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RESERVE BANK OF MALAWI

***REPORT AND ACCOUNTS FOR THE YEAR
ENDED 31ST DECEMBER 2010***



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BOARD OF DIRECTORS



Dr. Perks M. Ligoya
Governor & Chairman of the Board



Mrs Mary C. Nkosi
Deputy Governor



Mrs. Betty Mahuka
Board Member



Mr. Joseph Mwanamveka
Board Member



Mr. Gautoni Kainja
Board Member



Dr. Patrick Kambewa
Board Member



Mr. Ted. Sitimawina
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.



EXECUTIVE MANAGEMENT



Dr. Perks M. Ligoya
Governor



Mrs. Mary C. Nkosi
Deputy Governor



Dr. Grant P. Kabango
*Acting General Manager,
Economic Services*





HEADS OF DEPARTMENTS

Banda, L. (Ms)	Director, Banking and Payment Systems
Chitsonga, D	Director, Information and Communication Technology
Chokhotho, R.	Director, Human Resources
Goneka, E.	Director, Research and Statistics
Kabango G.P. (Dr)	Director, Special Duties
Kajiyanike, M. (Ms)	Director, Currency Management
Malitoni, S.	General Counsel and Bank Secretary
Matambo, W.	Director, Internal Audit
Mathanga H.	Director, Treasury
Milner J.	Director, Exchange Control and Debt Management
Mkulichi, N.	Director, Bank Supervision, Blantyre Branch
Mlelemba E.	Director, Non-Bank Supervision, Blantyre Branch
Mseka, C. (Mrs)	Director, Accounting and Finance
Mwale M. (Dr)	Acting Executive Assistant in the Governor's Office
Mzengereza, C.	Director, Strategy and Risk Management
Wemba, M. (Mrs)	Director, Administration



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:

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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.



TABLE OF CONTENTS

1.0	OPERATIONS AND PERFORMANCE OF THE RESERVE BANK OF MALAWI	14
1.1	Implementation of the Results of the Rationalisation of the 2008 Organizational Structure	14
1.2	Staffing and Staff Complement.....	14
1.3	Appointments.....	14
1.4	Capacity Building	15
2.0	IMPLEMENTATION OF MONETARY POLICY DURING THE YEAR 2010	16
2.1	Introduction	16
2.2	Implementation of Monetary Policy in 2010	16
2.3	Monetary Policy Instruments	17
2.4	Monetary Policy Assessment	17
2.5	Challenges.....	18
2.6	Conclusion	18
3.0	DEVELOPMENTS IN THE GLOBAL ECONOMY	19
3.1	International Economic Outlook.....	19
3.2	Economic Outlook for Industrial Countries	19
3.3	Emerging and Developing Economies	19
3.4	The Sub-Saharan Countries.....	20
4.0	DEVELOPMENTS IN THE MALAWI ECONOMY	21
4.1	Production and Prices	21
4.1.1.1	Agriculture: Tobacco.....	21
4.1.1.2	Agriculture: Tea	21
4.1.1.3	Agriculture: Sugar	22
4.1.2	Manufacturing.....	22
4.1.3	Financial and Insurance Services	23
4.1.4	Information and Communication	23
4.1.5	Construction.....	23
4.1.6	Mining and Quarrying	23
4.1.7	Domestic Consumer Inflation	23
4.2	BALANCE OF PAYMENTS	24
4.2.1	Exchange Rate Movements	24
4.2.2	External Debt Situation	25
4.2.3	External Debt Service.....	26
4.3	PUBLIC FINANCE	27
4.3.1	Revenues.....	27
4.3.2	Expenditures.....	27
4.3.3	Financing	27
4.4	MONEY AND CREDIT	28
4.4.1	Money and Quasi-Money	28
4.4.2	Activities of the Commercial Banks	29
4.4.3	Activities of the Reserve Bank of Malawi	30
4.4.4	Activities of the Other Financial Institutions.....	31
4.4.5	Money Market.....	31
4.4.6	Domestic Debt Stock	32
4.4.7	Treasury Bills Yields	33
4.4.8	Inter-Bank Money Market	33
4.4.9	Open Market Operations	33
4.5	CAPITAL MARKETS	34
4.5.1	Primary Share Market.....	34
4.5.2	Secondary Share Market.....	34
5.1	DIRECTORS' REPORT AND STATEMENT OF DIRECTORS' RESPONSIBILITIES.....	36
5.2	BOARD OF DIRECTORS.....	36
5.3	INDEPENDENT AUDITORS' REPORT	39
5.4	RESERVE BANK OF MALAWI BALANCE SHEET	40
5.5	STATEMENT OF COMPREHENSIVE INCOME.....	43
5.6	STATEMENT OF CHANGES IN NET AMOUNT ATTRIBUTABLE TO SHAREHOLDER	44



5.7	STATEMENT OF CASH FLOWS	45
5.8	NOTES TO THE ANNUAL FINANCIAL STATEMENTS	47
6.0	GENERAL LEDGER AND SUBSIDIARY SYSTEMS PROJECT	96
7.0	NATIONAL PAYMENT SYSTEMS	97
7.0	Introduction	97
7.1	Operational Issues	97
7.2.1	Restructuring of Payments System Unit at RBM	97
7.2.2	Information Dissemination	97
7.2.3	Task Force on Public Awareness Campaigns on Electronic Payments	98
7.3	Settlement System Developments and Projects	98
7.3.1	Availability and Utilisation of MITASS	98
7.3.2	Migration of MITASS to SWIFT Platform	98
7.4	RETAIL SYSTEM DEVELOPMENTS AND PROJECTS	99
7.4.1	ATM Interoperability Project	99
7.4.2	EFT and other retail projects	99
7.4.3	ECCH – Self Assessment	99
7.4.4	Credit Reference Bureau (CRB) Act	99
7.5	Electronic Money (E-Money) and Mobile Banking Initiatives	99
7.6	Oversight Issues	100
7.7	Conclusion	100
8.0	SUPERVISION OF THE BANKING SYSTEM	101
8.1	On-Going Supervision	101
8.2	Laws and Regulations	101
8.3	Licensing	102
8.4	Risk Based Supervision and Basle II	102
8.5	Consolidated Supervision	102
8.6	Deposit Insurance Scheme	102
9.0	STATISTICAL ANNEX TABLES	103



LIST OF TABLES

Table 1: World Output, Annual Percentage Changes.....	19
Table 2: Percentage Changes in Terms of Trade	20
Table 3: Percentage Changes in Real Output and Consumer Prices in Developing Countries	20
Table 4: Summary of Central Government Operations (K' mn)	28
Table 5: Monetary Survey (K' mn)	28
Table 6: Commercial Banks: Sources and Uses of Funds (K' mn)	30
Table 7: Reserve Bank of Malawi; Sources and Uses of Funds (K' mn)	30
Table 8: Other Financial Institutions; Sources and Uses of Funds (K' mn).....	31
Table 9: Treasury Bills Primary Market (K' bn)	32
Table 10: Treasury Bills Holdings by Sector (K' bn)	32
Table 11: Banking System Liquidity	33
Table 12: Open Market Operations	34



LIST OF CHARTS

Chart 1: Average Tobacco Prices MK/kg	21
Chart 2: Average Tea Prices	22
Chart 3: The Annual Rate of Inflation (Percent).....	24
Chart 4: Public External Debt Stock by Creditor Category in 2010	26
Chart 5: Public External Debt Service in 2009 and 2010	26



1.0 OPERATIONS AND PERFORMANCE OF THE RESERVE BANK OF MALAWI

1.1 Implementation of the Results of the Rationalisation of the 2008 Organizational Structure

In 2010, the Bank conducted Rationalisation of the 2008 Organisation Structure Exercise whose primary objective was to address structural challenges and recurring staff complaints emanating from job grading, placements, career progression and human resource policies.

Following the implementation of the exercise, a total of 5 new departments were created increasing the number of departments from 15 in 2009 to 18 in 2010. The new departments are Protective Services, National Payment Systems, Branch Management, Microfinance and Capital Markets and Pension and Insurance Departments. Banking was merged with Currency as one department called Banking and Currency Management. The number of jobs and staff establishment increased from 469 in 2009 to 471 in 2010 and from 776 in 2009 to 896 in 2010, respectively.

1.2 Staffing and Staff Complement

In the year 2010, the Bank had a total workforce of 603 against 597 in 2009. Due to, among others, the Rationalisation exercise of the 2008 Structure, deaths, resignation and retirement. The Bank witnessed 53 exits in 2010 against 23 exits in 2009.

1.3 Appointments

Various appointments were effected amongst which were functional heads and head of departments.

Dr. Grant P. Kabango was appointed Acting General Manager, Economic Services

Mrs. Charity Mseka was appointed Director, Accounting and Finance

Mr. Rangford Chokhotho was appointed Director, Administration

Ms. Meg Kajiyanike was appointed Director, Banking and Currency

Mr. Noel Mkulichi was appointed Director, Bank Supervision

Mr. Francis Mabedi was appointed Director, Branch Management

Mr. Joseph Milner was appointed Director, Exchange Control

Mr. Henry Mathanga was appointed Director, Financial Markets

Mr. Samuel Malitoni was appointed General Counsel and Bank Secretary



Dr. MacDonald Mwale was appointed Director, Governor's Office

Mrs. Joyce Gundani was appointed Director, Human Resources

Mr. Donnex Chitsonga was appointed Director, Information and Communication and Technology

Mr. Clemence Chinkono was appointed Director, Internal Audit

Mr. Eldin Mlelemba was appointed Director, Micro-Finance and Capital Markets

Mr. Fraser Mdwarzika was appointed Director, National Payment Systems

Mr. Efford Goneka was appointed Director, Research and Statistics

Mr. William Matambo was appointed Director, Strategy and Risk Management

Mr. Patrick Mhango was appointed Director, Pensions and Insurance

Mr. Steve Kasomphe was appointed Chief of Protective Services

1.4 Capacity Building

The Bank realises that the resource critical for the achievement of its objectives is its staff. Accordingly, the Bank continued with its efforts of building staff capacity in order to improve performance. In 2010, a total of 152 members of staff attended short-term training courses compared to 141 members of staff in 2009. In addition, the Bank conducted 3 in-house courses compared to 4 in-house courses in 2010.

The Bank also continued to support members of staff pursuing self-initiated training. Accordingly, a total of 35 members of staff benefited from this scheme in 2010 compared to 30 members of staff in 2009. In addition, the Director, Exchange Control attended the Bank's Management Development Programme in 2010. A total of 3 members of staff also attended the MEFMI Fellowship Programme in 2010 compared to 7 in 2009.

On long-term training, the Bank awarded scholarships to Messrs Henry Mwalwanda, Francis Gama, Boston Banda, Limbikani Nundwe, Vincent Chiwamba, Sammy Chilunga, Fredrick Thengeza, Costa Chilowa and Mrs Agnes Sentala to pursue postgraduate training locally and in the United Kingdom. In addition, Mr Makiwa Mwenechanya and Miss Margaret Kaphinde were awarded postgraduate scholarships by various institutions. Accordingly, the Bank granted them paid study leave to enable them pursue their studies.

Messrs Kaluso Chihana, Suzgo Munthali, Frank Mandala, Lyton Chithambo, Mrs Mtendere Chikonda, Mrs. Ethel Kumwenda and Miss Dalitso Bonongwe returned home after successfully completing their postgraduate studies.



2.0 IMPLEMENTATION OF MONETARY POLICY DURING THE YEAR 2010

2.1 Introduction

At the global level, the aftermath of the financial distress continued to pose challenges for monetary policy authorities. Monetary policy continued to play a pivotal role in macroeconomic management in the wake of dynamic financial systems. Considering the fact that the overriding objective of monetary policy is the pursuit of price stability, monetary policy in Malawi was geared towards anchoring price dynamics in order to maintain low and stable inflation. This notwithstanding, the attainment of internal and external balance as well as a sound and stable financial system were part of monetary policy implementation. Monetary authorities continued to deploy market based instruments in the implementation of monetary policy.

Economic activity remained robust supported by a relatively benign inflation environment. Inflation was subdued in 2010 compared to the previous years and was largely explained by abundant food availability. The country, however, continued to experience low levels of foreign exchange due to increased demand side vis-à-vis supply side constraints. The robust growth in the economy continued to stimulate demand for imports against a relatively constrained supply of foreign exchange. Despite pressures on foreign exchange reserves, the exchange rate remained relatively stable during the first three quarters of 2010.

2.2 Implementation of Monetary Policy in 2010

Due to lack of direct control over broad money supply, the Reserve Bank influences the level of money supply through control of its balance sheet items as intermediate targets notably net domestic assets (NDA) and net foreign assets (NFA) which constitute reserve money. Growth in reserve money is controlled by assessing the developments in the net domestic assets and net foreign assets which represent the supply or asset side of the central bank's balance sheet. On the other hand, the demand or liability components are currency in circulation and deposits of banks maintained at the central bank. Throughout the year 2010, the central bank used this strategy in order to influence the demand character of the economy. On one hand, in regulating the leverage of the net domestic assets, the focus was on the amount of the credit availed to the economy by the central bank.

Just like in the previous years, monetary policy was guided by the Monetary Policy Committee (MPC) instituted in 2000. In 2010, the committee had at its disposal open



market operations (OMO), the Bank rate and LRR as monetary policy tools. However, as the case has been in the previous years, OMO were substantially used to influence liquidity conditions in the system. Policy decisions continued to be made public through newspapers, press conferences and through the Bank's website.

2.3 Monetary Policy Instruments

The framework for monetary policy management in 2010 remained that of monetary targeting. The Bank's operational target was the growth rate in reserve money, with specific target set on its supply side components; net domestic assets (NDA) and net foreign assets (NFA). The targets are observed in consistent with the expected nominal GDP growth (which represents the production sector of the economy) for 2010 and the targeted build-up in the external reserve position (which represents the external sector developments).

The medium term outlook was favourable as inflationary pressures remained subdued during the year. The Bank therefore, adjusted the Bank rate downwards from 15.0 percent to 13.0 percent effective 1st August 2010. Commercial banks responded favourably by adjusting their lending rates downwards to an average of 17.75 percent from 19.25 percent. The LRR was maintained at 15.5 percent throughout the year in order to safeguard depositors funds. There was a mixed reaction, however, with respect to revisions of deposit rates.

The transitory liquidity surges were managed by a combination of discount window operations, Repurchase Agreements and sales of foreign exchange. Open market operations (OMO) were the key instrument which the central bank used to manage liquidity in the market. On a net basis, K22.6 billion was injected in the market in 2010 through discount window and Repo operations. Net foreign exchange operations resulted into a withdrawal of K48.6 billion during the year compared to a withdrawal of K66.7 billion recorded in 2009. Government budgetary operations injected K37.8 billion into the market during the year 2010. Overall, monetary operations were expansionary as K11.9 billion was injected into the banking system.

2.4 Monetary Policy Assessment

Although inflation remained stable and relatively low, the rising demand for foreign exchange remained a major challenge to monetary policy authorities throughout 2010. Inflation in 2010 averaged 7.4 percent, compared to an average of 8.4 percent in 2009. On the monetary front, the pace of expansion for broad money supply (M2) was contained as



broad money supply grew by 17.8 percent in 2010 compared to a growth of 23.9 percent in 2009. This favourable development in money supply growth coupled with a favourable outlook for inflation compelled monetary authorities to reduce the bank rate to 13.0 percent in August 2010.

2.5 Challenges

Monetary policy squarely hinge on a robust transmission mechanism. This is particularly the case in monetary targeting which presupposes stability of demand for money and over and above certainty about the lag with which money supply has on inflation processes. The former is related to the stability of the relative demand for cash balances to deposits both by the commercial banks and the public at large. On the other hand, the latter relates to the time it takes for economic agents to respond to macroeconomic signals as well as the size of their response. In line with the foregoing, increases in the relative demand for cash balances (relative increase in currency in circulation to deposits) translate into limited participation on the money market. This limits the scale of mop up operations. Furthermore, the size of non-banked segment of the economy constrained the depth of the money market thereby curtailing the interest rate and credit channels of the transmission process. In 2010, currency in circulation contributed a significant volume of the high powered money whilst households continued to demand relatively more cash balances for transactional purposes.

External sector developments, however, partly abated the weaknesses of the domestic market as the bank continued to support the foreign exchange market. This helped to mop up excess liquidity in the banking system in spite of the deteriorating international reserves position.

2.6 Conclusion

Although 2010 was yet another difficult year considering low levels of foreign exchange, monetary policy performed well. Monetary policy managed to contain inflation and the overall stability of the financial system. However, structural rigidities in the financial system remain a challenge for monetary policy as they weaken the transmission channels of monetary policy decisions.



3.0 DEVELOPMENTS IN THE GLOBAL ECONOMY

3.1 International Economic Outlook

The global economic recovery continued in the final quarter of 2010 with a somewhat stronger momentum than many observers had expected. The global economy expanded by 5.0 percent in 2010 from a contraction of 0.5 percent in 2009. The rebound of economic activity was on account of recovery in advanced economies and strong growth in emerging and developing economies. In advanced economies the recovery remained fragile and the stance of monetary policies remained accommodative to stimulate growth. With regard to emerging economies, growth remained robust, and mindful of the dangers of overheating and inflation, their monetary policies were tightened. The strong growth in the developing countries was supported by a commodity price boom. However, global inflation remained subdued as expectations were well anchored.

