.4	23.9	25.1	26.4	27.3	24.0
Excess Reserves	1.0	0.2	0.7	-0.58	-0.58	1.20	1.28	2.82	2.4	2.9	6.50
Inter-bank Market Activity	2.2	1.8	2.1	2.78	2.25	3.36	3.52	3.02	2.8	3.1	1.8
Discount Window Borrowing	2.4	3.1	3.6	3.66	4.46	2.71	-	1.57	2.8	1.4	0.5
Average Inter-bank Market Rate	12.90	14.50	14.37	14.78	14.73	6.07	4.27	5.86	4.85	10.6	3.2

*Source: Reserve Bank of Malawi*

**Table 6: Liquidity Management<sup>2</sup>**

*(in billion of Malawi kwacha)*

	October 2010	November 2010	Dec 2010	Jan 2011
Net Government Operations <sup>3</sup>	0.04	10.23	-8.83	3.97
Government deficit excluding grants	0.07	10.14	-11.71	5.00
Revenue	19.50	16.33	34.83	17.25
MRA	15.60	12.35	22.83	14.04
Other, excluding grants	3.90	3.98	12.00	3.21
Expenditure	19.57	26.47	23.12	22.25
Net Government Domestic Borrowing	-0.03	0.09	2.83	-1.03
TB issues	5.61	5.12	2.06	5.66
TB maturity	5.58	5.21	4.91	4.63
Net Forex Operations	-3.36	-4.84	-0.27	-3.75
Sales	6.07	5.45	0.48	4.28
Purchases	2.71	0.61	0.21	0.53
Net OMO	4.92	-6.36	0.61	8.45
Injections	11.73	4.82	26.36	8.95
Purchase of securities	0.00	0.00	0.00	0.00
Discount window accommodation	7.86	2.82	10.01	0.50
Repo maturities	3.87	2.00	16.35	8.45
Withdrawals	6.81	11.18	25.75	0.50
Sale of securities	0.00	0.00	2.15	0.00
Maturing Discount window accommodation	1.24	9.15	10.96	0.50
Repos	5.57	2.03	12.65	0.00
Net Operations	1.60	-0.96	-8.52	8.67

Source: Reserve Bank of Malawi

### 3.7.2 Open Market Operations

Expansionary monetary operations in January emanated from maturing repos to the tune of K8.5 billion whilst fiscal operations injected a further K4.0 billion. Foreign exchange operations withdrew K3.8 billion from the system but were insufficient to sterilize the liquidity injection. As a result, a net of K8.7 billion was injected into the banking system.

### 3.8 Capital Markets

The number of counters on the Stock Exchange remained at fifteen (15). This was due to lack of new stock listings on the local bourse during the period under review.

A total of 44.8 million shares valued at K2.2 billion were traded in January 2011 compared to 20.3 million shares valued at K99.6 million transacted in the preceding period. The Malawi All Share Index (MASI) increased to 4,978.75 points from 4,953.09 points due to an upward movement in the Domestic Share Index (DSI) from 3,922.61 points to 3,943.09 points while the Foreign Share Index (FSI) remained stable at 351.92 points. The MASI closed off at 5,154.95 points in a corresponding period last year. Market capitalisation closed off at K1,279.9 billion compared to K1,278.5 billion recorded in the previous month.

<sup>2</sup> Under net government operations, supply of liquidity is positive whereas withdraw of liquidity is negative.

<sup>3</sup> A positive position implies injection while a negative position is withdraw of funds

During the same period last year, market capitalisation was at K1,172.1 billion.

#### 4.0 CENTRAL GOVERNMENT BUDGETARY OPERATIONS

Central government budgetary operations during the month of January, 2011 resulted into a deficit of K9.5 billion following a surplus of K22.6 billion recorded during the month of December, 2010. The deficit arose largely from a decline in revenues coupled with an increase in expenditures.

