



RESERVE BANK OF MALAWI

**REPORT AND ACCOUNTS FOR THE YEAR
ENDED 31ST DECEMBER 2007**

BOARD OF DIRECTORS



Mr. Victor Mbewe
Governor & Chairman of the Board



Mrs. Mary C. Nkosi
Deputy Governor



Mr. Jimmy Lipunga
Board Member



Mr. Randson Mwadiwa
Secretary to the Treasury



Mr. Maxon Mbendera
Board Member



Prof. Ben Kaluwa
Board Member



Mrs. J.J Kumwenda
Board Member

MISSION STATEMENT

As the central Bank of the Republic of Malawi, we are committed to promoting monetary stability and soundness of the financial system.

In pursuing these goals, we shall endeavour to carry out our duties professionally and exclusively in the long-term interest of the national economy. To achieve this, we shall be a team of professionals dedicated to international standards in the delivery of our services.

SENIOR MANAGEMENT



Mr. Victor Mbewe
Governor



Mrs. Mary C. Nkosi
Deputy Governor



Dr. Wilson T. Banda
General Manager



Mr. Moza Zeleza
*Executive Director,
Corporate Services*



Mr. Neil Nyirongo
*Executive Director,
Treasury Department*



Mr. Tobias Chinkhwangwa
*Executive Director,
Supervision of Financial
Institutions*

HEADS OF DEPARTMENTS

Banda, L. (Ms)	Director, Banking and Payment Systems
Chitsonga, D.	Director, Information and Communication Technology
Chokhotho, R.	Director, Human Resources and Institutional Development
Goneka, E.	Director, Research and Statistics
Kajiyanike, M. (Mrs)	Director, Exchange Control and Debt Management
Malitoni, S.	General Counsel and Bank Secretary
Matambo, W.	Chief Internal Auditor
Mathanga, H.	Director, Administration
Milonde, W.	Director, Special Duties
Mkulichi, N.	Director, Supervision of Non-Bank Financial Institutions
Mseka, C. (Mrs)	Director, Accounting and Finance
Mzengereza, C.	Director, Risk Management
Mlelemba, E.	Acting Director, Bank Supervision
Nyirenda, J. (Major, rtd)	Chief, Protective Services
Rashid, P.	Director, Currency Management
Wemba, M. (Mrs)	Executive Assistant in the Governor's Office and Director, Public Relations

GENERAL NOTES

Owing to the rounding of figures, separate items will not always sum to corresponding totals.

The following symbols should be noted in the text and statistical annex tables.

- .. Means not available
- Means nil or less than one half of the significant digit shown
- * Means preliminary figures
- + Means revised figures

Copies of the Report and Accounts may be obtained without charge from:

**The Director of Research and Statistics,
Reserve Bank of Malawi,
P.O Box 30063,
Capital City Lilongwe 3,
Malawi.
E-mail: research@rbm.mw
Fax: (265)-1-770593**

Any opinion expressed in this document should be regarded as solely that of the Reserve Bank of Malawi. The Bank wishes to express its appreciation of the co-operation and assistance from the Ministry of Finance, the National Statistical Office, financial, commercial and industrial organisations in supplying data and background material.

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1.0 OPERATIONS AND PERFORMANCE OF THE RESERVE BANK OF MALAWI

STAFF COMPLIMENTS AND APPOINTMENTS

In 2007, the Bank had a total workforce of 611 against 626 in 2006. Due to, among others, termination of services, deaths, resignations and retirements, the Bank witnessed an exit of 28 members of staff in 2007 against 176 in 2006.

Various staff appointments were effected.

- Mr Rangford Chokhotho was appointed Director, Human Resources & Institutional Development
- Mr Donnex Chitsonga was appointed Director, Information & Communication Technology
- Mr Eldin Mlelemba was appointed Acting Director, Bank Supervision

CAPACITY BUILDING

In order to enhance performance, the Bank continued with its efforts towards staff training and development. In 2007, a total of 86 members of staff attended short-term training compared to 124 members of staff in 2006. In addition, the Bank conducted 2 in-house courses compared to 3 in-house courses in 2006.

However most training activities were discontinued later in the year, as part of the cost-cutting exercise which the Bank instituted in July 2007. Despite the suspension of the training activities, the Bank still allowed members of staff to attend MEFMI courses and also continued to support staff pursuing self-initiated professional courses.

REGISTRAR OF LOCAL REGISTERED STOCKS

In its capacity as the Registrar of Local Registered Stocks, the Reserve Bank of Malawi converted and redeemed K973.9 million and K16.0 million worth of stocks in 2007 against K437.0 million and K33.0 million recorded in the previous year, respectively.

Conversion of Local Registered Stocks - 2007

Date	Nominal Value	Maturity (K'mn)	Conversion (K'mn)	Coupon rate (K'mn)	Maturity Year (%)
29-Oct	6.0	6.0	0.0	0	2007
31-July	10.0	10.0	0.0	0	2007
27-July	873.9	0.0	873.9	20.50	2010
05-Nov	100.0	0.0	100.0	20.50	2010
Total	989.9	16.0	973.9		

As such the total outstanding Local Registered Stocks amounted to K3,659.2 million as at end December 2007, representing a decline of K16.0 million from K3,675.2 million recorded in the preceding year. Out of the total amount, the Reserve Bank holdings stood at K300.0 million while that on commercial banks and other financial institutions amounted to K1.9 billion and K465.2 million, respectively.

EXCHANGE CONTROL

Malawi liberalised the current account but continues to maintain controls on the capital account. With liberalised current account, Authorized Dealer Banks (ADB) can open Foreign Currency Denominated Accounts (FCDA) for residents of Malawi. Currently, FCDA holders can retain up to 60.0 percent of their foreign exchange receipts while 40.0 percent is converted immediately into Malawi Kwacha at the ruling exchange rate quoted by the receiving bank. No FCDA holder shall credit his or her FCDA with foreign exchange purchased from the domestic market or acquired from another FCDA. The minimum balance required to open these accounts is US\$500.00 or its equivalent in other convertible currencies i.e the British Pound, the Euro and the South African Rand. Diplomatic, international and non-governmental organizations (NGOs) operating FCDA are exempt from foreign exchange conversion/retention requirement. There is no restriction on the period over which balances in FCDA may be retained.

Effective 18 January 2005, Malawian citizens living outside the country are allowed to open FCDA with ADB in Malawi. However, such accounts are not subject to current surrender requirements. These accounts are treated like FCDA for diplomatic, international and NGOs. Remittances from these accounts will not be subject to existing Exchange Control regulations and procedures.

2.0 ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2007

DIRECTORS' REPORT AND STATEMENT OF DIRECTORS' RESPONSIBILITIES**INTRODUCTION**

The directors present the Bank's financial statements for the year ended 31 December 2007.

This report addresses the performance of the Reserve Bank of Malawi during the year under review.

These financial statements have been prepared on a going concern basis taking cognisance of the unique aspects relating to some of its functions as stipulated under the Reserve Bank of Malawi Act, 1989 as well as its relationship with the Government of Malawi.

The annual financial statements have been prepared by management in accordance with International Financial Reporting Standards in all material respects. They include full and responsible disclosures and are based on appropriate accounting policies which have been applied consistently and which are supported by reasonable and prudent judgments and estimates. The integrity and objectivity of the data in these financial statements are management's responsibility. Management is responsible for ensuring that all information in this report is not inconsistent with the financial statements.

These financial statements have been audited by independent auditors, Deloitte (Malawi) and Deloitte & Touche (South Africa), who were given unrestricted access to all financial records and related data, including minutes of the meetings of the Board and the Board Audit Committee.

NATURE OF BUSINESS

The Reserve Bank of Malawi is the Central Bank of the Republic of Malawi, created and regulated by the Reserve Bank of Malawi Act, 1989. The principal objectives of the Reserve Bank of Malawi are: (a) to issue legal tender currency in Malawi (b) to act as banker and adviser to the Government (c) to maintain external reserves so as to safeguard the international value of the currency (d) to implement measures designed to influence the money supply and the availability of credit, interest rates and exchange rates with the view to promoting economic growth, employment, stability in prices and a sustainable balance of payments position (e) to promote a sound financial structure in Malawi including payments systems, clearing systems and adequate financial services (f) promote a money and capital market in Malawi (g) to act as lender of last resort to the banking system (h) to supervise banks and other financial institutions (i) to collect economic data of the financial and other sectors for research and policy purposes and (j) to promote development in Malawi.

DIRECTORS' REPORT AND STATEMENT OF DIRECTORS' RESPONSIBILITIES (Continued)

For the year ended 31 December 2007

BOARD OF DIRECTORS

The following directors served on the Board during the year:

Mr. V. Mbewe	-	Governor & Chairman
Mrs. M. Nkosi	-	Deputy Governor
Mr. J. Lipunga	-	Member & Chairperson for the Board Audit Committee
Professor B. Kaluwa	-	Member
Mrs. B. Nkhwazi	-	Member
Mrs. J. Kumwenda	-	Member
Mr. M. Mbendera	-	Member
Secretary to the Treasury	-	Ex Officio member

Mrs J. Kumwenda was appointed to serve office on 14 August 2007 replacing Mrs B. Nkhwazi who resigned on 15 January 2007 after serving office since March 2006.

FINANCIAL POSITION

The balance sheet appears on pages 16 and 17. Total assets of the Bank increased by K30,032m during the year. Major increases were in: Balances with foreign Banks (K11,625m), Treasury Bills (K8,712m) and loans to foreign institutions (K5,066m). There were modest increases in other assets (K842m) and loans to statutory bodies (K1,254m). Investments in local registered stocks decreased by K606m.

Major increases in the liabilities were Notes and Coin in circulation (K6,170m), Government deposits (K16,516m), and Reserve Bank of Malawi Bills (K5,891m).

INTEREST IN CONTRACTS

There were no contracts entered into during the year in which directors or officers of the Bank had interests that significantly affected the affairs or business of the Bank.

GOING CONCERN

The directors have made an assessment and concluded that the Bank will be able to continue as a going concern and it is appropriate to prepare the financial statements on a going concern basis.

DIRECTORS' REPORT AND STATEMENT OF DIRECTORS' RESPONSIBILITIES (Continued)

For the year ended 31 December 2007

POST BALANCE SHEET EVENTS

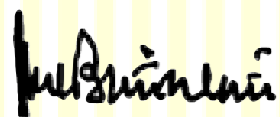
Subsequent to the balance sheet date, on 8 January 2008, the Government recapitalised the Bank by injecting an amount of K25,662m through the issue of two treasury notes bearing a 16.5 per cent coupon rate. Annual interest income from these treasury notes is expected to be K4,106m. This is therefore expected to address the problem of losses the Bank has been incurring in the recent years.

FINANCIAL POSITION

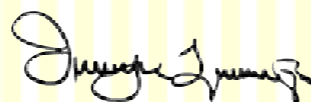
The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control and exercises this responsibility through the Board Audit Committee. The Committee is therefore qualified to review the Bank's financial statements and to recommend their approval by the Board of Directors. The Committee is mandated by its Charter to meet management, and internal and external auditors.

The Board Audit Committee evaluates the independence of the external auditors and reviews all services provided by them. The Committee has a duty to review the adoption of, and changes in accounting principles and procedures that have a material effect on the financial statements and to review and assess key management proposals including risk management issues and makes recommendations on the same for approval. The Board considers and where necessary, approves the Board Audit Committee's recommendations.

The financial statements set on pages 16 to 53 and additional appendices have been approved by the Board on 22 May 2008 and are signed on its behalf by:



Governor and Chairman of the Board



Chairperson, Board Audit Committee

INDEPENDENT AUDITORS TO THE SHAREHOLDER OF THE RESERVE BANK OF MALAWI

We have audited the annual financial statements of the Reserve Bank of Malawi, which comprise the balance sheet as at 31 December 2007, the income statement, statement of changes in net amount attributable to shareholder and cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 16 and 53.

Director's Responsibility for the Financial Statements

The Bank's Directors are responsible for preparation and fair presentation of these annual financial statements in accordance with International Financial Reporting Standards and in the manner required by the Reserve Bank of Malawi Act, 1989. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these annual financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

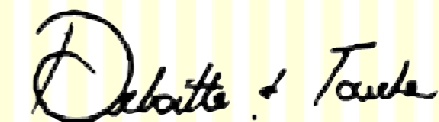
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion the annual financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Reserve Bank of Malawi Act, 1989.



Deloitte
Lilongwe, Malawi
22 May 2008



Deloitte & Touche
Johannesburg, Republic of South Africa
22 May 2008

BALANCE SHEET

For the year ended 31 December 2007

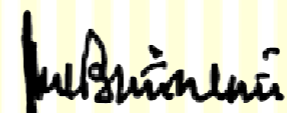
	Notes	<u>2007</u> K'm	<u>2006</u> K'm
CAPITAL, NET AMOUNT ATTRIBUTABLE TO SHAREHOLDER, RESERVES AND LIABILITIES			
CAPITAL, NET AMOUNT ATTRIBUTABLE TO SHAREHOLDER AND RESERVES			
Capital		306	306
Revaluation reserve		2,588	2,950
Special account		4,337	3,841
Promissory Notes due from Government	6	<u>(6,443)</u>	<u>(6,443)</u>
Net amount attributable to Shareholder		<u>788</u>	<u>654</u>
LIABILITIES			
Allocation of special drawing rights	7	2,430	2,301
Borrowings	8	4,345	2,712
Severance pay provision	9	855	-
Notes and coin in circulation	10	24,203	18,033
Government deposits	11	23,623	7,107
Bankers' deposits	12	2,855	3,489
Other liabilities	13	1,116	1,778
Reserve Bank of Malawi bills	14	<u>13,965</u>	<u>8,074</u>
Total liabilities		<u>73,392</u>	<u>43,494</u>
TOTAL CAPITAL, NET AMOUNT ATTRIBUTABLE TO SHAREHOLDER, RESERVES AND LIABILITIES		<u>74,180</u>	<u>44,148</u>

BALANCE SHEET (Continued)

For the year ended 31 December 2007

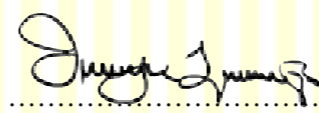
	Notes	<u>2007</u> K'm	<u>2006</u> K'm
ASSETS			
Property and equipment	15	4,735	4,846
Special Drawing Rights		5	95
Investment in Malswitch	16	17	401
Investments in Malawi Government:			
- promissory notes	17	1,047	1,047
- treasury note	18	3,986	-
- local registered stock	19	332	938
- treasury bills	20	22,494	13,782
Loan to foreign institution	21	5,066	-
Loan to statutory body	22	1,254	-
Liquid assets:			
- balances with foreign banks	23	29,385	17,760
- other liquid assets		857	1,303
Other assets	24	4,818	3,976
Non-current assets classified as held for sale	25	<u>184</u>	<u>-</u>
TOTAL ASSETS		<u>74,180</u>	<u>44,148</u>

The annual financial statements on pages 16 to 51 and additional appendices were authorised for issue by the Board of Directors on 22 May 2008 and are signed on its behalf by:



.....
Mr. Victor Mbewe

Governor & Chairman of the Board



.....
Mr. Jimmy Lipunga

Chairperson, Board Audit Committee

INCOME STATEMENT

For the year ended 31 December 2007

	Notes	<u>2007</u> K'm	<u>2006</u> K'm
Income			
Money market operations		1,922	3,905
Interest on foreign exchange operations		984	811
Banking operations		888	1,093
Impairment reversal		-	41
Sundry		181	50
Property		81	74
Total income		<u>4,056</u>	<u>5,974</u>
Expenses			
General and administration expenses		6,383	5,162
Interest payable on money market operations		861	958
Depreciation of property and equipment		332	330
Malswitch subvention		214	321
Other interest payable		131	214
Impairment of staff loans		97	-
Provision for bad and doubtful debts		2	1
Total expenses		<u>8,020</u>	<u>6,986</u>
Loss for the year before foreign exchange revaluations		<u>(3,964)</u>	<u>(1,012)</u>
Foreign exchange revaluations			
Loss on revaluation of IMF facilities		(336)	(1,714)
Profit on revaluation of other foreign exchange balances		832	2,111
Total foreign exchange revaluations		<u>496</u>	<u>397</u>
Loss from continuing operations		(3,468)	(615)
Loss from discontinued operations	16	(384)	-
Net loss for the year		<u>(3,852)</u>	<u>(615)</u>

STATEMENT OF CHANGES IN NET AMOUNT ATTRIBUTABLE TO SHAREHOLDER

From the year ended 31 December 2007

	Capital	General Reserve Fund	Revaluation Reserve	Special Account	Promissory Notes		Total
					Retained Earnings	Due From Government	
	K'm	K'm	K'm	K'm	K'm	K'm	K'm
2006							
At the beginning of the year	306	69	2,957	3,444	-	(6,443)	333
Net loss for the year	-	-	-	-	(615)	-	(615)
Statutory transfer of net foreign exchange revaluations	-	-	-	397	(397)	-	-
Transfer to General Reserve Fund	-	(69)	-	-	69	-	-
Transfers to Promissory Notes due from Government	-	-	-	-	936	-	936
Transfers to Retained Earnings on disposal of property	-	-	(7)	-	7	-	-
At the end of the year	<u>306</u>	<u>-</u>	<u>2,950</u>	<u>3,841</u>	<u>-</u>	<u>(6,443)</u>	<u>654</u>
2007							
At the beginning of the year	306	-	2,950	3,841	-	(6,443)	654
Net loss for the year	-	-	-	-	(3,852)	-	(3,852)
Statutory transfer of net foreign exchange revaluations	-	-	-	496	(496)	-	-
Transfers to Treasury Note issued by Government	-	-	-	-	3,986	-	3,986
Transfers to retained earnings on disposal of property	-	-	(362)	-	362	-	-
At the end of the year	<u>306</u>	<u>-</u>	<u>2,588</u>	<u>4,337</u>	<u>-</u>	<u>(6,443)</u>	<u>788</u>

The Capital of the Bank has been fully subscribed and paid up by the Government of Malawi in accordance with Section 5 of the Reserve Bank of Malawi Act, 1989.

CASH FLOW STATEMENTS

For the year ended 31 December 2007

	Notes	<u>2007</u> K'm	<u>2006</u> K'm
Cash flows from operating activities			
Interest and commission receipts		3,794	5,809
Interest payments		(992)	(1,172)
Cash payments to employees and suppliers		(6,597)	(5,396)
Operating loss before changes in operating assets	26	<u>(3,795)</u>	<u>(759)</u>
(Increase)/decrease in operating assets:			
Deposits held for regulatory or monetary control purposes		(8,106)	(5,134)
Funds advanced to Government		-	13,948
(Increase)/decrease in operating assets:			
• Other short-term negotiable securities/assets		(941)	(571)
• Holding of Special Drawing Rights		90	35
• Loans to statutory body and foreign institution		(6,320)	-
Increase/(decrease) in operating liabilities:			
• Deposits from customers		15,879	(6,728)
• Other liabilities		196	1,007
• Net cash from other operating activities		245	119
• Securities held for regulatory or monetary control purposes		5,891	188
• Notes and coin in circulation		<u>6,170</u>	<u>3,756</u>
Net cash flow from operating activities		<u>9,309</u>	<u>5,861</u>
Cash flow from investing activities			
Purchase of property and equipment		(756)	(353)
Proceeds from sale of property and equipment		<u>368</u>	<u>29</u>
Net cash flow from investing activities		<u>(388)</u>	<u>(324)</u>
Cash flow from financing activities			
Proceeds/(repayment) of long-term borrowings		1,762	(6,235)
Effects of exchange rate changes on liquid assets		<u>496</u>	<u>397</u>
Net cash flow from financing activities		<u>2,258</u>	<u>(5,838)</u>
Net increase/(decrease) in liquid assets		11,179	(301)
Liquid assets at the beginning of the year		<u>19,063</u>	<u>19,364</u>
Liquid assets at the end of the year		<u><u>30,242</u></u>	<u><u>19,063</u></u>

NOTES TO THE ANNUAL AND GROUP ANNUAL FINANCIAL STATEMENTS

31 December 2007

1. General Information

The main business of the Reserve Bank of Malawi (“the Bank”), which is governed by the requirements of the Reserve Bank of Malawi Act, 1989, is central banking and its related activities. The Bank’s principal place of business is Plot Number 1/16, Bwaila, Lilongwe, Malawi. The Bank had 611 (2006: 626) employees as at 31 December 2007.

Malawi Switch Centre Limited

Malawi Switch Centre Limited (“Malswitch”) is a service provider principally involved with the provision and maintenance of secure infrastructure for payment systems solutions in Malawi. Malswitch’s major products and services include a national network infrastructure, server hosting, administration and technical support for vital financial sector systems namely: the Real Time Gross Settlement (RTGS); Electronic Cheque Clearing House (ECCH); administration of software solutions for tracking of Government transactions for Credit Ceiling Authority (CCA) and Central Payments System (CPS); and Electronic Funds Transfer (EFT) infrastructure.

Until 1 December 2007, the Bank controlled Malswitch through its 99% shareholding acquired when Malswitch was incorporated in prior year. Consolidated financial statements were prepared for the year ended 31 December 2006 as a result of this control.

On 1 December 2007, the Bank disposed of 94% out of the 99% shareholding. As a result, consolidated financial statements have not been prepared for the year ended 31 December 2007. The disposal of the investment has been accounted for as detailed in note 16.

2. Adoption of new and revised International Financial Reporting Standards

In the current year, the Bank has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (the IFRIC) of the IASB that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2007. In particular, the impact of the adoption of IFRS 7 Financial Instruments: Disclosures has been to expand the disclosures provided in these financial statements regarding the Bank’s financial instruments and management of capital (note 5).

At the date of authorisation of these financial statements, the following relevant Standards and interpretations were in issue but not yet effective:

- IAS 1 (Revised 2007) *Presentation of Financial Statements*. Effective for periods beginning on or after 1 January 2009;
- IAS 23 (Revised 2007) *Borrowing costs*. Effective for periods beginning on or after 1 January 2009;
- IFRS 8 *Operating segments*. Effective for periods beginning on or after 1 January 2009;
- IFRIC 12 *Service concession arrangements*. Effective for periods beginning on or after 1 January 2008; and
- IFRIC 14 *IAS19 The limit on a defined benefit asset, minimum funding requirements and their interaction*. Effective for periods beginning on or after 1 January 2008.

The directors anticipate that other than IAS 1, these Standards and Interpretations in future periods will have no material impact on the financial statements of the Bank. IAS 1 will impact the disclosure and presentation of the financial statements.

NOTES TO THE ANNUAL AND GROUP ANNUAL FINANCIAL STATEMENTS

(Continued)

31 December 2007

3. Accounting policies

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards.

Basis of preparation

These financial statements are expressed in terms of the historical cost convention with the exception of certain property and financial instruments which are included at valuation. No other procedures are adopted to reflect the impact on the financial statements of specific price changes or changes in the general level of prices.

3.1 Transactions on behalf of the Government of Malawi

Certain transactions entered into on behalf of the Government of Malawi and assets and liabilities arising out of these transactions are not reflected in the financial statements as the Bank is concerned in such transactions only as an agent.

3.2 Property and equipment

Land and buildings

Land and buildings are accounted for under the allowed alternative treatment in IAS 16, Property, Plant and Equipment. Subsequent to initial recognition as an asset, land and buildings are carried at a revalued amount, being their fair value at the date of the revaluation less any subsequent accumulated depreciation. Surpluses on revaluation are transferred to a non-distributable reserve. Deficits on revaluation are charged to income except to the extent that the deficit relates to a prior surplus transferred to the non-distributable revaluation reserve. On disposal of land and buildings, the realised revaluation surplus is transferred directly to retained profit.

Office and residential properties are amortised on a straight-line basis at rates between 1% and 3.23% per annum. These assets are revalued at the end of every 3 years. Their residual values and useful economic lives are reviewed, if appropriate, annually.

Computer hardware and software

These assets are carried at cost less accumulated depreciation, and expenditure is amortised over a three-year period on a straight-line basis. Real Time Gross Settlement (RTGS) System expenditure is amortised over a five-year period on a straight line basis.

Furniture and equipment

These assets are carried at cost less accumulated depreciation, and expenditure is amortised on the diminishing balance basis over the anticipated useful lives of the assets at the following annual rates:

Furniture	10%
Equipment	25%

Motor Vehicles

These assets are carried at cost less accumulated depreciation. Their useful economic life is four years and the depreciation method used is straight line. The assets residual lives and useful lives are reviewed and adjusted if appropriate, at every year-end.

NOTES TO THE ANNUAL AND GROUP ANNUAL FINANCIAL STATEMENTS

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3. Accounting policies (Continued)

3.2 Property and equipment (Continued)

Plant and equipment

These are stated at historical cost less accumulated depreciation. Subsequent costs are included in the carrying amount of existing assets or recognised as separate assets if it is probable that future economic benefits embedded in the item will flow to the Bank and the cost of the item can be measured reliably.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

Gains and losses on disposal of assets

Gains and losses on disposal of property, plant and equipment are determined by comparing proceeds less disposal costs with carrying amount; and are included in the current year income statement.

3.3 Impairment of property and equipment

At each balance sheet date, the Bank reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is land or buildings, other than investment property, carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

If an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

NOTES TO THE ANNUAL AND GROUP ANNUAL FINANCIAL STATEMENTS

(Continued)

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3. Accounting policies (Continued)**3.4 Financial instruments**Classification

A financial instrument is any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity. The Bank classifies its financial assets in the following categories: Loans and Receivables, Investments held to maturity and Available for Sale. The Bank determines the classification of its investments at initial recognition.

Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money or services directly to counterparty with no intention of trading the receivable. The Bank has the following financial assets under this category: Liquid assets, balances with foreign banks, Special Drawing Rights (“SDR”) holdings, loans to statutory bodies and loans to foreign institutions. The Bank also operates a staff loans scheme for its employees for the provision of facilities such as house and car loans. The loans are stated at outstanding amount less provision for impairment.

Held to maturity

Investments classified as held to maturity are non-derivative financial assets with fixed determinable payments and fixed maturities that the Bank’s management has the intention and ability to hold to maturity. Were the Bank to sell other than an insignificant amount of such assets the entire category would be classified as available for sale. Financial assets falling in this category are local registered stocks, treasury notes and interest bearing promissory notes issued by the Government of Malawi.

Available for sale

These investments are those, which may be sold as part of the Bank’s official operations or otherwise. The Bank has a 5 percent interest in Malswitch which is classified as available for sale. Malswitch is not quoted on the stock exchange and its fair value cannot be reliably measured. The Bank’s holding in treasury bills can be sold in pursuing necessary monetary policy objectives. Non-interest bearing promissory notes repayable on demand are also classified as available for sale.

Measurement

Financial instruments are initially measured at cost, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition, these instruments are measured as set out below.

Investments

Investments in securities are recognised at trade date (the date an entity commits itself to purchase or sell a financial instrument). At subsequent reporting dates, debt securities that the Bank has originated are measured at amortised cost, less any impairment losses recognised to reflect irrecoverable amounts.

Malawi Government Promissory Notes, loans and advances

Malawi Government Promissory Notes, loans and advances originated by the Bank are stated at amortised cost less provision for doubtful debts.

NOTES TO THE ANNUAL AND GROUP ANNUAL FINANCIAL STATEMENTS

(Continued)

31 December 2007

3. Accounting policies (Continued)**3.4 Financial instruments (Continued)**Liquid assets

Liquid assets are measured at fair value, based on the relevant exchange rates at the balance sheet date.

Financial liabilities

Financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisations.

Gains and losses on subsequent measurements

Gains and losses from a change in the fair value of financial instruments are included in net profit or loss in the period in which the change arises. There are no instruments classified as held for trading.

3.5 Gold

Gold purchased at periodic auctions of the International Monetary Fund at the official rate is accounted for at cost and is included in the balance sheet under the heading “Other liquid assets”.

3.6 Foreign currencies

Assets and liabilities in foreign currencies are translated to Malawi Kwacha at rates of exchange approximating to those ruling at the balance sheet date. In this case it’s the rates of exchange ruling at 31 December 2007.

The official rate of exchange of the Malawi Kwacha against the Special Drawing Right is adjusted annually on 30 April. For the purposes of translation of balances denominated in Special Drawing Rights, the exchange rate is calculated by reference to the rate of exchange for 31 December 2007 between the US Dollar and the Special Drawing Right.

Under the terms of Section 54(5) of the Reserve Bank of Malawi Act, 1989, those gains or losses that relate to revaluations or devaluations of the Malawi currency are assumed by Government by the issue or redemption of promissory notes. In the event that there are insufficient promissory notes to be redeemed, surplus gains are credited to a special account to be offset against future devaluation/revaluation losses.

Exchange differences dealt with under the terms of Section 54(5) of the Reserve Bank of Malawi Act are excluded from the calculation of profit appropriated to the General Reserve Fund and Promissory Note Reserve.

Exchange differences arising from investment decisions made by the Reserve Bank of Malawi are dealt with in the income statement in the year in which they arise

NOTES TO THE ANNUAL AND GROUP ANNUAL FINANCIAL STATEMENTS

(Continued)

31 December 2007

3. Accounting policies (Continued)**3.7 General Reserve Fund**

In accordance with the terms of Section 54(2) & (3) of the Reserve Bank of Malawi Act 1989, 25% of distributable profit or K1 million, whichever is higher, is allocated to the General Reserve Fund, until it reaches 10% of the amount of currency in circulation at the financial year end. With the approval of the Minister of Finance further allocations may be made to the General Reserve Fund. In the event of a loss being incurred by the Bank, such a loss is deducted from the General Reserve Fund until the Fund is exhausted at which point the government will cover the remaining loss.

3.8 Special Account

In accordance with the terms of Section 54(5) of the Reserve Bank of Malawi Act 1989, results from any devaluation or revaluation of the Malawi currency shall be posted directly into a Special Account. In order to fully comply with International Financial Reporting Standards, these exchange differences pass through the income statement before being transferred to the Special Account.

3.9 Cost of new notes and coinage

The cost of new notes is charged to the income statement at the time of issue. The cost of new notes received but not issued is shown as part of other assets. The cost of new coinage (issued and unissued) is charged to the income statement at the time of purchase.

3.10 Related party transactions

The Bank transacts a proportion of its business on an arm's length basis with government and other government related bodies.

3.11 Revenue recognition

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable. All other income, including fees and rent, is recognised on the accruals basis in accordance with the substance of the relevant transactions.

3.12 Loans from the International Monetary Fund (IMF)

The Bank receives preferential loans from the IMF. These loans have been accounted for under IAS 20, Accounting for Government Grants and Disclosure of Government Assistance, and are shown at cost plus accrued interest. The denomination of transactions with the IMF is Special Drawing Rights (SDR). Gains and losses on translation of assets and liabilities denominated in SDR are included in the income statement.

3.13 Retirement benefit costs

Contributions to defined contribution retirement benefit fund are recognised as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement fund, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses that exceed 10 per cent of the greater of the present value of the Bank's defined benefit obligation and the fair value of fund assets are amortised over the expected average remaining working lives of the participating employees. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight line basis over the average period until the benefits become vested.

NOTES TO THE ANNUAL AND GROUP ANNUAL FINANCIAL STATEMENTS

(Continued)

31 December 2007

3. Accounting policies (Continued)**3.13 Retirement benefit costs (Continued)**

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service cost, and as reduced by the fair value of fund assets. Any asset resulting from this calculation is limited to unrecognised actuarial losses and past service cost, plus the present value of available funds and reductions in future contributions to the Fund.

3.14 Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as result of a past event, it is probable that the Bank will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement that will be received and the amount of the receivable can be measured reliably.

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Bank's accounting policies, which are described in note 3, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

4.1 Critical judgments in applying the Bank's accounting policies**4.1.1 Maturity profile for balances with banks**

Note 23 describes the maturity profile of the Bank's foreign assets. Management considered the short term nature and other relevant factors for total amount for the balances with foreign banks and classified these as maturing within three months.

4.2 Key sources of estimation uncertainty**4.2.1 Impairment of staff loans**

During the year, management reconsidered the recoverability of its loans and receivables originated by the Bank. The recoverable amount of the loans was estimated in order to determine the extent of the impairment loss. Determination of the discount rate and other assumptions for amortisation of staff loans are a source of estimation uncertainty.

NOTES TO THE ANNUAL AND GROUP ANNUAL FINANCIAL STATEMENTS

(Continued)

31 December 2007

4. Critical accounting judgements and key sources of estimation uncertainty (Continued)**4.2 Key sources of estimation uncertainty (Continued)****4.2.2 Impairment of financial assets**

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

4.2.3 Employee benefits

Employee benefits are long-term liabilities whose value can only be estimated using assumptions about developments over a long period. The Bank has utilised actuarial advice in arriving at the figures in the financial statements as per note 30 which includes fair value of plan assets. Management considered the assumptions used by the actuaries in their calculation to be appropriate for this purpose. However actuarial advice is yet to be sought on valuation of severance pay liability which has been treated as a defined benefit and the Bank has used a significant estimate to determine the current liability in view of past experience on staff movements. See note 9.

4.2.4 Fair values and effective interest rates of financial assets

In the opinion of Management, fair values of the Bank's financial assets approximate their respective carrying amounts. Fair values are based on discounted cash flows using a discount rate based on the borrowing rate that Management expect would be available to the Bank at the balance sheet date.

4.2.5 Provision for severance pay

The Bank has provided for a severance pay allowance as at year-end which has been estimated at 60% of the maximum exposure computed based on the earnings of all eligible employees at year-end using the guidelines in the Act. The Bank considers the 60% an appropriate estimate of the liability taking into account situations where severance pay is not payable and the need to discount future liabilities in the absence of a proper valuation. The actuarial valuation of the liability is expected to be carried out in the subsequent year, and it is possible that the liability could be significantly different from the estimated amount as at 31 December 2007.

NOTES TO THE ANNUAL AND GROUP ANNUAL FINANCIAL STATEMENTS

(Continued)

31 December 2007

5. Financial instruments – Risk management**5.1 Significant accounting policies**

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial instruments and equity instruments are disclosed in note 3.4 to the financial statements.

5.2 Categories of financial instruments

	<u>2007</u> K'm	<u>2006</u> K'm
Financial assets		
<i>Held to maturity investments</i>		
Treasury note	3,986	-
Local registered stocks	332	938
Interest bearing promissory notes (note 17)	1,007	1,007
Total	<u>5,325</u>	<u>1,945</u>
<i>Available for sale financial assets</i>		
Investment in Malswitch	17	401
No-interest bearing promissory notes (note 17)	40	40
Treasury bills	22,494	13,782
Total	<u>22,551</u>	<u>14,223</u>
<i>Loans and receivables (including cash and cash equivalents)</i>		
Special Drawing Rights	5	95
Loan to foreign institution	5,066	-
Loan to statutory body	1,254	-
Staff loans (note 24)	605	372
Balances with foreign banks	29,385	17,760
Cash and cash equivalents	857	1,303
Total	<u>37,172</u>	<u>19,530</u>
Financial liabilities		
Financial liabilities measured at amortised cost		
Notes and coin in circulation	24,203	18,033
RBM bills	13,965	8,074
IMF loans	4,345	2,712
Allocations of Special Drawing Rights	2,430	2,301
Bankers deposits	2,855	3,489
Government deposits	23,623	7,107
Total	<u>71,421</u>	<u>41,716</u>

NOTES TO THE ANNUAL AND GROUP ANNUAL FINANCIAL STATEMENTS

(Continued)

31 December 2007

5. Financial instruments – Risk management (Continued)

5.3 Risk management governance structure

Through its normal operations, the Bank is exposed to risks such as credit, interest rate, market, foreign exchange risk and operational risk. Responsibility for management of the Bank is vested with the Board. Accordingly, the Board has the overall and ultimate responsibility for the management of risks within the Bank. It receives reports from Senior Management which, in turn, is supported by a Risk Management Committee and the Asset & Liability Committee.

The Bank has a Risk Management Department which coordinates on an on-going basis the Bank's overall risk management process. It also develops and maintains risk management policies and procedures in the Bank for all significant risks.

The heads of department have the responsibility of ensuring that risk management practices and treatments are consistent with the Bank's requirements and are regularly monitored to ensure that management strategies remain effective and commensurate with the level of risk exposure. The Bank's employees are encouraged to actively support and contribute to risk management initiatives and advise their management of risk issues they believe require attention.

5.4 Financial risk management objectives

The Bank is involved in policy-oriented activities and therefore its risk management framework differs from the risk management frameworks for most other financial institutions that are there to maximise shareholders' return.

The majority of the Bank's financial risks arise from the foreign reserves management and domestic financial market operations. The main objectives of the domestic reserves management is to ensure that the activities of the Bank are in line with stipulated statutes in order to ensure that there is no conflict of interest with the monetary policy framework and regulatory function as a central bank whilst that for foreign reserves management is to ensure that there is sufficient amount of liquid financial resources at any time to undertake interventions in order to maintain stability of the exchange rate and facilitate official transactions. These functions are undertaken by the Treasury department which also manages the financial risks relating to these operations through internal risk reports that analyse exposure by degree and magnitude of risks. These risks include market risk, credit risk, liquidity risk and cash flow interest rate risk.

As a matter of policy, interest rate risk on local investments and foreign exchange risk are not actively managed. This recognises the fact that active risk management could require the Bank to carry out transactions that conflict with its monetary policy stance. In the management of foreign reserves, minimising liquidity risk is one of the considerations taken to maintain an effective foreign exchange intervention capability.

The Bank does not use derivative financial instruments to minimise the effects of financial risks but tries to cover all exposures through transfer of funds at the opportune time. The Bank has significant balances of liquid financial assets due to nature of its operations.

NOTES TO THE ANNUAL AND GROUP ANNUAL FINANCIAL STATEMENTS

(Continued)

31 December 2007

5. Financial instruments – Risk management (Continued)

5.4 Financial risk management objectives (Continued)

5.4.1 Capital risk management

The Bank manages its capital to ensure that its principal objectives are undertaken with adequate capital cover. As indicated in note 32, subsequent to the balance sheet date, the Government recapitalised the Bank by injecting an amount of K25,662m by issuing interest bearing fixed term treasury notes which are to be applied as follows:

	K'm
New issued capital	19,179
Redemption of promissory notes (note 6)	6,443
Redemption of promissory notes (note 17)	<u>40</u>
Total	<u>25,662</u>

5.4.2 Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Bank, and exists in lending and other trading activities. Credit risk arises when the Bank provides liquidity to financial institutions via open market operations as part of monetary policy implementation; intraday credit in the Bank's provision of liquidity to facilitate the operation of the Real Time Gross Settlement (RTGS); deposits it makes with correspondent banks, investments in government paper and loans and advances to government and government related bodies. The Bank has adopted a policy of dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate as a means of mitigating the risk of financial loss from defaults. Even after the facilities are granted, the Bank continues to monitor customers' performance so that timely corrective action can be taken should circumstances demand. The Bank's Treasury department reviews regularly the creditworthiness of counterparties.

In providing liquidity via the open market operations and intraday credit through the RTGS, credit risk is managed by dealing with counterparties that meet appropriate credit and functional criteria, and by ensuring that exposures are fully collateralised by high-quality, marketable securities.

Credit risk on investments is managed by holding only high-quality securities, issued chiefly by governments, government agencies and supernatural organisations.

Banking services are conducted with international institutions, overseas central banks and high rated commercial banks.

The table on the next page shows the balances and advances with major banks and financial institutions at the balance sheet date and the institutions' recent credit ratings according to the Standard and Poor credit rating scale.

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

31 December 2007

5. Financial instruments – Risk management (Continued)

5.4 Financial risk management objectives (Continued)

5.4.2 Credit risk (Continued)

Credit limit and balance of major central and commercial banks and financial institutions at balance sheet date					
Bank	Location	Rating	Credit Limit Percentage of Total Portfolio	Carrying amount	Carrying amount
				2007	2006
				K'm	K'm
Bank of England	Europe	AAA	0.20	66	62
Deutsche Bundesbank	Europe	AAA	0.20	1,219	20
Reserve Bank of South Africa	Africa	BBB+	0.15	-	-
Reserve Bank of Zimbabwe*	Africa	N/A	N/A	5,066	-
Federal Reserve Bank of New York	North America	AAA	0.20	155	1,013
Bank of Tokyo Mitsubishi	Asia	A	0.15	13	-
Citibank	North America	AA-	0.15	555	74
Standard Chartered Bank	Europe	A+	0.15	103	94
Crown Agents Fund Managers	Europe	AAA	0.15	5,791	3,020
Citifunds Institutional Liquid Reserve Global Fund Managers	North America	AA-	0.15	4,429	2,277

No impairment provision has been made as none of the balances with the institutions above is impaired.

*In June 2007, the Government of Malawi through the Reserve Bank of Malawi (“RBM”) agreed to advance to the Government of Zimbabwe, through the Reserve Bank of Zimbabwe (“RBZ”), 100 million United States Dollar ninety day revolving credit facility for the purpose of enabling the Government of Zimbabwe to import maize from Malawi. The Bank does not have any significant credit risk exposure on the facility as it was negotiated at Government level.

5.4.3 Liquidity risk

Liquidity risk is the risk that an entity may not be able to accommodate decreases in liabilities or to fund increases in assets in full at the time that a commitment or transaction is due for settlement. The Bank is exposed to maturing Repurchase Agreements and Open Market Operations liabilities and daily withdrawals of commercial banks and government deposits. Withdrawals by commercial banks are however controlled by the Liquidity Reserve Requirement (“LRR”) which has to be observed by these banks. The LRR, which currently stands at 15.5% of eligible deposits, helps in mitigating the Bank’s liquidity risk on the domestic front. Activities under this category, that is, on the bankers deposits, currency in circulation and Reserve Bank of Malawi bills have an impact on the achievement of monetary policy objectives and the Bank monitors them on a daily basis.

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

31 December 2007

5. Financial instruments – Risk management (Continued)

5.4 Financial risk management objectives (Continued)

5.4.3 Liquidity risk (Continued)

On the international front, in addition to holding appropriate cash balances, the Bank manages its liquidity risk through appropriate structuring of its investment portfolios to ensure that the maturity profiles of its assets sufficiently match those of its commitments. This is monitored and managed on a daily basis. Under IMF liabilities (note 8), the Bank agrees with the IMF monetary targets that are to be achieved for macroeconomic stability. Where these targets are not achieved, the fund may withhold future disbursements to the Bank, but the present obligation would continue under the existing conditions.

The table below analyses assets and liabilities into relevant maturity profiles based on the remaining period at balance sheet date to the contractual maturity date.

At 31 December 2007	Up to 1 Month	1-3 Months	4-12 Months	Over 12 Months	Total	Carrying Value
	K'm	K'm	K'm	K'm	K'm	K'm
ASSETS						
Property and Equipment	-	-	-	4,735	4,735	4,735
Special Drawing Rights	-	-	-	5	5	5
Investments in Malswitch	-	-	-	17	17	17
Investments in Malawi Government:						
- promissory notes	111	-	-	936	1,047	1,047
- treasury note	-	-	-	3,986	3,986	3,986
- local registered stocks	-	-	331	1	332	332
- treasury bills	-	1,098	21,396	-	22,494	22,494
Loans to foreign institutions	5,066	-	-	-	5,066	5,066
Loans to statutory bodies	1,254	-	-	-	1,254	1,254
Liquid assets:						
- balances with foreign banks	-	29,385	-	-	29,385	29,385
- other liquid assets	857	-	-	-	857	857
Other Assets	-	3,451	1,076	291	4,818	4,818
Assets classified as held for sale	-	-	184	-	184	184
TOTAL ASSETS	7,288	33,934	22,987	9,971	74,180	74,180
Liabilities and equity						
Allocation of special drawing rights	-	-	2,430	-	2,430	2,430
Borrowings	-	-	-	4,345	4,345	4,345
Reserve Bank of Malawi bills	-	13,965	-	-	13,965	13,965
Notes and coins in circulation	-	-	-	24,203	24,203	24,203
Bankers deposits	2,855	-	-	-	2,855	2,855
Government deposits	23,623	-	-	-	23,623	23,623
Other Liabilities	-	1,116	-	-	1,116	1,116
Severance Pay provision	-	1	22	832	855	855
Capital and Reserves	-	-	-	788	788	788
Total Liabilities & Equity	26,478	15,082	2,452	30,158	74,180	74,180
Contractual Liquidity Mismatch	(19,190)	18,852	20,535	20,197	-	-

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

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5. Financial instruments – Risk management (Continued)
5.4 Financial risk management objectives (Continued)
5.4.3 Liquidity risk (Continued)

At 31 December 2006	Up to 1 Month	1-3 Months	4-12 Months	Over 12 Months	Total	Carrying Value
	K'm	K'm	K'm	K'm	K'm	K'm
ASSETS						
Property and Equipment	-	-	-	4,846	4,846	4,846
Special Drawing Rights	-	-	-	95	95	95
Investments in Malswitch	-	-	-	401	401	401
Investments in Malawi Government:						
- promissory notes	111	-	-	936	1,047	1,047
- treasury note	-	-	-	-	-	-
- local registered stocks	-	-	606	332	938	938
- treasury bills	-	6,235	-	7,547	13,782	13,782
Loans to foreign institutions	-	-	-	-	-	-
Loans to statutory bodies	-	-	-	-	-	-
Liquid assets:						
- balances with foreign banks	-	17,760	-	-	17,760	17,760
- other liquid assets	1,303	-	-	-	1,303	1,303
Other Assets	-	2,685	1,260	31	3,976	3,976
TOTAL ASSETS	1,414	26,680	1,866	14,188	44,148	44,148
Liabilities and equity						
Allocation of special drawing rights	-	-	-	2,301	2,301	2,301
Borrowings	-	-	-	2,712	2,712	2,712
Reserve Bank of Malawi bills	-	8,074	-	-	8,074	8,074
Notes and coins in circulation	-	-	-	18,033	18,033	18,033
Bankers deposits	3,489	-	-	-	3,489	3,489
Government deposits	7,107	-	-	-	7,107	7,107
Capital Reserves	-	-	-	654	654	654
Other Liabilities	-	1,778	-	-	1,778	1,778
Total Liabilities & Equity	10,596	9,852	-	23,700	44,148	44,148
Contractual Liquidity Mismatch	(9,182)	16,828	1,866	(9,512)	-	-

5.4.4 Interest rate risk

Interest rate risk is generally referred to as the exposure of the Bank's net interest income to adverse movements in interest rates as a result of assets and liabilities re-pricing at different times and using different bases.

The risk therefore has a direct impact on the Bank's net interest margin. The Bank reviews the re-pricing gap periodically and appropriate action is taken to reduce the effect of the risk.

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

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5. Financial instruments – Risk management (Continued)
5.4 Financial risk management objectives (Continued)
5.4.4 Interest rate risk (Continued)

Foreign interest rate risk is managed by professional fund managers whilst decisions on local interest related investments are based on monetary policy considerations.

Part of the Bank's return on financial instruments is obtained from controlled mismatching of dates on which interest receivable on assets and interest payable on liabilities are reset to market rates, or if earlier, the dates on which the instruments mature.

The table below summarises the carrying amount of interest rate sensitive assets and liabilities and the notional amounts of financial instruments in the period in which they next re-price to market rates or mature. The sum of these reflects the interest rate sensitivity gap.

Interest rate sensitivity gap analysis

At 31 December 2007	On Demand	Less than 1 Month	1-3 Months	4-12 Months	Over 12 Months	Non Rate Sensitive	Total
	K'm	K'm	K'm	K'm	K'm	K'm	K'm
ASSETS							
Special Drawing Rights	-	-	-	-	5	-	5
Investments in Malawi Government:							
- promissory notes	71	-	-	-	936	40	1,047
- treasury note	-	-	-	-	3,986	-	3,986
- local registered stocks	-	-	-	331	1	-	332
- treasury bills	-	-	1,098	21,396	-	-	22,494
Loans to foreign institutions	-	5,066	-	-	-	-	5,066
Loans to statutory bodies	-	1,254	-	-	-	-	1,254
Liquid assets:							
- balances with foreign banks	-	-	29,385	-	-	-	29,385
- other liquid assets	857	-	-	-	-	-	857
Total interest bearing assets	928	6,320	30,483	21,727	4,928	40	64,426
Non-interest bearing assets	-	-	-	-	-	9,754	9,754
TOTAL ASSETS	928	6,320	30,483	21,727	4,928	9,794	74,180
LIABILITIES							
Allocation of special drawing rights	-	-	-	2,430	-	-	2,430
Borrowings	-	-	-	-	4,345	-	4,345
Reserve Bank of Malawi bills	-	-	13,965	-	-	-	13,965
Total interest bearing liabilities	-	-	13,965	2,430	4,345	-	20,740
Non-interest bearing liabilities	-	-	-	-	-	52,652	52,652
Shareholders funds	-	-	-	-	-	788	788
TOTAL LIABILITIES & SHAREHOLDERS FUNDS	-	-	13,965	2,430	4,345	53,440	74,180
Interest rate sensitivity gap	928	6,320	16,518	21,727	(1,847)	(43,646)	-
Cumulative Interest rate sensitivity gap	928	7,248	23,766	45,493	43,646	-	-

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5. Financial instruments – Risk management (Continued)

5.4 Financial risk management objectives (Continued)

5.4.4 Interest rate risk (Continued)

Interest rate sensitivity gap analysis

At 31 December 2006	On Demand	Less than 1 Month	1-3 Months	4-12 Months	Over 12 Months	Non Rate Sensitive	Total
	K'm	K'm	K'm	K'm	K'm	K'm	K'm
ASSETS							
Special Drawing Rights	-	-	-	-	95	-	95
Investments in Malawi Government:							
- promissory notes	71	-	-	-	936	-	1,007
- local registered stocks	-	-	-	-	332	-	938
- treasury bills	-	-	6,235	7,547	-	-	13,782
Liquid assets:							
- balances with foreign banks	-	-	17,760	-	-	-	17,760
- other liquid assets	1,303	-	-	-	-	-	1,303
Total interest bearing assets	1,374	-	23,995	8,153	1,363	-	34,885
Non-interest bearing assets	-	-	-	-	-	9,263	9,263
TOTAL ASSETS	1,374	-	23,995	8,153	1,363	9,263	44,148
LIABILITIES							
Allocation of special drawing rights	-	-	-	-	2,301	-	2,301
Borrowings	-	-	-	-	2,712	-	2,712
Reserve Bank of Malawi bills	-	-	8,074	-	-	-	8,074
Total interest bearing liabilities	-	-	8,074	-	5,013	-	13,087
Non-interest bearing liabilities	-	-	-	-	-	30,407	30,407
Shareholders funds	-	-	-	-	-	654	654
TOTAL LIABILITIES & SHAREHOLDERS FUNDS	-	-	8,074	-	5,013	31,061	44,148
Interest rate sensitivity gap	1,374	-	15,921	8,153	(3,650)	(21,798)	-
Cumulative Interest rate sensitivity gap	1,374	-	17,295	25,448	21,798	-	-

5.4.5 Market risk

The Bank is exposed to market risk on the international financial market, principally through changes in the relevant interest rates received and paid largely on its foreign assets and foreign liabilities. Exposure may also be incurred to changes in exchange rates and to shifts in general market conditions, such as the liquidity of the assets market. The Bank has engaged the services of professional fund managers who manage a significant portfolio of its foreign assets. An appropriate benchmark was given which has several aspects in terms of quality of instruments, maximum duration and credit concentration.