Table 1: World Output, Annual Percentage Changes

	2004	2005	2006	2007	2008	2009	2010	2011*
World Output.....	4.9	4.4	5.0	5.2	3.0	-0.5	5.0	4.4
Advanced Economies.....	3.2	2.6	3.0	2.7	0.6	-3.4	3.0	2.4
United States.....	3.6	3.1	2.9	2.1	0.4	-2.6	2.8	2.8
Euro Area.....	2.1	1.6	2.8	2.7	0.7	-4.1	1.7	1.6
Japan.....	2.7	1.9	2.4	2.3	-0.7	-6.3	3.9	1.4
Sub-Saharan Africa.....	7.2	6.3	6.4	7.0	5.6	2.8	5.0	5.5
Developing Asia.....	8.6	9.0	9.6	10.6	7.6	7.2	9.5	8.4
Middle East.....	5.9	5.7	5.8	6.2	5.4	1.8	3.8	4.1

Source: I.M.F World Economic Outlook and Sub-Saharan Economic Outlook

*IMF projection

3.2 Economic Outlook for Industrial Countries

Output in advanced economies grew by 3.0 percent in 2010 from a contraction of 3.4 percent in the preceding year due to a rebound in manufacturing and global trade. Economic activity moderated less than expected whereas unemployment remained high amidst renewed stresses in the euro area. Growth is projected at 2.4 percent in 2011 and will be largely supported by stimulus fiscal packages passed in late 2010. Advanced Asian economies except Japan enjoyed a strong rebound in 2010 as their manufacturing sectors benefited from the global recovery in trade. Output in Japan and the euro area remained below pre-crisis levels and was dependent on foreign demand.

3.3 Emerging and Developing Economies

Output in emerging and developing economies reverted to pre-crisis trends and rose by 7.3 percent in 2010. Inflationary pressures, however, emerged whilst capital inflows were relatively strong. In 2010, developing Asian countries continued to grow rapidly at 9.5



percent as robust domestic demand spread from China, India, and Indonesia to the rest of the region. In China, a major fiscal stimulus, a large expansion of credit, and a number of specific measures to boost household incomes and consumption increased domestic demand close to 13.0 percent in 2010. Latin America also recovered strongly in 2010 growing by about 6.1 percent.

Table 2: Percentage Changes in Terms of Trade

	2003	2004	2005	2006	2007	2008	2009	2010
Advanced economies.....	1.1	-0.4	-1.8	-1.3	0.5	-2.4	4.0	-1.2
Other emerging and developing countries	0.9	2.7	5.73	3.4	0.5	3.3	-5.9	-0.6
Middle East and North Africa.....	2.0	8.1	21.9	6.0	1.9	13.9	-18.3	7.0
Sub-Saharan Africa.....	-1.9	4.8	12.3	9.1	3.2	7.7	-12.2	10.1
Fuel exporters.....	3.5	11.5	22.5	9.2	2.8	15.7	-22.3	8.0
Non-fuel exporters.....	-0.1	-0.4	-0.6	0.5	-0.5	-1.6	2.3	-4.3

Source: I.M.F. World Economic Outlook

3.4 The Sub-Saharan Countries

Sub-Saharan Africa expanded by 5.0 percent in 2010 from a growth of 2.8 percent in 2009. The growth prospects for the region were bolstered by buoyant prices for key export commodities, the recovery in global demand and the improvement in macroeconomic stability. Prices for both oil and non-oil commodities rose significantly in 2010 due to strong global demand and supply shocks for selected commodities. Upward pressure on prices is expected to persist in 2011 on account of strong demand.

Table 3: Percentage Changes in Real Output and Consumer Prices in Developing Countries

	Real GDP				Consumer Prices			
	2007	2008	2009	2010	2007	2008	2009	2010
Sub-Saharan Africa.....	7.0	5.6	2.8	5.0	6.8	11.9	10.5	7.5
Oil Importers	5.3	4.7	1.4	6.4	6.3	10.8	8.9	5.9
Oil Exporters.....	7.8	6.1	2.2	4.1	5.5	9.4	9.4	10.6
Middle East.....	6.2	5.4	1.8	3.8	11.2	15.0	8.3	6.8
Emerging Asia.....	10.6	7.6	7.2	9.5	4.9	7.0	2.7	6.1
China.....	13.0	9.0	8.5	10.3	4.8	5.9	-0.1	3.5
ASEAN-4.....	6.3	4.8	0.7	6.7	4.3	9.2	2.6	...
Newly industrialised Asian economies.....	5.7	1.5	-2.4	8.2	4.5	1.0	1.9	2.6

Source: I.M.F. World Economic Outlook and Sub-Saharan Economic Outlook



4.0 DEVELOPMENTS IN THE MALAWI ECONOMY

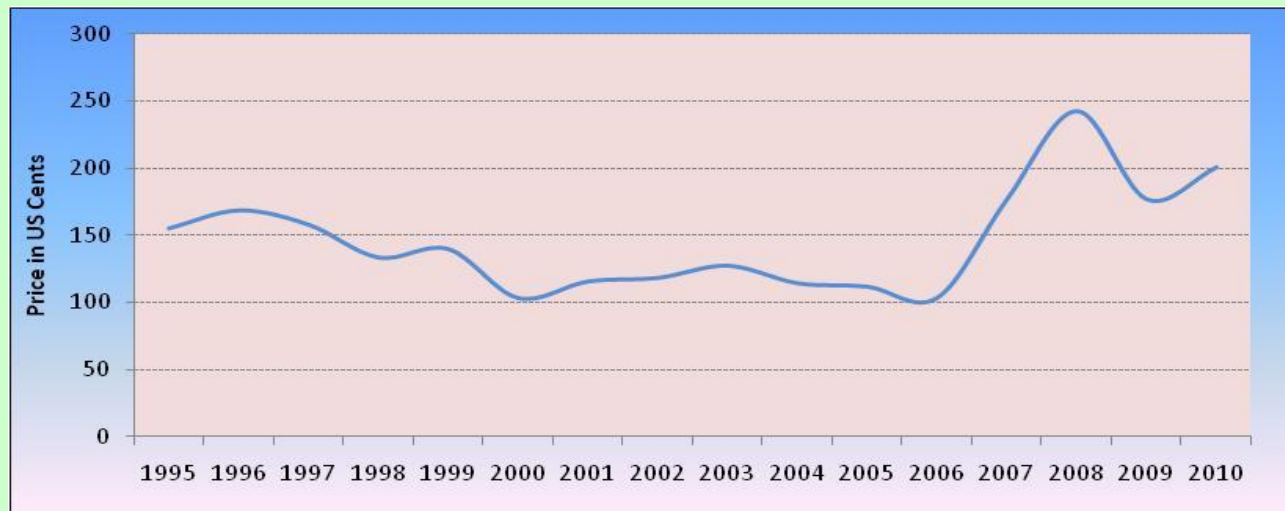
4.1 Production and Prices

Based on revised series, Real Gross Domestic Product (GDP) growth rate was estimated at 6.7 percent in 2010 compared to a growth rate of 8.9 percent in 2009. The deceleration in growth was explained by a slowdown in agriculture activity to 2.0 percent in 2010 from 13.9 percent in the preceding year due to a dry spell that hit some parts of the country. Nevertheless, significant expansion in mining, manufacturing, financial activities and wholesale and retail trade activities compensated for the effects of the slowdown in agriculture. Economic growth for 2011 is projected at 6.9 percent, reflecting a downward trend in the economy's business cycle.

4.1.1.1 Agriculture: Tobacco

Tobacco production in 2010 declined by 10.6 percent to 220.2 million kilograms due to withdrawal of farmers on account of relatively lower prices fetched in 2009. Correspondingly, sales declined by 5.0 percent in 2010. In terms of distribution of the cultivar, burley tobacco accounted for 87.7 percent, flue cured tobacco accounted for 11.0 percent and the rest of the varieties contributed 1.3 percent. Average tobacco prices rose by 1.0 percent to US\$1.89 per kilogram on account of reduced supply of the leaf. Hence total tobacco proceeds increased by 4.1 percent to US\$416.4 million in 2010.

Chart 1: Average Tobacco Prices MK/kg



Source: Tobacco Control Commission

4.1.1.2 Agriculture: Tea

Tea production declined by 1.8 percent in 2010 to 51.6 million kilograms from 52.6 million kilograms in 2009. The decline was mainly on account of dry weather conditions experienced in the 2010 season. Tea sales through the Limbe market amounted to 15.5 million kilograms in 2010 and were sold for US\$23.8 million at an average price of



US\$1.54 per kilogram. In 2009, tea sales at the Limbe auction market totaled 17.3 million kilograms sold for US\$26.5 million, at an average price of US\$1.53 per kilogram. Despite the slightly higher average price in 2010, excess supply from Kenya had a dampening effect on the domestic prices.

Chart 2: Average Tea Prices



Source: Tea Brokers Central African Limited

4.1.1.3 Agriculture: Sugar

Total sugar production in 2010 increased by 0.7 percent to 297.0 million kilograms and compared favourably to 295.0 million kilograms produced in 2009. The increase in production was on account of increased capacity at Dwangwa plantation. Domestic sugar sales dropped to 144.5 million kilograms valued at K17.8 billion in 2010 from 194.7 million kilograms sold for K19.4 billion in 2009. Similarly, export sales declined to 76.8 million kilograms valued at K6.4 billion from 106.3 million kilograms sold for K8.5 billion in the preceding year. The decline in sales is attributed to fuel shortage that adversely affected haulage and distribution.

4.1.2 Manufacturing

Manufacturing activity grew by 4.3 percent in 2010 compared to a growth rate of 4.8 percent in 2009. The increase in production is largely attributed to scaling up of sugar

production capacity at Dwangwa and Nchalo and the “Buy Malawian Campaign” that has increased demand for locally manufactured goods on the market. Growth for Manufacturing for 2011 is projected at 3.5 percent, the slower growth is explained by



foreign exchange shortages coupled with reduced demand arising from cheaper imported substitutes.

4.1.3 Financial and Insurance Services

Growth of financial services was estimated at 10.6 percent in 2010 against recorded growth of 7.8 percent in 2009. Expansion in branch networks across the country and introduction of new products such as mobile banking, and internationally accepted visa cards were behind the growth in this sector. Enactment of the Microfinance law and implementation of the financial sector strategic plan are expected to contribute towards the industry's projected growth of 9.2 percent in 2011.

4.1.4 Information and Communication

Information and communication activity grew by 9.2 percent in 2010 compared to 10.5 percent registered in 2009. The growth emanated from massive campaigns and promotions by mobile phone companies and establishment of a new mobile phone service provider, Access Communications Limited. In 2011, activity in this sector is expected to grow by 7.3 percent owing to expansion of ZAIN and Access Communications Limited in addition to the coming in of new players such as G-Mobile.

4.1.5 Construction

Growth of the construction industry is estimated at 16.5 percent in 2010 against a growth of 7.4 percent in 2009. The expansion is a result of major construction works, including a number of hotels across the country, construction of roads and private construction of up market houses in the major cities.

4.1.6 Mining and Quarrying

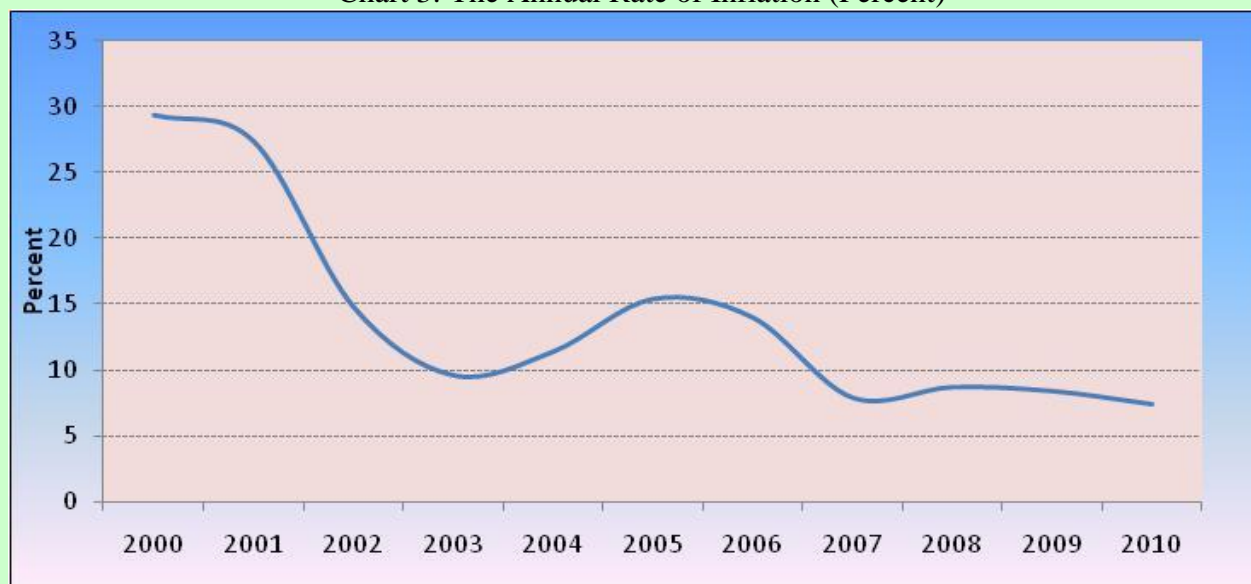
Mining and quarrying expanded by 80.2 percent in 2010 compared to a growth rate of 4.9 percent in 2009. The growth emanated from increased production at Kayelekera uranium mine. Growth is projected at 33.1 percent in 2011. Fuel supply outages may adversely affect the operations in this highly energy dependent sector.

4.1.7 Domestic Consumer Inflation

Annual average inflation rate in 2010 decelerated by 1.0 percent to 7.4 percent from 8.4 percent in 2009 due to deceleration in food inflation to 5.0 percent from 7.3 percent recorded in 2009. Non-food inflation, however, accelerated to an average of 9.9 percent from an average of 9.6 percent in 2009 on account of rising transportation costs following a fuel pump price hike in February 2010 and an increase in housing cost.



Chart 3: The Annual Rate of Inflation (Percent)



Source: National Statistics Office

4.2 BALANCE OF PAYMENTS

The country's overall balance of payments position as measured by the change in net foreign assets of the banking system recorded a surplus of K22.4 billion from a deficit of K21.7 billion in 2009. This development was due to an increase in donor capital inflows received in 2010. However, the current account recorded a larger deficit of K148.0 billion during the review period compared to a deficit of K84.2 billion recorded in 2009. This was to a large extent due to the poor performance of the merchandise trade account, which recorded a trade deficit of K106.2 billion in 2010 from a deficit of K54.3 billion in the preceding year. Imports in 2010 increased to K283.1 billion from K221.8 billion in 2009. The increase in imports was mainly on account of the persistently growing economic activity in recent years. Net non-factor services recorded a deficit of K48.4 billion from a deficit of K38.8 billion registered in the preceding year. Similarly, net factor services registered a deficit and stood at K8.6 billion in 2010. In contrast, the private transfers account was in surplus of K15.2 billion from a surplus of K14.2 billion in 2009.

4.2.1 Exchange Rate Movements

The Malawi kwacha remained relatively stable against the United States dollar throughout the year 2010. However, it exhibited mixed performance against all other currencies of the country's major trading partners reflecting developments in exchange rate markets on both local and international arena. The foreign exchange market was characterized by lower supply of foreign exchange against a background of higher demand, and this exerted pressure on the local currency during the review period. The increased demand for foreign



currency largely emanated from robust economic growth. On the international scene, the 2010 fiscal imbalances in the euro area negatively affected the performance of the kwacha during the review period. Regionally, the Malawi kwacha performed variably as it depreciated against the South African rand whilst it gained ground against the Zambian kwacha.