##### 4.1 Revenues

Government revenues amounted to K17.1 billion in January 2011 compared to K48.2 billion recorded during the preceding month, representing a monthly decrease of K31.1 billion. The decline was registered in both domestic revenues and foreign receipts. Domestic revenues decreased by K16.5 billion to K15.0 billion. This outcome emanated from both Malawi Revenue Authority collections and departmental receipts which went down by K8.5 billion and K1.5 billion, respectively.

Foreign grants decreased substantially by K14.6 billion to K2.1 billion from K16.7 billion recorded in the preceding month.

##### 4.2 Expenditures

Total government expenditures during the month of January, 2011 increased by K1.0 billion to K26.6 billion against a decrease of K1.1 billion in December, 2010. This outturn arose from an increase of K1.6 billion to K3.2 billion in interest payments that was partly offset by a decrease of K620.2 million in recurrent expenditures. The increase in interest payment was on account of an increase of K2.0 billion in interest on Local Registered Stocks. Meanwhile, interest charges on Treasury bills and Ways and Means advances declined by K434.8 million to K725.7 million and K23.5 million to K54.8 million, respectively.

**Table 7: Central Government Budgetary Operations**

<i>(in billion of Malawi kwacha)</i>										
	2010									2011
	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan
Total Revenues	15.0	17.8	42.3	19.2	16.8	19.4	24.0	16.1	48.2	17.1
Domestic Revenues	12.9	16.0	30.4	15.8	16.0	16.5	17.2	15.5	31.6	15.0
MRA Collections	11.1	13.9	16.8	14.2	14.4	14.1	15.6	12.3	22.6	14.0
Departmental Receipts	1.8	2.1	12.8	0.8	0.8	1.6	0.8	0.6	6.5	0.0
Other Receipts	0.0	0.0	0.8	0.8	0.8	0.8	0.8	2.6	2.5	1.0
Grants	2.1	1.8	11.9	3.5	0.8	2.9	6.8	0.6	16.7	2.1
Expenditures	14.1	24.6	19.8	26.9	26.9	23.0	21.0	26.7	25.6	26.6
Other Expenditure	12.3	22.0	17.9	23.3	26.2	22.3	19.8	25.9	24.0	23.4
Interest Payments	1.8	2.5	1.8	3.6	0.7	0.7	1.2	0.9	1.6	3.2
Domestic	1.6	2.5	1.8	3.6	0.7	0.7	1.1	0.8	1.6	3.1
Foreign	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Deficit/Surplus	0.9	-6.8	22.6	-7.7	-10.1	-3.6	3.0	-10.6	22.6	-9.5
Financing (net)	5.6	6.9	-21.4	5.8	15.2	1.0	-5.3	10.7	-22.5	7.2
Foreign	-0.4	-0.1	2.3	-0.3	0.0	1.7	0.0	0.0	-0.3	-0.3
Domestic	5.9	7.0	-23.7	6.1	15.3	-0.5	-5.3	10.7	-22.2	7.5
Banking System	4.4	8.4	-20.4	8.9	13.9	1.8	-4.4	12.8	-21.9	8.9
Ways & Means advances	3.1	-5.6	-2.9	0.0	4.5	-4.5	0.0	1.5	-1.5	0.0
Non-Bank	1.4	-1.4	-3.3	-2.7	1.4	-2.2	-0.8	-2.3	-0.4	-1.4
Errors and Omissions	6.5	0.03	1.1	-1.8	5.2	-2.6	-2.3	0.2	-0.08	-2.3

Source: Reserve Bank of Malawi

##### 4.3 Financing

During the month of January 2011, central government budgetary operations resulted into a deficit of K9.5 billion. To finance this deficit, government used part of its deposits and also increased its indebtedness to the domestic sector by K7.5 billion.

## 5.0 PRODUCTION AND PRICES

### 5.1 Tea

The volume of tea sales in January 2011 stood at 1.6 million kilograms compared to 1.7 million kilograms sold in January 2010, representing a decline of 5.9 percent. The lower volume of sales was on account of excess supply on the international market. Average tea prices stood at US\$1.66 per kilogram realising US\$2.6 million in the month under review compared to an average price of US\$1.62 per kilogram fetched in January 2010 with a total realisation of US\$2.7 million. Thus, the drop in earnings is on account of the reduction in the volume of sales.