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

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5. Financial instruments – Risk management (Continued)

5.4 Financial risk management objectives (Continued)

5.4.5 Market risk (Continued)

The Bank had the following significant foreign currency positions as at 31 December 2007

Currency composition as at 31 December 2007	Figures in Millions					
Currency	MWK	USD	GBP	JPY	EUR	SDR
Liabilities						
Allocation of special drawing rights	2,430	-	-	-	-	11
Borrowings	4,345	-	-	-	-	20
Total	6,775	-	-	-	-	31
Assets						
Special drawing rights	5	-	-	-	-	-
Gold reserve account	76	1	-	-	-	-
Loan to foreign institution – RBZ	5,066	36	-	-	-	-
Foreign nostros	2,139	5	1	11	6	-
IP - Time deposits	4,837	41	27	-	8	-
IMF - Reserve tranche	513	-	-	-	-	2
Repurchase agreement	1,675	12	-	-	-	-
Funds under foreign management	10,221	73	-	-	-	-
Total	24,532	168	28	11	14	2

5.4.6 Foreign exchange risk

Foreign exchange risk relates to the exposure of the Bank's foreign exchange position to adverse movements in foreign exchange rates. These movements may impact on the Bank's future cash flows. The Bank manages this risk by adhering to currency exposure limits set internally.

5.5 Fair value of financial assets and liabilities

The carrying amounts of treasury bills, loans and advances, liquid assets, deposits, and short-term balances with foreign banks approximate to fair value due to the short-term nature of these instruments.

The absence of an active market or established valuation techniques in Malawi means that the determination of fair value for the remaining instruments is impracticable. In this instance, amortised cost is regarded as the best approximation of fair value.

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6. Promissory Notes due from Government

	<u>Notes</u>	<u>2007</u> K'm	<u>2006</u> K'm
31 December 2000	i)	535	535
31 December 2001	ii)	2,695	2,695
July / August 2002	iii)	993	993
31 December 2002	iv)	<u>2,220</u>	<u>2,220</u>
Promissory Notes issued by Government		<u>6,443</u>	<u>6,443</u>

The promissory notes listed above were issued by the Government of Malawi in accordance with Section 54(2b) of the Reserve Bank of Malawi Act, 1989, and consist of:

- A non-interest bearing promissory note issued by the Malawi Government in settlement of the loss incurred by the Bank for the financial year ended 31 December 2000. This note is denominated in Malawi Kwacha and is redeemable from the future profits of the Bank intended for appropriation to the Malawi Government.
- A non-interest bearing promissory note of K2,695m issued by the Malawi Government in settlement of the loss incurred by the Bank for the financial year ended 31 December 2001. The note is denominated in Malawi Kwacha and is redeemable from the future profits of the Bank intended for appropriation to the Malawi Government.
- Two non-interest bearing promissory notes of K693m and K300m issued by the Government of Malawi on 1 July 2002 in respect of a non-interest bearing Treasury Bill. These notes are denominated in Malawi Kwacha and are redeemable from the future profits of the Bank intended for appropriation to the Malawi Government.
- A non-interest bearing promissory note of K2,220m issued by the Malawi Government in settlement of the loss incurred by the Bank for the financial year ended 31 December 2002. The note is denominated in Malawi Kwacha and is redeemable from the future profits of the Bank intended for appropriation to the Malawi Government. Promissory notes are redeemed against the future profits of the Bank on a first in, first out basis. As indicated in note 32, subsequent to year end, on 8 January 2008, the Government issued fixed term interest bearing treasury notes replacing all the promissory notes above.

7. Allocation of Special Drawing Rights ("SDR")

The Allocation of Special Drawing Rights, which are due to the IMF, represents SDR 11m (K2,430m) [2006: SDR11m (K2,301m)] and bear interest at an average rate of 4.02% (2006: 3.7%) per annum. The liability represents an allocation and has no fixed repayment dates.

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8. Borrowings

	<u>2007</u> K'm	<u>2006</u> K'm
<u>International Monetary Fund</u>		
Poverty Reduction Growth Facility ("PRGF")	<u>4,345</u>	<u>2,712</u>
<u>Maturity</u>		
Falling due after more than one year	<u>4,345</u>	<u>2,712</u>

The PRGF loan is denominated in Special Drawing Rights and bears interest at 0.5% per annum. The loan is repayable in installments of SDR1.14m. Final installment is expected in the year 2018.

In accordance with IAS 20 these borrowings from the IMF have been accounted for as preferential loans from a quasi government institution. As such, the loans are carried at cost plus accrued interest.

9. Severance pay provision

In line with the current interpretation of the Employment Act and the recent guidance from the Society of Accountants in Malawi ("SOCAM"), the Bank has provided for a severance pay allowance as at year-end. The severance pay allowance is treated as an unfunded employment benefit obligation and the liability has been estimated at 60% of the maximum exposure computed based on the earnings of all eligible employees at year-end using the guidelines in the Act. The Bank considers the 60% an appropriate estimate of the liability taking into account situations where severance pay is not payable and the need to discount future liabilities in the absence of a proper valuation. The actuarial valuation of the liability will be carried out in 2008, and it is possible that the liability could be more or less than the estimated K855m. Appropriate adjustments will be made prospectively after actuarial assessment.

10. Notes and coin in circulation

	<u>2007</u> K'm	<u>2006</u> K'm
Notes	23,940	17,893
Coin	<u>263</u>	<u>140</u>
Total notes and coin in circulation	<u>24,203</u>	<u>18,033</u>

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11 Government deposits

Under the provisions of the Reserve Bank of Malawi Act, 1989, one of the principal objectives of the Bank is to act as banker and adviser to the Government. Acting in this capacity, the Bank receives deposits which represent all receipts accruing to the Government. The Bank also facilitates the operation of the Government Credit Ceiling Authority ("CCA") through the maintenance of holding accounts which eventually fund the operating accounts of Government Ministries held at commercial banks. No interest is payable on these deposits which are repayable on demand.

12 Bankers' deposits

In the exercise of its powers under Section 36 of the Reserve Bank of Malawi Act, 1989, the Bank requires all commercial banks to maintain a specified liquidity reserve with the Central Bank at all times. No interest is payable on these deposits.

13. Other liabilities

	<u>2007</u> K'm	<u>2006</u> K'm
Payables	620	1,272
PTA loan retention	-	206
Payroll accruals	76	16
Accrued charges	-	16
Deposits from foreign institutions	2	5
Other payables	<u>418</u>	<u>263</u>
Total other liabilities	<u>1,116</u>	<u>1,778</u>

14 Reserve Bank of Malawi bills

Reserve Bank of Malawi bills are due to mature as follows:

	<u>2007</u> K'm	<u>2006</u> K'm
Within three months	13,965	8,074

Reserve Bank of Malawi bills are issued by the Bank in its own right for monetary policy control, in accordance with Section 34 of the Reserve Bank of Malawi Act, 1989. The interest payable on the Reserve Bank of Malawi bills ranges from 8.0% to 15.9% (2006: 15.7% to 24.2%) per annum.

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15 Property and equipment

<u>2007</u>	<u>Land & buildings &</u> K'm	<u>Computer hardware software</u> K'm	<u>Furniture equipment, & motor vehicles</u> K'm	<u>Total</u> K'm
COST OR VALUATION				
At beginning of the year	3,521	766	2,173	6,460
Additions	358	229	169	756
Disposals	(363)	-	(14)	(377)
Assets classified as held for sale	(181)	-	(3)	(184)
At end of the year	<u>3,335</u>	<u>995</u>	<u>2,325</u>	<u>6,655</u>
DEPRECIATION				
At beginning of the year	45	548	1,021	1,614
Charge for the year	45	116	171	332
Disposals	(18)	-	(8)	(26)
At end of the year	<u>72</u>	<u>664</u>	<u>1,184</u>	<u>1,920</u>
NET BOOK VALUE				
At end of the year	<u>3,263</u>	<u>331</u>	<u>1,141</u>	<u>4,735</u>
<u>2006</u>				
COST OR VALUATION				
At beginning of the year	3,485	1,353	2,064	6,902
Additions	43	60	250	353
Disposals	(7)	-	(35)	(42)
Malswitch transfers	-	(521)	(106)	(627)
Malswitch transfers written off	-	(126)	-	(126)
At end of the year	<u>3,521</u>	<u>766</u>	<u>2,173</u>	<u>6,460</u>
DEPRECIATION				
At beginning of the year	-	726	895	1,621
Charge for the year	45	102	183	330
Disposals	-	-	(18)	(18)
Malswitch transfers	-	(241)	(39)	(280)
Malswitch transfers written off	-	(39)	-	(39)
At end of the year	<u>45</u>	<u>548</u>	<u>1,021</u>	<u>1,614</u>
NET BOOK VALUE				
At end of the year	<u>3,476</u>	<u>218</u>	<u>1,152</u>	<u>4,846</u>

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15 Property and equipment (Continued)

Valuations of land and buildings are performed by independent valuers with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Land and buildings were revalued as at 31 December 2005 on an open market value basis as follows:

- a) Reserve Bank Headquarters, Lilongwe, by Property and Valuation Services Chartered Surveyors;
- b) Residential properties in Lilongwe, Salima and Mangochi Cottages by Togo Property, Chartered Surveyors, Valuers Property Managers Estate Agents and Consultants; *and*
- c) Recreational Properties in Lilongwe and Mzuzu Branch Site by Knight Frank, Chartered Surveyors.

Old and new Reserve Bank Branches in Blantyre by S M N Property Professional Valuers and Estate Managers, Chartered Surveyors in association with SFS Property Consultants.

16 Discontinued operations – Malawi Switch Centre (“Malswitch”)

To comply with Section 28(j) of the Reserve Bank of Malawi Act, 1989, on 1 December 2007, the Bank disposed of 94% out of the 99% holding it had in Malswitch by means of a gratuitous transfer to the government, and remains with a 5% shareholding at the year-end.

Summarised financial information in respect of Malswitch as at 31 December 2007 is set out below.

	K'm
Investment in Malswitch as at 31 December 2007 (99% holding)	401
Less: loss in Malswitch operations (as below)	(115)
	286
Less: disposal (94% holding)	(269)
Investment in Malswitch as at 31 December 2007	17

The unaudited Bank's share of the results of Malswitch for the 11 months ended 30 November 2007 included in the income statement are set out below:

	K'm
Revenue	515
Less: group transactions	(224)
Less: cost of sales	(252)
Gross profit	39
Less: operating expenditure	(154)
Net loss	(115)

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16 Discontinued operations – Malawi Switch Centre (“Malswitch”) - (Continued)

The discontinued operations figure included in the income statement is made up as follows:

	K'm
Loss on Malswitch operations	(115)
Disposal of investment in Malswitch	(269)
Loss from discontinued operations	(384)

17 Malawi Government promissory notes

		<u>2007</u>	<u>2006</u>
		K'm	K'm
31 December 1999	i)	40	40
31 December 2000	ii)	71	71
31 December 2006	iii)	<u>936</u>	<u>936</u>
Total Malawi Government promissory notes		<u>1,047</u>	<u>1,047</u>

The promissory notes, which meet the definition of financial assets in accordance with IAS 39, were issued by the Malawi Government in accordance with Section 54(2b) of the Reserve Bank Act, 1989, and consist of:

- i) A non-interest bearing promissory note of K40m issued on 31 December 1999 in settlement of advances made by the Bank in relation to the Small and Medium Enterprise Fund (“SMEF”). The promissory note is denominated in Malawi Kwacha and is redeemable on demand by the Malawi Government. As indicated in note 32, subsequent to year end, on 8 January 2008, the Government issued fixed term interest bearing treasury notes replacing this promissory note.
- ii) An interest bearing promissory note of K71m issued on 31 December 2000 in settlement of interest charged on 1990 to 1992 Government loans. The promissory note is denominated in Malawi Kwacha and is redeemable on demand by the Malawi Government. It bears interest at the ruling Bank rate.
- iii) An interest bearing promissory note of K936m issued by the Malawi Government in settlement of the loss incurred by the Bank and its subsidiary for the financial year ended 31 December 2006. The note is denominated in Malawi Kwacha and matures after five years from its effective date of 31 December 2006. It bears interest at the ruling Bank rate.

18 Malawi Government treasury note

A treasury note of K3,986m, which bears interest at 16.5%, was issued by the Malawi Government in settlement of the loss incurred by the Bank for the financial year ended 31 December 2007. The note is denominated in Malawi Kwacha and matures after five years from its effective date of 31 December 2007.

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19 Malawi Government local registered stock

	<u>2007</u>	<u>2006</u>
	K'm	K'm
Local registered stock are due to mature as follows:		
- Between three months and one year	331	606
- Between one year and five years	<u>1</u>	<u>332</u>
Total local registered stock	<u>332</u>	<u>938</u>

These stocks, which are held by the Bank as originated loans, are carried at amortised cost and carry an interest rate of between 21.0% and 39.5% per annum.

20 Malawi Government treasury bills

	<u>2007</u>	<u>2006</u>
	K'm	K'm
Treasury bills are due to mature as follows:		
- Within three months	1,098	6,235
- Between three months and one year	<u>21,396</u>	<u>7,547</u>
Total treasury bills	<u>22,494</u>	<u>13,782</u>

These treasury bills are held by the Bank as originated loans and are carried at amortised cost. As at 31 December 2007 they carried an average interest rate of 14.3% (2006: 19.9%) per annum.

21 Loan to foreign institution

	<u>2007</u>	<u>2007</u>	<u>2006</u>
	US\$'m	K'm	K'm
Past due	17	2,380	-
Due after year end	<u>19</u>	<u>2,686</u>	-
Total	<u>36</u>	<u>5,066</u>	-

The loan was granted to the Reserve Bank of Zimbabwe ("RBZ"). It attracts interest at the three month rate of LIBOR plus 2% and is repayable within ninety days of each advance. To service the facility, RBZ opened an export Collection Account into which 22.5% of export proceeds received are deposited. RBZ issued a Letter of Credit in favour of the Bank amounting to US\$15.0m at 31 December 2007. An amount of US\$19.6m has been received subsequent to the balance sheet date.

In spite of the difficult economic conditions prevailing in Zimbabwe, the Bank considers the loan as fully recoverable as it was negotiated at Government level and has adequate security as noted above. Accordingly, no impairment provision has been made on the loan receivable.

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22 Loan to statutory body

This amount represents a loan advanced to the National Food Reserve Agency ("NFRA") to enable the NFRA to purchase maize from local farmers. The loan is guaranteed by the Government of Malawi through the Ministry of Finance.

23 Balances with foreign banks

	<u>2007</u>	<u>2006</u>
	K'm	K'm
Balances with foreign banks are due to mature as follows:		
Within 3 months	29,385	17,760
Analysis of deposits by geographical location:		
- Africa	4,215	2,511
- Europe	17,830	11,399
- North America	7,327	3,850
- Asia	<u>13</u>	<u>-</u>
	<u>29,385</u>	<u>17,760</u>

The Bank's principal liquidity risk management objective is to maintain sufficient liquid resources to enable it to meet all probable cash flow needs for a rolling 1-year horizon without sourcing additional financing. Included in total balances with foreign banks are funds of K9,983m (2006: K5,296m) that have been placed with external fund managers who are given a mandate of investing the funds with a maximum duration of five years. However, the investments are easily convertible such that they can be liquidated at short notice.

Balances with foreign banks carry interest rates of between 3.0% and 8.0% (2006: 3.0% and 8.9%) per annum.

24. Other assets

	<u>2007</u>	<u>2006</u>
	K'm	K'm
Prepayments	710	889
Staff loans and advances	831	500
Recoverable expenditure	368	369
Other receivables	40	49
Inventory currency notes	3,365	2,583
Accrued interest	(2)	2
Consumable stocks	46	53
Impairment of staff loans	(226)	(128)
Provision for bad and doubtful debts	<u>(314)</u>	<u>(341)</u>
Total other assets	<u>4,818</u>	<u>3,976</u>

Staff loans are issued to members of staff at concessionary rates. A fair value calculation was performed to determine the impact of the concessionary rates and an adjustment has been made in the financial statements.

The directors consider the carrying amounts of other assets to approximate their fair values.

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31 December 2007

25 Non-current assets classified as held for sale

	<u>2007</u> K'm	<u>2006</u> K'm
Motor vehicles	3	-
Property	181	-
Total assets classified as held for sale	<u>184</u>	<u>-</u>

As at year-end, the Bank had committed to dispose of some of its motor vehicles which had exceeded their useful economic life as at the balance sheet date. The net book value of the motor vehicles committed to disposal amounted to K3m.

The Bank also embarked on a process of disposing of institutional houses in the year. Out of the total houses with a valuation of K544m, as at 31 December 2007, houses with a valuation of K363m had already been sold to the Bank's employees. Houses with a valuation of K181m were awaiting finalisation of the sale procedures as at year-end and hence could not be accounted for as disposed of as at year-end. The decision to dispose of these houses was approved by the Board in 2007 to enable management to focus on core functions of the Bank.

With the approval from the Board, the houses sold to the Bank's employees were sold at closed market value which was below the open market value. The employees' consideration for the purchase of these houses was through the housing loan scheme they are entitled to from the Bank. Included in the house disposals, was a house with a valuation of K9.1m and sold at K9.9m to a member of the Bank's senior management who is also eligible to purchase the house under the same terms and conditions of the Bank's housing loan scheme.

26 Reconciliation of net loss for the year to operating loss before changes in operating assets

	<u>2007</u> K'm	<u>2006</u> K'm
Net loss for the year	(3,852)	(615)
Adjustments for:		
• Depreciation	332	330
• Impairment of staff loans	97	-
• Provision for doubtful debts	2	-
• Loss from discontinued operations	384	-
• Property income	(81)	(74)
• Sundry income	(164)	(45)
• Foreign exchange revaluations	(496)	(397)
• Profit on disposal of assets	(17)	(5)
• Other	-	47
Operating loss before changes in operating assets	<u>(3,795)</u>	<u>(759)</u>

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27 Concentration of funding

The Bank's significant end of year concentrations of funding were as follows:

<u>2007</u>				
Figures in K' millions	Mw Govt	Public & Local Institutions	Foreign Govts & Fin. Inst.	Total 2007
Foreign Currency Financial liability				
IMF loans	-	-	4,345	4,345
SDRs	-	-	2,430	2,430
Total	-	-	6,775	6,775
Local Currency Financial liability				
Government deposits	23,623	-	-	23,623
Bankers deposits	-	2,855	-	2,855
Other deposits	-	2	-	2
RBM bills	-	13,965	-	13,965
Total	23,623	16,822	-	40,445
Other liabilities				
Currency in circulation	-	24,203	-	24,203
Other liabilities	-	1,969	-	1,969
Total	-	26,172	-	26,172
TOTAL LIABILITIES	23,623	42,994	6,775	73,392

<u>2006</u>				
Figures in K' millions	Mw Govt	Public & Local Institutions	Foreign Govts & Fin. Inst.	Total 2006
Foreign Currency Financial Liability				
IMF loans	-	-	2,712	2,712
SDRs	-	-	2,301	2,301
Total	-	-	5,013	5,013
Local Currency Financial Liability				
Govt deposits	7,107	-	-	7,107
Bankers deposits	-	3,489	-	3,489
Other deposits	-	5	-	5
RBM bills	-	8,074	-	8,074
Total	7,107	11,568	-	18,675
Other Liabilities				
Currency in circulation	-	18,033	-	18,033
Other liabilities	-	1,773	-	1,773
Total	-	19,806	-	19,806
TOTAL LIABILITIES	7,107	31,374	5,013	43,494

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28 Capital and other commitments

	<u>2007</u> K'm	<u>2006</u> K'm
<u>Endorsed by senior management</u>		
Capital commitments contracted	211	7
Capital commitments not contracted	213	261
Commitments for new notes	-	1,346
Total capital and other commitments	<u>424</u>	<u>1,614</u>

Capital commitments are to be financed from internal resources.

29 Taxation

The Bank is exempt from payment of income tax under Section 57 of the Reserve Bank of Malawi Act, 1989.

30 Employee benefits

The Bank established a non-contributory Pension Fund with effect from 1 January 1968. On 1 January 1997 the Fund was changed from non-contributory to contributory. The Bank contributes 16.4% of each member's basic pensionable salary while the eligible employees contribute 7.5% of their basic pensionable salary. The pension granted to a retiring member shall be determined as being the amount secured by the member on the Share Accounts at the date of retirement. The actuarial valuation, carried out by Alexander Forbes Financial Services, at 31 December 2005 showed that the market value of plan assets was K1,314m representing 164% of the benefits accrued to members. Although the actuarial valuation indicated the Fund to be in a surplus situation it has been past practice for the surplus or portions of the surplus to be allocated directly to members based on recommendations from the actuary. The Bank has therefore not recognised any surplus for the benefit of the Bank since the surplus is allocated directly to the members of the Fund.

The present value of the defined benefit obligation, and related current service cost (if any) and past service cost, were measured using the projected unit credit method.

	K'm
Present value of funded obligations	(803)
Fair value of plan assets	<u>1,315</u>
Unrecognized actuarial gains	<u>512</u>

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

31 December 2007

30 Employee benefits (Continued)

The principal assumptions used in determining the valuation are summarised below:

1. Interest rate of 15% per annum will be earned by the fund over the long-term.
2. General salary increases as a result of inflation have been provided for at 12% per annum.
3. Interest rate of 4.5% per annum for pension valuation.
4. Pre-retirement mortality is 56 - 62 years.
5. Members would retire on attaining the pensionable age of 55.

The total charge to the income statement in the year to 31 December 2007 was K93m (2006: K82m) and this represents contributions due and paid to the Fund by the Bank.

31 Related party transactions

In the context of the Bank, related party balances include any transactions made by any of the following persons:-

- The Government of Malawi;
- Government bodies;
- The Governor and his Deputy;
- General Manager and Executive Directors of the Bank;
- Senior Government Officers;
- Members of the Board of Directors;
- Cabinet Ministers and Head of State;
- Immediate family of the above categories; and
- The Reserve Bank of Malawi Pension Fund.

The transactions to be reported are those that affect the Bank in making financial and operating decisions. Examples of such transactions include:-

- Finance (loans);
- Preferential treatment on application of exchange control and licensing regulations;
- Procurement and investment contracts;
- Disposal of assets; and
- Guarantees and collaterals.

The Bank undertakes to disclose the nature of related party relationships, types of transaction, and the elements of the transactions necessary for the understanding of the annual financial statements.

Under the terms of Section 40(4) of the Reserve Bank of Malawi Act, 1989, short-term advances to Malawi Government must be repaid within four months of the end of the Malawi Government's financial year, which is 30 June 2007. These advances bear interest at the ruling Bank rate. As at 31 December 2007, the Government had no amounts owing to the Bank as advances. Interest earned on advances made to the government during the year has been disclosed below.

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

31 December 2007

31 Related party transactions (Continued)

During the period to 31 December 2007 loans totaling K8m (2006: K12m) were advanced to employees in key positions (Executive Director and above). At 31 December 2007 the total loans outstanding from employees in key positions was K12m (2006: K13m). These loans were granted on the same interest and repayment terms as loans to other staff members.

Emoluments paid to the employees in key positions during the reporting period were as follows:

	<u>2007</u>	<u>2006</u>
	K'm	K'm
Salary, gratuity and benefits	117	106

In addition to the related party balances disclosed in notes 6, 11, 17, 18, 19, 20, 25 and 35, the following transactions took place with Government:

	<u>2007</u>	<u>2006</u>
	K'm	K'm
Interest income on advances to Malawi Government	468	1,039
Interest on promissory notes	188	17
Interest on loans to statutory bodies	107	-
Interest on treasury bills	1,547	3,461
Cost of Treasury bills issued and matured during the year	<u>3,000</u>	<u>23,883</u>

The following were the closing balances in respect of government deposits:

Government institutions	21,775	7,107
Statutory corporations	<u>1,848</u>	<u>1,828</u>

32. Post balance sheet events

Subsequent to the balance sheet date, on 8 January 2008, the Government recapitalised the Bank by injecting an amount of K25,662m through the issue of two treasury notes bearing a 16.5 percent coupon rate and maturing as follows:

	K'm
January 2013	6,483
January 2017	<u>19,179</u>
Total value	<u>25,662</u>

The total value of these treasury notes is to be allocated as follows:

New issued capital	19,179
Redemption of promissory notes (note 6)	6,443
Redemption of promissory notes (note 17)	<u>40</u>
Total value	<u>25,662</u>

Annual interest income from these treasury notes is expected to be K4,106m. The interest will be paid semi-annually effective 8 July 2008 until the maturity date when the Bank will be paid the par value. This is therefore expected to address the problem of losses the Bank has been incurring in the recent years.