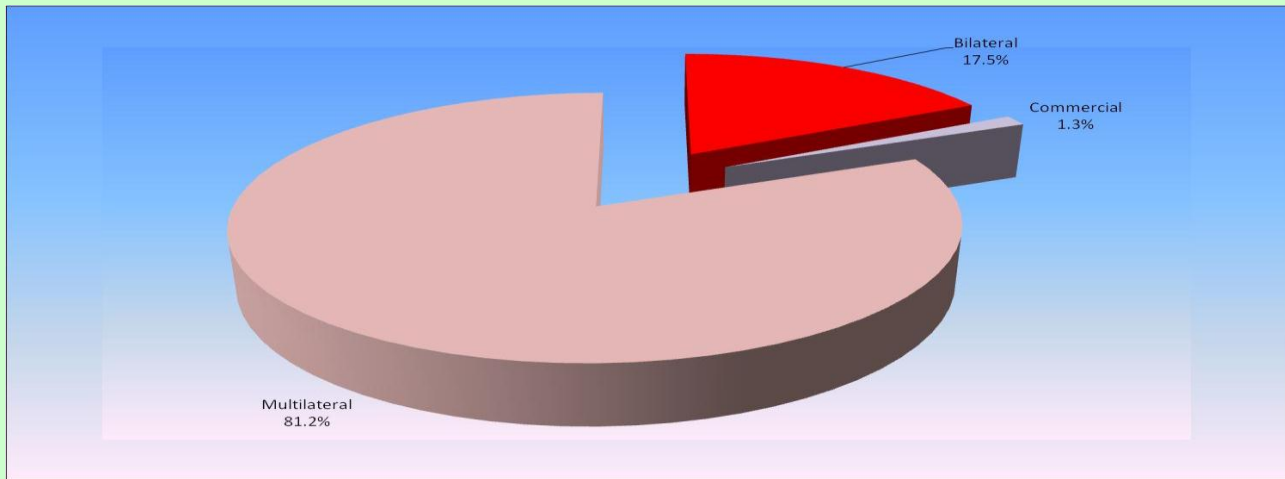
4.2.2 External Debt Situation

Disbursed and outstanding public external debt at the end of 2010 amounted to US\$846.2 million (16.5 percent of GDP) compared to outstanding debt of US\$762.8 million in 2009, representing a year on year increase of US\$84.4 million (10.9 percent). The increase in the outstanding debt stock mainly emanated from disbursements made by multilateral and bilateral creditors during the year. The known disbursements for the year totalled US\$62.4 million while principal repayments amounted to US\$12.3 million, resulting in net disbursements of US\$50.2 million. Furthermore, an adjustment was made to the debt stock to include debt owed to other bilateral creditors such as Mainland China, Belgium and France whose debt to the country was forgiven at the HIPC Completion Point in 2006 but were still waiting the signing of bilateral agreements to effect the cancellation. The Government decided to include these loans in the outstanding debt stock until the cancellation process is finalised.

Multilateral debt continued to take up the biggest proportion of the outstanding debt stock, accounting for 81.2 percent of the total debt stock at the end of 2010 (*Chart 4*). Nevertheless, this was a drop, year on year, from 87.4 percent of the total debt stock in 2009. However, outstanding multilateral debt had increased by 3.1 percent following disbursements made during the year to close at US\$687.0 million. Bilateral debt accounted for 17.5 percent of the outstanding debt stock up from 11.2 percent in the preceding year. The emergence of new bilateral creditors resulted in significant increase in bilateral debt to close the year at US\$148.5 million. Commercial debt accounted for 1.3 percent of the total debt stock at US\$10.8 million.



Chart 4: Public External Debt Stock by Creditor Category in 2010

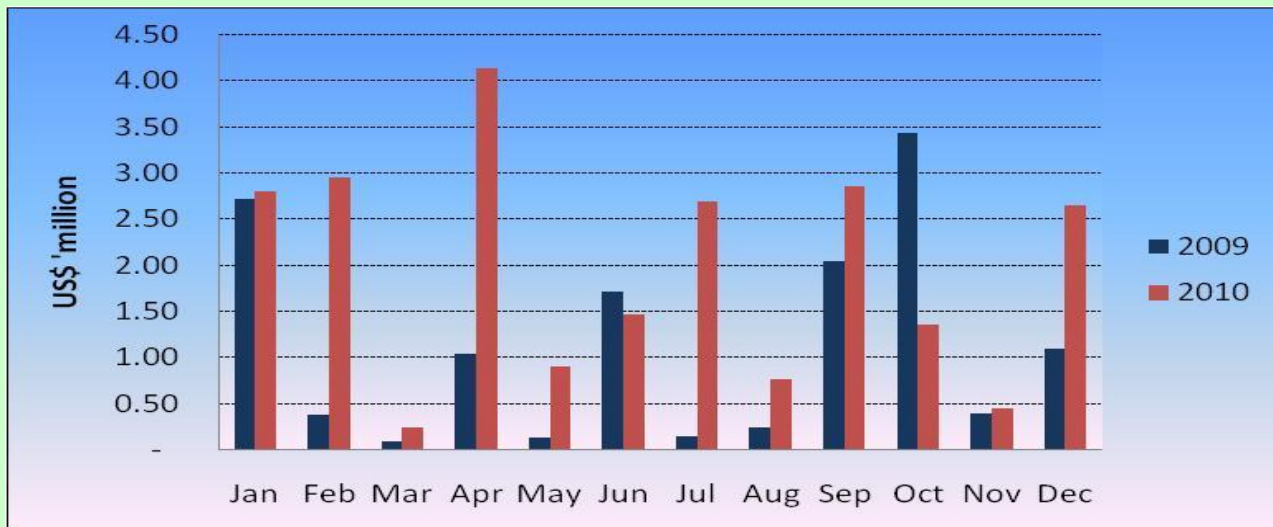


Source: Reserve Bank of Malawi

4.2.3 External Debt Service

Total public external debt service in 2010 amounted US\$23.3 million (*Chart 5*). This was 71.9 percent higher than public external debt service made in 2009 of US\$13.5 million. Principal amortisation contributed 52.7 percent of the debt service in 2010 while 47.3 percent was interest payments. Multilateral creditors received 45.5 percent of the total debt service while bilateral and commercial creditors received 37.7 percent and 16.8 percent, respectively. The Central Government externalised a total of US\$19.4 million, which included US\$12.3 million principal repayments and US\$7.1 million interest payments. ESCOM paid US\$3.9 million to DBSA in interest.

Chart 5: Public External Debt Service in 2009 and 2010



Source: Reserve Bank of Malawi



4.3 PUBLIC FINANCE

The budgetary operations of the central government during the year 2010 recorded a budget surplus after grants of K13.2 billion as compared to a budget deficit after grants of K36.5 billion in 2009. This improvement was on account of increases in domestic revenues and foreign grants that outpaced the increase in expenditures. At this level, the overall fiscal surplus stood at 1.7 percent of Gross Domestic Product for 2010.

4.3.1 Revenues

Total government revenues during 2010 increased remarkably by K98.3 billion (49.7 percent) to K296.1 billion on account of increases in both domestic revenues and foreign grants. Total domestic revenues stood at K202.0 billion compared to K148.8 billion recorded in 2009 as both tax and non-tax revenues increased. Tax revenues increased by K31.8 billion to K160.2 billion due to improved economic growth as well as Malawi Revenue Authority's improvements in tax administration such as increased tax sensitization, monitoring and supervision. Non-tax revenues increased by K21.3 billion (104.4 percent) compared to another increase of K9.7 billion recorded in 2009 largely enhanced by revision of fees in selected government departments. Total grants for the year under review amounted to K94.2 billion up from K49.1 billion recorded in the preceding year.

4.3.2 Expenditures

Total expenditures increased by K49.4 billion to K282.9 billion (20.4 percent) compared to an increase of K20.1 billion (9.4 percent) in the preceding year. This outcome was attributable to K19.6 billion increases in recurrent expenditures and K46.1 billion increase in development expenditures. Recurrent expenditures increased on account of a 15.0 percent salary increment for civil servants and increase in pensions and gratuities.

On the other hand, development expenditures rose on account of increased expenditure on road construction and other major projects such as Irrigation Development initiatives as well as construction of Girls' hostels in secondary schools, Teachers houses and the Shire-Zambezi Waterway and Nsanje World Inland Port.

4.3.3 Financing

Central government operations for the year 2010 resulted into a fiscal surplus after grants of K13.2 billion compared to a deficit after grants of K36.5 billion in 2009. Government used the surplus for repaying part of its domestic debt to the tune of K30.4 billion. Foreign loans repayment during the year amounted to K2.2 billion compared to K1.0 billion



recorded in 2009 whilst foreign borrowing stood at K17.0 billion up from K3.1 billion recorded during the preceding year.

Table 4: Summary of Central Government Operations (K' mn)

	2003	2004	2005	2006	2007	2008	2009	2010
A. Total Revenue and Grants (1+2).....	50,582.7	68,768.3	97,017.9	129,264.4	160,821.1	179,473.9	197,860.4	296,114.8
1. Revenue.....	36,356.2	48,342.1	62,443.1	74,935.7	94,416.2	118,971.7	148,790.8	201,963.6
2. Grants.....	14,226.5	20,426.2	34,574.8	54,328.8	66,404.0	60,502.2	49,069.6	94,151.2
B. Total Expenditure (3+4+5).....	64,662.3	77,739.9	98,995.0	133,209.1	168,638.9	215,311.7	234,311.3	282,906.2
3. Recurrent Expenditure.....	51,025.6	63,302.0	79,507.8	101,297.2	110,382.2	163,758.9	185,341.6	204,933.9
4. Development Expenditure.....	13,636.7	14,437.9	18,789.9	31,769.4	58,256.7	51,552.8	30,883.0	76,972.3
5. Net lending.....	-	-	697.3	-	-	-	1,150.0	1,000.0
C. Deficit Before Grants (1-B).....	-28,306.1	-29,397.8	-36,551.9	-56,173.5	-74,222.7	-96,340.0	-85,520.5	-80,942.6
D. Deficit After Grants (A-B).....	-14,079.6	-8,971.6	-1,977.1	-4,685.6	-7,817.8	-35,837.8	-36,450.9	13,208.6
E. Total Financing.....	11,436.7	9,281.3	6,196.8	2,018.5	10,263.3	31,241.3	34,160.2	-15,622.2
I. Foreign Loans (net) (6-7).....	-759.4	767.4	-852.5	-1,183.3	5,222.6	7,350.1	2,060.0	14,781.7
6. Borrowing.....	5,782.2	8,943.0	8,806.7	10,442.6	7,252.9	8,108.9	3,077.1	17,012.1
7. Repayment.....	6,541.6	8,175.7	9,659.2	11,625.9	2,030.3	758.8	1,017.1	2,230.4
8. Special Financing (net).....	-	-	-	-	-	-	-	-
II. Domestic Borrowing (net) (9+10)...	12,196.2	8,513.9	6,896.5	-789.3	5,040.8	23,891.2	32,100.2	-30,403.9
9. Bank.....	3,068.4	3,628.1	957.9	-5,168.1	-737.1	33,248.4	26,639.3	-20,416.2
10. Non-Bank.....	9,127.8	4,885.8	5,938.7	4,401.0	5,777.9	-9,357.2	5,460.9	-9,987.7
F. Errors and Omissions (-D-E).....	2,642.8	-309.7	1,592.5	-2,554.9	-2,445.5	3,485.5	1,393.0	2,413.6

Source: Ministry of Finance

4.4 MONEY AND CREDIT

4.4.1 Money and Quasi-Money

Broadly defined money supply (M2) rose by K30.8 billion (17.8 percent) to K203.9 billion in 2010. Growth in M2 was buoyed by successful implementation of the first review of the Extended Credit Facility (ECF) arrangement with the International Monetary Fund and subdued inflationary pressures which allowed the Monetary Policy Committee to adopt an easier monetary policy stance in the course of 2010.

Table 5: Monetary Survey (K' mn)

	End month balances				Changes during periods			
	2007	2008	2009	2010	2007	2008	2009	2010
A. Net Domestic Credit								
1. Credit to government (i+ii).....	21,114.4	83,855.5	113,453.7	90,582.2	772.1	62,744.1	29,598.2	-21,855.9
i. Monetary Authorities.....	-816.5	56,705.4	85,745.5	72,514.6	-8,276.0	57,521.9	29,040.1	13,230.9
ii. Commercial Banks.....	21,927.9	27,150.2	27,708.3	18,067.7	9,048.1	5,222.2	558.1	-7,185.2
2. Credit to statutory bodies.....	3,736.5	6,043.4	6,239.3	4,662.4	2,524.1	2,306.8	196.0	-1577.0
3. Credit to private sector (gross).....	47,267.1	68,143.5	95,043.6	121,632.5	10,078.3	20,876.3	26,900.2	26,588.9
B. Narrow Money (M1)	54,016.4	70,596.7	81,900.3	102,112.2	16,790.2	16,580.3	11,303.6	20,211.9
4. Currency outside banks.....	19,561.3	25,261.3	27,493.1	31,848.3	4,907.8	5,700.0	2,231.9	4,355.2
5. Private sector demand deposits....	34,455.1	45,335.5	54,407.1	70,263.9	11,882.4	10,880.4	9,071.7	15,856.7
C. Quasi-money.....	50,863.4	69,046.6	92,131.0	101,785.8	11,465.5	18,183.2	23,085.4	10,632.7
D. Money Supply (M2) ¹ (B+C).....	104,879.8	139,643.3	174,032.2	203,898.0	28,255.7	34,763.5	34,388.9	30,847.6
E. Net Foreign Assets	30,254.6	19,667.1	-2,276.8	20,376.8	8,940.2	-10,587.5	-21,943.9	22,419.9
6. Monetary Authorities.....	28,291.5	16,401.7	-9,678.1	8,076.1	14,633.9	-11,889.9	26,079.7	17,520.5
7. Commercial banks.....	1,963.1	3,265.5	7,401.3	12,300.7	-5,693.7	1,302.4	4,135.8	4899.4

Source: Reserve Bank of Malawi



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

Notably, net foreign assets improved by K22.4 billion following accumulation by both the monetary authorities and the commercial banks of K17.5 billion and K4.9 billion, respectively. Credit flow to the private sector accelerated by K26.6 billion which was almost equivalent to the increase recorded in 2009 albeit the August 2010 downward adjustment in interest rates. The delayed and slow adjustment of bank credit to more accommodative monetary policy was hampered by the already high level of debt. The expansionary effect was however partly restrained by a K20.4 billion reduction of Government's indebtedness following foreign inflows catalysed by the ECF review as well as a net recovery of K1.6 billion in statutory corporations' loans to the banking system.

In terms of demand, the increase in M2 was characterised by steady increases in all deposit categories fuelled by declining nominal rates which reduced the opportunity cost of holding balances as well as precautionary oriented demand earmarked largely for prospective foreign exchange purchases. Specifically, deposit mobilization by the banking system grew by K15.9 billion for demand deposits, K10.2 billion for term (time and savings deposits) and K9.1 billion for demand deposits and K437.4 million for foreign currency deposits. Notes and coins in circulation also expanded strongly by K4.4 billion reflecting robust economic activity.

4.4.2 Activities of the Commercial Banks

Commercial banks continued to strengthen their resource position in 2010. Reflecting aggressive deposit mobilization, private sector deposits remained the major source of the banks' funds recording an increase of K26.1 billion in 2010. Capital accounts contributed K7.2 billion reflecting profitability of investments undertaken in 2010. Unsectored liabilities also rose by K6.4 billion due largely to inter-bank lending. Further, the official sector contributed K2.6 billion in various projects. In terms of utilisation, commercial banks invested K20.4 billion of their resources in the domestic economy. Specifically, as alluded to earlier, credit to the private sector increased by K26.6 billion and the resources were mostly availed to the commercial and industrial sector in respect of agricultural related activities. Further, other assets increased by K15.8 billion due largely to money market lending and acquisition of premises and equipment.

**Table 6: Commercial Banks: Sources and Uses of Funds (K' mn)**

	End Year Balances				Changes during the period			
	2007	2008	2009	2010	2007	2008	2009	2010
A Sources of Funds								
Private sector.....	82,858.3	112,128.3	142,854.1	167,980.8	22,462.8	29,270.1	30,725.8	26,108.6
1. Official Sector Deposits ¹	3,437.1	4,961.8	5,013.3	10,113.5	1,136.9	1,524.7	51.5	2,644.8
2. Borrowing from the RBM.....	-	-	-	-	-	-	-	-
3. Foreign Borrowing.....	5,845.6	4,168.3	3,966.8	1,577.6	3,212.4	-1,677.2	-201.5	-2,389.9
4. Capital Accounts.....	16,577.6	25,232.4	32,757.4	39,908.2	2,597.4	8,654.8	7,525.0	7,150.8
5. All other liabilities ²	11,195.0	18,245.2	20,656.1	25,586.9	1,483.3	7,050.3	2,410.9	6,404.3
6. Total (1+2+3+4+5).....	119,913.6	164,736.2	205,247.8	245,166.9	30,892.9	44,822.6	40,511.6	39,919.2
B. Uses of Funds								
I. Domestic credit to:								
7. Private sector (gross).....	47,267.1	68,143.5	95,043.6	121,632.5	10,078.3	20,876.3	26,900.2	26,588.9
8. Statutory bodies (gross).....	2,470.2	4,070.6	5,261.3	3,963.3	1,257.8	1,600.4	1,190.7	-1,297.9
9. Central Government (gross).....	22,904.9	29,858.3	29,036.6	24,112.3	9,299.9	6,953.4	-821.8	-4,924.2
10. Sub-total (7+8+9+10).....	72,642.3	102,072.4	129,341.5	149,708.2	20,636.0	29,430.1	27,269.1	20,366.7
II. Deposits with Reserve Bank plus currency in banks.....								
8,043.7	10,421.0	20,620.4	21,849.6	1,039.3	2,377.3	10,199.3	1,229.2	
III. Foreign assets.....								
7,808.7	7,433.8	11,368.2	13,878.3	-2,481.2	-374.9	3,934.3	2,510.1	
IV. All other assets ²								
31,418.9	44,808.9	43,917.7	59,730.9	11,698.8	13,390.0	-891.2	15,813.1	
V. Total (I+II+III+IV).....								
119,913.6	164,736.2	205,247.8	245,166.9	30,892.9	44,822.6	40,511.6	39,919.2	

Source: Reserve Bank of Malawi

¹Statutory bodies and local authorities²Including inter-bank accounts

4.4.3 Activities of the Reserve Bank of Malawi

Total resources of the Reserve Bank of Malawi increased markedly by K18.6 billion to K171.3 billion in 2010 and increase was reflected in all categories. The official sector contributed significantly towards the availability of Central Bank's resources as their deposits rose by K6.3 billion due largely to enhanced tax and non-tax collections towards the close of the 1st half of the Fiscal year.