### 5.2 Sugar

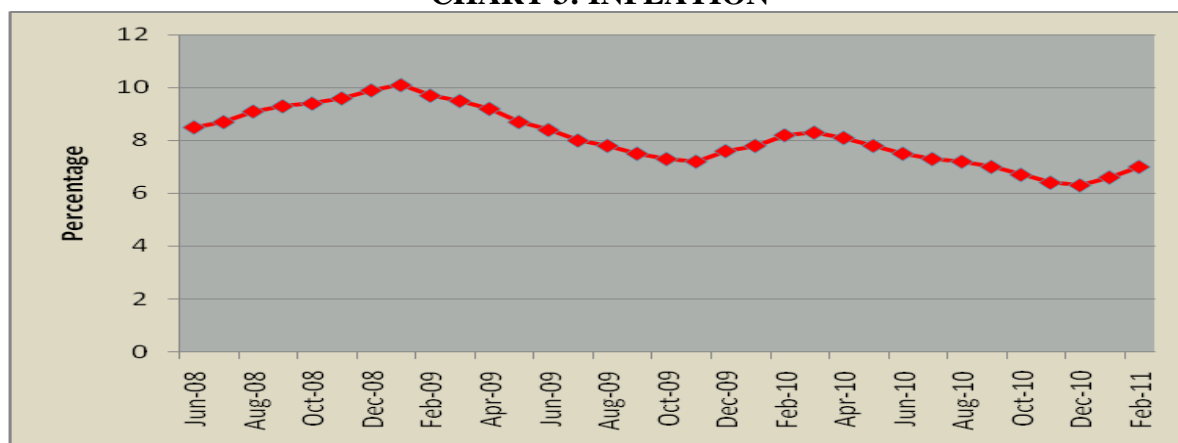
Total volume of sugar sales in January 2011 amounted to 20.7 million kilograms valued at K2.2 billion compared to 14.6 million kilograms sold for K1.3 billion in January 2010. Of the total volume sold, export sales constituted 46.7 percent compared to 49.6 percent in a corresponding period of the preceding year.

Average prices for sugar stood at K106,300.00 per tonne in January 2011, representing a 19.4 percent increase from an average price of K89,000.00 per tonne fetched in January 2010.

### 5.3 Domestic Price Developments

Headline inflation accelerated by 0.3 percentage points to 6.6 percent in January 2011 from 6.3 percent in December 2010. The acceleration was due to a rise in non-food inflation to 10.7 percent in the month under review from 9.9 percent in December 2010, following upward adjustments in fuel prices, water and electricity tariffs that were effected in the month under review. Urban inflation rose by 0.5 percentage points to 8.3 percent in January 2011, similarly, rural inflation rose by 0.2 percentage points to 5.6 percent in the month under review.

CHART 3: INFLATION



Source: Reserve Bank of Malawi

Food inflation remained stable at 2.9 percent in January 2011, as recorded in December 2010. The stability was partly attributed to Agricultural Development and Marketing Corporation’s (ADMARC) revision of maize prices from K60 per kilogram to K40 per kilogram. The consumer price index (CPI), on a month-on-month basis, rose by 5.9 percent in January 2011 compared to an increase of 3.2 percent in December 2010. The monthly CPI for food went up by 9.2 percent as it was a lean period. Transport CPI registered an increase of 7.6 percent, which largely emanated from upward adjustment of fuel pump price and road user fees.