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

31 December 2007

33. Economic factors

The exchange rates of the foreign currencies most affecting the performance of the Bank are stated below, together with the increase in the National Consumer Price Index, which represents an official measure of inflation.

	1 USD	1 GBP	1 EURO	1SDR
31 December 2007	141.0	281.5	207.6	222.6
31 December 2006	140.0	275.0	184.4	209.6

No adjustments arising from the movements of the exchange rates after 31 December 2007 have been made in the financial statements.

At 31 December 2007, the Bank rate was 15.0% (2006: 20.0%) while the annual official rate of inflation was 7.5% (2006: 10.1%).

34. Bank accounts held on behalf of third parties

The Bank opens and holds external bank accounts on behalf of third parties, mainly consisting of Donor funded projects and the Government of Malawi. The Bank has no ownership of the funds in these bank accounts and accordingly they are not accounted for in the accounting records of the Bank. They are not reconciled or controlled by the Bank and are not included as assets or liabilities in these annual financial statements.

35. Contingent liabilities and encumbrances

During the year the Bank encumbered on behalf of the Government of Malawi, foreign exchange for purposes of servicing letters of credit. As at 31 December 2007, these encumbrances amounted to K4,953m (2006: K294m).

Appendix 1
DETAILS ANALYSIS INCOME

31 December 2007

	<u>2007</u> K'm	<u>2006</u> K'm
Income from money market operations		
Interest income on MG Treasury Bills (Financial Market Operations)	1,547	3,462
Interest on Government local registered stock	93	282
Interest on repurchase agreements	92	128
Interest on Promissory Notes TR	188	17
Other	2	16
Total income from money market operations	<u>1,922</u>	<u>3,905</u>
Income from banking operations		
Interest on advances to Government	468	1,039
Interest income Loans to foreign Govts	220	-
Crisp fees income	31	36
Interest on staff loans	17	12
Sundry income	4	6
Supervisory Fees	41	-
Interest on loans to Statutory Bodies	107	-
Total income from banking operations	<u>888</u>	<u>1,093</u>
Interest on foreign exchange operations		
Interest on Crown Agents Asset Management Investment	430	246
Interest on time deposits	410	330
Interest on money employed	64	66
Interest on repurchase agreement	78	75
Interest on holding of DRs	2	6
IMF burden refund	-	88
Total interest on foreign exchange operations	<u>984</u>	<u>811</u>
Sundry income		
Other	158	26
Staff restaurant	4	14
Profit on sale of property and equipment	17	5
Registration and licensing fees	2	5
Total sundry income	<u>181</u>	<u>50</u>
Income from property		
Rents receivable from staff	38	33
Commercial rents receivable	43	41
Total income from property	<u>81</u>	<u>74</u>

Appendix 2
DETAILS ANALYSIS OF OTHER INTEREST PAYABLE AND GENERAL ADMINISTRATION EXPENSES

31 December 2007

	<u>2007</u> K'm	<u>2006</u> K'm
Other interest payable		
Emergency Assistance	-	83
Enhanced structural adjustment	20	35
Allocation of SDRs	95	84
Crown Agents Asset Management fees	12	10
Late Deals	1	-
Foreign loans and lines of credit	3	2
Total other interest payable	<u>131</u>	<u>214</u>
General and administration expenses		
Currency expenses	2,423	1,901
Staff benefits	964	955
Salaries	729	648
Office premises	356	334
Professional fees and subscriptions	266	249
Office supplies	56	75
External training	35	61
Communication	86	91
Retirement expense	973	98
Restructuring Costs	-	179
Motor vehicle expenses	82	82
Staff houses	26	54
External travel	40	51
Local travel	35	38
Computer costs	108	142
Information	32	44
Public relations	17	14
Sports and social activities	31	16
Local training	13	14
Printing	14	14
Printing	-	13
Bereavement Expenses	1	1
Other staff costs	37	32
Secretariat responsibilities	3	7
Taxation	38	31
Insurance	18	18
Total general and administration expenses	<u>6,383</u>	<u>5,162</u>

3.0 ECONOMIC OVERVIEW

Real gross domestic product (GDP) grew by 7.9 percent in 2007 compared to growth of 8.2 percent registered in 2006. This growth in GDP resulted from strong growth recorded in small-scale agriculture, construction and transport and communication. The food security situation was generally favorable as evidenced by the fact that there were no serious food shortages in the country. This was the case because the economy registered maize surplus of 1.0 million metric tonnes as total production amounted to 3.4 million metric tonnes in 2007. Following this development, it was possible to export some maize to some neighbouring countries. Total exports of maize amounted to K9.9 billion (US\$70.7 million) in 2007. The tobacco auction floors officially closed on 10th August 2007 with a total of 109.8 million kilograms of tobacco sold in 2007 compared to 160.5 million kilograms sold in 2006. Prices averaged US\$1.78/kg in 2007 compared to US\$1.05/kg in 2006. Tea sales continued to decline reflecting developments on the international markets. A total of 17.6 million kilograms were sold in 2007 compared to 17.4 million kilograms during the previous year. Prices, on the other hand, declined to an average price of US\$1.05/kg during the review year from US\$1.23/kg in 2006.

Monetary developments were expansionary during 2007 reflecting growth in economic activity. Broad money rose by 36.1 percent to K83.5 billion in 2007 compared to an expansion of 17.4 percent in 2006. Currency outside banks, increased by K5.1 billion to K20.6 billion whilst demand deposits rose by K8.9 billion to K28.5 billion during the year. Gross credit to the private sector increased by 22.5 percent (K6.2 billion) to K34.0 billion following another increase of K10.4 billion in the previous year. This outturn was partly attributed to the lagged effects of reduction in interest rates during 2006 as well as the downward adjustments of interest rates in the second half of 2007. On the other hand, banking systems' net credit to government recorded an annual increase of 5.5 percent (K1.0 billion) to K20.1 billion compared to a decline of 18.6 percent (K4.3 billion) in the preceding year. Notwithstanding this, the fiscal position worsened to a deficit of K7.8 billion (2.3 percent of GDP) from K4.7 billion (2.0 percent of GDP) representing a deterioration of K1.4 billion. The deficit was mainly financed through domestic borrowing.

In 2007, total Treasury Bills subscriptions amounted to K154.7 billion from K125.4 billion recorded in 2006, representing an increase of 23.3 percent. The rise in the subscriptions was on account of the excess liquidity prevailing in the market. Consequently, yields depicted a downward trend such that the all-type Treasury bill yield lost 2.83 percentage points and averaged 14.34 percent in 2007 from 17.17 percent in 2006.

Annual inflation rate dropped by 5.9 percent to 8.0 percent, in 2007 due to increased food supply, relatively stable fuel prices and relatively stable exchange rate. This inflation rate is the lowest recorded since 1974. Food inflation was stable due to the cushion that was provided by maize stocks brought forward from the 2005/06 harvest in addition to the 2006/07 growing season's bumper harvest.

The Malawi kwacha exchange rate exhibited minor fluctuations during 2007 in line with the patterns displayed by major currencies on the international scene as well as some domestic developments. During the first half of the year the foreign exchange situation weakened whereas in the second half of the year export proceeds from sales of maize to Zimbabwe somewhat improved the foreign exchange position. The local currency marginally depreciated by 0.1 percent against both the United States dollar and pound sterling from the previous year to trade at K140.4804 per United States dollar and K280.3567 per British pound, respectively. In general, the local unit depreciated against hard currencies. However, the kwacha appreciated by 16.3 percent against the South African rand. Overall, the real effective exchange rates (REER) marginally appreciated by 1.0 percent in 2007 on account of the unfavorable inflation differential. However, the nominal effective exchange rate (NEER) depreciated by 2.0 percent.

The balance of payments situation of the country continued to record deficits largely on account of the poor performance of the current account in 2007. The current account registered a deficit due the import growth more than off-setting exports. Exports grew to K99.3 billion (US\$709.1 million) during the year under review from K78.8 billion (US\$542.6 million) in 2006 whereas imports grew to K175.6 billion (US\$1.3 billion) in 2007 from K143.5 billion (US\$1.1 billion) in 2006.

Total medium to long-term external debt stock increased to US\$557.1 million as at 31st December 2007 from US\$487.5 million in the preceding year. This outcome was attributed to more disbursements, particularly from multilateral and bilateral creditors, than principal repayments during the year. Central Government debt amounted to US\$546.1 million while that of public corporations totalled US\$11.0 million.

4.0 DEVELOPMENT IN THE GLOBAL ECONOMY

The World Economy

Global expansion is losing speed in the face of a major financial crisis and rising inflation world wide. The IMF's World Economic Outlook (WEO) of April 2008 projects global output growth to slow down to 3.7 percent in 2008 from 4.9 percent in 2007. Prospects for 2008, however, were overshadowed with a delicate balancing between alleviating the downward risks to growth and guarding against a build up in inflation. Nonetheless, growth is projected to remain broadly unchanged in 2009 at 3.8 percent.

Table 1: World Output: Annual Percentage Changes

	2001	2002	2003	2004	2005	2006	2007	2008
World Output.....	2.5	3.1	3.6	4.9	4.4	5.0	4.9	3.7
Advanced Economies.....	1.2	1.6	1.9	3.2	2.6	3.0	2.7	1.3
United States.....	0.8	1.6	2.5	3.6	3.1	2.9	2.2	0.5
Euro Area.....	1.9	0.9	0.8	2.1	1.6	2.8	2.6	1.4
Japan.....	0.2	0.3	1.4	2.7	1.9	2.4	2.1	1.4
Africa.....	4.4	3.7	5.3	6.5	5.7	5.9	6.2	6.3
Developing Asia.....	6.0	7.0	8.1	8.6	9.0	9.6	9.6	8.2
Middle East.....	3.0	3.9	6.9	5.9	5.7	5.8	5.8	6.1

Source: I.M.F World Economic Outlook

Economic Outlook for Industrial Countries

In advanced economies, output growth is expected to slowdown to 1.3 percent in 2008 from 2.7 percent in 2007. Output growth in the United States for 2007 is estimated at 2.2 percent. The recent turmoil in financial markets; weak housing market indicators and consumer sentiments, will negatively impact on growth prospects. Despite substantial monetary and fiscal support, the U.S. economy is projected to tip into a mild recession in 2008, with growth projected at a decimal 0.5 percent and 0.6 percent, in 2008 and 2009 respectively.

The euro area economy started moderating in 2007, growing at 2.6 percent compared to 2.8 percent in 2007. Euro currency appreciation and a relatively weak export market contributed to the down turn in growth expectations in addition to financial sector woes. Growth in the United Kingdom registered a strong 3.0 percent increase despite woes in the banking sector which led to the slowdown in growth to 2.5 percent during the fourth quarter of 2007. Generally, smaller European countries such as Austria, the Netherlands, Sweden and Switzerland continued to grow above potential in the second half of 2007 unlike the rest of the members of the euro area. This is largely because there is more intra-regional trade amongst these countries unlike the rest of Europe that has strong trade links with the United States of America.

The Japanese economy remained resilient to the world economic slowdown. Output growth is estimated at 3.5 percent for 2007, led by robust net exports and business investment. Prospects for the short to medium term are, however, clouded with slowing global economic activity. Moreover, higher food and fuel prices coupled with sluggish wages could weaken business investment if global market turmoil lead to tightened credit conditions. Reflecting these considerations, growth for Japan is projected at 1.4 percent and 1.5 percent in 2008 and 2009, respectively.

Emerging Asian Economies

Growth in emerging Asia remained strong in the second half of 2007, although with some signs of slowing down. Growth in this sub-region was led by China, where output expanded by 11.4 percent in 2007. Growth prospects remain dependent on how resilient the block's financial systems and economies are to the ongoing global financial market turmoil, notwithstanding the block's degree of openness, and the slowdown in the advanced economies. Internally, inflation pressures are threatening short-term outlook for growth. Against this background, growth in the block is expected to decelerate but remain robust at 7.5 percent in 2008 and 7.9 percent in 2009, compared to 9.1 percent recorded in 2007.

South Asian economies continue to support China in propelling economic growth with India as a major player. The Indian economy is expected to grow at 7.0 percent in 2008 moderating from 8.7 percent in 2007. The newly industrialized Asian economies are expected to be most affected by the weaker advanced economies' outlook and growth for 2008, and therefore growth in these economies is estimated at 4.2 percent.

The Middle East and African Countries

Regional growth, in the Middle East, remains strong reaching 5.8 percent in 2007. However, inflation pressures have risen considerably due to strong domestic demand and rising food prices. Short-term outlook remains positive with growth projected to rise to over 6 percent in 2008 and 2009 supported by large positive current accounts especially among oil exporters.

Overall growth in the African region is projected to rise to 6.3 percent in 2008 from 6.2 percent in 2007 led by sub-Saharan Africa where oil-exporting countries are instrumental to this buoyant growth. The region's strongest growth was recorded in Angola largely emanating from increased oil and diamond production. Elsewhere, growth was supported by increased investment, improvement in terms of trade especially for primary commodities, sound macroeconomic policy implementation and rising openness of the SSA economies coupled with advances in regional integration. The major risk facing the region is that it remains sensitive to developments in advanced economies that are its trading partners, especially Western Europe. The slow growth in Europe reduces demand for Africa's principal exports. This along with a related risk of weaker commodity prices, remain a prime risk for the region's commodity exporters. In South Africa, economic activity had eased modestly due to tight monetary policy aimed at containing rising inflation pressures from food and fuel prices. However, investment continues to grow in the wake of the 2010 FIFA World Cup preparations. The favourable environment has made countries in the region to attract private capital inflows. Hence, net capital inflows reached record levels in 2007, led by strong Foreign Direct Investment (FDI) inflows.

Table 2: Percentage Change in Real Output and Consumer Prices in Developing Countries

	Real GDP				Consumer Prices			
	2005	2006	2007	2008	2005	2006	2007	2008
Africa.....	5.6	5.9	6.2	6.3	6.4	6.3	7.5	7.5
Oil Importers.....	4.8	5.7	5.2	5.1	6.3	6.7	7.6	7.6
Oil Exporters.....	7.6	6.3	8.0	8.4	6.4	5.6	7.2	7.2
Sub-Sahara	6.0	6.4	6.8	6.6	7.3	7.2	8.5	8.5
Middle East.....	5.7	5.8	5.8	6.1	7.0	10.4	11.5	11.5
Emerging Asia.....	8.7	9.7	8.2	8.4	4.0	5.3	4.4	4.4
China.....	10.4	11.1	11.4	9.3	1.5	4.8	5.9	5.9
South Asia.....	8.7	9.1	8.6	7.5	6.5	6.9	5.9	5.9
ASEAN-4.....	5.2	5.7	6.3	5.8	8.1	4.5	6.1	6.1
Newly industrialised Asian economies..	4.7	5.6	5.6	4.0	1.6	2.2	3.0	3.0

Source: I.M.F World Economic Outlook

The Middle East and African Countries (Continued)

Table 3: Percentage Change in Terms of Trade

	2001	2002	2003	2004	2005	2006	2007	2008
Advanced economies.....	0.3	0.8	1.0	-0.1	-1.6	-0.9	0.2	-0.2
Other emerging and developing countries.....	-2.3	0.7	1.3	-3.1	6.4	-3.6	-0.2	1.3
Fuel exporters.....	-7.6	0.2	3.8	12.3	24.2	9.5	-0.1	5.0
Non-fuel exporters.....	-0.1	0.6	0.4	-	0.1	1.0	-	-0.2

Source: I.M.F World Economic Outlook

Commodity Market Development

The commodity price boom in 2007 has shown little sign of easing in 2008 despite the financial market turmoil and concerns about the slowing growth in advanced economies. The rise in commodity prices has been propelled by positive and rising global demand against the backdrop of low inventory levels in some markets. The strong demand from emerging economies accounted for much of the increase in the demand for commodity consumption. However, commodity prices are expected to moderate in 2008.

After rising rapidly in the first half of 2007, oil prices experienced another strong pressure in August, 2007 and early January, 2008. Almost all major oil price indices doubled during 2007. This was the case because whilst global oil demand remained robust, increasing by about 1 million barrels a day for the past two years, oil supply only increased slightly reflecting lower production by Organisation of Oil Exporting Countries (OPEC) members and short-falls in non-OPEC production.

Table 4: Development Countries: Debt Service Ratios-Arrotisation

	2001	2002	2003	2004	2005	2006	2007	2008
Africa.....	10.2	8.6	9.3	8.5	8.1	11.5	6.3	3.7
Sub Saharan.....	9.8	7.0	8.1	7.2	7.6	9.8	7.1	3.8
Developing Asia.....	10.3	10.5	8.6	5.7	5.3	4.4	3.7	3.4
Net debtor Countries.....	21.0	19.9	19.1	15.1	15.5	14.4	11.2	10.0
o/w official financing.....	11.6	12.3	11.6	10.4	9.1	8.8	7.9	5.9
Middle East.....	7.3	4.2	3.6	3.4	3.2	3.4	2.5	2.2
Western Hemisphere.....	28.2	26.3	26.9	20.7	23.8	20.8	14.4	12.9
HIPCs.....	13.2	8.0	7.6	10.0	6.0	30.1	16.1	5.4

Source: I.M.F World Economic Outlook

5.0 DEVELOPMENT IN THE MALAWI ECONOMY

5.1 PRODUCTION AND PRICES

In 2007 the economy expanded by 7.9 percent, in real terms, driven mainly by small-scale agriculture, construction and transport and communication. Although slower than the 8.2 percent recorded in 2006, the growth rate represented a considerable improvement compared to the ones recorded between 1997 and 2005 and also far above the 6.6 percent target as stipulated in the Malawi Development and Growth Strategy. The slowdown in real GDP growth rate could also be a reflection of the deceleration in both private and government spending.

Production

Agriculture

Owing to an increase in crop and animal production, and forestry and logging activities, the agriculture sector recorded a positive growth rate of 11.8 percent in 2007 from 12.9 percent in 2006.

Small-holder Agricultural Crop Production

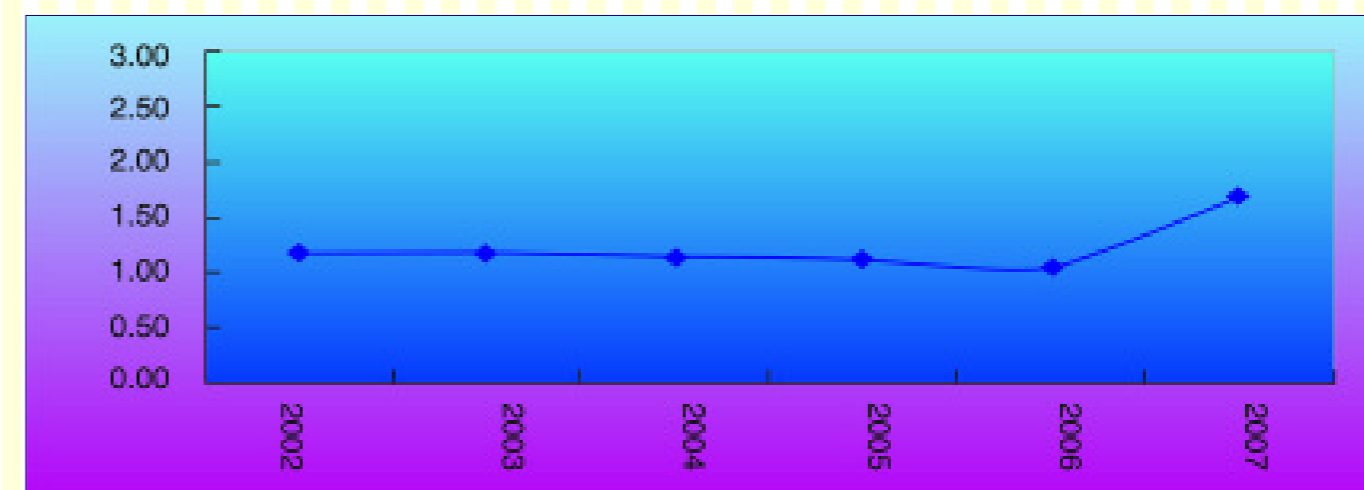
The country produced a total of 10.7 million metric tonnes of crops, split as 7.7 million metric tonnes and 3.0 million metric tonnes of major and minor crops. This compares with 6.3 million metric tonnes and 2.4 million metric tonnes of major and minor crops, respectively produced in 2006. The increase in maize production (to 3.4 million metric tonnes in 2007 from 2.6 million metric tonnes in 2006) resulted in the country registering a food surplus of more than 1.0 million metric tonnes thereby encouraging official exports of maize for the first time in many years.

Tobacco

Due to low production in 2007, tobacco auction floors officially closed during the second month of the third quarter. According to the Tobacco Control Commission, a total of 109.8 million kilograms of tobacco were sold in 2007 compared to 160.5 million kilograms sold in 2006. Prices averaged US\$1.78/kg in 2007 compared to US\$1.05/kg in 2006. Despite low volume of sales, proceeds increased to US\$195.2 million in 2007 compared to US\$168.9 million in 2006, reflecting better auction prices fetched in 2007.

In the coming season, the size of the crop is expected to be large. With the coming in of new entrants (so far two new companies have registered), differentials between 2008 prices and those offered in 2007 are expected, though minimal.

Chart 1: Average Tobacco Prices US Cents / Kg



Source: Tobacco Control Commission

5.1 PRODUCTION AND PRICES (Continued)

Production (Continued)

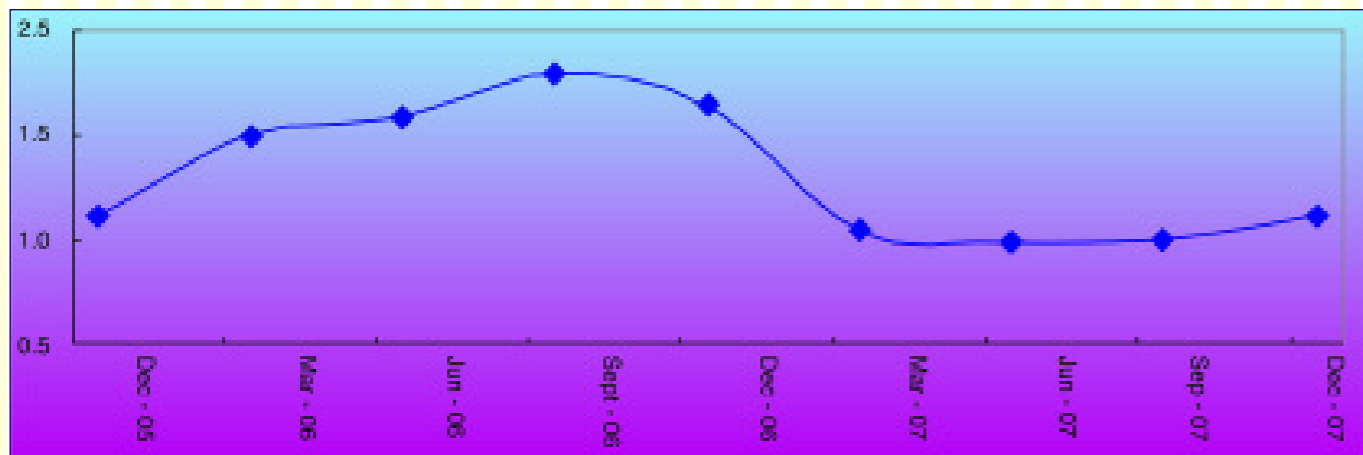


Truck load of tobacco, ready for offloading at the Lilongwe Auction Floor; Tobacco remains a major source of foreign exchange

Tea
The 2007 tea auction sales were not favourable as prices continued to dwindle compared to the previous year. This was a reflection of developments on international markets. Sales for the year amounted to 17.6 million kilograms compared to 17.4 million kilograms auctioned in 2008.

Prices declined to an average of US\$1.05/kg during the review year from US\$1.23/kg in 2006. This translated into proceeds equal to US\$18.5 million (MK2.6 billion) in 2007 from US\$21.4 million (MK2.9 billion) in 2006.

Chart 2: Average Tea Prices US Cents / Kg



5.1 PRODUCTION AND PRICES (Continued)

Production (Continued)

Mining and Quarrying, Manufacturing and Construction

For the second consecutive year, the mining sector contracted, though at a slower rate, to 1.3 percent in 2007 from -22.2 percent in 2006. The contraction reflected a reduction in cement production due to lack of clinker as coal production increased. The slowdown in the contraction of the mining sector coupled with increases in production of beverages products, among others, resulted into an accelerated growth rate in manufacturing sector to 6.6 percent in 2007 from 5.8 percent in 2006. On the other hand, the reduction in cement production resulted into a slowdown in real growth rate for the construction sector to 10.4 percent in 2007 from 14.7 percent in 2006.

Food Security

The food security situation as at end-December 2007 was generally favourable as there were no reports of serious food shortages in any part of the country. Although maize prices in some markets were reported to have increased, especially from mid-August 2007, the increase was not due to excess local market demand for maize but rather due to competition between ADMARC and private traders, most of whom had been buying maize for export to Zimbabwe.



A farmer with her 2007 harvest, the country continues to enjoy surplus production.