Table 7: Reserve Bank of Malawi; Sources and Uses of Funds (K' mn)

	End period balance		Changes during the period					
	Dec-09	Dec-10	2009			2010		
			1st half	2nd Half	Year	1st half	2nd half	Year
Sources of Funds								
1. Currency outside banks banks	27,493.1	31,848.3	4,015.6	(1,783.8)	2,231.9	5,003.5	(648.3)	4,355.2
2. Deposits of commercial banks	22,899.9	25,569.1	12,245.8	(132.0)	12,113.8	(1,486.7)	4,155.9	2,669.2
3. Deposits of official sector	23,874.2	30,198.2	(11,504.3)	6,090.0	(5,414.3)	18,576.2	(12,252.1)	6,324.0
4. Sub - total (1+2+3)	74,267.2	87,615.6	4,757.1	4,174.3	8,931.4	22,093.0	(8,744.5)	13,348.5
5. Foreign sector	33,763.9	37,467.0	155.3	13,677.3	13,832.6	699.2	3,003.9	3,703.1
6. All other liabilities	44,636.6	46,223.4	(21,049.0)	7,564.3	(13,484.7)	(10,834.3)	12,421.1	1,586.8
7. Total sources (4+5+6)	152,667.7	171,306.1	(16,136.6)	25,415.9	9,279.3	11,957.9	6,680.5	18,638.4
Uses of Funds								
8. Commercial banks	2.3	11.8	7,438.7	(7,437.5)	1.1	1,103.9	(1,094.3)	9.5
9. Statutory bodies	978.1	699.0	(1,052.7)	58.0	(994.7)	62.8	(341.9)	(279.0)
10. Central Government	110,075.8	103,171.5	(9,452.8)	33,132.0	23,679.2	(5,385.1)	(1,519.2)	(6,904.3)
11. Sub - total (8+9+10)	111,056.2	103,882.3	(3,066.8)	25,752.4	22,685.6	(4,218.4)	(2,955.4)	(7,173.8)
12. Foreign sector	23,863.4	45,084.4	(12,798.8)	732.0	(12,066.8)	14,664.5	6,556.5	21,221.0
13. Other assets	17,748.2	22,339.3	(270.9)	(1,068.6)	(1,339.5)	1,511.8	3,079.4	4,591.2
14. Total uses (11+12+13)	152,667.7	171,306.1	(16,136.6)	25,415.9	9,279.3	11,957.9	6,680.5	18,638.4

Source: Reserve Bank of Malawi

¹Including 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

Currency outside banks and the foreign sector also contributed K4.4 billion and K3.7 billion, respectively. In terms of use, investments in the foreign sector increased by K21.2 billion and were somewhat offset by a K6.9 billion decline in claims by the central government.

4.4.4 Activities of the Other Financial Institutions

Total resources of the Other Financial Institutions (OFIs) increased substantially by K13.6 billion to K41.0 billion in 2010. This outturn was attributed mainly to private sector placements with OFIs which increased by K8.9 billion. Following the downward interest rate adjustment, OFIs deposit rates gained some competitiveness thereby supporting deposit mobilisation. Further, the foreign sector contributed K2.6 billion towards the funds of the OFIs. The funds mobilised by OFIs were used to a greater extent in availing credit to the private sector which expanded by K12.1 billion to K23.2 billion in 2010.

Table 8: Other Financial Institutions; Sources and Uses of Funds (K' mn)

	End Period Balances		Changes During Period					
	2009	2010	2009			2010		
			1 st half	2 nd half	Year	1 st half	2 nd half	Year
A Sources of Funds								
1.1 Domestic currency deposits.....	19,597.8	27,872.2	25.2	6,108.7	6,133.9	-1,479.4	9,753.8	8,274.4
1.2 Foreign liabilities.....	94.2	2,673.2	3.5	6.3	9.8	3,065.5	-486.5	2,579.0
1.3 Other liabilities.....	3,940.3	5,250.7	1,101.7	981.7	2,083.4	387.2	1,081.3	1,468.5
1.4 Total sources (1.1+1.2+1.3).....	27,414.5	40,980.2	3,393.3	5,485.5	8,878.8	1,906.8	11,658.9	13,565.7
B. Uses of Funds								
1.5 Cash.....	503.6	1,185.4	-151.0	181.8	30.8	83.9	597.9	681.8
1.6 Deposits with Banks.....	809.8	1,804.4	0.9	409.1	410.0	275.0	719.6	994.7
1.7 Foreign assets.....	166.8	612.1	8.7	-574.2	-565.5	431.6	13.7	445.3
1.8 Domestic credit (1.8.1+1.8.2+1.8.3).....	16,408.4	29,469.7	2,832.6	1,211.1	4,043.7	4,677.1	8,384.2	13,061.3
1.8.1 Government.....	4,376.9	6,259.7	-2,218.6	2,131.7	-86.9	-22.2	1,904.9	1,882.8
1.8.2 Statutory bodies.....	935.7	0.0	468.9	292.6	761.6	77.8	-1,013.5	-935.7
1.8.3 Private sector.....	11,095.8	23,210.0	4,582.3	-1,213.3	3,369.0	4,621.5	7,492.7	12,114.2
1.9 Other assets.....	9,525.9	7,908.6	702.0	4,257.7	4,959.7	-3,560.9	1,943.6	-1,617.3
2.0 Total uses (1.5+1.6+1.7+1.8+1.9)	27,414.5	40,980.2	3,393.3	5,485.5	8,878.8	1,906.8	11,658.9	13,565.7

Source: Reserve Bank of Malawi

¹ Malawi Savings Bank, Leasing and Finance Company, FDH Bank and International Commercial Bank

4.4.5 Money Market

Total subscriptions in 2010 amounted to K134.6 billion compared to a total of K239.2 billion in 2009. This represented an annual decrease of 43.7 percent in 2010 compared to an increase of 41.8 percent recorded in 2009. A total of K86.4 billion of Treasury bills were issued through the weekly Treasury bill auctions, while K109.2 billion Treasury bills were converted from Ways and Means advances to the Government, thereby bringing total Treasury bill issues in the year to K195.6 billion compared to K207.6 billion in 2009. Overall, the subscriptions did not match the roll-over target and this forced Government to



rely on the central bank for financing the gap. This explains the 49.4 percent increase in OMO issues to K109.2 billion from 73.1 billion in 2009. During 2010, Treasury bill maturities amounted to K205.3 billion, 7.3 percent higher than total maturities in 2009. Normal maturities decreased to K104.7 billion from K131.3 billion while OMO Treasury bill maturities at K100.6 billion were 67.4 percent higher compared to 2009.

Table 9: Treasury Bills Primary Market (K' bn)

	2009	Qtr 1	Qtr 2	Qtr 3	Qtr 4	2010
Total subscription	239.2	154.7	154.7	154.7	154.7	154.7
Issues	207.6	109.6	109.6	109.6	109.6	109.6
Maturities	191.4	117.5	117.5	117.5	117.5	117.5
OMO Portfolio	60.1	17.8	17.8	17.8	17.8	17.8
Normal	131.3	99.7	99.7	99.7	99.7	99.7
Net Issues(+)/maturities(-)	16.2	-7.9	-7.9	-7.9	-7.9	-7.9
Memorandum Items:						
Ways & Means Advances (end-period)						
Conversions(period total)	27.0	27.0	27.0	27.0	27.0	27.0
Treasury bill debt stock	127.5	84.4	84.4	84.4	84.4	84.4

Source: Reserve Bank of Malawi

4.4.6 Domestic Debt Stock

Total domestic debt stock reduced by 10.4 percent in 2010 and amounted to K154.7 billion from K172.7 billion in 2009. The stock reduced following a decrease in Treasury bill stock, Local registered Stocks (LRS) and Treasury notes held by the Reserve Bank of Malawi. There were no outstanding Ways and Means advances at the close of 2010.

Table 10: Treasury Bills Holdings by Sector (K' bn)

(end –period)	2009	1 st Qtr	2 nd Qtr	3 rd Qtr	4 th Qtr	2010
Total Treasury bills Stock	127.5	121.2	125.0	128.8	120.7	120.7
Held by:						
Reserve Bank	66.8	64.0	74.5	80.2	73.0	73.0
Banks	29.2	26.4	23.0	22.9	26.6	26.6
Discount Houses	8.7	7.4	5.0	5.2	4.6	4.6
Non-banks	22.8	22.7	22.5	20.5	16.5	16.5

Source: Reserve Bank of Malawi

The stock of Treasury bills declined by 5.3 percent to K120.7 billion in 2010 from K127.5 billion in 2009. The Reserve Bank of Malawi holdings of Treasury bills rose by 9.3 percent to K73.0 billion mainly due to conversions of Ways and Means advances into OMO Treasury bills. However, this was not enough to raise the Treasury bill stock since Commercial banks, Discount Houses and the Non-banks sectors reduced their holdings by higher margins: 8.9 percent, 47.1 percent and 27.6 percent respectively. Local Registered Stocks (LRS) declined to K3.4 billion from K3.5 billion due to redemption of K0.15 billion in November and December 2010. Furthermore, Treasury notes held by Reserve



Bank of Malawi reduced to K30.6 billion from K31.1 billion in 2009, following redemption of K0.5 billion in February 2010.

4.4.7 Treasury Bills Yields

From August 2010, Treasury bill yields depicted a downward trend driven by the cut in the bank rate from 15.0 percent to 13.0 percent and declining inflation over the year. Yields for the 91,182 and 273-day tenors decreased by 95 basis points, 367 basis points and 287 basis points, respectively, to 6.20 percent, 7.12 percent and 7.39 percent. In 2009 the yields for these tenors were 7.15 percent, 10.79 percent and 10.26 percent, respectively. The effect of these movements pushed the all-type yield down by 250 basis points to 6.90 percent from 9.40 percent in 2009.

4.4.8 Inter-Bank Money Market

On a year to year basis, liquidity in the banking system during 2010 was shorter than the previous year largely as government operations, a major source of liquidity, injected less liquidity into the system compared to 2010. Excess reserves averaged K890.0 million a day compared to K2.1 billion a day during 2009 (Table 1). Reflecting liquidity conditions, market players sought accommodation from the discount window to close their liquidity gaps hence daily average discount window accommodation doubled to K2.3 billion in 2010. The interbank market was very active with volumes averaging K2.5 billion a day, slightly less than 2009. In tandem with liquidity developments in 2010, the interbank market rate closed the review period at 10.58 percent.

Table 11: Banking System Liquidity

(K'bn)	2005	2006	2007	2008	2009	2010
Daily Average Total Reserves	9.45	9.36	11.39	15.50	21.03	23.49
Daily Average Required Reserves	8.71	8.54	9.33	13.29	18.97	22.64
Daily Average Excess Reserves	0.74	0.83	2.06	2.22	2.06	0.89
Daily Average Inter-bank Borrowing	0.47	0.68	0.79	1.43	2.74	2.48
Daily Average Discount Window Borrowing	0.73	0.73	1.30	1.49	1.19	2.28
Average Inter-bank Market Rate ^(End Period)	21.93	19.70	9.40	8.11	8.45	10.58

Source: Reserve Bank of Malawi

4.4.9 Open Market Operations

The bulk of market operations in 2010 were geared towards supplying liquidity to the market. As such, net open market operations injected about K22.6 billion into the system compared to an injection of K35.7 billion during the previous year. This primarily emanated from net discount window accommodation and net repo maturities to the tune of



K12.7 billion and K9.0 billion. Notwithstanding increased revenue collections in 2010, fiscal operations were expansionary and injected K37.8 billion into the financial system compared to K58.3 billion, mainly through net Treasury bill maturities. Foreign exchange operations, on the other hand, withdrew K48.6 billion through sales as the Bank supported the market amidst persistent demand in 2010. Overall, about K11.9 billion was injected into the financial system, K15.5 billion less than the previous year.

Table 12: Open Market Operations

(K'bn)	2006	2007	2008	2009	2010
Net Forex Operations	(17.67)	(16.74)	(40.14)	(66.70)	-48.56
Sales	20.64	32.81	83.45	124.69	60.38
Purchases	2.97	16.07	43.31	57.99	11.82
Net OMO	4.28	(5.17)	(4.30)	35.73	22.57
Injections	207.42	188.57	253.65	316.60	672.93
RBM bill maturities	16.10	7.79	22.61	3.74	0.00
Purchases of securities	4.29	0.00	4.98	6.08	3.83
Discount window accommodation	168.46	145.72	113.83	200.67	601.81
Repo Maturities	18.37	35.06	112.23	106.11	67.30
Withdrawals	203.14	193.74	264.69	264.69	650.36
RBM bill issues	13.60	9.20	22.72	0.00	0.00
Issue of Monetary Policy TBs	0.00	0.00	4.31	0.00	0.00
Issue of RBM Bond	0.00	0.00	4.27	0.00	0.00
Sale of Securities	0.00	0.00	0.00	0.00	0.00
Maturing discount window Accommodation	169.52	145.51	112.58	198.16	589.12
Repos	20.02	39.11	120.81	82.71	58.25
Net Government Operations ^(+=injection)	(5.17)	(2.95)	42.74	58.33	37.84
Revenue	222.76	242.72	292.26	367.24	328.09
TB issues	88.77	101.78	121.35	142.81	107.28
MRA	69.05	89.15	107.58	142.52	225.87
Other	64.64	51.80	63.33	81.91	102.21
Expenditure	217.59	239.77	335.00	425.57	317.67
TB maturity	86.80	98.12	132.87	164.66	155.53
Other	130.79	141.65	202.13	260.91	162.14
Net Operations	(18.56)	(24.86)	(1.70)	27.36	27.36

4.5 CAPITAL MARKETS

4.5.1 Primary Share Market

The number of counters on the Stock Exchange remained constant at fifteen (15) in 2010 in the absence of new stock listings on the local bourse during the period under review.

4.5.2 Secondary Share Market

During the year, a total of 592.4 million shares valued at K2, 877.6 million were transacted in 1,795 deals compared to 598.8 million shares that exchanged hands for a turnover of K8,277.1 million in 3,269 deals in the preceding year. The Malawi All Share Index (MASI) closed off 936.20 points lower at 5,154.95 points from 6,091.15 points recorded at the beginning of the review period. The decrease in MASI was attributed to the drop in



Domestic Share Index (DSI) which fell from 4,815.55 points to 4,087.19 points during the period under review. The Foreign Share Index (FSI) registered an increase from 521.59 points to 314.21 points during the review period. In 2008, the MASI closed off at 4,849.79 points. Market capitalisation closed off at K1,172.1 billion from K1,838.3 billion recorded at the close of the preceding year. Market capitalisation closed off at K1,278.5 billion whereas during the same period in the previous year, it stood at K1,172.1 billion.



5.0 ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2010

5.1 DIRECTORS' REPORT AND STATEMENT OF DIRECTORS' RESPONSIBILITIES

For the year ended 31 December 2010

INTRODUCTION

The directors present the Bank's financial statements for the year ended 31 December 2010.

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 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 (Johannesburg, 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) to 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.

5.2 BOARD OF DIRECTORS

The following directors served on the Board up to 31 March 2010:

Dr. P. Ligoya	-	Governor & Chairman
Mrs. M. Nkosi	-	Deputy Governor
Mr. J. Lipunga	-	Member & Chairperson for the Board Audit Committee
Professor B. Kaluwa	-	Member
Mr. G. Kainja	-	Member
Mr. J. Mwanamvekha	-	Secretary to the Treasury (Ex Officio member)
Mr. T. Sitima-wina	-	Secretary for Development Planning and Cooperation (Ex Officio member)



RESERVE BANK OF MALAWI

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

For the year ended 31 December 2010

BOARD OF DIRECTORS (Continued)

The following directors were appointed to serve on the Board for a two year period:

Dr. P. Ligoya	-	Governor & Chairman (from 1 May 2010)
Mrs. M. Nkosi	-	Deputy Governor (from 1 May 2010)
Mrs B. Mahuka	-	Member & Chairperson for the Board Audit Committee (from 1 August 2010)
Dr P. Kambewa	-	Member (from 1 May 2010)
Mr. G. Kainja	-	Member (from 1 August 2010)
Mr. J. Mwanamvekha	-	Secretary to the Treasury (Ex Officio member) (from 1 May 2010)
Mr. T. Sitima-wina	-	Secretary for Development Planning & Cooperation (Ex Officio member) (from 1 May 2010)

FINANCIAL POSITION

The balance sheet appears on pages 5 and 6. Total assets of the Bank increased by K28,119 million during the year. Major increases were in balances with foreign banks (K23,174m), other assets (K12,443m) and treasury bills (K6,257m). The increases were offset by a major decrease in advances to Malawi Government (K10,564m) that closed with a nil position.