**Table 8: Selected Economic Indicators**

(In billion Malawi kwacha unless otherwise stated)

	2006	2007	2008	2009	2010	2010 January	2011 January
<b>Real Sector</b>							
Population (million)	12.8	13.2	13.1	13.5	13.8	13.8	14.4
GDP at current market prices	396.4	464.5	569.9	664.6	765.1	765.1	873.9
Real GDP growth (percent)	6.7	8.6	8.6	7.5	7.1	7.1	6.8
GDP per capita (K'000)	31.7	36.3	43.5	49.2	55.3	55.3	60.7
GDP per capita (US\$)	239.7	267.9	312.5	343.6	369.0	369.0	402.5
Consumer Price Index (CPI) 2000=100	226.1	244.1	265.4	292.2	309.0	317.6	338.5
Average annual inflation rate (percent)	13.9	8.0	8.7	8.4	7.4	7.8	6.6
<b>Fiscal Sector</b>							
<b>Government Budget</b>							
Total Revenue	128.4	160.8	160.8	169.7	291.2	15.1	17.1
Domestic Revenues	74.3	94.4	126.7	140.5	200.3	11.8	15.0
Grants	54.1	66.4	34.2	29.2	91.0	3.3	2.1
Total Expenditure	131.3	168.6	204.1	222.8	264.8	15.2	26.6
Recurrent	95.7	110.4	190.7	206.3	203.5	12.3	23.4
Development	35.6	58.2	13.4	16.4	61.3	1.2	1.1
Deficit/GDP ratio (after grants)	-1.1	-1.6	-7.8	-8.2	4.0	0.0	-1.6
<b>Monetary Sector</b>							
Net Foreign Assets	23.2	27.7	19.7	-4.5	20.4	-2.0	20.4
Net Domestic Credit	58.9	72.1	158.0	212.9	216.7	212.3	216.9
Government	20.5	21.1	83.9	111.6	90.6	111.0	90.6
Statutory bodies	1.2	3.7	6.0	6.2	4.7	6.2	4.7
Private (gross)	35.8	47.3	68.1	95.0	121.6	95.0	121.6
Money Supply (M2)	76.6	104.9	139.6	173.8	203.9	173.8	203.9
M2 Growth Rate (annual percent)	16.5	36.9	33.1	24.4	17.8	23.9	17.8
Reserve Money	21.5	27.7	36.0	50.1	57.4	50.4	57.4
Banks Deposits	3.5	2.9	5.8	16.9	19.9	16.9	17.9
<b>External Sector</b>							
<b>Balance of Payments</b>							
Current Account	-92.1	-65.4	-86.0	-110.2	-106.1	..	..
Exports (fob)	73.8	111.4	117.0	128.8	172.0	..	..
Imports (fob)	143.5	153.5	183.0	199.5	236.8	..	..
Trade balance	-69.7	-42.2	-66.0	-70.7	-65.0	..	..
Services (net)	-33.0	-34.1	-39.5	-46.2	-9.0	..	..
Private transfers (net)	10.6	10.9	18.5	6.9	13.0	..	..
Capital account balance	38.8	64.6	134.2	109.3	142.0	..	..
Gross foreign exchange reserves	26.4	22.7	40.5	35.5	56.0	29.6	49.5
Official	18.2	16.1	33.2	24.1	42.2	17.2	35.3
Commercial banks	8.2	6.6	7.3	11.4	13.9	12.3	14.2
Import cover (Official reserves in months)	2.1	1.8	2.2	1.9	2.2	1.5	1.8
Current account balance/GDP (percent)	-23.2	-14.1	-15.5	-16.9	..	..	..
Debt/GDP (percent)	8.2	8.2	17.4	..	..	..	..
Debt Service/Exports (percent)	8.1	8.1	1.5	..	..	..	..
MK/US Dollar (eop)	138.672	138.672	140.600	140.606	150.801	150.008	150.801
MK/US Dollar (pd avg)	136.019	140.000	140.526	140.604	150.487	147.131	150.801