5.1 PRODUCTION AND PRICES (Continued)

Production (Continued)

Distribution, and Transport and Storage

The decline in tobacco production that adversely affected its export volumes reduced real economic activity in the distribution sector as shown by a deceleration in the growth rate to 4.7 percent in 2007 compared to 6.0 percent in the previous year. The impact of tobacco production resulted also into reduced transportation activities leading to a growth rate of 5.9 percent in 2007 from 6.7 percent in 2006.

Information and Communication

The information and communication sector registered a growth rate of 6.9 percent in 2007 from 7.4 percent in the preceding year.

Financial and Insurance Services

Real economic activity in this sector went up by 13.4 percent in 2007 compared to 14.5 percent in 2006.

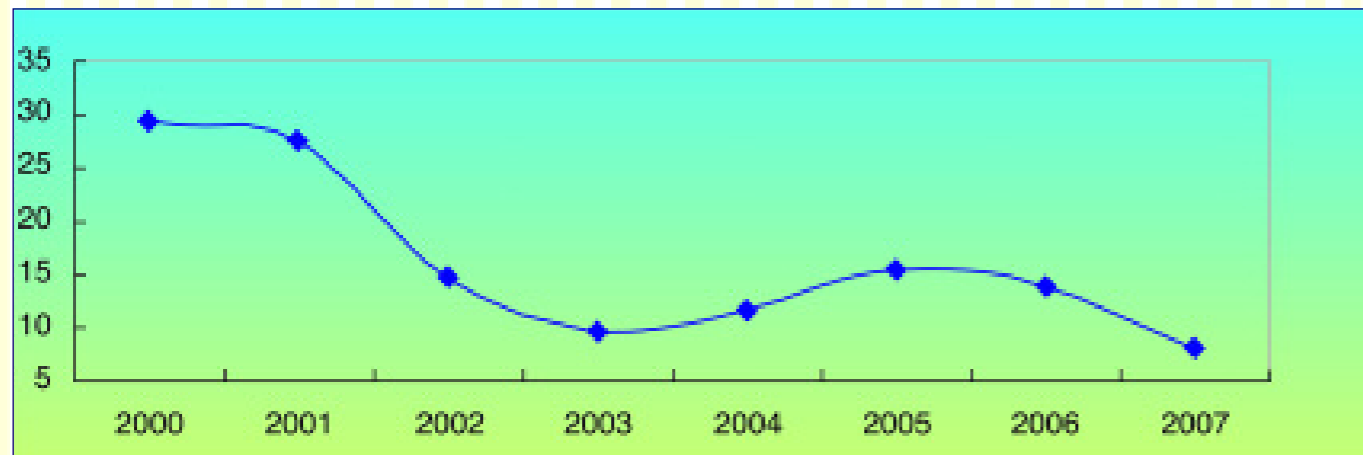
Prices

Domestic Consumer Inflation

Owing to increased food supply and a relatively stable exchange rate, the level of inflation dropped by 5.9 percentage points to 8.0 percent in 2007. This is the lowest recorded inflation since 1974. All indices except for beverages and tobacco, and transport items registered single-digit annual average inflation rates.

In terms of food inflation, carry-over maize stocks from 2006 plus the 2006/07 bumper harvest increased supply for maize (which has the highest weight in the food basket). As a result, maize prices were very low at the beginning of the season, with some markets registering prices as low as MK8.00/kg. However, when ADMARC started buying maize from mid-August to early September 2007 at MK17.00/kg, traders also adjusted their prices to compete with ADMARC by offering a slightly higher price. This, in addition to the lift in the maize export ban, resulted in a push in maize prices in local markets to above MK20.00/kg, which was reflected in the sharp increase in month-on-month food inflation in September 2007. Eventually, ADMARC was forced to increase its maize purchase price from MK17.00/kg to MK20.00/kg in mid-September. However, this did not last long as the traders and vendors also responded by offering slightly higher than MK20.00/kg. This resulted in the maize selling price in some local markets to go to as high as MK25.00/kg to MK30.00/kg.

Chart 3: The Annual Rate of Inflation (Percentage)



Source: National Statistical Office

5.1 PRODUCTION AND PRICES (Continued)

Prices (Continued)

Domestic Consumer Inflation (Continued)

Developments in the non-food component of the consumer price index are generally caused by changes in exchange rate and fuel prices. However, the exchange rate and domestic fuel pump prices have remained relatively stable in 2007 when compared to the previous year.

The December vis-à-vis January Kwacha/dollar exchange rate depreciated by 0.5 percent in 2007 compared to 11.0 percent depreciation in 2006. Improved tobacco sales proceeds and some balance of payments related donor inflows are behind this performance. This coupled with the utilisation of the Price Stabilisation Fund prevented domestic pump prices from being adjusted in tandem with developments on the international scene thereby dampening non-food inflation.

Pump Oil Prices

Domestic fuel prices remained relatively stable in 2007 until September 2007 when the first and only adjustment for the year was effected. Fuel pump prices were raised to MK200.90/Litre for petrol, MK187.60/Litre for diesel and MK132.20/Litre for paraffin, from MK191.40/Litre, MK178.70/Litre and MK125.90/Litre for petrol, diesel and paraffin, respectively. The development followed after the depletion of the Price Stabilisation Fund (PSF) and fuel price increases on the international market. Domestic fuel prices generally remained stable in 2007.

Consumption and Savings

The ratio of consumption to GDP decelerated to 112.7 percent in 2007 from 121.6 percent in the previous month.¹ This was reflected in both private and Government consumption. The decline in private consumption resulted mainly from increasing oil prices, which led to higher price of goods and services. This in turn caused consumer confidence to deteriorate as consumer spending behaviour become more cautious. The decline in Government spending, on the other hand, reflected the impact of continued fiscal discipline during the year under review. The decrease in consumption resulted to an improvement in the domestic savings to GDP ratio by 8.9 percentage points (to -12.7 percent in 2007 from -21.6 percent in 2006).

¹ This based on old series numbers

5.2 BALANCE OF PAYMENTS

The poor performance of the current account largely accounted for worsening of the country's balance of payments situation during 2007. Preliminary estimates indicate that the current account continued to deteriorate with a deficit estimated at K100.6 billion (US\$718.6 million) in 2007 compared to a deficit of K92.1 billion (US\$667.1 million) registered in the preceding year. This outcome was largely due to a corresponding deterioration in the merchandise trade account which registered a higher growth in imports than exports. Exports grew to K99.3 billion (US\$709.1 million) during the year under review from K78.8 billion (US\$542.6 million) in 2006 whereas imports grew to K175.6 billion (US\$1.3 billion) in 2007 from K143.5 billion (US\$1.1 billion) in 2006. Tobacco, sugar and cotton were the major commodities that explained export growth. Imports remained high on account of increased demand for raw materials to support growing domestic production. Non-factor services also recorded a deficit amounting to K32.2 billion (US\$230.2 million) in 2007 compared to K28.1 billion (US\$206.7 million) in 2006, mainly due to the increased shipment costs related to imports.

Preliminary estimates for 2008 indicate that exports will continue to grow at a slower pace than imports. This is the case despite a boom in the commodities market on the international market. Tobacco production is expected to slightly increase as people switch away from maize preferring the commercial crop due to better prices in the preceding growing season. Tea and coffee production are expected to remain stable whereas sugar production is estimated to pick up. On the other hand, import demand is expected to remain high with raw materials especially fuel products dominating the import basket due to high economic growth projected 2008. Thus, the merchandise trade account is expected to remain in deficit hence the widening current account balance. Official transfers are expected to continue to be the major source of financing for this deficit along with long term capital flows.

EXCHANGE RATE MOVEMENTS

The Malawi kwacha exhibited marginal fluctuations during 2007 in tandem with the patterns displayed by major currencies on the international scene coupled with some domestic developments. During the first half of the year, foreign exchange market weakened on account of sustained demand for foreign exchange against the backdrop of reduced supply of foreign exchange. Due to low tobacco production during the year, the auction floors did not generate sufficient export proceeds to satisfy the growing demand for foreign exchange. In the later half of the year, however, export proceeds from sale of maize to Zimbabwe somewhat improved the foreign exchange position as well as increased donor inflows especially from the World Bank in the last quarter of 2007. These developments, to some extent, helped contain both speculative as well as the seasonal heightened demand for foreign exchange which occurs towards the end of the year.

Notwithstanding this, the kwacha depreciated by 0.7 percent against the United States dollar to trade at K139.3161 at end-December, 2007. Since the beginning of 2007, the United States dollar effective exchange rate index depreciated by around 10 percent with around half of this depreciation taking place in September when the financial market turmoil was at its peak. This financial dislocation also affected Great Britain and the euro zone. Against this background investors were unwinding their positions against the United States dollar, pound sterling and the euro as evidenced by the increase in foreign exchange swaps against these currencies. The Malawi kwacha, therefore, depreciated by 2.4 percent against the pound sterling during 2007 to trade at K280.0990 per British pound at end-December 2007. Similarly, the local currency depreciated by 12.6 percent against the euro to reach K206.5734 per euro. The Malawi kwacha weakened by 6.5 percent to K1.1281 per yen at the close of the year, largely due to relatively strong fundamentals in Japan as the financial turmoil of the advanced economies had the least impact in Japan.

5.2 BALANCE OF PAYMENTS (Continued)

EXCHANGE RATE MOVEMENTS (Continued)

In the sub-region the Malawi kwacha depreciated against all major trading partners' currencies except for the Zimbabwe dollar. The local currency depreciated by 11.4 percent against the Zambian kwacha, almost reversing an appreciation of 12.8 percent recorded in 2006, to trade at K0.0366 per Zambian kwacha at the end of the year. This was mainly due to the Zambian kwacha generally gaining ground against hard currencies. The appreciation of the Zambian kwacha was on account of increased demand for metals especially from China which boosted Zambian exports.

Despite the weakening of the South African rand against other currencies, on account of widening current account deficits, the Malawi kwacha depreciated against the South African rand on account of unfavorable trade balance. The local currency depreciated by 3.8 percent vis-à-vis the South African rand, to trade at K20.6075 per rand at end December 2007.

However, the local unit appreciated significantly against the Zimbabwean dollar to trade at K0.0047 per Zimbabwean dollar as at end-December 2007 compared to K0.5568 per Zimbabwean dollar recorded during the preceding month. This development was due to the devaluation of the Zimbabwean dollar on 10th September 2007 from Z\$250.0000 per United States dollar to Z\$30,000.00 per United States dollar. The real effective exchange rate (REER) marginally appreciated in the year 2007. The gains from a 2.0 percent depreciation in the Nominal Effective Exchange Rate (NEER) were outweighed by an unfavourable inflation differential of 2.9 percent between Malawi and her trading partners. As a result, the annual REER strengthened by about 1.0 percent, implying a marginal loss of competitiveness in external trade. However, the continued downward trend in inflation and government's commitment to maintain a low and stable inflation rate is expected to impact positively on the REER developments in 2008, making Malawi's exports relatively more competitive.

5.3 EXTERNAL DEBT SITUATION

Total medium to long-term external debt stock stood at US\$557.1 million as at 31st December 2007. Of the total debt stock, Central Government debt amounted to US\$546.1 million while public corporations' debt stood at US\$11.0 million. Compared to the preceding year, the total debt stock increased by US\$69.6 million or 14.3 percent. The increase in the debt stock resulted from disbursements from multilateral and bilateral creditors which were more than principal repayments. A total of US\$81.6 million was disbursed and this composed of US\$78.4 million and US\$3.2 million from multilateral and bilateral creditors, respectively.

Multilateral debt continued to form the biggest part of the debt stock accounting for 91.7 percent at US\$510.9 million. Bilateral debt and commercial debt accounted for 8.2 percent (US\$45.4 million) and 0.1 percent (US\$0.8 million), respectively. The dominance of multilateral debt in the debt stock reflects the Government's strategy of contracting loans on concessional terms.

Table 5: Composition of External Debt in millions of US dollar

Creditor category	2005	2006	2007
Multilateral	2,562.5	436.8	510.9
Bilateral	289.8	48.6	45.4
Commercial	3.9	2.1	0.8
Total	2,856.2	487.5	557.1

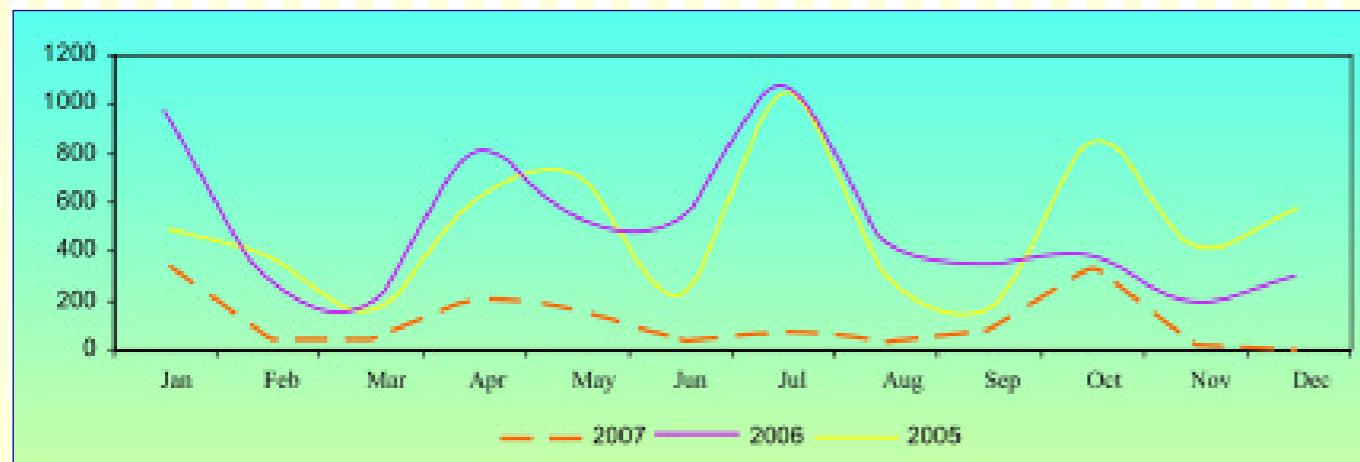
Source: Reserve Bank of Malawi

External Debt Service

Public external debt service including HIPC flows amounted to US\$12.2 million. This accounted for a huge drop of US\$47.1 million from the US\$59.3 million recorded in the year 2006. The outturn was a result of the debt relief that the country received under the HIPC and Multilateral Debt Relief Initiatives, after attaining the HIPC Completion Point Status on 30th August 2006. Actual externalized funds in the year under review amounted to US\$11.6 million while HIPC proceeds were US\$0.6 million. Of the externalized funds US\$10.6 million was in respect of funds externalized by the government and US\$1.0 million by ESCOM.

Multilateral debt service made up the biggest proportion of the total debt service accounting for 73.0 percent of the repayments at US\$8.9 million. Bilateral debt service accounted for 22.1 percent (US\$2.7 million) and commercial debt service made up 4.9 percent (US\$0.6 million) of the total debt service.

Chart 4: Debt Service (Mn'US\$)



Source: Reserve Bank of Malawi

5.3 EXTERNAL DEBT SITUATION (Continued)

DEBT INDICATORS

Malawi's external debt became sustainable after receiving debt relief in 2006. The Debt Sustainability Analysis (DSA) conducted in March 2007 projected that external debt will remain sustainable beyond 2015 when the country is expected to achieve Millennium Development Goals (MDGs). Under the baseline scenario, the DSA results indicated a gradual increase in the debt indicators while the debt remained highly sustainable over the projection period.

The DSA results projected that at the end of 2007 the debt indicators will be: 9.5 percent for the Present Value (PV) of debt to GDP ratio against a threshold of 50 percent; 38.5 percent for the PV of debt to export of goods and services ratio against 150 percent benchmark; and 1.5 percent for the debt service to export of goods and services ratio against a threshold of 15 percent. The annual DSA for 2008 would produce the actual figures assumed by the indicators in the year under review and determine the accuracy of the projections.

Table 6: External Debt Indicators

Debt Indicator (%)	Threshold (%)	2006	2007
PV/GDP	50.0	8.9	9.5
PV/XGS	150.0	34.5	38.5
DS/XGS	15.0	8.9	1.5

5.4 PUBLIC FINANCE

The budgetary operations of the central government during 2007 somewhat worsened from the outturn in the preceding year. The minor deterioration was on account of an increase in both recurrent and development expenditures that outpaced the rises in domestic revenues and foreign grants. As such, the fiscal position recorded a deficit of K7.8 billion (2.3 percent of GDP) in 2007 compared to a deficit of K4.7 billion (2.0 percent of GDP) in 2006 representing a deterioration of K1.4 billion. The deficit was mainly financed through domestic borrowing to the tune of K5.0 billion. In addition government increased its indebtedness to the rest of the world by K5.2 billion after contracting a number of loans.

Revenues

Total government revenues during 2007 went up by K31.3 billion to K160.8 billion (47.4 percent of GDP) following another increase of K29.0 billion to K129.6 billion (41.1 percent of GDP) in 2006. The increase was the result of a rise in both domestic revenues and foreign grants. Total domestic revenues stood at K94.4 billion (27.8 percent of GDP) compared to K74.9 billion (23.8 percent of GDP) in the preceding year. The notable upturn was attributed to an K18.4 billion increase in tax revenues to K86.7 billion (25.6 percent of GDP) reflecting the Malawi Revenue Authority's stern efforts in ensuring compliance and improving the efficiency of tax administration. Consequently, pay as you earn tax (PAYE), corporate tax, import duty and value added tax (VAT) experienced respective increases over the outturn of 2006 of K3.4 billion, K2.3 billion, K3.8 billion and K 5.8 billion. Non-tax revenues rose by K1.2 billion compared to a contraction of K1.3 billion in the preceding year.

Total grants during the year under review stood at K66.4 billion (19.6 percent of GDP) compared to K54.6 billion (17.3 percent of GDP) during the preceding year. These donor inflows include K7.4 billion disbursed by the British government under Department for International Development (DFID), K2.9 billion from the European Union under European Development Fund, K2.9 billion was granted by the World Bank and K1.2 billion was disbursed by the Norwegian government.

Expenditures

Total government expenditures during the year 2007 rose by K35.5 billion to K168.6 billion (49.7 percent of GDP) following an increase of K34.4 billion to K133.2 billion (42.2 percent of GDP) in 2006. Recurrent expenditures stood at K110.4 billion (32.5 percent of GDP) compared to K101.3 billion (32.1 percent of GDP) in the preceding year, representing an increase of K9.0 billion. Government outlays on pensions and gratuities, and arrears went up by K1.2 billion to K5.1 billion and K2.1 billion to K4.7 billion, respectively. Expenditures on wages and salaries increased by K5.1 billion to K27.2 billion following the salary increase of civil servants effected in July 2007.

Interest payments during the year under review dropped by K6.2 billion to K12.7 billion compared to an increase of K4.9 billion in the preceding year. The decrease was attributed to a significant drop in foreign debt stock that translated into less foreign interest payments. To a lesser extent, a sharp drop in direct borrowing from monetary authorities (Ways and Means advances) by government that resulted from an improvement in government cash management also contributed to the fall in interest payments. Interest payments on Treasury bills, Way and Means advances, Treasury notes, and Local Registered Stocks amounted to K10.5 billion, K570.8 million, K69.9 million, K1.1 billion, respectively, whereas interest outlays on foreign debt amounted to K774.2 million.

Development expenditures during 2007 nearly doubled to K58.3 billion (17.2 percent of GDP) from K31.8 billion (10.1 percent of GDP) in 2006. The increase emerged from both domestically financed and foreign financed categories. Domestically financed development expenditures amounted to K15.1 billion up from K8.2 billion in the preceding year whilst foreign financed development expenditures stood at K43.2 billion compared to K23.7 billion in 2006. The recent upward trend observed in development expenditures is commendable as these contribute towards facilitating rapid economic growth.

5.4 PUBLIC FINANCE (Continued)

Financing

The budgetary operations of the central government resulted in a deficit of K7.8 billion compared to a deficit of K4.7 billion in 2006. The deficit was financed through foreign and domestic resources. Foreign financing stood at K5.2 billion as government contracted a number of loans particularly for government projects. Nevertheless, government repaid a total of K2.0 billion to its foreign creditors in 2007. The stock of domestic borrowing went up by K5.0 billion against a contraction of K767.3 million in 2006. Most borrowing emanated from the non-bank sector and amounted to K5.8 billion as foreign investors, insurance firms and other financial institutions purchased more Treasury bills. However, government reduced its indebtedness to the banking system by K737.1 million.

Table 7: Summary of Central Government Operations (K'mn)

	2000	2001	2002	2003	2004	2005	2006	2007
A. Total Revenue and Grants (1+2).....	27,639.5	28,512.6	31,975.1	50,582.7	68,768.3	97,017.9	129,264.4	160,821.1
1. Revenue.....	17,771.4	22,853.2	26,515.4	36,356.2	48,342.1	62,443.1	74,935.7	94,416.2
2. Grants.....	9,868.1	5,659.4	5,459.7	14,226.5	20,426.2	34,574.8	54,328.8	66,404.0
B. Total Expenditure (3+4+5).....	32,121.4	31,493.6	45,923.9	64,662.3	77,739.9	98,995.0	133,209.1	168,638.9
3. Recurrent Expenditure.....	20,445.6	26,129.4	39,835.4	51,025.6	63,302.0	79,507.8	101,297.2	110,382.2
4. Development Expenditure.....	11,675.8	4,318.9	6,088.5	13,636.7	14,437.9	18,789.9	31,769.4	58,256.7
5. Net lending.....	-	1,045.3	-	-	-	697.3	-	-
C. Deficit Before Grants (1-B).....	-14,422.8	-8,640.3	-19,408.6	-28,306.1	-29,397.8	-36,551.9	-56,173.5	-74,222.7
D. Deficit After Grants (A-B).....	-4,554.7	-2,980.9	-13,948.9	-14,079.6	-8,971.6	-1,977.1	-4,685.6	-7,817.8
E. Total Financing.....	5,558.3	4,972.7	15,450.6	11,436.7	9,281.3	6,196.8	2,018.5	10,263.3
I. Foreign Loans (net) (6-7).....	4,433.7	2,782.3	-219.5	-759.4	767.4	-852.5	-1,183.3	5,222.6
6. Borrowing.....	7,817.7	5,960.3	3,908.9	5,782.2	8,943.0	8,806.7	10,442.6	7,252.9
7. Repayment.....	3,383.9	3,178.1	4,128.5	6,541.6	8,175.7	9,659.2	11,625.9	2,030.3
8. Special Financing (net).....	-	-375.4	-1,014.6	-	-	-	-	-
II. Domestic Borrowing (net) (9+10).....	2,232.3	2,565.9	16,684.6	12,196.2	8,513.9	6896.5	-789.3	5,040.8
9. Bank.....	1,285.8	5,261.7	9,796.5	3,068.4	3,628.1	957.9	-5,168.1	-737.1
10. Non-Bank.....	946.5	-2,695.8	6,888.1	9,127.8	4,885.8	5,938.7	4,401.0	5,777.9
F. Errors and Omissions (-D-E).....	-1,003.6	-1,991.8	-1,501.7	2,642.8	-309.7	1,592.5	-2,554.9	-2,445.5

Source: Ministry of Finance

5.5 MONEY AND CREDIT

In 2007 Broad money rose by 36.1 percent to K83.5 billion compared to an expansion of 17.4 percent in 2006 as both net domestic assets and net foreign assets increased.

Money and Quasi-Money

In 2007 money supply rose by K22.1 billion to K83.5 billion. Increases of 40.2 percent to K49.1 billion and 30.6 percent to K34.4 billion in narrow money and quasi money, respectively explained this outcome. Currency outside banks, increased by K5.1 billion to K20.6 billion whilst demand deposits rose by K8.9 billion to K28.5 billion. The increase in the above components of narrow money reflected an increase in economic activity during the year.

The increase in quasi money arose from both time and savings deposits and foreign currency deposits. Time and savings deposits accounted for a larger part of the increase in quasi money (41.9 percent) and this reflected interest payments and maturing securities as well as increased income following the growth in real GDP. Foreign currency deposits on the other hand, rose by 11.9 percent (K1.2 billion) to K11.1 billion mainly due to new foreign currency deposits accounts that were opened for refunds to foreign investors of MPICO initial public offer.