Major increases in the liabilities were other OMO instruments (K7,796m), notes & coin in circulation (K6,122m), Government deposits (K6,714m), foreign borrowings (K3,496m), and bankers deposits (K3,336m). Other liabilities decreased by K2,412 million.

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.

THE ROLE OF THE BOARD OF DIRECTORS

The Board of Directors ("the Board") 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"). The Committee is therefore qualified to review the Bank's financial statements and to recommend their approval by the Board. The Committee is mandated by its Charter to meet management, and internal and external auditors.

The 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 make recommendations on the same for approval. The Board considers and where necessary, approves the Committee's recommendations.



RESERVE BANK OF MALAWI
DIRECTORS' REPORT AND STATEMENT OF DIRECTORS' RESPONSIBILITIES (Continued)
For the year ended 31 December 2010

The financial statements on pages 39 to 94 have been approved by the Board on 25 March 2011 and are signed on its behalf by:

A handwritten signature in black ink, appearing to be 'P. P. P.', written over a horizontal line.

Governor and Chairman of the Board

A handwritten signature in black ink, appearing to be 'P. M. M.', written over a horizontal line.

Chairperson, Board Audit Committee



5.3 INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDER OF:

THE RESERVE BANK OF MALAWI

We have audited the financial statements of the Reserve Bank of Malawi, which comprise the balance sheet as at 31 December 2010, the statement of comprehensive income, statement of changes in net amount attributable to shareholder and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 39 to 94.

Director's Responsibility for the Financial Statements

The 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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 financial statements present fairly, in all material respects, the financial position of the Reserve Bank of Malawi as of 31 December 2010, 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.

A stylized signature of the word "Deloitte" in a cursive font.

Deloitte

Lilongwe, Malawi
30 March 2011

A stylized signature of "Deloitte & Touche" in a cursive font.

Deloitte & Touche

Registered Auditors
Per: S Jordan, Partner
Johannesburg, Republic of South Africa
30 March 2011



5.4 RESERVE BANK OF MALAWI BALANCE SHEET

At 31 December 2010

	<u>Notes</u>	<u>31 December</u> <u>2010</u> K'm	<u>31 December</u> <u>2009</u> K'm	<u>1 January</u> <u>2009</u> K'm
ASSETS				
Foreign Assets				
Cash and cash equivalents	6	181	363	149
Balances with foreign banks	7	40,992	17,818	32,971
Loans to foreign institutions	8	-	3,116	2,848
Special drawing rights		244	284	11
Gold reserves		<u>2,737</u>	<u>2,048</u>	<u>76</u>
Total Foreign Assets		<u>44,154</u>	<u>23,629</u>	<u>36,055</u>
Domestic Assets				
Cash and cash equivalents	6	120	828	1,872
Advances to Malawi government	9	-	10,564	-
Loans to statutory bodies	10	705	979	1,973
Non-current assets classified as held for sale		-	-	1
Other assets	11	15,766	3,323	5,218
Investments in Malawi government:				
- promissory notes	12	1,007	1,007	1,007
- treasury notes	13	31,258	31,258	31,689
- local registered stock	14	-	519	520
- treasury bills	15	77,446	71,189	57,795
Property and equipment	16	9,928	9,019	7,415
Intangible assets	17	459	409	293
Investment in Malswitch	18	<u>17</u>	<u>17</u>	<u>17</u>
Total Domestic Assets		<u>136,706</u>	<u>129,112</u>	<u>107,800</u>
TOTAL ASSETS		<u>180,860</u>	<u>152,741</u>	<u>143,855</u>



RESERVE BANK OF MALAWI
BALANCE SHEET (Continued)
 At 31 December 2010

	<u>Notes</u>	<u>31 December</u> <u>2010</u> K'm	<u>31 December</u> <u>2009</u> K'm	<u>1 January</u> <u>2009</u> K'm
LIABILITIES AND EQUITY				
Foreign Liabilities				
Government deposits	19	13,223	16,635	1,930
Bankers' deposits	20	4,805	436	596
Other deposits		9	16	1
Borrowings	21	22,023	18,527	17,530
Allocation of special drawing rights	22	<u>15,413</u>	<u>15,190</u>	<u>2,377</u>
Total Foreign Liabilities		<u>55,473</u>	<u>50,804</u>	<u>22,434</u>
Domestic Liabilities				
Notes and coin in circulation	23	39,604	33,482	30,242
Government deposits	19	17,395	7,269	27,380
Bankers' deposits	20	15,442	16,475	5,209
Other liabilities	24	1,039	3,451	2,309
Reserve Bank of Malawi Bills and other OMO Instruments	25	15,680	7,884	26,126
Severance pay provision	26	<u>1,723</u>	<u>1,701</u>	<u>1,490</u>
Total Domestic Liabilities		<u>90,883</u>	<u>70,262</u>	<u>92,756</u>
EQUITY				
Capital		19,484	19,484	19,484
General Reserve Fund		2,985	1,066	288
Revaluation Reserve		4,522	4,522	4,522
Special Account	27	<u>7,513</u>	<u>6,603</u>	<u>4,371</u>
Total Equity		<u>34,504</u>	<u>31,675</u>	<u>28,665</u>
TOTAL LIABILITIES AND EQUITY		<u>180,860</u>	<u>152,741</u>	<u>143,855</u>



The annual financial statements on pages 39 to 94 were authorised for issue by the Board of Directors on 25 March 2011 and were signed on its behalf by:

Dr. Perks Ligoya

Governor & Chairman of the Board

Mrs. Betty Mahuka

Chairperson, Board Audit Committee



RESERVE BANK OF MALAWI

5.5 STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	<u>Notes</u>	<u>2010</u> K'm	<u>2009</u> K'm
<u>Income</u>			
Money market operations		14,643	12,793
Interest on foreign exchange operations		238	199
Banking operations		1,070	953
Impairment reversal		68	11
Sundry		460	98
Property		<u>25</u>	<u>16</u>
Total income		<u>16,504</u>	<u>14,070</u>
<u>Expenses</u>			
General and administration expenses		9,545	8,625
Interest payable on money market operations		877	1,066
Depreciation and amortisation of assets		426	394
Malswitch subvention		184	203
Other interest payable		152	143
Impairment loss on RBZ Loan	8	3,401	-
Impairment loss on fixed assets		<u>-</u>	<u>528</u>
Total expenses		<u>14,585</u>	<u>10,959</u>
Profit for the year		1,919	3,111
<u>Other comprehensive income</u>			
Gain on revaluation of Gold Holdings		688	1,969
Loss on revaluation of IMF Facilities		(508)	(1,675)
Gain on revaluation of other Foreign Exchange Balances		<u>730</u>	<u>1,938</u>
Total comprehensive income for the year		<u>2,829</u>	<u>5,343</u>



RESERVE BANK OF MALAWI

5.6 STATEMENT OF CHANGES IN NET AMOUNT ATTRIBUTABLE TO SHAREHOLDER

For the year ended 31 December 2010

	<u>Capital</u>	<u>General</u>	<u>Revaluation</u>	<u>Special</u>	<u>Retained</u>	<u>Total</u>
	K'm	reserve fund	reserve	account	earnings	K'm
		K'm	K'm	K'm	K'm	
<u>2009</u>						
At the beginning of the year	19,484	288	4,522	4,371	-	28,665
Total comprehensive income for the year	-	-	-	-	5,343	5,343
Statutory transfer of loss on revaluation of IMF facilities	-	-	-	(1,675)	1,675	-
Statutory transfer of loss on other foreign exchange balances	-	-	-	1,938	(1,938)	-
Transfer of gain on revaluation of gold holdings	-	1,969	-	-	(1,969)	-
Statutory transfer to general reserve fund	-	778	-	-	(778)	-
Transfers to Malawi Government	-	-	-	-	(2,333)	(2,333)
At the end of the year	<u>19,484</u>	<u>1,066</u>	<u>4,522</u>	<u>6,603</u>	<u>-</u>	<u>31,675</u>
<u>2010</u>						
At the beginning of the year	19,484	1,066	4,522	6,603	-	31,675
Total comprehensive income for the year	-	-	-	-	2,829	2,829
Statutory transfer of loss on revaluation of IMF facilities	-	-	-	(508)	508	-
Statutory transfer of gain on other foreign exchange balances	-	-	-	730	(730)	-
Transfer of gain on revaluation of Gold Holdings	-	-	-	688	(688)	-
Statutory transfer to general reserve fund	-	1,919	-	-	(1,919)	-
Transfer to Malawi Government	-	-	-	-	-	-
At the end of the year	<u>19,484</u>	<u>2,985</u>	<u>4,522</u>	<u>7,513</u>	<u>-</u>	<u>34,504</u>



RESERVE BANK OF MALAWI

5.7 STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

	<u>Notes</u>	<u>2010</u> K'm	<u>2009</u> K'm
Cash flows from operating activities			
Interest and commission receipts		15,951	13,945
Interest payments		(1,029)	(1,209)
Cash payments to employees and suppliers		<u>(9,729)</u>	<u>(8,828)</u>
Operating profit before changes in operating assets and liabilities	28	5,193	3,908
(Increase)/decrease in operating assets:			
• Securities held for regulatory or monetary control purposes		(5,738)	(12,962)
• Other short-term negotiable securities/assets		(15,776)	1,907
• Holding of Special Drawing Rights		40	(273)
• Loans to statutory body and foreign institution		3,390	726
• Funds advanced to Malawi Government		10,564	(10,564)
Increase/(decrease) in operating liabilities:			
• Deposits from customers		10,043	5,715
• Other liabilities		(2,390)	1,353
• Net cash from other operating activities		340	105
• Deposits held for regulatory or monetary control purposes		7,796	(18,242)
• Notes and coin in circulation		<u>6,122</u>	<u>3,240</u>
Net cash generated by / (used in) operating activities		<u>19,584</u>	<u>(25,087)</u>
Cash flow from investing activities			
Purchase of property and equipment and intangible assets		(1,416)	(2,658)
Proceeds from sale of property and equipment		<u>175</u>	<u>22</u>
Net cash used in investing activities		<u>(1,241)</u>	<u>(2,636)</u>
Cash flow from financing activities			
Dividends paid		-	(2,333)
Proceeds of long-term borrowings		3,719	13,810
Effects of exchange rate changes on liquid assets			
Revaluation of IMF Facilities		(508)	(1,675)
Revaluation of other foreign exchange balances		<u>730</u>	<u>1,938</u>
Net cash generated by financing activities		<u>3,941</u>	<u>11,740</u>
Net increase / (decrease) in liquid assets		22,284	(15,983)
Liquid assets at the beginning of the year		<u>19,009</u>	<u>34,992</u>
Liquid assets at the end of the year		<u>41,293</u>	<u>19,009</u>



	<u>Notes</u>	<u>2010</u> K'm	<u>2009</u> K'm
Liquid assets comprised of:			
Foreign assets			
Cash and cash equivalents		181	363
Balances with foreign banks		40,992	17,818
Domestic assets			
Cash and cash equivalents		<u>120</u>	<u>828</u>
Total liquid assets		<u>41,293</u>	<u>19,009</u>



RESERVE BANK OF MALAWI

5.8 NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2010

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 603 (2009: 597) employees as at 31 December 2010.

During the year 2010, the Bank implemented the Rationalisation exercise, the primary objective of which was to address structural challenges and recurring staff complaints emanating from job grading, placements, career progression and human resources policies. Following the exercise, some departments were created while others were merged in order to bring efficiency to the operations of the Bank.

2. Adoption of new and revised International Financial Reporting Standards

2.1 Standards and Interpretations affecting amounts reported and/or disclosed in the financial statements

In the current year, the Bank has adopted those new and revised Standards and Interpretations issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee of the International Accounting Standards Board that are relevant to its operations and are effective for annual reporting periods beginning on 1 January 2010.

The adoption of these new and revised Standards and Interpretations did not have a significant impact on the financial statements of the Bank.

2.2 Standards and Interpretations in issue, not yet effective

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

- 2.2.1 IFRS 7 *Financial Instruments: Disclosures* - Amendments resulting from May 2010 Annual Improvements to IFRSs (effective for annual periods beginning on or after 1 January 2011).
- 2.2.2 IFRS 7 *Financial Instruments: Disclosures* - Amendments enhancing disclosures about transfers of financial assets (effective for annual periods beginning on or after 1 July 2011).
- 2.2.3 IFRS 9 *Financial Instruments* - Classification and Measurement (effective for annual periods beginning on or after 1 January 2013).
- 2.2.4 IAS 1 *Presentation of Financial Statements* - Amendments resulting from May 2010 Annual Improvements to IFRSs (effective for annual periods beginning on or after 1 January 2011).
- 2.2.5 IAS 12 *Income Taxes* – Limited scope amendment (recovery of underlying assets). Effective for annual periods beginning on or after 1 January 2012.



RESERVE BANK OF MALAWI

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2010

- 2. Adoption of new and revised International Financial Reporting Standards (Continued)**
- 2.2.6 IAS 24 *Related Party Disclosures* - Revised definition of related parties (effective for annual periods beginning on or after 1 January 2011).
- 2.2.7 IAS 32 *Financial Instruments: Presentation* - Amendments relating to classification of rights issues (effective for annual periods beginning on or after 1 February 2010).
- 2.2.8 IFRIC 13 *Customer Loyalty Programmes* - Amendments resulting from May 2010 Annual Improvements to IFRSs (effective for annual periods beginning on or after 1 January 2011).
- 2.2.9 IFRIC 14 IAS19 - *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* - November 2009 Amendments with respect to voluntary prepaid contributions (effective for annual periods beginning on or after 1 January 2011).
- 2.2.10 IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* (effective for annual periods beginning on or after 1 July 2010).

The directors anticipate that these Standards and Interpretations in future periods will have no significant impact on the financial statements of the entity except for IFRS 9 for which the directors and management are still assessing the impact on the financial statements.

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. Historical cost is generally based on the fair value of the consideration given in exchange for assets.



RESERVE BANK OF MALAWI
NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2010

3. Accounting policies (Continued)

3.1 *Change in format of the balance sheet*

During the year ended 31 December 2010, the Bank has restructured its balance sheet. In the new format, presentation of foreign currency and domestic currency activities has been distinguished and arranged in order of liquidity with the most liquid presented at the top. In addition, assets are presented at the top and capital, reserves and liabilities are at the bottom. The change has been necessitated by the Bank's desire to enhance transparency in reporting its activities.

Following the change, the Bank has made a restatement of the year ended 31 December 2009 balance sheet and balance sheet as at 1 January 2009. The change in presentation of the balance sheet has had no impact of the Bank's activities.

The Bank intends to retain this new format from 2010 onwards unless a change in circumstances or requirements of a new standard justify a further change.

3.2 *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.

3.3 *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.

Revaluations on land and buildings are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at each reporting period. Surpluses on revaluation are transferred to a non-distributable reserve within equity. 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 revaluation surplus is transferred directly to retained earnings.



RESERVE BANK OF MALAWI

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2010

4. **Accounting policies** (Continued)3.3 **Property and equipment** (Continued)

Properties in the course of construction for administrative purposes are carried at cost less any recognised impairment loss. Cost includes professional fees and any borrowing costs capitalised. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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, depreciation methods and useful economic lives are reviewed and adjusted, if appropriate, annually.

The depreciable amount of a revalued asset is based on its revalued amount.

Computer equipment

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. Their residual values, depreciation methods and useful economic lives are reviewed and adjusted, if appropriate, annually.

Furniture and equipment

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

Furniture	10%
Equipment	25%

The assets' residual values, useful economic lives and depreciation methods are reviewed and adjusted, if appropriate, at every year-end.

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. Their residual values, depreciation methods and useful economic lives are reviewed and adjusted, if appropriate, annually.



RESERVE BANK OF MALAWI
NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2010

3. Accounting policies (Continued)

3.3 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. Their residual values, depreciation methods and useful economic lives are reviewed and adjusted, if appropriate, annually.

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 profit or loss.

3.4 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.



RESERVE BANK OF MALAWI

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2010

3. Accounting policies (Continued)**3.5 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 a pre-tax 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.

3.6 Gold

Gold purchased at periodic auctions of the International Monetary Fund (“IMF”) at the official rate is reported at fair value. Valuation gains/losses are included in other comprehensive income for the year.

3.7 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.



RESERVE BANK OF MALAWI
NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2010

3. Accounting policies (Continued)

3.7 Financial instruments (Continued)

Classification (Continued)

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 counterparties with no intention of trading the receivables. The Bank has the following financial assets under this category: cash and cash equivalents, 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.

Financial assets at fair value through profit and loss

This category has two sub-categories: (1) financial assets held for trading and (2) those designated at fair value through profit or loss at inception.

A financial asset is classified as ‘held for trading’ if it is acquired principally for the purpose of selling in the short term, it forms part of a portfolio of financial assets in which there is evidence of short-term profit-taking or if it is so designated by management. Derivatives are also classified as held for trading, unless they are designated as hedges at inception.