Source: Reserve Bank of Malawi

**Table 9: National Composite Price Index (2000=100)**

Period	All items	Food Costs	Bev & Tobacco	Cloth & Footwear	Housing	House hold ops	Transport ation	Miscella neous
<b>Overall Weight</b>	<b>100.0</b>	<b>58.1</b>	<b>5.9</b>	<b>8.5</b>	<b>12.1</b>	<b>4.1</b>	<b>5.1</b>	<b>6.2</b>
2002	140.8	136.4	136.8	153.6	156.6	144.0	143.9	134.4
2003	154.3	143.7	165.8	166.8	180.0	174.6	172.1	148.3
2004	172.0	154.4	196.5	179.5	211.7	218.3	202.8	169.2
2005	198.5	180.9	240.6	192.8	236.9	268.9	230.1	182.6
2006	226.1	209.1	273.5	208.8	266.9	313.5	261.6	197.5
2007	244.1	224.7	302.6	221.2	291.4	336.2	289.2	211.1
2008	265.4	240.3	331.0	237.7	319.1	383.5	338.9	232.3
2009	287.7	258.0	369.0	259.1	328.3	452.8	380.1	263.1
2010	309.0	271.2	417.2	279.5	350.2	512.1	428.4	287.7
<b>2008</b>								
Jan	267.6	253.4	317.4	232.0	310.6	358.5	311.2	221.2
Feb	276.4	266.4	321.6	232.7	313.4	366.1	316.7	224.1
Mar	275.5	263.6	322.7	233.8	314.8	368.0	319.4	225.2
Apr	269.5	252.6	322.9	234.7	315.3	369.3	319.9	227.8
May	263.0	240.7	322.8	235.8	315.7	374.5	321.5	228.0
Jun	254.9	225.5	323.5	236.1	315.9	375.4	331.2	228.6
Jul	253.0	220.3	325.5	236.8	318.6	377.6	339.3	230.8
Aug	247.8	210.3	330.1	237.1	319.4	380.3	341.1	231.4
Sept	261.6	227.9	340.6	241.0	321.9	402.7	361.2	237.3
Oct	263.7	229.9	344.3	241.6	323.1	405.8	364.5	241.3
Nov	271.8	241.3	349.0	243.1	328.57	408.7	367.6	243.1
Dec	297.7	251.7	352.0	247.7	331.9	414.5	373.6	248.3
<b>2009</b>								
Jan	294.5	274.5	354.1	250.9	335.2	417.7	380.4	253.5
Feb	303.1	289.5	361.5	253.8	328.2	423.8	370.0	259.0
Mar	301.7	286.6	361.9	254.6	328.3	425.6	371.0	259.4
Apr	294.4	273.6	362.8	254.9	328.8	425.8	371.6	260.2
May	285.9	258.6	363.5	256.3	329.2	426.7	371.6	260.2
June	276.4	241.4	366.8	256.8	330.3	427.2	372.7	261.0
July	273.3	235.6	368.6	258.5	321.0	453.9	373.6	261.4
Aug	267.1	224.6	368.7	258.6	321.4	454.7	374.1	261.6
Sept	281.2	242.5	372.3	263.3	326.6	489.7	387.6	265.9
Oct	282.9	244.6	372.3	264.6	326.8	490.3	392.0	268.1
Nov	291.3	256.6	375.6	267.7	329.0	495.9	396.4	272.0
Dec	300.9	268.3	399.8	268.8	334.8	502.2	400.4	274.7
<b>2010</b>								
Jan	317.6	293.0	401.8	274.2	342.5	504.4	408.9	279.5
Feb	328.0	309.2	402.9	274.6	344.2	505.4	420.5	280.2
Mar	326.9	306.0	403.9	275.8	345.9	507.4	424.6	281.9
Apr	318.2	290.9	404.9	275.9	346.1	507.4	424.6	282.2
May	308.3	273.5	407.1	275.6	345.7	507.4	425.2	282.8
June	297.3	254.2	407.8	276.0	346.0	507.7	426.4	283.6
July	293.3	246.5	419.8	275.4	344.2	508.0	426.7	283.8
Aug	286.4	234.5	420.1	275.5	344.4	508.1	426.9	284.3
Sept	300.9	252.4	433.8	285.1	350.2	521.1	438.1	295.5
Oct	301.9	253.2	433.8	285.4	354.3	521.1	438.1	295.8
Nov	310.0	264.9	433.9	286.4	363.4	521.8	438.2	297.0
Dec	319.8	276.1	436.9	294.6	375.3	525.1	442.7	305.7
<b>2011</b>								
Jan	338.5	301.6	443.2	301.1	381.6	529.7	476.2	310.0