Table 8: Monetary Survey (K'mn)

	End month balances				Changes during periods			
	2004	2005	2006	2007	2004	2005	2006	2007
A. Net Domestic Credit								
1. Credit to government (i+ii).....	22,322.1	23,398.4	19,048.5	20,092.5	3,628.2	1,076.3	-4,349.9	1,044.0
i. Monetary Authorities.....	12,045.6	11,457.2	7,459.5	-822.1	3,800.2	-588.4	-3,997.7	-8,281.6
ii. Commercial Banks.....	10,276.5	11,941.2	11,589.0	20,914.6	-172.0	1,664.7	-352.2	9,325.6
2. Credit to statutory bodies.....	-482.9	-1,479.4	-331.8	1,333.1	-131.1	-996.5	1,147.6	1,664.9
3. Credit to private sector (gross).....	13,926.3	17,500.3	27,746.6	33,988.0	4,117.6	3,574.0	10,246.3	6,241.4
B. Narrow Money (M1).....								
4. Currency outside banks.....	10,992.8	11,947.0	15,470.9	20,587.5	3,154.5	954.2	3,523.9	5,116.6
5. Private sector demand deposits.....	14,450.7	18,257.0	19,536.8	28,501.5	4,824.8	3,806.3	1,279.8	8,964.7
C. Quasi-money.....	20,222.5	22,004.0	26,309.2	34,367.8	2,504.0	1,781.5	4,305.2	8,058.6
D. Money Supply (M2)¹ (B+C).....	45,666.0	52,208.0	61,316.9	83,456.8	10,483.3	6,542.0	9,108.9	22,139.9
E. Net Foreign Assets.....	2,307.6	2,859.2	-6,295.8	2,514.3	741.5	551.6	-9,155.0	8,810.1
6. Monetary Authorities.....	2,919.0	6,947.9	15,542.9	25,768.9	1,463.9	4,028.9	8,595.0	10,226.0
7. Commercial banks.....	4,673.9	2,981.6	5,606.5	-240.0	663.3	-1,692.3	2,624.9	-5,846.5

Source: Reserve Bank of Malawi

¹Time, savings and foreign currency deposits of the private sector with commercial banks

Note: From December 2001, monetary survey encompasses data on the central bank and four commercial banks: National Bank, Stanbic Bank, Finance Bank (Malawi) Limited and First Merchant Bank (Malawi) Limited. But from January 2006, Finance Bank (Malawi) Limited was excluded.

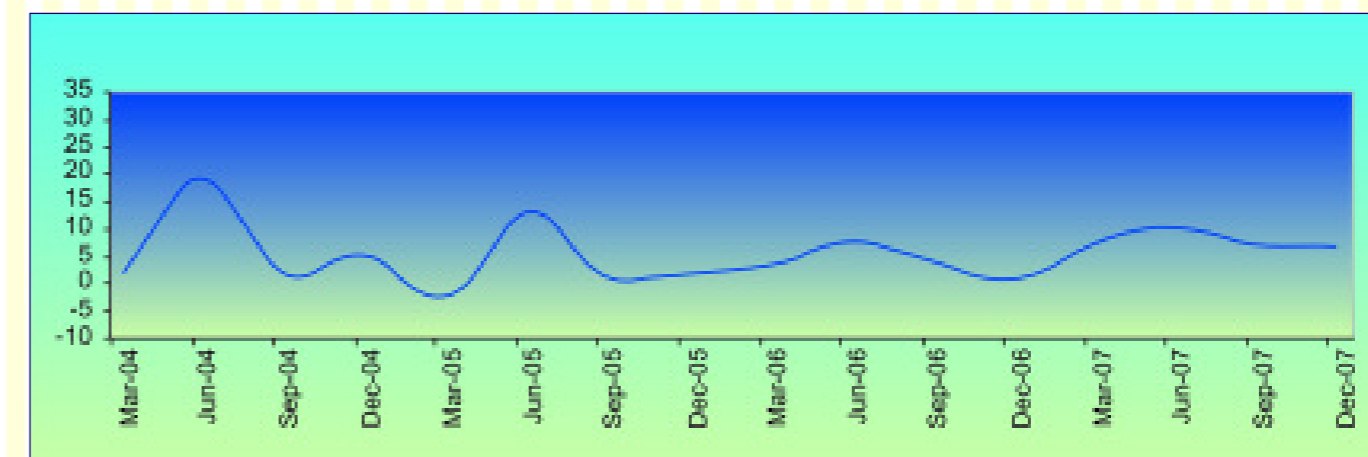
Net Domestic Credit

Net domestic credit extended by the banking system rose by K9.0 billion to K55.4 billion in 2007 following another increase of K7.0 billion in 2006. Gross credit to the private sector increased by 22.5 percent (K6.2 billion) to K34.0 billion following another increase of K10.2 billion in the previous year. This outturn partly reflected lagged effects of reduction in interest rates during year 2006, coupled with the downward adjustments of interest rates in the second half of 2007.

5.5 MONEY AND CREDIT (Continued)

Net Domestic Credit (Continued)

Chart 5: Broad Money (M2) Growth rate

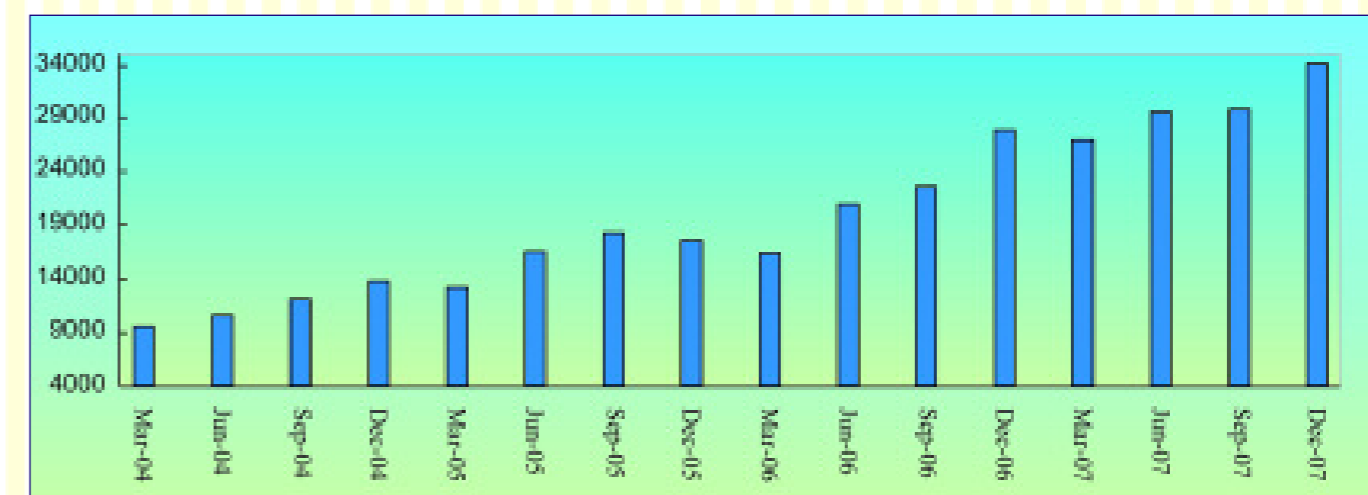


Source: Reserve Bank of Malawi

Net credit to statutory bodies increased by K1.7 billion to K1.3 billion in 2007. Credit extended by the central bank explained the larger part of this movement. Commercial bank's net lending to statutory bodies also increased by K398.6 million to K66.8 million, as parastatal borrowed for their operational requirements and up grade of machinery.

The banking systems' net credit to government recorded an annual increase of 5.5 percent (K1.0 billion) to K20.1 billion compared to a decline of 18.6 percent (K4.3 billion) in the preceding year. This was wholly explained by an increase of K9.3 billion in commercial banks holdings of Treasury bills. Monetary authorities' net lending to government however declined by K8.3 billion to record a surplus of K822.1 million as government's deposits rose by K16.4 billion to K24.1 billion at the end of 2007 following a substantial increase in official capital inflows during the second half of the year.

Chart 6: Gross Credit to Private Sector (Quarter Balances)



Source: Reserve Bank of Malawi

5.5 MONEY AND CREDIT (Continued)

Commercial Banks: Sources and Uses of Funds

Total resources of the commercial banks rose by K23.1 billion to K92.7 billion at the end of 2007 following another increase of K11.6 billion in 2006. Deposits of the private sector were the main source of funds for the commercial banks as they recorded an increase of K17.0 billion. This development was explained by a drop in interest rates on Treasury bills which reduced the opportunity cost of holding bank deposits against Treasury bills. Liabilities to non-residents grew by K3.2 billion to K5.8 billion and this was partly explained by the external sector's participation in initial public offer of the Malawi Property Investment Company at the Malawi Stock Exchange. Capital accounts rose by K2.1 billion on account of profits made during the year whereas official sector deposits, particularly those for parastatals bodies rose by K1.0 billion to K3.1 billion.

Much of the commercial banks' resources (73.3 percent), were used in extending credit to the domestic economy that recorded an annual increase of 41.3 percent. Credit to the central government rose by K9.5 billion against a decline of K255.2 million in 2006. This was reflected by an increase of K9.3 billion in Treasury bills holdings by the commercial banks. Commercial banks' credit to the private sector rose by K6.2 billion to K33.9 billion following another increase of K3.6 billion in the preceding year.

Table 9: Commercial Banks: Sources of Funds (K'mn)

	Ending Period Balances		Changes During Period					
	2006	2007	2006			2007		
			1st half	2nd half	Year	1st half	2nd half	Year
A Sources of Funds								
Private sector	45,846.0	62,869.3	2,237.0	3,348.0	5,585.0	6,099.9	10,923.4	17,023.3
1. Official Sector Deposits ¹	2,061.5	3,072.1	109.1	-256.4	-147.2	374.6	636.0	1,010.6
2. Borrowing from the RBM	-	-	0.0	0.0	0.0	0.00	0.00	0.00
3. Foreign Borrowing	2,633.1	5,845.6	71.5	729.4	800.9	-696.8	3,909.3	3,212.5
4. Capital Accounts	11,760.2	13,866.6	1,593.9	1,443.6	3,037.5	1,422.4	684.0	2,106.4
5. All other liabilities ²	7,251.0	7,042.0	1,942.5	350.8	2,293.3	1,330.2	-1,539.2	-209.0
6. Total (1+2+3+4+5)	69,551.9	92,695.6	5,954.0	5,615.4	11,569.4	8,530.2	14,613.5	23,143.7
B. Uses of Funds								
I. Domestic credit to:								
7. Private sector (gross)	27,746.6	33,988.0	3,625.7	6,620.6	10,246.3	1,706.4	4,535.0	6,241.4
8. Statutory bodies (gross)	1,210.4	2,470.2	569.8	333.4	903.3	1,222.4	37.4	1,259.8
9. Central Government (gross)	12,108.3	21,583.3	3,974.5	-4,229.7	-255.2	4,741.6	4,733.4	9,475.0
10. Sub-total (7+8+9+10)	41,065.3	58,041.5	8,170.1	2,724.3	10,894.4	7,670.4	9,305.8	16,796.2
II. Deposits with Reserve Bank plus currency in banks	4,811.0	5,320.8	-2,303.3	-746.5	-3,049.8	-389.1	898.9	509.8
III. Foreign assets	8,239.7	5,605.6	2,180.8	1,245.1	3,425.9	606.6	-3,240.7	-2,634.1
IV. All other assets ²	15,435.9	23,727.6	-2,093.5	2,392.5	299.0	642.3	7,649.4	8,291.7
V. Total (I+II+III+IV)	69,551.9	92,695.5	5,954.0	5,615.4	11,569.4	8,530.2	14,613.4	23,143.7

Source: Reserve Bank of Malawi

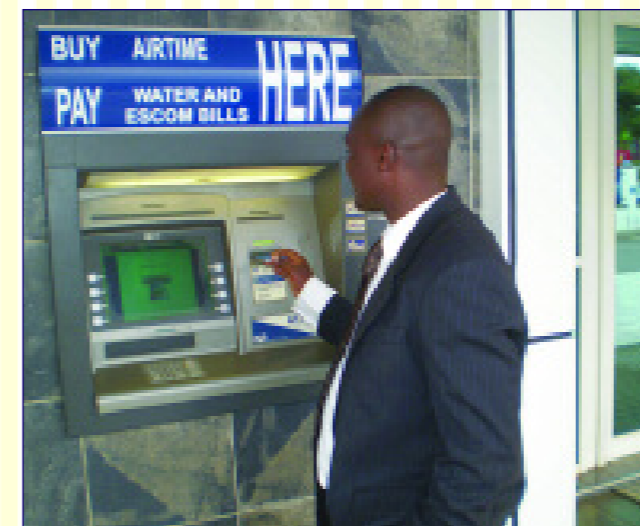
¹Statutory bodies and local authorities

²Including inter-bank accounts

5.5 MONEY AND CREDIT (Continued)

Commercial Banks: Sources and Uses of Funds (Continued)

The private sector mainly borrowed for improvement of working capital, management of vehicle and assets schemes and purchases of equipment. Commercial banks lending to statutory bodies rose by K1.3 billion to K2.5 billion and much of the credit was extended during the first half of the year for purchasing agricultural products mainly by ADMARC and NFRA and rehabilitation of equipment by ESCOM. Foreign assets of commercial banks dropped by K2.6 billion compared to an increase of K3.4 billion in the previous year mainly due to an increase in residents demand for foreign exchange as fertilizer and fuel imports were larger than the previous year.



5.5 MONEY AND CREDIT (Continued)

Reserve Bank of Malawi: Sources and Uses of Funds

Resources of the Reserve Bank went up by K27.5 billion to K71.4 billion against a decline of K8.4 billion in the year before. The increase emanated from government deposits which recorded an annual increase of K16.3 billion to K23.5 billion on account of donor inflows. Currency outside banks went up by K5.1 billion to K20.6 billion following another increase of K3.5 billion in the previous year as the country registered economic growth rates of above the Millennium Development Goals benchmark. Currency in banks rose by K1.1 billion to K3.6 billion in line with increase in customer deposits. The central bank's foreign liabilities rose by K1.9 billion to K4.7 billion against a decline of K6.6 billion in 2006. The increase in these balances was partly attributed to additional loans from the International Monetary Fund under the Poverty Reduction and Growth Facility. Banker's deposits at the Reserve Bank, however declined by K633.9 million to K2.9 billion on account of increased mop up operations by the central bank mainly through repurchase agreements.

Table 10: Reserve Bank of Malawi: Sources of Funds (K'mn)

	Ending Period Balances		Changes During Period					
	2006	2007	2006			2007		
			1st half	2nd half	Year	1st half	2nd half	Year
A. Sources of Funds								
i. Private sector:								
1. Currency outside banks.....	15,470.9	20,587.5	3,884.4	-359.5	3,524.9	5,484.6	-368.0	5,116.6
ii. Official sector deposits:								
2. Statutory bodies.....	-	-	-	-	-	-	-	-
3. Central Government.....	7,136.9	23,466.5	-2,260.7	-1,536.3	-3,797.0	3,276.7	13,052.9	16,329.6
4. Sub-total (1+2+3).....	22,607.7	44,054.0	1,623.7	-1,895.9	-272.1	8,761.4	12,684.9	21,446.3
iii. Banks:								
5. Currency in banks.....	2,562.4	3,615.1	-641.0	872.3	231.3	-408.0	1,460.7	1,052.7
6. Deposits in Reserve Bank.....	3,489.0	2,855.1	-2,928.7	85.2	-2,843.5	-802.0	168.1	-633.9
7. Capital reserves and all other liabilities ¹	12,435.1	16,147.2	-3,637.7	4,721.7	1,084.0	-2,330.4	6,042.5	3,712.1
8. Foreign Liabilities.....	2,757.0	4,693.9	1,321.5	-7,881.9	-6,560.5	1,850.9	86.0	1,936.9
iv. Total (4+5+6+7+8).....	43,851.2	71,365.3	-4,262.2	-4,098.6	-8,360.8	7,071.9	20,442.2	27,514.1
B. Uses of Funds								
i. Domestic credit (gross):.....	15,178.3	22,078.9	-7,143.6	-441.6	-7,585.2	-3,731.2	13,164.4	9,433.2
1. Statutory bodies.....	0.0	1,266.3	0.0	0.0	0.0	155.6	1,110.7	1,266.3
2. Central Government ²	15,156.4	23,236.7	-7,143.6	-461.4	-7,604.9	-6,519.7	14,600.0	8,080.3
3. Commercial Banks.....	21.9	108.5	0.0	19.8	19.8	2,632.9	-2,546.3	86.6
ii. Foreign assets (gross).....	18,155.2	34,835.0	381.0	-1,495.6	-1,114.7	10,057.7	6,616.5	16,674.2
iii. All other uses.....	10,517.6	11,924.2	2,500.5	-2,161.5	339.0	745.5	661.1	1,406.6
iv. Total.....	43,851.1	71,370.7	-4,262.2	-4,098.7	-8,360.9	7,072.0	20,442.0	27,514.0

Source: Reserve Bank of Malawi

¹ Including allocation of special drawing rights in the IMF, International Agencies and other foreign banks

² Ways and Means advances plus holding of Local Registered Stocks and Treasury Bills

The Reserve Bank resources were mostly used for accumulating foreign assets. Gross official reserves increased by K16.7 billion to K34.8 billion following a decline of K1.1 billion in 2006. The increase in these balances was explained by the following; firstly, balances with banks abroad rose by K5.9 billion and commercial deposits rose by K5.8 billion on account of donor inflows. Secondly, proceeds from export of maize boosted the central bank reserves. The central bank also used its resources in extending credit to the official sector. Gross credit to the central government rose by K9.0 billion to K23.2 billion against a decline of K8.5 billion in 2006. Credit to statutory bodies also recorded an annual increase of K1.3 billion following extension of loans to the sector for the purchase of maize. Other assets of the Bank recorded a slight increase of K469.8 million to K11.9 billion.

5.5 MONEY AND CREDIT (Continued)

Other Financial Institutions

Consolidated assets and liabilities position of other financial institutions (OFIs) increased by K11.6 billion to K36.9 billion during 2007 from K25.3 billion in 2006. On the resources side, the increase emanated mainly from increases of 46.9 percent and 40.3 percent in domestic currency deposits and other unsecured liabilities, respectively. Total deposits at the end of the year amounted to K25.1 billion compared to K17.1 billion at the end of 2006. Time deposits at K12.1 billion accounted for 48.3 percent of total deposits. Savings and demand deposits accounted for 31.0 percent and 20.7 percent of the total deposits respectively. Other liabilities increased by K3.6 billion to K11.7 billion in 2007 from K8.1 billion in 2006. The increase in other liabilities was primarily on account of an improvement in OFIs' net incomes, share premium and a rise in borrowed funds.

Table 11: Other Financial Institutions: Sources of Funds (K'mn)

	Ending Period Balances		Changes During Period					
	2006	2007	2006			2007		
			1st half	2nd half	Year	1st half	2nd half	Year
A. Sources of Funds								
1.1 Domestic currency deposits.....	17,105.4	25,131.1	787.8	2657.5	3445.3	555.9	7,469.9	8,025.8
1.2 Foreign liabilities.....	9.4	13.2	1.4	-1.4	2.8	166.2	-162.5	3.7
1.3 Other liabilities.....	8,141.0	11,716.3	-171.3	2,478.7	2,307.4	-667.5	4,242.8	3,575.3
1.4 Total sources (1.1+1.2+1.3).....	25,255.8	36,860.6	617.9	5,137.6	5,755.5	54.6	11,550.2	11,604.8
B. Uses of Funds								
1.5 Cash.....	1,165.6	1,630.5	-43.1	586.6	543.5	-20.5	485.3	464.9
1.6 Deposits with Banks.....	1,591.7	1,715.4	-663.9	491.7	-172.2	-1,316.2	1,439.8	123.7
1.7 Foreign assets.....	2,061.9	2,038.0	540.4	115.4	655.9	-102.2	78.3	-23.9
1.8 Domestic credit (1.8.1+1.8.2+1.8.3).....	14,172.2	23,041.6	387.4	1705.4	2092.8	3,217.4	5,652.0	8,869.4
1.8.1 Government.....	2,811.8	4,716.1	-1,143.7	-504.2	-1647.9	1,948.9	-44.5	-1,904.4
1.8.2 Statutory bodies.....	355.3	0.2	353.3	-2.0	355.3	-340.8	-14.3	-355.1
1.8.3 Private sector.....	11,005.2	18,325.3	1,177.8	2,207.5	3385.4	1,609.3	5,710.8	7,320.1
1.9 Other assets.....	6,264.4	8,435.2	397.0	2,238.5	2,635.5	-1,702.2	3,894.8	2,170.8
2.0 Total uses (1.5+1.6+1.7+1.8+1.9).....	25,255.8	36,860.6	617.9	5,137.6	5,755.5	54.6	11,550.2	11,604.8

Source: Reserve Bank of Malawi

¹ Includes NBS Bank, Malawi Savings Bank, Leasing and Finance Company, National Finance Company and Opportunity International Bank

OFIs used the bulk of their resources to extend credit principally to the private sector. Credit to private sector accounted for K18.3 billion out of the K23.0 billion domestic credit. The bulk of private sector credit was extended to commercial and industrial sectors (K6.7 billion), individual and household loans (K2.7 billion), mortgages (K2.5 billion), net lease and financing receivables (K2.2 billion), foreign exchange loans (K1.2 billion) and agriculture (K1.1 billion). Credit extended to government by OFIs rose significantly from K2.8 billion in 2006 to K4.7 billion in 2007. This was an indication of OFIs continued trust in government paper as a reliable avenue of investment instead of redirecting resources to the private sector.

5.5 MONEY AND CREDIT (Continued)

Money Market

In 2007, total Treasury Bills subscriptions amounted to K154.7 billion from K125.4 billion recorded in 2006, representing an increase of 23.3 percent. The rise in the subscriptions was on account of the excess liquidity that prevailed in the market in the period under review. The Treasury Bills primary desk allotted K109.6 billion, representing 71.0 percent of the total subscriptions. In the same period, a total of K117.5 billion worth of Treasury Bills matured and this represented a decline of K11.8 billion against K129.3 billion recorded in the preceding year. The maturities composed of K17.8 billion for Open Market Operations portfolio and K99.7 billion for normal Treasury bills. In comparison to the issued amount of K109.6 billion, total maturities were higher, creating an under issuance of K7.9 billion. This under issuance was financed through Ways and Means Advances. This development prompted the Reserve Bank of Malawi (RBM) to convert K27.0 billion of Ways and Means Advances into Treasury Bills, representing a decline of 34.7 percent from K41.4 billion converted in the preceding year.

The Treasury Bills stock stood at K84.4 billion in 2007, representing an increase of 29.3 percent from K65.3 billion registered in 2006. The rise in the Treasury Bills stock was noticed in almost all the sectors except the private sector. The RBM holdings rose from K14.7 billion in 2006 to K23.8 billion in 2007 due to the conversion of Ways and Means Advances into Treasury Bills. Holdings by the Commercial Banks and Discount Houses increased to K22.8 billion and K10.1 billion from K13.3 billion and K9.1 billion at the end of the preceding year, respectively. Holdings by Foreign investors stood at K6.5 billion in 2007 due to the attractive rate of return on government securities.

Table 12: Treasury Bills Primary Market (K'mn)

	2006	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	2007
Total Subscription	125.4	36.5	24.9	50.6	42.7	154.7
Issues	88.7	31.6	24.5	23.2	30.3	109.6
Maturities						
OMO Portfolio	129.3	30.0	27.7	28.4	31.4	117.5
Normal	93.5	23.6	23.3	22.5	30.3	99.7
Net Issues (+) / Maruties (-)	-40.6	2.6	-3.2	-5.2	-1.1	-7.9
Memorandum Items:						
Ways & Means Advances (end-period)						
Conversions (period total)	41.4	0.0	4.3	7.6	15.1	27.0
Treasury bill debt stock	65.3	66.9	68.0	70.4	84.4	84.4

Source: Reserve Bank of Malawi

Table 13: Treasury Bills Holdings by Sector (K'bn)

(end –period)	2006	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	2007
Total Stock	65.3	66.9	68	70.4	84.4	84.4
Held by:						
Reserve Bank	14.7	8.3	8.2	9.8	23.8	23.8
Banks	13.3	19.1	18.7	21.2	22.8	22.8
Discount Houses	9.1	7.9	7	8.8	10.1	10.1
Foreign sector	0	8.8	11	8.7	6.5	6.5
Non-banks	28.2	22.8	23.1	21.8	21.2	21.2

Source: Reserve Bank of Malawi

The yields depicted a downward trend fuelled by the excess liquidity that prevailed in the market, resulting from a reduction in the Bank rate. The all-type Treasury Bill yield lost 2.83 percentage points and averaged 14.34 percent in 2007 from 17.17 percent in 2006. Across the tenors all the yields also took a downward trend. The 91-day, 182-day and 273-day Treasury Bills yields lost 2.90, 2.69 and 2.91 percentage points and averaged 14.24 percent, 14.32 percent and 14.45 percent, respectively.

5.5 MONEY AND CREDIT (Continued)

Inter-Banking Money Market

Banking system liquidity in 2007 increased from the preceding year evidenced by a rise in daily average excess reserves on a year-to-year basis by K1.2 billion to K2.1 billion. In reaction to the increase in the supply of inter-bank market funds, the volume of daily average inter-bank market activity increased to K790.0 million from K680.0 million in 2006. Nonetheless, daily average discount window accommodation increased by K570.0 million to K1.3 billion. The inter-bank market rate closed the year at 9.40 percent largely due to reductions in the bank rate in August and November 2007.

Table 14: Banking System Liquidity (K'bn)

	2004	2005	2006	2007
Daily Average Total Reserves	7.97	9.45	9.36	11.39
Daily Average Required Reserves	7.63	8.71	8.54	9.33
Daily Average Excess Reserves	0.41	0.74	0.83	2.06
Daily Average Inter-bank Borrowing	0.31	0.47	0.68	0.79
Daily Average Discount Window Borrowing	0.23	0.73	0.73	1.30
Average Inter-bank Market Rate ^(End Period)	25.00	21.93	19.70	9.40

Source: Reserve Bank of Malawi

Open Market Operations

Monetary developments in 2007 were contractionary as foreign exchange, open market operations and Government operations withdrew a total of K24.9 billion compared to a withdrawal of K18.6 billion during the previous year.