RESERVE BANK OF MALAWI

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2010

3. Accounting policies (Continued)
3.7 Financial instruments (Continued)**Classification (Continued)***Financial assets at fair value through profit and loss (Continued)*

A financial asset is designated as at 'fair value through profit or loss' because either it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the asset, or recognising the gains or losses on it on different bases; or a portfolio of financial assets is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the portfolio is provided internally on that basis to key management personnel. The class of financial assets designated by the Bank under this category are investments the Bank has with fund managers included within balances with foreign banks. These investments are reported at fair value.

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.

Liquid assets

Liquid assets are measured at fair value, based on the quoted market price in an active market at the balance sheet date.

Financial liabilities

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



RESERVE BANK OF MALAWI
NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2010

3. Accounting policies (Continued)

3.7 Financial instruments (Continued)

Measurement (Continued)

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.

3.8 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 2010.)

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 2010 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 profit or loss in the year in which they arise.

3.9 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 K1m, 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.



RESERVE BANK OF MALAWI

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2010

3. Accounting policies (Continued)**3.10 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 statement of comprehensive income before being transferred to the special account. Included in the special account is an amount relating to revaluation on gold holdings due to change in the fair value.

3.11 Repurchase agreements

In the course of its financial market operations, the Bank engages in repurchase agreements involving domestic currency securities.

Securities sold and contracted for purchase under repurchase agreements are classified under IAS 39 as “at fair value through profit and loss”, as they are held for trading, and reported in the balance sheet within the relevant investment portfolio. In accordance with this Standard the securities are valued at market bid prices on the balance sheet date and recognised gains or losses are taken to profit or loss. The counterpart obligation to repurchase the securities as reported in other liabilities at amortised cost, the difference between the sale and purchase price is accrued over the term of the agreement and recognised as interest expense.

Securities purchased and contracted for sale under repurchase agreements are classified under IAS 39 as “loans and receivables” and valued at amortised cost. The difference between the purchase and sale price is accrued over the term of the agreement and recognised as interest revenue.

3.12 Cost of new notes and coinage

The cost of new notes is charged to the statement of comprehensive income 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 statement of comprehensive income at the time of purchase.

3.13 Related parties transactions

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

3.14 Revenue recognition

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable which is the rate that exactly discounts estimated cash receipts through the expected life of the financial asset to that asset’s net carrying amount on initial recognition.



RESERVE BANK OF MALAWI
NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2010

3. Accounting policies (Continued)

3.14 Revenue recognition (Continued)

All other income, including fees and rent, is recognised on the accruals basis in accordance with the substance of the relevant transactions.

3.15 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 profit and loss.

3.16 Retirement benefit costs

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

3.17 Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a 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 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.



RESERVE BANK OF MALAWI

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2010

4. Critical accounting judgements and key sources of estimation uncertainty
(Continued)

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 7 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 the 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.

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.



RESERVE BANK OF MALAWI
NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2010

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 (Continued)

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 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 expects would be available to the Bank at the balance sheet date.

4.2.4 Provision for severance pay

The Bank has provided for a severance pay allowance following an actuarial valuation of the liability as at 31 December 2010 (see note 26). The Bank considers the assumptions used by the actuaries to be appropriate for this purpose.

5. Risk management

5.1 Risk management governance structure

Through its normal operations, the Bank is exposed to risks such as credit, interest rate, market, currency and operational risks. 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 Executive Management which, in turn, is supported by a Risk Management Committee and the Asset & Liability Committee.

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. The Bank has a Risk Management Department which coordinates on an on-going basis the Bank's overall risk management process.



RESERVE BANK OF MALAWI

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2010

5. Risk management (Continued)

5.2 Operational risk

This is the risk of losses arising from the operations of the Bank. Losses can occur due to system malfunctioning or failure to follow procedures. Operational risk manifests itself in losses, customer complaints and claims. To reduce the risk, management continuously reviews the controls and procedures in place. In addition, the Internal Audit department periodically determines whether the controls in place are commensurate with the risks involved. Disaster recovery arrangements are also in place so that business can continue should major disruptions occur.

5.3 Financial instruments

5.3.1 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 to the financial statements.



RESERVE BANK OF MALAWI
NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)
 For the year ended 31 December 2010

5. Risk management (Continued)

5.3 Financial instruments (Continued)

5.3.2 Categories of financial instruments

	<u>2010</u> K'm	<u>2009</u> K'm
Financial assets		
<i>Held to maturity investments</i>		
Treasury notes (note 13)	31,258	31,258
Local registered stock	-	519
Interest bearing promissory notes (note 12)	<u>1,007</u>	<u>1,007</u>
Total	<u>32,265</u>	<u>32,784</u>
<i>Available for sale financial assets</i>		
Investment in Malswitch	17	17
Treasury bills	<u>77,446</u>	<u>71,189</u>
Total	<u>77,463</u>	<u>71,206</u>
<i>Loans and receivables (including cash and cash equivalents)</i>		
Special drawing rights	244	284
Loan to foreign institutions	-	3,116
Loans to statutory bodies	705	979
Staff loans and advances (note 11)	933	861
Balances with foreign banks	31,159	8,938
Cash and cash equivalents	<u>301</u>	<u>1,191</u>
Total	<u>33,342</u>	<u>15,369</u>
<i>Fair Value Through Profit and Loss (FVTPL)</i>		
Investments with fund managers		
Deposits	15	948
Forward forex deals	95	108
Bonds - Floating	4,522	1,662
Bonds - Fixed	5,201	3,250
Treasury notes	<u>-</u>	<u>2,912</u>
Total	<u>9,833</u>	<u>8,880</u>



RESERVE BANK OF MALAWI

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2010

5. Risk management (Continued)

5.3 Financial instruments (Continued)

5.3.2 Categories of financial instruments (Continued)

	<u>2010</u>	<u>2009</u>
	K'm	K'm
Financial liabilities		
<i>Financial liabilities measured at amortised cost</i>		
Notes and coin in circulation	39,604	33,482
RBM bills and other OMO instruments	15,680	7,884
Borrowings (IMF loans)	22,023	18,527
Allocations of special drawing rights	15,413	15,190
Bankers' deposits	20,247	16,911
Government deposits	30,618	23,904
Other liabilities	<u>1,039</u>	<u>3,451</u>
Total	<u>144,624</u>	<u>119,349</u>

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 Financial Markets 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.



RESERVE BANK OF MALAWI
NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2010

5. Risk management (Continued)

5.4 Financial risk management objectives (Continued)

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 the nature of its operations.

5.4.1 Capital risk management

The Bank manages its capital to ensure that its principal objectives are undertaken with adequate capital cover. The principal elements of the Bank's capital are as disclosed in the statement of changes in net amount attributable to shareholder.

5.4.2 Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Bank, and exists in lending and other trading activities.

In providing liquidity through the open market operations or Malawi Inter-bank Transfer and Settlement System (MITASS), 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 of foreign reserves is managed by holding only high-quality securities, issued largely by governments, government agencies and supernational organisations as stipulated in the Reserves Management Policy.



RESERVE BANK OF MALAWI

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2010

5. Risk management (Continued)

5.4 Financial risk management objectives (Continued)

5.4.2 Credit risk (Continued)

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

Credit limits and balances with major central and commercial banks and other institutions at 31 December 2010					
			Credit limit	Actual holding	Carrying Amount
Bank/other institutions	Locations	Rating	as percentage of total portfolio	as percentage of total portfolio	K'm
Bank of England	Europe	AAA	No limit	0.00	136
Bank of Canada	North America	AAA+	No limit	0.00	11
Deutsche Bundesbank	Europe	AAA	No limit	0.00	180
Reserve Bank of South Africa	Africa	BBB+	No limit	0.00	33
Reserve Bank of Zimbabwe*	Africa	N/A	N/A	N/A	-
Federal Reserve Bank of New York	North America	AAA	No limit	1.00	378
Bank of Tokyo Mitsubishi	Asia	AA	No limit	0.00	17
Citibank	North America	A+	25.00	2.00	130
Standard Chartered Bank	Europe	AA-	25.00	13.00	5,446
Crown Agents Fund Managers**	Europe	A	25.00	24.00	9,952
HSBC Bank	Africa	AA	25.00	0.00	6
Crown Agents Bank	Europe	A	25.00	26.00	10,682
Commerz Bank	Europe	A+	25.00	17.00	7,186
First Rand Bank	Africa	BBB+	25.00	15.00	6,273
ADMARC (Advance)	Malawi	N/A	N/A	N/A	705



RESERVE BANK OF MALAWI
NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)
 For the year ended 31 December 2010

5. Risk management (Continued)
5.4 Financial risk management objectives (Continued)
5.4.2 Credit risk (Continued)

Credit limits and balances with major central and commercial banks and other institutions at 31 December 2009					
			Credit limit	Actual holding	Carrying Amount
Bank/other institutions	Locations	Rating	as percentage of total portfolio	as percentage of total portfolio	K'm
Bank of England	Europe	AAA	20.00	1.00	113
Bank of Canada	North America	AAA	20.00	0.00	9
Deutsche Bundesbank	Europe	AAA	20.00	5.00	977
Reserve Bank of South Africa	Africa	AAA	20.00	0.00	34
Reserve Bank of Zimbabwe*	Africa	N/A	N/A	15.00	3,116
Federal Reserve Bank of New York	North America	AAA	20.00	24.00	4,947
Bank of Tokyo Mitsubishi	Asia	A+	15.00	0.00	14
Citibank	North America	A+	15.00	7.00	1,510
Standard Chartered Bank	Europe	A+	15.00	0.00	35
Crown Agents Fund Managers**	Europe	A	15.00	46.00	9,404
HSBC Bank	Africa	AA	15.00	0.00	6
Crown Agents Bank	Europe	A	15.00	1.00	215
Standard Bank	Malawi	N/A	N/A	N/A	702
ADMARC (Advance)	Malawi	N/A	N/A	N/A	974



RESERVE BANK OF MALAWI

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2010

5. Risk management (Continued)**5.4 Financial risk management objectives** (Continued)**5.4.2 Credit risk** (Continued)

* In June 2007, the Government of Malawi through the Reserve Bank of Malawi (“RBM”) agreed to lend the Government of Zimbabwe, through the Reserve Bank of Zimbabwe (“RBZ”), 100m United States Dollars for the purpose of importing maize from Malawi. The loan agreement was rescheduled in December 2009 to run up to 31 December 2010. The Bank considered the recoverability of the loan as being doubtful owing to a number of times RBZ has defaulted on the payment of the principal plus interest, and subsequently impaired the loan as at year-end.

Similarly, in 2008 the Bank advanced a total sum of K2.5 million to ADMARC and the loan has been rescheduled on three occasions. Government of Malawi agreed to take over the loan and, towards the end of the year, made a part-payment of K400 million from the outstanding amount of K1,072 million. However as at balance sheet date no agreement to have the loan rescheduled was in place.

Apart from the ADMARC loan balance as detailed in note 10, there were no other past due but not impaired accounts as at year-end. The Bank does not hold any collateral for the balances and advances above.

** The 24 percent (2009: 46 percent) with the Crown Agents Fund Managers includes a diversified portfolio of investments held with government, financial and non-financial institutions. See note 5.3.2.

5.4.3 Liquidity risk

Liquidity risk is the potential that an institution will be unable to meet its obligations as they fall due because of inability to liquidate assets or obtain adequate funding or that it cannot unwind or offset specific exposures without significantly affecting market prices.

The Bank manages its foreign exchange liquidity risk through appropriate structuring of its portfolios and investing in liquid assets and deep markets including short term deposits and bonds issued by governments of the G7 countries.

Under International Monetary Fund (IMF) liabilities (note 21) the Bank agrees with the IMF monetary targets that are to be achieved for macroeconomic stability.



RESERVE BANK OF MALAWI
NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)
 For the year ended 31 December 2010

5. Risk management (Continued)

5.4 Financial risk management objectives (Continued)

5.4.3 Liquidity risk (Continued)

The following tables detail the Bank's remaining contractual maturity for its non-derivative financial assets and financial liabilities. The tables have been drawn up based on the undiscounted contractual maturities of the financial assets and cash flows of financial liabilities based on the earliest date on which the Bank can be required to pay.

At 31 December 2010	Up to	1 to 3	4 to 12	Over		Carrying
	1 month	months	months	12 months	Total	Value
	K'm	K'm	K'm	K'm	K'm	K'm
Assets						
Gold reserves	2,737	-	-	-	2,737	2,737
Special Drawing Rights	-	-	-	244	244	244
Investments in Malswitch	-	-	-	17	17	17
Investments in Malawi Government						
- promissory notes	71	-	-	936	1,007	1,007
- treasury notes	-	-	-	31,258	31,258	31,258
- local registered stock	-	-	-	-	-	-
- treasury bills	-	45,888	31,558	-	77,446	77,446
Loan to statutory body	-	-	705	-	705	705
Liquid assets						
-Balances with foreign banks	-	40,992	-	-	40,992	40,992
-Cash and cash equivalents	301	-	-	-	301	301
Other assets	-	15,766	-	-	15,766	15,766
Total assets	3,109	102,646	32,263	32,455	170,473	170,473
Liabilities						
Allocation of Special Drawing Rights	-	-	-	15,413	15,413	15,413
Borrowings (IMF loans)	-	-	-	22,023	22,023	22,023
Reserve Bank of Malawi bills & other OMO instruments	-	10,724	-	4,956	15,680	15,680
Notes and coin in circulation	39,604	-	-	-	39,604	39,604
Bankers' deposits	20,247	-	-	-	20,247	20,247
Other deposits	9	-	-	-	9	9
Government deposits	30,618	-	-	-	30,618	30,618
Other liabilities	1,039	-	-	-	1,039	1,039
Total liabilities	91,517	10,724	-	42,392	144,633	144,633



RESERVE BANK OF MALAWI

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2010

5. Risk management (Continued)

5.4 Financial risk management objectives (Continued)

5.4.3 Liquidity risk(Continued)

At 31 December 2009	Up to 1 month	1 - 3 months	4 - 12 months	Over 12 months	Total	Carryi ng Value
	K'm	K'm	K'm	K'm	K'm	K'm
Assets						
Gold reserves	2,048	-	-	-	2,048	2,048
Special Drawing Rights	-	-	-	284	284	284
Investments in Malswitch	-	-	-	17	17	17
Investments in Malawi Government						
- promissory notes	71	-	-	936	1,007	1,007
- treasury notes	-	-	-	31,258	31,258	31,258
- local registered stock	-	519	-	-	519	519
- treasury bills	-	29,899	41,290	-	71,189	71,189
Advances to Malawi Government	10,564	-	-	-	10,564	10,564
Loan to foreign institution	-	-	3,116	-	3,116	3,116
Loan to statutory body	-	-	979	-	979	979
Liquid assets						
- Balances with foreign banks	-	17,818	-	-	17,818	17,818
- Cash and cash equivalents	1,191	-	-	-	1,191	1,191
Other assets	-	3,323	-	-	3,323	3,323
Total assets	13,874	51,559	45,385	32,495	143,313	143,313
Liabilities						
Allocation of Special Drawing Rights	-	-	-	15,190	15,190	15,190
Borrowings (IMF loans)	-	-	-	19,294	19,294	18,527
Reserve Bank of Malawi bills & other OMO instruments	-	3,201	-	5,080	8,281	7,884
Notes and coin in circulation	33,482	-	-	-	33,482	33,482
Bankers' deposits	16,911	-	-	-	16,911	16,911
Other deposits	16	-	-	-	16	16
Government deposits	23,904	-	-	-	23,904	23,904
Other liabilities	2,333	1,118	-	-	3,451	3,451
Total liabilities	76,646	4,319	-	39,564	120,529	119,365



RESERVE BANK OF MALAWI
NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)
For the year ended 31 December 2010

5. Risk management (Continued)

5.4 Financial risk management objectives (Continued)

5.4.4 Interest rate risk

Interest rate risk is the risk of a change in the value of an investment as a result of a change in the absolute level of interest rates.

The Bank manages this risk in its foreign reserves investment by prescribing a benchmark index that has an acceptable level of risk. Currently, the Bank uses the Merrill Lynch 1-3 Year G7 Government Bond Index as its benchmark for foreign reserves being managed by foreign fund managers.

The value of the external funds being managed by the external fund managers stood at K10,157 million as at 31 December 2010 (2009: K9,619m).

For domestic investments in securities such as treasury bills, the Bank does not actively manage the related interest rate risk because these investments are largely for monetary policy purposes and the overriding concern is the monetary policy consideration and not the interest rate risk.

The Bank uses the existing contractual interest rates and maturity profiles for the various assets and liabilities held at year-end in preparing the interest rate risk sensitivity gap analysis. 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 reprice to market rates or mature. The sum of these reflects the interest rate sensitivity gap.