Source: National Statistical Office

**Table 10: Selected Foreign Exchange Rates**

(in Malawi kwacha per foreign currency)

	British pound		US dollar		Euro		Japanese yen		SA rand		Zim dollar	
	Buy	Sell	Buy	Sell	Buy	Sell	Buy	Sell	Buy	Sell	Buy	Sell
2003	158.659	159.921	96.946	97.919	109.864	110.963	0.840	0.845	13.030	13.095	0.518	0.516
2004	198.561	200.556	108.355	109.438	134.970	136.347	1.004	1.006	16.883	17.052	0.035	0.036
2005	214.150	216.301	117.833	118.937	146.415	147.878	1.070	1.084	18.521	18.687	0.010	0.012
2006	249.587	251.887	135.337	136.685	170.111	171.825	1.167	1.181	20.124	20.316	0.230	0.233
2007	278.907	281.686	139.299	140.701	190.921	193.176	1.184	1.196	19.774	19.973	0.385	0.389
2008	259.237	261.841	139.821	141.226	205.617	207.696	1.356	1.371	17.167	17.335	0.992	0.987
2009	219.917	222.050	140.464	141.875	195.728	197.696	1.504	1.520	16.960	17.130	0.000	0.000
2010	231.376	233.293	149.739	151.235	197.897	199.886	1.723	1.740	20.521	20.727	0.000	0.000
<b>2009</b>												
June	231.507	233.834	139.900	141.306	196.882	198.860	1.458	1.473	17.904	18.084	0.000	0.000
July	231.313	233.638	139.901	141.307	197.625	199.611	1.468	1.483	17.991	18.172	0.000	0.000
Aug	227.678	229.967	139.903	141.309	200.285	202.298	1.501	1.516	18.055	18.237	0.000	0.000
Sept	223.244	225.487	139.903	141.309	203.993	206.043	1.551	1.567	18.893	19.083	0.000	0.000
Oct	232.094	234.426	140.230	141.639	208.002	210.093	1.532	1.547	18.190	18.373	0.000	0.000
Nov	235.692	238.061	142.464	143.895	213.866	216.016	1.635	1.651	19.213	19.406	0.000	0.000
Dec	233.325	235.700	145.265	146.725	208.296	210.389	1.573	1.588	19.668	19.866	0.000	0.000
<b>2010</b>												
Apr	229.962	232.273	150.047	151.555	198.3619	200.356	1.595	1.611	20.407	20.612	0.000	0.000
May	216.922	219.102	150.046	151.554	183.957	185.806	1.647	1.664	19.740	19.938	0.000	0.000
June	226.360	228.635	150.046	151.555	183.192	185.033	1.694	1.711	19.575	19.772	0.000	0.000
July	234.088	236.441	150.047	150.8001	196.261	198.234	1.730	1.747	20.426	20.632	0.000	0.000
Aug	232.152	234.485	150.046	151.554	190.244	192.156	1.771	1.789	20.439	20.644	0.000	0.000
Sept	237.014	239.396	150.047	151.555	204.514	206.569	1.794	1.812	21.518	21.734	0.000	0.000
Oct	239.265	241.669	150.047	151.555	209.015	211.116	1.852	1.870	21.410	21.625	0.000	0.000
Nov	233.668	236.016	150.047	151.555	196.936	198.916	1.781	1.799	21.097	21.309	0.000	0.000
Dec	231.477	233.804	150.047	151.555	199.412	201.414	1.840	1.860	22.605	22.832	0.000	0.000
<b>2011</b>												
Jan	237.509	239.896	150.047	151.555	203.884	205.908	1.829	1.847	20.899	21.109	0.000	0.000