During the review period, net open market operations removed about K5.2 billion from the financial system compared to an injection of K4.3 billion during the previous year. The withdrawals were mainly through net repo and RBM bill issuances of K1.4 billion and K4.1 billion, respectively. During the same period, net foreign exchange operations withdrew K16.7 billion, K1.0 billion less than the previous year. The net government position in 2007 stood at K14.9 billion, 29.4 percent lower than that recorded in the previous year.

5.5 MONEY AND CREDIT (Continued)

Open Market Operations (Continued)

Table 15: Open Market Operations (K'bn)

	2004	2005	2006	2007
Net Forex Operations	(2.63)	(15.24)	(17.67)	(16.74)
Sales	13.12	21.15	20.64	32.81
Purchases	10.49	5.91	2.97	16.07
Net OMO	5.22	(2.98)	4.28	(5.17)
Injections	113.19	131.70	207.42	188.57
RBM bill maturities	22.19	31.39	16.10	7.79
Purchases of securities	0.00	0.00	4.29	0.00
Discount window accommodation	85.15	72.82	168.46	145.72
Repo Maturities	5.85	27.49	18.37	35.06
Withdrawals	107.97	134.68	203.14	193.74
RBM bill issues	20.88	30.93	13.60	9.20
Sale of Securities	0.00	0.00	0.00	0.00
Maturing discount window Accommodation	85.20	74.24	169.52	145.51
Repos	1.89	29.50	20.02	39.11
Net Government Operations ^(+injection)	19.14	36.96	21.14	14.88
Revenue	148.00	191.53	222.76	242.72
TB issues	70.50	81.88	88.77	101.78
MRA	42.36	54.05	69.05	89.15
Other	35.14	54.22	64.64	51.80
Expenditure	167.14	228.49	243.90	257.60
TB maturity	79.94	108.56	113.10	115.95
OMO Portfolio	29.18	30.27	26.30	17.84
Normal	48.76	82.09	86.80	98.12
Other	87.20	116.03	130.79	141.65
Net Operations	21.73	18.79	7.75	(7.03)
Less OMO Portfolio maturities	(7.45)	(11.48)	(18.55)	(24.87)

Source: Reserve Bank of Malawi

5.5 MONEY AND CREDIT (Continued)

RBM BILL MARKET

All yields edged downwards during 2007 reflecting reductions of the LRR (February) and the Bank rate (August and November). On a year-to-year basis, the all-type RBM bill yield lost 7.5 percentage points to 8.24 percent.

CAPITAL MARKETS

Outstanding Local Registered Stocks (LRS)

There was a redemption of stocks amounting to K18.2 million and a conversion of stocks amounting to K101.6 million during the review period. However, no issue of LRS took place during this period. As a result the outstanding stock of LRS closed off the year under review at K3.657 billion compared to K3.675 billion recorded at the end of preceding year.

Secondary Market in LRS

The LRS secondary market recorded no activity during the year as investors showed continued preference to hold onto their instruments which offer higher yields in the range of 20.0 percent to 38.0 percent, compared to short term Treasury Bills and RBM Bills whose yields declined from 20.0 percent to under 10.0 percent during the review period.

SHARE MARKET

Primary Share Market

Two new companies namely, NBS Bank Ltd and Malawi Property Investment Company (MPICO) officially listed on the Malawi Stock Exchange (MSE) during the review period. As such the number of counters on the Stock Exchange increased from eleven (11) to thirteen (13). NBS Bank Ltd offered 93.3 million shares at an offer price of K2.60 per share while MPICO offered 384.9 million shares at an offer price of K2.25 per share. Both IPO's were oversubscribed by factors of 8.9 times and 5.3 times respectively.

Secondary Share Market

During the year, a total of 359.0 million shares valued at K5.2 billion were transacted in 2,595 deals compared to 160.5 million shares that exchanged hands for a turnover of K1.1 billion in 727 deals in the preceding year. The Malawi All Share Index (MASI) closed off 2,539.79 points higher at 4,849.79 points from 2,310.67 points recorded at the opening of the review period. The increase in MASI was attributed to the rise in Domestic Share Index (DSI) which rose from 1,793.39 to 3,823.49 points during the period under review. The Foreign Share Index (FSI) was static at 521.59 points during the review period. During the same period in the corresponding year, the MASI closed off at 906.85 points. Market capitalisation closed off at K1,769.2 billion from K1,672.1 billion recorded at the close of the preceding year. In the corresponding year, market capitalisation stood at K1,120.4 billion.

6.0 STATISTICAL ANNEX TABLES

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Table 1: Reserve Bank of Malawi: Assets and Liabilities (K'mn)

	2001	2002	2003	2004	2005	2006	2007
1.0 Liabilities							
1.0.1. Foreign Deposits of international agencies	3.7	0.4	0.4	2.3	11.0	9.2	349.1
1.0.2. Others.....	4,892.6	12,566.6	11,094.2	10,074.5	9,306.4	2,747.7	4,344.7
1.0.3. Sub-total (1.0.1+1.0.2).....	4,896.4	12,567.0	11,094.6	10,076.8	9,317.4	2,757.0	4,693.9
1.1. Official							
1.1.1 Central government deposits.....	2,098.8	3,571.8	6,131.5	6,614.1	10,933.9	7,136.9	23,466.5
1.1.2 Statutory bodies, etc, deposits.....	147.4	85.7	-	-	-	-	-
1.1.3 Sub-total (1.1.1+1.1.2).....	2,246.2	3,657.5	6,131.5	6,614.1	10,933.9	7,136.9	19,309.3
1.2 Banks							
1.2.1 Deposits with RBM.....	3,174.1	3,616.8	4,455.2	5,113.7	6,332.5	3,489.0	13,391.7
1.2.2 Currency in banks.....	924.3	1,100.7	1,449.4	1,860.9	2,331.1	2,562.4	2,598.3
1.2.3 Sub-total (1.2.1+1.2.2).....	4,098.4	4,717.5	5,904.5	6,974.7	8,663.6	6,052.4	6,470.1
1.2.4 Currency outside banks.....	4,066.3	5,964.0	7,838.3	10,992.8	11,945.9	15,470.9	20,587.5
1.2.5 Other Capital, reserves and undistributed income.....	9,231.8	7,629.2	4,397.6	6,774.8	9,409.4	10,134.4	13,716.4
1.2.6 Allocation of Special Drawing lights.....	927.4	1,295.4	1,770.6	1,856.9	1,941.6	2,300.7	2,430.8
1.2.7 Total (1.0+1.1+1.2).....	25,466.5	35,830.6	37,137.1	43,290.0	52,212.0	43,851.2	71,365.2
1.3. Foreign							
1.3.1 Balances with banks abroad.....	13,331.7	13,752.9	12,557.2	13,160.7	18,734.5	17,574.9	29,342.0
1.3.2 Bills and other securities.....	-	-	-	-	-	-	-
1.3.3 Holding of Special Drawing Rights.....	248.4	277.5	421.3	518.1	535.4	580.4	528.4
1.3.4 Sub-total (1.3.1+1.3.2+1.3.3).....	13,580.1	14,030.4	12,978.5	13,678.7	19,269.9	18,155.2	34,829.4
1.4 Official							
1.4.1 Treasury Bills, loans and advances.....	5,845.4	12,175.6	13,580.7	18,155.8	21,937.2	13,400.0	22,936.7
1.4.2 Local Registered Stocks.....	0.9	1,231.8	1,126.3	834.2	824.1	819.7	300.0
1.4.3 Statutory Bodies.....	313.7	-	-	-	-	-	1,266.3
1.4.4 Sub-total (1.4.1+1.4.2+1.4.3).....	6,160.1	13,407.4	14,706.9	18,990.0	22,761.3	14,219.7	24,503.0
1.5 Banks							
1.5.1 Loans, advances and other.....	3.5	3.3	2.9	1.7	1.9	1.9	1.5
1.5.2 Internal bills purchased and discounted.....	-	-	-	-	0.2	20.0	107.0
1.5.3 Sub-total (1.5.1+1.5.2).....	3.5	3.3	2.9	1.7	2.1	21.9	108.5
1.5.4 Other assets.....	5,093.8	8,389.5	9,448.8	10,619.6	10,178.6	11,454.4	11,924.2
1.5.5 Total assets (1.3+1.4+1.5).....	25,466.5	35,830.6	37,137.1	43,290.3	52,212.0	43,851.2	71,365.2

Source: Reserve Bank of Malawi

Table 2: Monetary Authorities: Assets and Liabilities (K'mn)

	2001	2002	2003	2004	2005	2006	2007
1.0 Liabilities							
1.1 Foreign Deposits of international agencies, etc.....	4,896.4	12,567.0	11,094.6	10,076.8	9,317.4	2,757.0	4,693.9
A. Official							
1.2. Central Government deposits with Reserve Bank.....	2,098.8	3,571.8	6,131.5	6,614.1	10,933.9	7,136.9	23,466.5
1.3. Treasury holdings with Credit Authorities.....	84.1	84.1	330.1	330.3	434.1	560.0	592.3
1.4. Sub-total (1.2+1.3).....	2,182.9	3,655.9	6,461.6	6,944.4	11,368.0	7,696.9	24,058.8
1.5. Statutory bodies Deposits with Reserve Bank.....	147.4	85.7	-	-	-	-	-
1.6. Special account balance.....	-	-	-	-	-	-	-
1.7. Sub-total (1.5+1.6).....	147.4	85.7	-	-	-	-	-
1.8 Total official (1.4+1.7).....	2,330.3	3,741.6	6,461.6	6,944.4	11,368.0	7,696.9	24,058.8
B. Banks							
1.9. Currency in banks.....	924.3	1,100.7	1,449.4	1,860.9	2,331.1	2,562.4	3,615.0
1.10. Deposits with Reserve Bank.....	3,174.1	3,616.8	4,455.2	5,113.7	6,332.5	3,489.0	2,855.1
1.11. Sub-total (1.8+1.9).....	4,098.4	4,717.5	5,904.5	6,974.7	8,663.6	6,051.4	6,470.1
C. Private sector							
1.12. Currency outside banks.....	4,066.3	5,964.0	7,838.3	10,992.8	11,945.9	15,470.9	20,587.5
1.13. Capital, reserves, SDR allocation.....	10,159.2	8,924.6	6,168.2	8,631.6	11,351.1	12,435.1	16,147.2
1.14. Total liabilities (1.1+1.8+1.11+1.12+1.13).....	25,550.6	35,914.7	38,467.2	43,620.3	52,646.2	44,411.2	71,957.5
2. Assets							
A. Foreign							
2.1 Reserve Bank ¹	13,580.1	14,030.4	12,978.7	13,678.7	19,269.9	18,155.2	34,829.4
2.2. Treasury balances with Crown Agents.....	84.1	84.1	330.1	330.3	434.1	560.0	592.3
2.3. Reserve position in IMF.....	-	-	-	-	-	-	-
2.4. Special account balance.....	-	-	-	-	-	-	-
2.5. Sub-total (2.1+2.2+2.3+2.4).....	13,664.2	14,114.5	13,308.6	14,009.0	19,704.0	18,715.3	35,421.8
B. Official							
2.6. Reserve Bank Credit							
2.7. Central Government.....	5,846.3	13,407.4	14,706.9	18,990.0	22,761.3	14,219.7	23,236.7
2.8 Statutory bodies.....	313.7	-	-	-	-	-	1,266.3
2.9 Sub-total (2.7+2.8).....	6,478.2	13,407.4	14,706.9	18,990.0	22,761.3	14,219.7	24,503.0
C. Banks							
2.10. Reserve Bank claims on other banks.....	3.5	3.3	2.9	1.7	2.1	21.9	108.5
2.11. Other assets.....	5,448.2	8,389.5	9,448.8	10,619.6	10,178.7	11,454.4	11,924.2
2.12. Total assets (2.5+2.9+2.10+2.11).....	25,550.6	35,914.7	37,467.1	43,620.3	52,646.2	44,411.2	71,957.5

Source: Reserve Bank of Malawi and Treasury

¹Including holding of SDRs

Table 3: Commercial Banks: Assets and Liabilities (K'mn)

	2001	2002	2003	2004	2005	2006	2007
1. Liabilities							
A. Foreign							
1.1 Deposits of non-residents	803.3	892.9	1,271.1	1,219.6	580.8	603.0	827.4
1.2 Liabilities to foreign banks	212.5	225.1	331.8	476.6	1,251.5	2,030.1	5,018.1
1.3 Sub-total (1.1+1.3)	1,015.7	1,118.0	518.9	1,699.3	1,832.2	2,633.1	5,845.6
B. Official							
1.4 Deposits of Central government	565.8	788.6	629.3	434.5	422.2	519.3	668.7
1.5 Deposits of Statutory bodies and local authorities	850.9	796.9	1,148.2	782.4	1,786.5	1,542.2	2,403.4
1.6 Sub-total (1.4+1.5)	1,416.7	1,585.5	1,148.2	1,216.9	2,208.8	2,061.5	3,072.2
C. Domestic banks							
1.7 Liabilities to RBM	-	-	-	-	-	-	-
1.8 Liabilities to other domestic banks	150.6	401.9	75.2	15.2	241.8	748.5	204.7
1.9 Sub-total (1.7+1.8)	150.6	401.9	75.2	15.2	241.8	748.5	204.7
D. Domestic private sector							
1.10 Demand deposits	6,277.1	7,476.1	9,625.9	14,450.7	18,256.9	19,536.8	28,501.5
1.11 Time and savings deposits	11,382.1	13,770.4	17,718.5	20,222.5	22,003.9	26,309.2	34,367.8
1.12 Capital accounts	3,730.4	4,902.6	6,563.9	7,317.1	8,722.7	11,760.2	13,866.6
1.13 Sub-total (1.10+1.11+1.12)	21,389.6	26,149.1	33,908.3	41,990.3	48,983.5	57,606.2	76,735.9
E. Other liabilities	3,169.1	4,100.5	4,597.2	5,170.9	4,715.9	6,502.6	6,837.3
F. Total liabilities (A+B+C+D+E)	27,141.7	33,355.0	41,331.7	50,092.5	57,982.5	69,552.0	92,695.6
2. Assets							
A. Foreign							
2.1 Claims on foreign banks	5,118.1	4,188.7	5,604.0	6,366.9	4,769.7	8,233.9	5,603.3
2.2 Loans and Advances, bills payable to non-residents	3.3	107.7	9.5	6.2	44.2	5.8	2.3
2.3 Sub-total (2.1+2.2)	5,121.3	4,296.4	5,613.5	6,373.2	4,813.8	8,239.7	5,605.6
B. Official claims on Central government							
2.4 Local Registered Stock	1,849.6	1,932.5	1,880.1	1,843.2	1,843.2	1,833.9	1,993.9
2.5 Treasury Bills and advances	881.8	4,815.8	9,087.4	8,867.8	10,520.3	10,274.4	19,589.5
2.6 Sub-total (2.4+2.5)	2,731.4	6,748.3	10,967.5	10,711.0	12,363.5	12,108.3	21,583.3
C. Claims on statutory bodies	575.1	676.5	277.4	299.5	307.2	1,210.4	2,470.2
D. Total official (2B+2C)	3,306.6	7,424.8	11,244.9	11,010.4	12,670.6	13,318.7	24,053.5
E. Domestic banks							
F. Claims on Reserve Bank							
2.7 Deposits and currency ¹	5,592.8	6,179.8	5,690.2	7,243.9	8,070.9	5,631.0	5,820.8
2.8 Claims on other domestic banks	1,610.8	1,205.1	1,225.7	1,612.5	1,180.3	2,537.5	422.4
2.9 Sub-total (2.7+2.8)	7,203.6	1,205.1	6,915.9	8,856.5	9,251.1	8,168.5	6,243.2
G. Domestic private sector Loans and Advances	6,396.9	7,362.2	9,668.2	13,926.3	17,500.3	27,746.6	33,988.0
H. Bills discounted and purchased	57.1	1.2	140.5	-	-	-	-
I. Sub-total (G+H)	6,454.0	7,363.5	9,808.7	13,926.3	17,500.3	27,746.6	33,988.0
J. Other assets	4,599.8	6,885.3	7,748.7	9,926.1	13,746.6	12,078.5	22,805.2
K. Total assets (2.3+2.6+2.9+I+J)	27,141.7	33,355.0	41,331.7	50,029.5	57,982.5	69,552.0	92,695.6

Source: Commercial banks' reports

¹Including Reserve Bank of Malawi Bills

Table 4: Monetary Survey (K'mn)

	2001	2002	2003	2004	2005	2006	2007
1. Net foreign assets							
1.1 Monetary authorities	8,767.8	1,547.5	2,214.0	3,932.2	10,386.6	15,958.3	30,727.9
1.2 Commercial banks	4,105.6	3,178.4	4,010.6	4,673.9	2,981.6	5,606.5	-240.0
1.3 Total net foreign assets (1.1+1.2)	2,873.4	4,725.9	6,224.7	8,606.1	13,368.2	21,564.8	30,487.9
2. Net domestic credit (2.1+2.2+2.3)	12,173.6	22,868.5	28,150.8	35,765.5	39,355.5	45,526.7	55,413.6
2.1 Claims on central government							
2.1.1 Monetary authorities	3,663.4	9,751.5	8,245.4	12,045.6	11,393.3	6,522.7	-822.1
2.1.2 Commercial banks	2,165.6	5,959.7	10,448.5	10,276.5	11,941.2	11,589.0	20,914.6
2.1.3 Sub-total (2.1.1+2.1.2)	5,829.0	15,711.2	18,693.9	22,322.1	23,334.6	18,111.8	20,092.5
2.2 Claims on statutory bodies							
2.2.1 Monetary authorities	166.4	-85.7	-	-	-	-	1266.3
2.2.2 Commercial banks	-275.8	-120.5	-351.8	-482.9	-1,479.4	-331.8	66.8
2.2.3 Sub-total (2.2.1+2.2.2)	-109.4	-206.2	-351.8	-482.9	-1,479.4	-331.8	1,333.1
2.2.4 Total official sector (2.1+2.2)	5,719.6	15,505.1	18,342.1	21,839.2	21,855.2	17,778.0	21,425.6
2.3 Private Sector							
2.3.1 Gross claims of commercial banks	6,454.0	7,363.5	9,808.7	13,926.3	17,500.3	27,746.6	33,988.0
3. Total net domestic credit and net foreign assets (1+2)	12,873.4	4,725.9	34,375.5	43,729.8	52,723.7	67,091.4	85,901.5
4. Liabilities to private sector							
4.1 Money	10,343.4	13,440.0	17,464.2	25,443.5	30,203.0	35,007.7	49,089.0
4.2 Quasi-money	11,382.1	13,770.4	17,718.5	20,222.5	22,004.0	26,309.2	34,367.8
4.3 Sub-total (4.1+4.2)	21,725.5	27,210.4	35,182.7	45,665.9	52,207.0	61,316.9	83,456.8
5. Capital accounts	3,730.4	4,902.6	6,563.9	7,317.1	8,722.7	11,760.2	13,866.6
5.1 Sub-total (4+5)	25,455.9	32,113.0	41,746.6	52,983.1	60,929.7	73,077.4	97,323.4
6. Unsectored accounts (net)	845.6	-4,518.6	-7,371.1	-9,253.3	-8,206.0	-5,985.7	-11,421.9
7. Total domestic liabilities (3+4+5)	6,301.6	27,594.4	34,375.5	44,371.6	52,723.7	67,091.4	85,901.5

Source: Reserve Bank of Malawi

Table 5: Official Foreign Exchange Reserves and Net Foreign Assets of Commercial Banks (K'mn)

	2001	2002	2003	2004	2005	2006	2007
1. Official Foreign Exchange Reserves							
1.1 Reserve Bank Foreign Assets:							
1.1.1 Deposits abroad and foreign securities.....	13,331.7	13,752.9	13,557.2	13,160.6	18,734.5	17,574.9	34,301.0
1.1.2 Special Drawing Rights.....	248.4	277.5	421.3	518.1	535.4	580.4	528.4
1.1.3 Sub-total (1.1.1+1.1.2).....	13,580.1	14,030.4	12,978.5	13,678.7	19,269.9	18,155.2	34,829.4
2. Reserve Bank Foreign Liabilities.....	4,896.4	12,567.0	11,094.6	10,076.8	9,317.4	2,757.0	4,693.9
3. Net foreign exchange reserves.....	8,683.7	1,463.4	1,883.9	3,601.9	9,952.5	15,398.3	30,135.6
4. Treasury Balances with Crown Agents and Special Account.....	84.1	84.1	330.1	330.3	434.1	560.0	592.3
5. Total (Net) (3+4).....	8,767.8	1,547.5	1,455.104.9	2,919.0	6,914.8	15,958.3	30,727.9
6. Commercial Banks							
6.1 Foreign assets							
6.1.1 Claims on foreign banks.....	5,118.1	4,188.7	5,604.0	6,366.9	4,769.7	8,233.9	5,603.3
6.1.2 Loans and advances to non-residents and bills payable abroad.....	3.3	107.7	9.5	6.2	44.2	5.8	2.3
6.1.3 Sub-total (6.1.1+6.1.2).....	5,121.3	4,296.4	5,613.5	6,373.2	4,813.8	8,239.7	5,605.6
6.2 Foreign liabilities							
6.2.1 Liabilities to foreign banks....	212.5	225.1	331.8	479.6	1,251.5	2,030.1	5,018.1
6.2.2 Deposits of non-residents.....	803.3	892.9	1,271.1	1,219.6	580.7	603.0	827.4
6.2.3 Sub-total (6.2.1+6.2.2).....	1,015.7	1,118.0	1,602.9	1,699.2	1,832.2	2,633.1	5,845.6
7. Total (Net) (5+6.1-6.2).....	4,105.6	3,178.4	4,010.0	4,673.9	2,981.6	5,606.5	-240.0

Source: Reserve Bank of Malawi

Table 6: Money and Quasi-Money (K'mn)

	2001	2002	2003	2004	2005	2006	2007
1. Money							
1.1 Currency outside banks.....	4,066.3	5,964.0	7,838.2	10,992.8	11,946.0	15,470.9	20,587.5
1.2 Demand deposits.....	6,277.1	7,470.1	9,625.9	14,450.7	18,257.0	19,536.8	28,501.5
1.3 Total money (1.1+1.2).....	10,343.4	13,440.0	17,464.2	25,443.5	30,203.0	37,007.7	49,089.0
2. Quasi-money.....	11,382.1	13,770.4	17,718.5	20,222.5	22,004.0	26,309.2	34,367.8
3. Total money and quasi-money (1+2).....	21,725.5	27,210.4	35,182.7	45,666.0	52,206.9	61,316.9	83,456.8

Source: Reserve Bank of Malawi

Table 7a: Commercial Banks: Advances by Main Sector (K'mn)

	2001	2002	2003	2004	2005	2006	2007
Agriculture ¹	565.5	128.2	1,059.1	1,786.7	1,794.6	4,593.9	6,109.9
Mining and Quarrying.....	36.6	8.9	1.3	85.2	35.4	56.8	127.0
Manufacturing.....	2,206.9	1,141.0	2,605.8	2,327.4	2,419.2	4,059.7	4,585.0
Electricity, Water and Gas.....	455.9	491.1	131.6	122.5	233.5	475.0	595.2
Construction and Civil Engineering.....	489.9	140.8	810.1	984.1	906.2	1,045.9	1,034.2
Wholesale and Retail Trade.....	939.2	858.0	352.5	2,656.9	2,703.7	5,082.9	6,632.6
Transport, Storage and Communications.....	268.7	148.8	745.5	774.8	608.9	1,951.4	2,375.0
Finance, Insurance, Real Estate and Business Services.....	271.8	111.0	681.9	582.4	2,315.6	4,302.6	6,698.0
Community, Social and Personal Services.....	148.8	940.6	644.5	1,649.4	2,626.4	4,108.0	3,391.8
Personal Accounts.....	1,165.9	2.1	1,847.5	3,780.2	4,487.5	4,445.7	5,999.4
Total ²	6,549.2	3,970.5	10,620.0	14,749.7	18,131.0	30,122.0	37,548.1

Source: Commercial banks' reports to Reserve Bank

¹Includes forestry fishing and livestock

²Excludes statutory bodies and local authorities

³Figures starting from December 1999 include Finance Bank of Malawi, First Merchant Bank and Malawi Savings Bank

Table 7b: Commercial Banks: Demand Deposits by Main Sector (K'mn)

	2001	2002	2003	2004	2005	2006	2007
Agriculture ¹	161.4	239.7	319.3	770.7	1,377.2	1,749.5	3,466.5
Mining and Quarrying.....	3.0	30.4	52.5	91.4	229.4	136.0	224.4
Manufacturing.....	1,173.0	1,682.9	1,692.6	1,590.6	1,662.7	2,094.3	965.6
Electricity, Water and Gas.....	107.1	238.0	338.0	415.2	381.1	471.4	539.4
Construction and Civil Engineering.....	331.9	355.2	389.1	570.9	903.5	1,085.8	1,048.8
Wholesale and Retail Trade.....	1,336.4	2,718.6	2,151.5	3,048.6	3,381.1	3,544.8	3,360.0
Transport, Storage and Communications.....	335.9	538.1	589.5	1,029.6	1,946.4	2,017.9	1,396.6
Finance, Insurance, Real Estate and Business Services.....	859.8	1,034.6	1,950.4	1,210.2	1,490.8	1,542.4	1,226.8
Community, Social and Personal Services.....	1,828.2	2,159.2	2,015.6	4,537.5	9,792.9	10,433.1	18,454.8
Personal Accounts.....	802.4	1,284.0	8,838.7	4,172.4	3,576.0	5,157.6	8,365
Total ²	6,939.1	10,280.7	11,172.4	17,437.0	24,741.0	28,232.8	39,048.6