RESERVE BANK OF MALAWI

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2010

5. Risk management (Continued)

5.4 Financial risk management objectives (Continued)

5.4.4 Interest rate risk (Continued)

Interest rate sensitivity gap analysis

31 December 2010	On demand	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
ASSETS						
Special Drawing Rights	-	-	-	244	-	244
Gold reserves	2,737	-	-	-	-	2,737
Investments in Malawi Government:						
- promissory notes	71	-	-	936	-	1,007
- treasury note	-	-	-	31,258	-	31,258
- treasury bills	-	45,888	31,558	-	-	77,446
Loans to statutory bodies	-	-	705	-	-	705
Liquid assets:						
- balances with foreign banks	-	31,159	-	-	-	31,159
- investments with fund managers	-	9,833	-	-	-	9,833
- cash and cash equivalents	301	-	-	-	-	301
Total interest bearing assets	3,109	86,880	32,263	32,438	-	154,690
Non-interest bearing assets	-	-	-	-	26,170	26,170
TOTAL ASSETS	3,109	86,880	32,263	32,438	26,170	180,860



RESERVE BANK OF MALAWI
NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)
 For the year ended 31 December 2010

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

Interest rate sensitivity gap analysis
 (Continued)

31 December 2010	On demand	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
LIABILITIES						
Allocation of Special Drawing Rights	-	-	-	15,413	-	15,413
Borrowings (IMF loans)	-	-	-	22,023	-	22,023
Reserve Bank of Malawi bills & other OMO Instruments	-	10,724	4,956	-	-	15,680
Total interest bearing liabilities	-	10,724	4,956	37,436	-	53,116
Non-interest bearing liabilities	-	-	-	-	93,240	93,240
Shareholders' funds	-	-	-	-	34,504	34,504
TOTAL LIABILITIES & SHAREHOLDERS' FUNDS	-	10,724	4,956	37,436	127,744	180,860
Interest rate sensitivity gap	3,109	76,156	27,307	(4,998)	(101,574)	-
Cumulative interest rate sensitivity gap	3,109	79,265	106,572	101,574	-	-



RESERVE BANK OF MALAWI
NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)
 For the year ended 31 December 2010

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

Interest rate sensitivity gap analysis

31 December 2009	On demand	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
ASSETS						
Special Drawing Rights	-	-	-	284	-	284
Gold Reserves	2,048	-	-	-	-	2,048
Investments in Malawi Government:						
- promissory notes	71	-	-	936	-	1,007
- treasury note	-	-	-	31,258	-	31,258
- local registered stocks	-	519	-	-	-	519
- treasury bills	-	29,899	41,290	-	-	71,189
Advance to Malawi Government	10,564	-	-	-	-	10,564
Loans to foreign institutions	-	-	3,116	-	-	3,116
Loans to statutory bodies	-	-	979	-	-	979
Liquid assets:						
- balances with foreign banks	-	8,938	-	-	-	8,938
- investments with fund managers	-	8,880	-	-	-	8,880
- cash and cash equivalents	1,191	-	-	-	-	1,191
Total interest bearing assets	13,874	48,236	45,385	32,478	-	139,973
Non-interest bearing assets	-	-	-	-	12,768	12,768
TOTAL ASSETS	13,874	48,236	45,385	32,478	12,768	152,741



RESERVE BANK OF MALAWI
NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)
 For the year ended 31 December 2010

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

Interest rate sensitivity gap analysis (Continued)

31 December 2009	On demand	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
LIABILITIES						
Allocation of Special Drawing Rights	-	-	-	15,190	-	15,190
Borrowings (IMF loans)	-	-	-	18,527	-	18,527
Reserve Bank of Malawi bills & other OMO Instruments	-	3,201	-	4,683	-	7,884
Total interest bearing liabilities	-	3,201	-	38,400	-	41,601
Non-interest bearing liabilities	-	-	-	-	79,465	79,465
Shareholders' funds	-	-	-	-	31,675	31,675
TOTAL LIABILITIES & SHAREHOLDERS' FUNDS	-	3,201	-	38,400	111,140	152,741
Interest rate sensitivity gap	13,874	45,035	45,385	(5,922)	(98,372)	-
Cumulative interest rate sensitivity gap	13,874	58,909	104,294	98,372	-	-



RESERVE BANK OF MALAWI

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2010

5. Risk management (Continued)**5.4 Financial risk management objectives (Continued)****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.

5.4.5.1 Sensitivity Analysis of market risk

The Bank uses models to assess the impact of possible changes in market risks. These risks include interest rate risk and foreign exchange risk.

Interest rate risk

Interest rate risk is the risk of loss resulting from changes in interest rates, including changes in the shape of yield curves. The Bank bases its analysis on the interest sensitivity gap (note 5.4.4). The sensitivity computations assume that financial assets maintain a constant rate of return from one year to the next. The effect on profit due to reasonable possible changes in interest rates, with all other variables held constant, is as follows:

	<u>2010</u> K'm	<u>2009</u> K'm
Effect on profit of a +5% change in interest rates	530	840
Effect on profit of a -5% change in interest rates	(530)	(840)

Currency risk

Currency risk is the risk of loss resulting from changes in exchange rates. The Bank has assets and liabilities in various currencies; however, the most significant exposure arises from assets denominated in the US dollar, GBP and Euro currencies. The following table demonstrates sensitivity to reasonably possible change in the major currencies in which the Bank trades, with all other variables held constant, of the Bank's profit earned.

	<u>2010</u> K'm	<u>2009</u> K'm
Effect on profit of a +5% change in exchange rates	2,087	(204)
Effect on profit of a -5% change in exchange rates	(2,087)	204



RESERVE BANK OF MALAWI

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2010

5. Risk management (Continued)

5.4 Financial risk management objectives (Continued)

5.4.5.2 Currency 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 as stipulated in Reserves Management Policy.

The Bank had the following significant foreign currency positions as at 31 December 2010:

Currency composition as at 31 December 2010	Figures in Millions						
Currency	MWK	USD	GBP	JPY	EUR	ZAR	SDR
Liabilities							
Allocation of Special Drawing Rights	15,413	-	-	-	-	-	66
Borrowings (IMF loans)	22,023	-	-	-	-	-	95
Total	37,436	-	-	-	-	-	161
Assets							
Special Drawing Rights	244	-	-	-	-	-	1
Gold reserve account	2,737	18	-	-	-	-	-
Foreign nostros	891	4	1	9	1	-	-
IP-Time Deposits	29,344	63	26	-	69	-	-
IMF - Reserve tranche	562	-	-	-	-	-	2
Funds under foreign management	10,160	66	1	-	-	-	-
IP – Foreign Special	33	-	-	-	-	1	-
Total	43,971	151	28	9	70	1	3



RESERVE BANK OF MALAWI
NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)
 For the year ended 31 December 2010

5. Risk management (Continued)
5.4 Financial risk management objectives (Continued)
5.4.5.2 Currency risk (Continued)

Currency composition as at 31 December 2009	Figures in Millions
--	----------------------------

Currency	MWK	USD	GBP	JPY	EUR	ZAR	SDR
Liabilities							
Allocation of Special Drawing Rights	15,190	-	-	-	-	-	66
Borrowings (IMF loans)	18,527	-	-	-	-	-	81
Total	33,717	-	-	-	-	-	147

Assets	MWK	USD	GBP	JPY	EUR	ZAR	SDR
Special Drawing Rights	284	-	-	-	-	-	1
Gold reserve account	2,048	14	-	-	-	-	-
Loan to foreign institution – RBZ	3,116	21	-	-	-	-	-
Foreign nostros	7,611	45	-	9	5	-	-
IMF - Reserve tranche	554	-	-	-	-	-	2
Funds under foreign management	9,619	65	1	-	-	-	-
IP – Foreign Special	34	-	-	-	-	2	-
Total	23,266	145	1	9	5	2	3

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. 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.



RESERVE BANK OF MALAWI
NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)
 For the year ended 31 December 2010

5. Risk management (Continued)

5.5 Fair value of financial assets and liabilities (Continued)

5.5.1 Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value grouped into levels 1 to 3 based on the degree to which the fair value is observable:

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 fair value measurements are those derived from inputs other than quoted prices included within level one that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

	Level 1	Level 2	Level 3	Total
31 December 2010	K'm	K'm	K'm	K'm
<i>Financial assets at fair value through profit and loss</i>				
Crown Agents - Treasury Notes & Bonds	9,723	-	-	9,723
Crown Agents - Forward FX deals & deposits	-	110	-	110
<i>Available for sale financial assets</i>				
Malswitch	-	-	17	17
Treasury Bills	77,446	-	-	77,446
31 December 2009	K'm	K'm	K'm	K'm
<i>Financial assets at fair value through profit and loss</i>				
Crown Agents - Treasury Notes & Bonds	7,825	-	-	7,825
Crown Agents - Forward FX deals & deposits	-	1,056	-	1,056
<i>Available for sale financial assets</i>				
Malswitch	-	-	17	17
Treasury Bills	71,189	-	-	71,189

There have been no movements in the ascribed value of the investment in Malswitch for the 2010 financial year.



RESERVE BANK OF MALAWI
NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)
 For the year ended 31 December 2010

	<u>2010</u> K'm	<u>2009</u> K'm
6. Cash and cash equivalents		
Foreign		
Foreign cash	148	325
Travellers' cheques	18	19
Charges and credit cards	<u>15</u>	<u>19</u>
Sub-total	<u>181</u>	<u>363</u>
Domestic		
Cash	3	1
Malawi Government repurchase agreements	10	2
Clearing house	-	170
Uncleared effects	<u>107</u>	<u>655</u>
Sub-total	<u>120</u>	<u>828</u>
Total	<u><u>301</u></u>	<u><u>1,191</u></u>
7. Balances with foreign banks		
Balances with foreign banks are due to mature as follows:		
Within 3 months	<u>40,992</u>	<u>17,818</u>
Analysis of deposits by geographical location:		
- Africa	8,121	40
- Europe	31,772	5,258
- North America	1,082	12,366
- Australia	-	140
- Asia	<u>17</u>	<u>14</u>
	<u>40,992</u>	<u>17,818</u>



RESERVE BANK OF MALAWI

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2010

7. Balances with foreign banks (Continued)

Included in balances with foreign banks are funds under management by Crown Agents amounting to K9,833m (2009: K8,880m) whose underlying investments were as follows:

	<u>2010</u> K'm	<u>2009</u> K'm
Deposits	15	948
Forward forex deals	95	108
Bonds - Floating	4,522	1,662
Bonds – Fixed	5,201	3,250
Treasury notes	-	<u>2,912</u>
	<u>9,833</u>	<u>8,880</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 K10,157m (2009: K9,619m) that have been placed with external fund managers who are given a mandate of investing the funds with a modified duration of less than three 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 0.00% and 1.00% (2009: 0.00% and 1.10%) per annum.

8. Loans to foreign institutions

	<u>2010</u> US\$'m	<u>2009</u> US\$'m	<u>2010</u> K'm	<u>2009</u> K'm
Past due	22	21	3,401	3,116
Impairment loss on RBZ loan	<u>(22)</u>	-	<u>(3,401)</u>	-
Total	<u>-</u>	<u>21</u>	<u>-</u>	<u>3,116</u>

The loan was granted to the Reserve Bank of Zimbabwe ("RBZ"). In December 2009, the initial loan agreement was rescheduled to run up to 31 December 2010. As at 31 December 2010, the RBZ had not settled the loan which had accumulated to K3,401 million. The Bank considered recoverability of the loan to be doubtful considering that RBZ persistently defaulted on the payment of the outstanding amount for a period of not less than two years. Additionally, Government of Malawi did not honour the guarantee to repay the loan in full if RBZ defaulted as per the loan agreement. In view of this, the Bank impaired the loan as at balance sheet date. However Government of Malawi will continue with its efforts to recover the loan with their Zimbabwe counterparts.



RESERVE BANK OF MALAWI

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2010

9. Advances to Malawi Government

Under the terms of Section 40(4) of the Reserve Bank of Malawi Act, 1989, short-term advances must be repaid within four months of the end of the Malawi Government's financial year, which is 30 June 2010. These advances bear interest at the ruling Bank rate which was 13 % as at 31 December 2010 (2009: 15%). As at this date the Government had no amounts owing to the Bank as advances (2009: K10.564m).

	<u>2010</u> K'm	<u>2009</u> K'm
10. Loans to statutory bodies		
Agricultural Development and Marketing Corporation ("ADMARC")	705	974
Blantyre Water Board	-	5
Total	<u><u>705</u></u>	<u><u>979</u></u>

Following agreements signed on 4 April 2008 and 9 July 2008 among the Bank, ADMARC and the Government of Malawi, the Bank extended a loan to ADMARC for purposes of purchasing maize from smallholder farmers. ADMARC has, on three occasions, defaulted on its loan commitment, namely, as of 31 December 2008 and 30 April 2009 and 30 September 2010. As part of its commitment to service the outstanding amount, the Government of Malawi made part-payment of K400 million towards the outstanding amount in December 2010. As at 31 December 2010 no contract agreement existed with the Government of Malawi. However Government has pledged to repay the outstanding balance by 31 March 2011.

	<u>2010</u> K'm	<u>2009</u> K'm
11. Other assets		
Prepayments	370	589
Staff loans and advances	1,098	1,093
Recoverable expenditure	1,045	318
Other receivables	36	52
Inventory currency notes	1,754	1,717
Accrued interest	6	-
Consumable stocks	61	61
Clearing and suspense accounts	11,815	-
Impairment of staff loans	(165)	(232)
Provision for bad and doubtful debts	<u>(254)</u>	<u>(275)</u>
Total other assets	<u><u>15,766</u></u>	<u><u>3,323</u></u>



RESERVE BANK OF MALAWI
NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)
 For the year ended 31 December 2010

11. Other assets (Continued)

Staff loans and advances 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.

	<u>2010</u>	<u>2009</u>
	K'm	K'm
12. Malawi Government promissory notes		
31 December 2000 i)	71	71
31 December 2006 ii)	<u>936</u>	<u>936</u>
Total Malawi Government promissory notes	<u>1,007</u>	<u>1,007</u>

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

An interest bearing promissory note of K71 million 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.

An interest bearing promissory note of K936 million issued by the Malawi Government in settlement of the loss incurred by the Bank and its then 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.



RESERVE BANK OF MALAWI

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2010

	<u>2010</u> K'm	<u>2009</u> K'm
13. Malawi Government treasury notes		
Malawi Government treasury notes are due to mature as follows:		
- Between one year and five years	10,554	10,554
- Between five years and ten years	<u>20,704</u>	<u>20,704</u>
Total Malawi government treasury notes	<u>31,258</u>	<u>31,258</u>

Included in the total figure for treasury notes are two treasury notes that were issued in January 2008 as part of the recapitalisation process the Government undertook. The treasury notes bear a 16.5% coupon rate and will mature as follows:

	<u>2010</u> K'm	<u>2009</u> K'm
January 2013	6,083	6,083
January 2017	<u>19,179</u>	<u>19,179</u>
Total value	<u>25,262</u>	<u>25,262</u>

Total interest income from these treasury notes as at 31 December 2010 was K4,832 million. The interest is receivable semi-annually effective 8 July 2008 until the maturity date when the Bank will be paid the par value.



RESERVE BANK OF MALAWI

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2010

	<u>2010</u> K'm	<u>2009</u> K'm
14. Malawi Government local registered stock		
Local registered stocks are due to mature as follows:		
-Between three months and one year	-	<u>519</u>
-Total local registered stock	<u>-</u>	<u>519</u>

These stocks, which are held by the Bank as 'held to maturity' investments, are carried at amortised cost and carry an interest rate of between 10.0% and 25.0% per annum. As at 31 December 2010 there were no stocks held in the Bank's books.

	<u>2010</u> K'm	<u>2009</u> K'm
15. Malawi Government treasury bills		
Treasury bills are due to mature as follows:		
-Within three months	45,888	29,899
-Between three months and one year	<u>31,558</u>	<u>41,290</u>
Total treasury bills	<u>77,446</u>	<u>71,189</u>

These treasury bills are held by the Bank as 'available for sale financial assets' and are carried at amortised cost. As at 31 December 2010 they carried an average interest rate of 6.91% (2009: 11.9%) per annum.



RESERVE BANK OF MALAWI
NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)
 For the year ended 31 December 2010

16. Property and equipment

	Land & buildings	Furniture Equipment, & Computer hardware	Motor vehicles	Total
	K'm	K'm	K'm	K'm
<u>2010</u>				
COST OR VALUATION				
At beginning of the year	6,773	431	2,405	9,609
Additions	938	34	319	1,291
Disposals	-	-	(114)	(114)
At end of the year	<u>7,711</u>	<u>465</u>	<u>2,610</u>	<u>10,786</u>
DEPRECIATION				
At beginning of the year	17	289	284	590
Charge for the year	18	50	283	351
Disposals	-	-	(83)	(83)
At end of the year	<u>35</u>	<u>339</u>	<u>484</u>	<u>858</u>
NET BOOK VALUE				
At end of the year	<u>7,676</u>	<u>126</u>	<u>2,126</u>	<u>9,928</u>
<u>2009</u>				
COST OR VALUATION				
At beginning of the year	6,178	368	2,379	8,925
Additions	595	63	1,803	2,461
Disposals	-	-	(50)	(50)
Fixed asset adjustment	-	-	(1,727)	(1,727)
At end of the year	<u>6,773</u>	<u>431</u>	<u>2,405</u>	<u>9,609</u>
DEPRECIATION				
At beginning of the year	-	229	1,281	1,510
Charge for the year	17	60	238	315
Disposals	-	-	(37)	(37)
Fixed asset adjustment	-	-	(1,198)	(1,198)
At end of the year	<u>17</u>	<u>289</u>	<u>284</u>	<u>590</u>
NET BOOK VALUE				
At end of the year	<u>6,756</u>	<u>142</u>	<u>2,121</u>	<u>9,019</u>



RESERVE BANK OF MALAWI

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2010

16. 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.