Source: Reserve Bank of Malawi

**Table 11: Malawi All Share Index (1999=100)**

Period	INDICES			RETURN		SHARE TURNOVER		CAPITALISATION
	Domestic Share Index	Foreign Share Index	All share Index	Dividend Yield (percent)	Earnings per Share (in Kwacha)	Volume of shares traded	Value MK'000	(in million Kwacha)
2003	229.6	188.5	457.3	11.4	..	181,801,331	821,021.9	584,060.4
2004	426.0	238.8	583.5	9.4	..	110,425,979	654,230.5	745,267.3
2005	687.0	358.2	906.9	6.6	..	61,675,167	914,815.5	1,120,358.5
2006	1,793.4	521.6	2,310.0	2.6	11.8	160,529,550	1,072,280.9	1,672,122.8
2007	3,823.5	521.6	4,849.8	2.6	10.6	355,947,750	5,154,583.8	1,769,225.7
2008	4,806.9	521.6	6,080.4	2.6	5.7	37,521,871	3,398,707.6	1,838,831.8
2009	4,087.2	314.2	5,155.0	4.2	5.8	188,605,361	433,653,252.2	1,172,148.1
2010	3,922.6	351.9	4,953.1	3.9	5.9	20,250,834	99,583,102.77	1,278,529.23
<b>2009</b>								
Jan	4531.8	521.6	5735.8	2.6	5.7	9195797	22040427.6	1824606.7
Feb	4,061.9	521.6	5,147.3	2.7	5.7	141,622,425	453,286,608.7	1,800,312.3
Mar	3,954.0	251.4	4,981.0	5.0	5.7	38,994,578	231,983,951.0	970,838.6
April	3,954.0	251.4	4,981.0	5.0	5.8	12,762,321	184,896,892.0	970,838.6
May	3,931.6	207.4	4,947.9	5.8	5.8	20,068,636	147,661,986.5	836,709.0
June	3,934.9	207.4	4,952.1	5.8	5.8	76,136,327	237,385,933.5	835,732.4
July	3,934.9	226.2	4,954.3	5.4	5.8	11,035,059	144,404,391.0	893,757.4
Aug	3,934.9	226.2	4,954.3	5.4	5.8	12,422,083	120,567,761.9	894,931.8
Sept	3,925.2	226.2	4,942.1	5.4	5.8	4,578,167	103,517,698.0	894,424.4
Oct	4,032.1	251.4	5,078.9	5.0	5.8	13,716,079	185,794,825.3	977,661.0
Nov	4,079.0	263.9	5,139.0	4.8	5.8	55,792,081	458,953,351.6	1,018,439.0
Dec	4,087.2	314.2	5,155.0	4.2	5.8	188,605,361	433,653,252.2	1,172,148.1
<b>2010</b>								
Jan	4,087.2	314.2	5,155.0	4.2	5.8	7,406,357	92,482,457.4	1,172,148.1
Feb	4,027.3	314.2	5,155.1	4.2	5.8	18,981,461	264,821,558.8	1,172,154.5
Mar	3,929.5	314.2	4,957.4	4.3	5.8	41,879,101	255,344,340.8	1,163,884.9
Apr	3,861.1	314.2	4,871.7	4.3	5.8	25,957,403	190,381,908.25	1,160,300.3
May	3,836.4	314.2	4,840.8	4.3	5.9	5,655,749	87,239,295.00	1,159,006.7
June	3,844.5	314.2	4,851.0	4.3	5.9	38,548,182	368,160,675.30	1,159,433.4
July	3,899.6	314.2	4,920.0	4.3	5.9	26,014,091	191,120,202.78	1,162,320.5
Aug	3,903.3	321.8	4,925.5	4.2	5.9	12,605,998	85,383,846.54	1,185,509.3
Sept	3,909.1	321.8	4,932.7	4.2	5.9	24,718,949	133,588,921.79	1,185,808.3
Oct	3,881.0	333.6	4,898.8	4.1	5.9	9,785,782	68,720,918.00	1,218,823.86
Nov	3,894.0	351.9	4,917.2	3.9	5.9	10,413,718	75,015,019.25	1,276,987.68
Dec	3,922.6	351.9	4,953.1	3.9	5.9	20,250,834	99,583,102.77	1,278,529.23
<b>2011</b>								
Jan	3,943.1	351.9	4,978.75	3.9	5.9	44,839,097	22,164,609.78	1,279,905.68

Source: Malawi Stock Exchange