Source: Commercial banks' reports to Reserve Bank

¹Includes forestry fishing and livestock

²Excludes statutory bodies and local authorities

³Figures starting from December 1999 include Finance Bank of Malawi, First Merchant Bank and Malawi Savings Bank

Table 8: Principal Interest Rates

	2007											
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1. Bank Rate.....	20.00	20.00	20.00	20.00	20.00	20.00	20.00	17.50	17.50	17.50	15.00	15.00
2. Treasury Bills												
2.1 91 Days.....	16.61	16.35	16.53	16.29	16.42	16.50	15.72	12.02	10.52	9.94	10.30	10.16
2.2 182 Days.....	16.86	15.55	16.60	16.40	16.25	16.42	15.14	11.96	10.28	9.87	8.96	9.43
2.3 271 Days.....	16.82	16.68	16.88	16.90	16.85	16.90	14.86	11.92	9.96	10.00	9.01	9.81
3. RBM Bills												
3.1 63 Days.....	15.58	15.42	15.46	15.73	15.50	15.50	..	11.69	11.84	9.19	7.89	7.89
3.2 91 Days.....	15.74	15.60	15.60	..	..	14.55	15.19	11.63	11.30	9.40	8.31	8.31
4. Commercial Banks												
4.1 Base rates.....	22.50	22.50	22.50	22.50	22.50	22.50	22.50	21.00	21.00	21.00	20.50	19.58
4.2 Savings Deposits.....	4.67	4.50	4.50	4.50	4.50	4.50	4.5	3.67	3.67	3.67	3.50	3.33
4.3 Short Term deposit												
4.3.1 7 Days call.....	4.67	5.00	5.00	5.00	5.00	5.00	5.00	3.67	3.67	3.67	3.17	2.75
4.3.2 30 Days call.....	5.67	5.83	5.83	5.83	5.83	5.83	5.83	4.50	4.50	4.50	4.17	3.75
4.4 Fixed Deposits												
4.4.1 3 months.....	7.00	7.17	7.17	7.17	7.17	7.17	7.17	4.67	4.67	4.67	4.17	3.50
4.4.2 6 months.....	..	..	..	..	..	..	..	..	..	..	..	..
4.4.3 12 months.....	..	..	..	..	..	..	..	..	..	..	..	..
5. Building Societies												
5.1 Deposit rates.....												
5.1.1 Individual savings.....	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	4.50	4.50
5.1.2 Corporate savings.....	5.00	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50
5.1.3 3 months fixed deposits.....	8.00	8.50	8.50	8.50	8.50	8.50	8.50	6.50	6.50	6.50	4.50	4.50
5.2 Mortgage rates												
5.2.1 Owner Occupied.....	21.00	21.00	21.00	21.00	21.00	21.00	21.00	20.00	20.00	20.00	19.00	19.00
5.2.3 Flats and rented houses.....	23.00	23.00	23.00	23.00	23.00	23.00	23.00	23.00	23.00	23.00	23.00	23.00
5.2.4 Commercial properties.....	27.00	27.00	27.00	27.00	27.00	27.00	27.00	27.00	27.00	27.00	27.00	27.00
6. Malawi Savings Bank ¹												
6.1 Base rates.....	23.00	23.00	23.00	23.00	23.00	23.00	23.00	21.00	21.00	21.00	19.00	19.00
6.2 Deposit rates.....	5.00	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.00	5.00
6.2.1 3 months fixed deposits.....	12.00	9.00	9.00	9.00	9.00	9.00	9.00	6.25	6.25	6.25	6.00	6.00

Source: Commercial banks, New Building Society, Post Office Savings Bank and INDEFinance

Table 9a: Other Financial Institutions: Summary of Assets (K'mn)

	2001	2002	2003	2004	2005	2006	2007
A. Cash in Banks.....	67.2	53.4	74.9	130.3	498.5	1,165.6	1,630.5
B. Deposits with other domestic banks..	85.6	190.4	127.9	82.7	62.9	223.7	204.5
C. Deposits with Reserve Bank.....	251.3	362.8	508.9	408.8	748.2	1,476.1	1,697.1
D. Foreign assets.....	-	-	110.5	116.6	369.6	2,061.9	2,038.0
E. Credit to Government.....	150.6	2,169.3	3,865.1	4,186.4	2,827.4	2,811.8	4,716.1
F. Credit to Statutory bodies.....	48.2	31.8	40.0	5.7	0	355.3	0.2
G. Credit to Private sector.....	1,807.4	1,980.0	1,188.0	2,347.8	5,688.5	11,005.2	18,325.3
H. Total Credit (E+F+G).....	3,275.0	4,181.1	5,093.1	6,539.9	8,515.9	14,172.2	23,041.6
I. Premises and equipment.....	438.3	424.6	715.5	1,246.5	1,805.4	2,623.7	3,516.1
J. Other Assets.....	473.7	419.0	516.5	870.0	652.3	4,354.5	4,733.0
K. Total Assets (A+B+H+I+J).....	4,591.2	5,631.3	7,151.8	9,394.9	12,653.3	26,077.7	36,860.6

Source: Reserve Bank of Malawi

Table 9b: Other Financial Institutions: Summary of Liabilities (K'mn)

	2001	2002	2003	2004	2005	2006	2007
A. Demand.....	-	-	-	-	697.4	2,484.6	5,213.2
B. Time.....	1,448.2	1,794.9	1,932.9	3,848.8	4,475.3	9,247.0	12,126.8
C. Savings.....	2,074.5	2,438.6	3,483.1	3,482.0	4,894.6	5,373.8	7,791.1
D. Foreign Liabilities.....	-	-	-	-	537.6	1,536.7	2,503.7
E. Liabilities to Reserve Bank.....	0.9	-	-	-	-	-	-
F. Liabilities to other domestic banks.....	33.0	26.8	41.8	1.7	0.1	111.0	508.4
G. Capital and reserves.....	629.9	932.3	1,283.6	1,489.2	1,430.8	2,740.6	3,484.7
H. Other Liabilities.....	404.5	438.7	410.3	573.2	617.6	4,583.9	5,232.7
I. Total Liabilities.....	4,591.2	5,631.3	7,151.8	9,394.9	12,653.3	26,077.7	36,860.6

Source: Reserve Bank of Malawi

Table 10: Central Government Operations: Revenues (K'mn)

	2001	2002	2003	2004	2005	2006	2007
1. Tax Revenue.....	20,671.6	23,461.9	31,715.5	42,540.7	54,398.7	68,236.0	86,692.4
2. PAYE ¹	3,690.8	4,275.8	6,021.5	8,589.8	12,366.2	15,127.4	18,451.9
3. Company Tax.....	1,182.6	2,390.5	3,884.4	5,102.5	1,086.5	1,374.4	1,624.2
4. Provisional Tax.....	2,019.2	2,018.1	2,578.7	3,305.5	6,509.1	7,995.4	10,336.3
5. Withholding Tax.....	2,098.2	2,722.4	2,852.1	3,550.6	4,243.7	5,753.8	7,091.1
6. Import Duty ² (incl. surcharge).....	2,405.2	2,666.0	3,667.7	5,612.1	6,620.4	7,760.7	11,571.8
7. Surtax.....	6,147.0	7,708.2	10,583.3	13,331.4	6,620.4	7,877.8	9,562.3
8. Miscellaneous Duties.....	380.9	53.6	87.4	184.2	979.8	463.1	87.3
9. Excise Duty.....	2,517.5	2,546.0	3,991.3	5,768.8	7,538.5	9,217.7	11,668.7
10. Export Levy.....	-	-	-	-	-	-	-
11. Other Taxes.....	406.7	573.2	1,231.9	258.3	-1,559.4	-1,330.0	-2,278.7
12. Collections of Arrears.....	-	-	-	-	-	-	-
13. Tax Refunds & Adjustment.....	-176.3	-320.0	-604.2	-882.1	291.6	-1,483.2	-2,448.7
14. Other (non-tax) Revenues.....	2,181.6	3,053.5	4,640.8	5,801.4	8,044.4	6,699.6	7,879.7
15. Total Revenue (1+14).....	22,853.2	26,515.4	36,356.2	48,342.1	62,443.1	74,935.6	94,416.2

Source: Ministry of Finance.

¹Pay As You Earn

²Including Import Levy

Table 11: Central Government Operations: Expenditures (K'mn)

	2001	2002	2003	2004	2005	2006	2007
1. Recurrent Expenditure.....	26,129.4	39,835.4	51,025.6	63,302.0	79,507.8	100,839.7	110,382.2
2. Wages and Salaries.....	6,820.9	10,504.7	11,505.4	14,139.4	18,843.2	22,058.3	27,188.6
3. Interest Payment.....	6,506.4	7,266.7	16,046.3	20,496.5	18,404.4	18,374.6	12,741.2
4. Other Expenditure.....	7,855.6	5,870.2	20,678.4	26,955.5	42,260.2	59,847.3	70,452.4
5. Other current transfers.....	-	2,707.6	-	5,181.0	16,375.3	22,669.1	30,091.3
6. Pensions and Gratuities.....	1,335.7	1,416.1	1,540.8	1,758.4	2,815.1	3,910.5	5,131.5
7. Un allocable Expenditures arrears.....	70.0	30.0	-	-	-	-	-
8. Special Expenditure ¹	-	-	637.6	335.0	-	-	-
9. Extra-budgetary.....	2,634.3	9,994.2	-	-	-	-	-
10. HIPC Expenditure.....	906.5	2,045.9	-	-	-	-	-
11. Development Expenditure (12+13).....	4,318.9	6,088.5	13,636.7	14,437.9	18,789.9	30,269.4	58,256.7
12. Domestically Financed.....	1,751.5	1,451.8	2,172.1	3,182.2	1,173.6	8,159.6	15,081.4
13. Foreign Financed.....	2,567.5	4,636.7	11,464.6	11,255.7	15,526.3	22,109.9	43,175.3
14. Net Lending (15-14).....	1,045.3	-	-	-	697.3	-	-
15. Lending.....	1,045.3	-	-	-	1,397.3	-	-
16. Repayment.....	-	-	-	-	700.0	-	-
17. Total Expenditure (1+11).....	31,493.6	45,923.9	64,662.3	77,739.9	98,995.0	131,109.1	168,638.9

Source: Ministry of Finance

¹Also includes mostly drought related expenditures

Table 12: Stocks managed by Reserve Bank of Malawi as at end 31 December 2007

Stock	Date	(K'mn)		Price Range ²		Approximate effective yield (percent)
		Amount issued	Outstanding ¹	Buying	Selling	
Malawi 39.50 percent L.R.S	Jan-07	1,000.0	..	..	..	18.3
Malawi 35.00 percent L.R.S	Jan-07	600.0	600.0	99.4	100.4	18.3
Malawi 38.00 percent L.R.S	Jul-07	10.0	9.8	168.3	169.8	18.3
Malawi 25.5 percent L.R.S	Jul-07	873.9	873.9	..	..	..
Malawi 28.00 percent L.R.S	Oct-07	6.0	5.9	127.9	129.4	18.3
Malawi 37.50 percent L.R.S	Nov-07	100.0	100.0	86.9	88.4	18.5
Malawi 37.50 percent L.R.S	Jan-08	500.0	..	..	..	..
Malawi 21.00 percent L.R.S	Mar-08	35.0	34.3	98.9	99.9	18.3
Malawi 38.00 percent L.R.S	Aug-08	6.0	5.9	170.3	172.3	18.3
Malawi 25.00 percent L.R.S	Jul-09	17.0	17.0	116.0	118.0	18.3
Malawi 25.00 percent L.R.S	Jul-09	70.0	..	..	..	..
Malawi 26.50 percent L.R.S	Aug-09	10.0	..	..	..	..
Malawi 40.00 percent L.R.S	Aug-09	437.0	..	..	..	..
Malawi 21.00 percent L.R.S	Oct-10	6.0	6.0	98.9	100.9	18.3
Sub-total		3,670.9	..	..	..	..
II. Special LRS issued and managed by RBM						
Malawi 10.00 percent L.R.S	Jun-08	2.6	2.6	..	..	..
Malawi 15.00 percent L.R.S	Jun-08	1.7	5.2	100.0	100.0	19.8
Sub-Total	..	4.3	8.7	..	..	..
Grand total	..	3,675.2	..	..	..	..

Source: Reserve Bank of Malawi

¹Amount outside Sinking Funds. On the Special Stocks this is net of annual instalments, paid to amortise the stocks held by commercial banks.

² Prices as at 30th June 2004 at which the Reserve Bank was prepared to consider buying and selling Local Registered Stocks in Malawi.

The prices are quoted of interest

Table 13: Commodity Imports and Exports¹ Value f.o.b (K'mn)

	2001	2002	2003	2004	2005	2006	2007
1. Imports.....	39.4	53.7	76.7	101.6	140.2	162.5	..
2. Domestic exports.....	30.9	29.1	49.4	50.5	58.6	90.4	..
3. Re-exports.....	0.9	2.3	2.3	2.1	1.1	0.5	..
4. Total exports (2+3).....	31.8	31.4	51.7	52.6	59.9	90.8	..
5. Visible trade balance (4-1).....	-7.7	-22.2	-25.0	-48.9	-80.5	-71.7	..
Indices (1994=100)							
Imports							
Volume.....	114.7	143.8	165.3	162.9	213.7	..	..
Unit value.....	703.9	752.5	956.7	1069.5	1,161.7	..	..
Domestic exports:							
Volume.....	125.7	122.0	113.8	118.9	129.2	..	..
Unit value.....	824.4	861.3	1,124.2	1,464.6	1,480.0	..	..
Terms of trade.....	147.2	139.6	133.7	162.8	164.5	..	..

Source: National Statistical Office & Ministry of Economic Planning and Development

¹Due to adjustments for balance of payments purposes, figures may not agree with corresponding figures in Table 13

Table 14: Balance of Payments Summary (K'mn)

	2001	2002	2003	2004	2005	2006	2007
1.0 Merchandise							
1.1 Exports (f.o.b).....	30,791.3	31,713.1	42,252.0	54,419.6	60,251.3	73,803.7	99,258.4
1.2 Imports (f.o.b).....	34,023.5	45,608.4	66,652.3	88,308.4	119,101.8	143,537.4	175,556.6
1.3 Trade Balance (1.1-1.2).....	-3,232.2	-13,895.4	-24,400.3	-33,888.9	-58,850.5	-69,733.7	-76,298.2
2.0 Services (net)							
2.1 Non- factor services.....	-9,583.6	-12,679.7	-14,545.1	-18,238.5	-24,560.2	-28,120.2	-32,228.4
2.2 Factor services.....	-2,302.7	-3,267.8	-3,267.8	-4,992.8	-5,008.6	-4,847.3	-2,974.3
2.3 Total services (2.1+2.2).....	-11,886.3	-15,946.5	-17,812.9	-23,231.3	-29,568.8	-32,967.5	-35,202.7
3.0 Balance on goods and services (1.3+2.3).....	12,083.3	-29,841.9	42,213.2	-57,120.2	-88,419.3	-102,701.2	-111,500.9
4.0 Private transfers.....	717.9	1,094.3	610.6	1,888.0	9,226.7	10,599.7	10,908.4
5.0 Current Account Balance (3.0+4.3).....	-12,911.3	-28,746.1	-38,316.6	-49,660.9	-79,192.6	-92,101.5	-100,592.5
6.0 Capital Account Balance (6.1+6.2).....	24,579.2	16,602.9	19,384.5	36,189.0	41,873.5	38,768.3	64,019.5
6.1 Long-term capital (6.1.1+6.1.2+6.1.3).....	23,801.2	15,776.5	20,688.5	36,124.0	41,802.9	38,687.2	63,936.1
6.1.1 Government (net).....	9,150.9	9,185.3	11,779.6	24,186.2	23,361.7	20,634.5	38,346.6
6.1.2 Public Enterprises (net).....	214.6	669.6	1,060.0	1,173.1	1,319.4	1,632.0	1,570.5
6.1.3 Private sector (net).....	259.6	275.7	350.6	391.9	425.7	489.1	503.3
6.2 Net short-term capital.....	778.0	826.4	-1,304.0	65.0	70.6	81.1	83.5
7.0 Errors and omissions.....	-11,109.2	18,046.6	12,708.3	6,697.9	24,836.1	30,626.5	32,038.2
8.0 Balance before debt relief.....	558.7	5,903.5	-6,223.8	-6,774.0	-12,483.0	-22,706.7	-4,534.8
9.0 Debt relief.....	820.3	2,244.0	4,634.2	5,125.2	7,079.1	14,925.4	155.4
10.0 Balance after debt relief.....	1,379.0	8,147.5	-1,589.6	-1,648.8	-5,403.9	-7,781.3	-4,379.4
11.0 Change in Net Foreign Assets of the Banking System (- implies increase).....	1,379.0	-8,147.5	1,589.6	1,648.8	5,403.9	7,781.3	4,379.4

Table 15: Expenditure on Gross Domestic Product (K'mn)

	2004	2005	2006	2007
A. Private consumption expenditure.....	201,007.7	260,943.6	313,572.5	370,969.5
B. Government consumption expenditure	34,990.1	41,344.5	49,091.9	60,003.6
C. Gross fixed investment (i+ii).....	18,984.30	21,945.80	25,369.10	29,327.00
i. Public.....	15,436.0	17,844.0	20,627.7	23,845.6
ii. Private.....	3,548.3	4,101.8	4,741.4	5,481.4
D. Stock building.....	4,320.4	5,097.5	6,311.1	7,221.6
E. Gross Domestic Expenditure (A+B+C+D).....	259,302.5	329,331.4	394,344.6	467,521.7
Plus:				
F. Exports of goods and services.....	58,914.3	66,170.5	80,819.8	102,690.4
Less:				
G. Imports of goods and services.....	111,041.6	149,581.3	176,991.1	188,178.1
H. Expenditure on gross domestic product (E+F-G).....	207,175.2	245,920.6	298,173.3	382,034.0

Source: Economic Planning and Development, National Statistical Office, Treasury and Reserve Bank of Malawi

NB: This is based on old series data

Table 16: Domestic Exports by Main Commodity (K'mn)

	2001	2002	2003	2004	2005	2006	2007
Tobacco.....	18,376.2	17,851.1	20,072.3	28,209.6	32,938.9	39,403.5	51,117.2
Tea.....	2,564.0	2,563.0	3,666.9	5,141.2	5,909.9	6,514.9	7,200.4
Cotton.....	317.9	260.8	483.9	2,224.3	1,847.1	1,832.7	2,867.9
Sugar.....	2,500.0	3,396.2	4,884.5	4,444.4	4,887.2	6,503.0	6,756.4
Other.....	6,148.5	6,363.3	10,837.2	...	13,573.0	18,912.0	..
Total.....	29,906.6	31,713.1	42,252.0	54,419.6	60,251.3	73,803.7	99,258.4

Source: National Statistical Office

Table 17: Gross Domestic Product by Economic Activity (K'mn)

	2004	2005	2006	2007
A. Agriculture, forestry and fishing.....	90,581.0	82,815.0	93,536.0	104,601.0
of which:				
i. Crop, animal production, hunting and related services.....	84,183.0	76,105.0	87,129.0	98,155.0
ii. Forestry and logging.....	4,166.0	4,416.0	4,681.0	4,961.0
iii. Fishing and aquaculture.....	2,233.0	2,295.0	1,726.0	1,485.0
B. Mining and Quarrying.....	3,225.0	4,650.0	3,618.0	3,572.0
C. Manufacturing.....	26,146.0	28,018.0	29,602.0	31,562.0
D+ E. Utilities.....	5,010.0	5,427.0	5,743.0	6,011.0
F. Construction.....	11,214.0	12,744.0	14,622.0	16,142.0
G. Wholesale and retail.....	38,152.0	41,923.0	44,455.0	46,564.0
H. Transport and storage.....	10,768.0	12,094.0	12,900.0	13,667.0
I. Accommodation and food service activities.....	5,646.0	5,853.0	6,166.0	6,458.0
J. Information and communication.....	7,825.0	8,430.0	9,057.0	9,682.0
K. Financial and Insurance activities.....	16,929.0	18,921.0	21,665.0	24,564.0
L. Real estate activities.....	12,933.0	13,571.0	14,003.0	14,580.0
M.+ N. Professional, scientific and technical activities, administrative and support service activities.....	3,833.0	4,259.0	4,451.0	4,749.0
O. Public administration and defence.....	9,610.0	9,773.0	10,085.0	10,474.0
P. Education.....	8,731.0	9,143.0	9,651.0	10,343.0
Q. Human health and social work activities.....	8,243.0	8,922.0	9,544.0	10,428.0
R+S+T+U Other services, nec.....	14,916.0	15,716.0	16,535.0	17,371.0
GDP in 2004 constant.....	285,870.0	292,844.0	316,970.0	342,092.0
GDP per capita (current market prices).....	24,022.7	27,482.8	32,564.8	36,790.6
GDP at current prices.....	285,870.0	338,038.0	416,830.0	485,636.0

Source: National Statistics Office, Economic Planning and Development, Treasury and Reserve Bank of Malawi

NB: These figures are based classified according to ISIC Rev 4

Table 18: The National Composite Price Index (2000=100)

	Weight	2001	2002	2003	2004	2005	2006	2007
7 All items.....	100.0	122.7	140.8	154.3	172.0	198.5	226.1	244.1
Food costs.....	58.1	117.6	136.4	143.7	154.4	181.0	209.1	224.7
Beverages and Tobacco.....	5.9	131.0	136.8	165.8	196.5	240.6	273.5	302.6
Clothing and Footwear.....	8.5	130.5	153.6	166.8	179.5	192.8	208.8	221.2
Housing.....	12.1	132.9	156.6	180.0	211.7	236.9	266.9	291.4
Household Operations.....	4.1	129.3	144.0	174.6	218.3	269.0	313.5	336.2
Transportation.....	5.1	129.7	145.9	172.1	202.8	230.1	261.6	289.2
Miscellaneous.....	6.2	122.1	134.4	148.3	169.2	182.6	197.5	211.6

Source: National Statistical Office

Table 17: Gross Domestic Product by Economic Activity (K'mn)

	2004	2005	2006	2007
A. Gross domestic investment				
1.Private.....	7,868.7	9,199.3	11,035.8	12,937.7
2.Public.....	15,436.0	17,844.0	20,627.7	23,845.6
3.Total domestic investment.....	23,304.7	27,043.3	31,663.5	36,783.3
B. Financing				
I. Foreign financing				
4.Net foreign capital infows.....	29,397.1	54,729.0	74,970.7	49,879.1
5.Net transfers from abroad.....	26,075.1	28,286.4	26,292.0	39,507.8
6.Net financing from abroad (4)+(5).....	55,472.2	83,015.4	101,262.7	89,386.9
7.Increase in net foreign assets of the banking system.....	1,648.8	5,403.9	2,174.7	..
8.Net foreign financing (6)-(7).....	53,823.4	77,611.5	99,088.0	89,386.9
II. Domestic financing.....	8,377.9	7,017.0	-884.1	..
9.Gross national saving.....	-30,518.7	-50,568.2	-67,4124.5	-52,603.6
III. Total financing (8)+(9).....	62,201.3	84,628.5	98,203.9	89,386.9
IV. Domestic financing as a proportion of total financing {(II)/(III)}.....	13.5	8.3	-0.9	..

Sources: Economic Planning and Development, National Statistical Office and Reserve Bank of Malawi.

NB: These figures are based on old series data

Table 20: Sundry Economic Indicators

	Unit	2002	2003	2004	2005	2006	2007
Total tobacco auction sales:							
Value.....	K'million	12,223.5	13,418.2	22,393.6	19,376.5	23,140.0	27,352.7
Volume.....	'000 kgs	137,383.0	121,066.0	180,181.2	145,244.1	163,780.0	110,676.8
Tea production.....	'000 kgs	39,085.0	41,693.4	50,042.6	37,978.2	45,010.1	48,141.1
Building:							
Value of plans passed in Blantyre, Lilongwe and Mzuzu.....	K'million	2,927.1	1,627.9	3,235.1	2,699.6	4,781.4	3,437.5
Value of buildings completed in Blantyre and Lilongwe.....	K'million	554.1	294.9	1,205.9	1,035.6	1,519.9	120.8
Cement sales ('000kgs).....	Tonnes	102.6	163.3	137.2	166.5	191.6	133.4
Electricity:							
Units sold by ESCOM							
Domestic sales.....	Mn.Kwh.	301.4	311.1	361.6	404.2	436.9	294.3
Other.....	Mn.Kwh.	623.4	339.9	664.3	713.7	587.6	485.5
Total.....	Mn.Kwh.	924.8	516.3	1,025.4+	1,117.94	1,142.5	780.1
Transport:							
Railway freight	'000 net ton.kms	64,036.0	17,909.0	26,055.0+	20,957.0	20,323.0	18,438.0
Lake transport	'000 net ton.kms	789.0	349.0	316.0	594.0	2,132.0	3964.0
Passengers passing through Kamuzu and Chileka Airports	Number	431,000.0	239,000.0	335,000.0	327,000	248,000	340,000

Source: National Statistical Office

NOTES