In 2010, the Government of Malawi donated the Silver Stadium to the Bank. The value the stadium has been recognised at, is K137 million which the Bank feels approximates fair value.

17. Intangible Assets

	<u>2010</u> K'm	<u>2009</u> K'm
COST		
At beginning of the year	829	632
Additions	<u>125</u>	<u>197</u>
At end of the year	<u>954</u>	<u>829</u>
AMORTISATION		
At beginning of the year	420	341
Charge for the year	<u>75</u>	<u>79</u>
At end of the year	<u>495</u>	<u>420</u>
NET BOOK VALUE		
At end of the year	<u>459</u>	<u>409</u>

Intangible fixed assets represent computer software and the costs associated with development of software for the Bank's use. Software is amortised over the expected useful economic life that ranges from 3 to 5 years.

18. Malawi Switch Centre Limited ("Malswitch")

The Bank holds 5 percent of the shareholding in Malswitch with Malawi Government being the majority shareholder with 94 percent shareholding.

19. 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.



RESERVE BANK OF MALAWI

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2010

20. 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.

	<u>2010</u>	<u>2009</u>
	K'm	K'm
21. Borrowings		
International Monetary Fund ("IMF")		
Exogenous Shock Facility ("ESF")	8,059	7,942
Poverty Reduction Growth Facility ("PRGF")	<u>13,964</u>	<u>10,585</u>
	<u>22,023</u>	<u>18,527</u>

The Exogenous Shock Facility ("ESF") is a loan that the IMF Executive Board approved for Malawi to support the authorities in their adjustment to the terms of trade shock caused by rapid increases in fuel and fertilizer prices in 2008. The ESF loan is denominated in Special Drawing Rights and bears interest at 0.5% per annum. The ESF loan is repayable in installments of SDR3.47m, payable half-yearly and commencing in 2014.

The Poverty Reduction and Growth Facility ("PRGF") loan is denominated in Special Drawing Rights and bears interest at 0.5% per annum. Draw-downs under this facility are repayable half-yearly in equal installments. The first installment falls due in September 2011. Final installments for both PRGF and ESF loans are expected in the year 2018.

During the year, the IMF Board approved an Extended Credit Facility arrangement to support Malawi Government's economic program for the period 2010 to 2012. Following the approval, a total disbursement of SDR13.88 million under this arrangement was made in February 2010 and December 2010. The total disbursement is included in the PRGF closing position.

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.

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

The allocation of SDR, which are due to the IMF, represents SDR66m (K15,413m) (2009: SDR11m (K15,190m)) and bear interest at an average rate of 0.29% (2009: 0.36%) per annum. The liability represents an allocation and has no fixed repayment dates.



RESERVE BANK OF MALAWI
NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)
 For the year ended 31 December 2010

	<u>2010</u> K'm	<u>2009</u> K'm
23. Notes and coin in circulation		
Notes	39,126	33,068
Coin	<u>478</u>	<u>414</u>
Total notes and coin in circulation	<u>39,604</u>	<u>33,482</u>

The liability for notes and coin in circulation is the net liability after off-setting notes and coin held by the Bank as cash on hand because cash held by the Bank does not represent currency in circulation.

	<u>2010</u> K'm	<u>2009</u> K'm
24. Other liabilities		
Payables	945	556
Appropriation due to Government (page 9)	-	2,333
Payroll accruals	34	59
Other payables	<u>60</u>	<u>503</u>
Total other liabilities	<u>1,039</u>	<u>3,451</u>

The amount of appropriation due to Government is payable to the Malawi Government in accordance with provisions of Section 54 of the Reserve Bank of Malawi Act 1989 on appropriation of the Bank's profits. During the year, no appropriation due to Government was paid following approval from the Minister of Finance to increase the allocation to the General Reserve Fund.

	<u>2010</u> K'm	<u>2009</u> K'm
25. Other OMO instruments		
Repurchase agreements	10,724	3,201
Reserve Bank of Malawi bond	<u>4,956</u>	<u>4,683</u>
Total	<u>15,680</u>	<u>7,884</u>

Repurchase agreements are due to mature within three months whilst the RBM bond is due to mature within one year.



RESERVE BANK OF MALAWI
NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)
 For the year ended 31 December 2010

	<u>2010</u> K'm	<u>2009</u> K'm
26. Severance pay provision		
At the beginning of the year	1,701	1,490
Provision made in the year	804	282
Payments made	<u>(782)</u>	<u>(71)</u>
	<u>1,723</u>	<u>1,701</u>

A valuation of the 2010 severance allowance provision was carried out by Alexander Forbes Financial Services (Proprietary) Limited of the Republic of South Africa as at 31 December 2010. For the year ended 31 December 2009 the valuation was carried out by the same actuaries, Alexander Forbes Financial Services (Proprietary) Limited.

The key assumptions underlying the computation of the provision are as follows:

	<u>2010</u>	<u>2009</u>
- Inflation rate	6.75%	7.50%
- Retirement age	60 years	60 years
- Discount factor	9.25%	10.50%
- Expected rate of salary increases	7.75%	8.50%

	<u>2010</u> K'm	<u>2009</u> K'm
27. Special account		
Revaluation on Gold Holdings	2,657	1,969
Cumulative effects on exchange rate changes	<u>4,856</u>	<u>4,634</u>
	<u>7,513</u>	<u>6,603</u>

Revaluation on Gold Holdings

Included in the Special account figure is K2,657 million (2009: K1,969m) relating to revaluation on gold holdings. The Bank measures and presents gold using the method prescribed by the revaluation model of IAS 16. The revaluation gains on gold are transferred directly to a revaluation reserve account and not included in the accounting profits. The gains are non-distributable until the gold is sold. The historical cost of gold is USD 42.00 per troy ounce. As of 31 December 2010 the prevailing market price of gold was USD1,420.78 (2009: USD1,099).



RESERVE BANK OF MALAWI
NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)
 For the year ended 31 December 2010

	<u>2010</u>	<u>2009</u>
	K'm	K'm
28. Reconciliation of net profit for the year to operating profit before changes in operating assets and liabilities		
Profit for the year	1,919	3,111
Adjustments for:		
• Depreciation and amortisation of assets	426	394
• Impairment reversal	(68)	(11)
• Impairment loss on fixed assets	-	528
• Impairment loss on RBZ loan	3,401	-
• Property income	(25)	(16)
• Sundry Income	<u>(460)</u>	<u>(98)</u>
Operating profit before changes in operating assets	<u>5,193</u>	<u>3,908</u>



RESERVE BANK OF MALAWI
NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)
 For the year ended 31 December 2010

29. Concentration of funding

The Bank's significant end of year concentrations of funding were as follows:
2010

Figures in K'm				
	Malawi Government	Public & local Institutions	Foreign Governments & financial institutions	Total
Foreign Currency				
Financial liability				
Borrowings (IMF loans)	-	-	22,023	22,023
Allocation Special Drawings Rights (SDRs)	-	-	15,413	15,413
Other deposits	-	-	9	9
Total	-	-	37,445	37,445

Local Currency				
Financial liability				
Government deposits	30,618	-	-	30,618
Bankers' deposits	-	20,247	-	20,247
RBM bills & other OMO instruments	-	15,680	-	15,680
Total	30,618	35,927	-	66,545

Other liabilities

Notes and coin in circulation	-	39,604	-	39,604
Other liabilities	-	1,039	-	1,039
Total	-	40,643	-	40,643

TOTAL LIABILITIES	30,618	76,570	37,445	144,633
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RESERVE BANK OF MALAWI
NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)
 For the year ended 31 December 2010

29. Concentration of funding (Continued)
2009

Figures in K' m				
	Mw Govt	Public & local Institutions	Foreign Govts & financial institutions	Total
Foreign Currency				
Financial liability				
Borrowings (IMF loans)	-	-	18,527	18,527
Special Drawing Rights (SDRs)	-	-	15,190	15,190
Other deposits	-	-	16	16
Total	-	-	33,733	33,733
Local Currency				
Financial liability				
Government deposits	23,904	-	-	23,904
Bankers' deposits	-	16,911	-	16,911
RBM bills & other OMO instruments	-	7,884	-	7,884
Total	23,904	24,795	-	48,699
Other liabilities				
Notes and coin in circulation	-	33,482	-	33,482
Other liabilities	2,333	2,819	-	5,152
Total	2,333	36,301	-	38,634
TOTAL LIABILITIES	26,237	61,096	33,733	121,066



RESERVE BANK OF MALAWI
NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)
 For the year ended 31 December 2010

	<u>2010</u> K'm	<u>2009</u> K'm
30. Capital and other commitments		
<u>Endorsed by senior management</u>		
Capital commitments contracted	273	14
Capital commitments not contracted	<u>3,172</u>	<u>1,563</u>
Total capital and other commitments	<u>3,445</u>	<u>1,577</u>

Capital commitments are to be financed from internal resources.

31. Taxation

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

32. Employee benefits

As indicated in note 3.16, the Bank operates a defined contribution pension fund for its employees through an internally managed pension fund (Fund). Effective 1 January 2010, the Bank adjusted employer's contribution from 10% to 15% of the eligible employee's basic salary whilst the eligible employee contribution remained at 3.5% of the basic salary. The contributions due and paid to the Fund by the Bank in the year amounted to K344m (2009: K194m). The contributions are charged to profit or loss in the year they arise.

33. 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.



RESERVE BANK OF MALAWI

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2010

33. Related party transactions (Continued)

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;
- Guarantees and collaterals; and
- Terminal Benefits.

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.

During the period to 31 December 2010 loans totaling K15m (2009: K32m) were advanced to employees in key positions (Executive Director and above). At 31 December 2010 the total loans outstanding from employees in key positions was K9m (2009: K30m). 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>2010</u>	<u>2009</u>
	K'm	K'm
Salary, gratuity and benefits	<u>157</u>	<u>248</u>

In addition to the related party balances disclosed in notes 8, 9, 10, 12, 13, 14, 15, 18, 19, 24 and 31, the following transactions took place with Government:

	<u>2010</u>	<u>2009</u>
	K'm	K'm
Interest income on advances to Malawi Government	591	478
Interest on promissory notes	143	151
Interest on loans to statutory bodies	125	173
Interest on treasury bills	9,371	7,553
Cost of treasury bills issued and matured during the year	<u>29,082</u>	<u>62,365</u>



RESERVE BANK OF MALAWI
NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)
 For the year ended 31 December 2010

33. Related party transactions (Continued)

	<u>2010</u>	<u>2009</u>
	K'm	K'm
The following were the closing balances in respect of Government deposits:		
Government institutions	27,349	22,040
Statutory corporations	<u>3,269</u>	<u>1,864</u>

34. 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	1 SDR
31 December 2010	151.6	233.8	201.4	233.4
31 December 2009	146.7	235.7	210.4	229.2

At 31 December 2010, the Bank rate was 13.0% (2009: 15.0%) while the annual official rate of inflation was 6.3% (2009: 7.6%).

Subsequent to year-end, as at 25 March 2011 the exchange rates and inflation rate had moved as follows:

USD	:	151.6
GBP	:	244.3
EURO	:	214.9
SDR	:	240.5
 Inflation (for February 2011)	 :	 7.0%

No adjustments arising from the movements of the exchange rates and inflation rates after 31 December 2010 have been made in the financial statements.



RESERVE BANK OF MALAWI

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2010

35. 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.

36. Events after the reporting period

Subsequent to the reporting period, Parliament passed a Pension Bill on 2 March 2011 which is yet to be assented to by the President. At this stage the process of enacting the Bill has been substantially completed. In view of that, the Bank is currently reviewing the passed Bill with a view to assessing the impact the application of the Bill is likely to have on its financial statements



6.0 GENERAL LEDGER AND SUBSIDIARY SYSTEMS PROJECT

As at December 31, 2010, the Project to replace the General Ledger Accounting System, MIDAS, consisting two major components of software and hardware, had reached an advanced stage. Suppliers of the software solution and related hardware had been identified. Work on the hardware installation will commence as soon as the new equipment is delivered. Implementation of the software solution is expected to start soon after delivery of the hardware. It is hoped that the entire project will be completed by January 2012.

The successful implementation of this Project will enable the Bank achieve the automation of its various processes including fixed assets register, procurement, inventory management, reconciliation of nostro accounts, account payables, banking and treasury management etc. In addition, the majority of the systems will be interfaced with the core general ledger system thereby achieving a level of interoperability that will enable the Bank gain scalability and cost savings. Cost savings will result from a reduction in the costs associated with buying and maintaining of a large number of servers and a reduction in the volume of transactions that are processed manually. The project will affect the entire Bank's accounting system.



7.0 NATIONAL PAYMENT SYSTEMS

7.0 Introduction

During the period, January 2010 to December 2010, the Reserve Bank of Malawi (RBM), through its National Payments System Department (NPSD), spearheaded numerous reform and maintenance initiatives aimed at bolstering the safety and efficiency of the National Payments System (NPS) infrastructure. As usual, RBM cooperated with the National Payments Council (NPC), the Bankers Association of Malawi (BAM) and other relevant stakeholders whenever necessary in order to ensure success of reforms.

Key activities undertaken during the review period included the restructuring of the payments unit at the RBM into a fully autonomous department, self-assessment of the Electronic Cheque Clearing House (ECCH) system, upgrading of the RTGS operating system from Windows 2000 server to Windows XP, consultations guidelines for the operation of mobile payments in Malawi, enactment of the Credit Reference Bureau (CRB) Act, routine oversight activities and ongoing work on ATM and POS Interoperability Project.

7.1 Operational Issues

The recently revised 2009 – 2013 NPS vision and Strategy Framework provided a blue print for reform activities undertaken in the period under review. Notable operational issues that were carried out include:

7.2.1 Restructuring of Payments System Unit at RBM

In order to efficiently and effectively carry out its payments system reform responsibilities, the RBM upgraded its National Payments System Division into a full department in June 2010. The department has two divisions namely Oversight & Compliance and NPS Policy & Settlement.

7.2.2 Information Dissemination

During the period under review, NPSD published various reports detailing progress on recent national payments reform activities. NPSD submitted an annual Report to the SADC Committee of Central Bank Governors (CCBG) detailing the recent reform developments in the NPS Infrastructure. The Annual Payments System Report for 2009, published in May 2010 on RBM's website detailed the country's prevalent NPS topography as well as the performance of MITASS, ECCH and Smartcard systems participants against the BIS Core Principles and other agreed standards. The forthcoming Annual Report for 2010 will, among other issues, include results of ECCH self-assessment exercise against the BIS Core Principles for Systemically Important Systems (CPSIPS) conducted in August 2010.



In May 2010, the RBM in conjunction with the Norges Bank working under the IMF Technical Cooperation (TC) published an Occasional Paper on Malawi's Payments System. The paper, among others, outlined NPS developments following recommendations made from various TC missions by Norges Bank officials. NPSD also contributed towards the Financial Stability Report (FSR) which is now due for publication. Inter alia, the FSR highlighted the role of payment systems, especially MITASS, as well as their associated developments in financial stability efforts by the RBM.

In order to promote operational efficiency as well as reduction of systemic risks in MITASS, RBM conducted MITASS User Training Workshops in October 2010. MITASS users from the central bank as well as the commercial banks, discount houses, as well as BAM participated at the training workshop.

7.2.3 Task Force on Public Awareness Campaigns on Electronic Payments

In 2010 the NPC Steering Committee authorised the operations of the recently established Task Force on Public Awareness Campaigns on Electronic Payments. The Task Force, entrusted with promotion of public awareness and acceptability of electronic payment products, draws its membership from the commercial banks, BAM and MALSWITCH.

7.3 Settlement System Developments and Projects

7.3.1 Availability and Utilisation of MITASS

Overall MITASS availability over the period under review was relatively stable at 96% uptime hours. However, system utilisation¹ slightly decreased from 79.1% recorded in 2009 to 78.8% in 2010.

7.3.2 Migration of MITASS to SWIFT Platform

RBM is planning to migrate the country's RTGS system (MITASS) onto the SWIFT network. In preparation for the project, and upon request by the RBM, SWIFT has already done a consultancy on the feasibility of running MITASS on SWIFT Platform. The consultancy included assessment of the infrastructural requirements for connectivity at all participating banks. Currently, the project is in its implementation phase and is expected to be finalised by mid 2012. It is expected that once concluded, the project will reduced system downtimes and hence increased availability and reliability.

¹ Measured as a ratio of single funds settlement instructions (FSIs) to total MITASS throughput



7.4 RETAIL SYSTEM DEVELOPMENTS AND PROJECTS

7.4.1 ATM Interoperability Project

The ATM and POS Interoperability Project has stalled partially because of the need to resolve the issue of contracting party to the national switch. There are strong indications that the interoperable switch would be owned by BAM whereas technical management of the same would be outsourced to MALSWITCH. *Ceteris Paribus*, the project is expected to be concluded by the end of 2012.

7.4.2 EFT and other retail projects

The slow progress on the ATM and POS Interoperability Project has however led to delays in the take-off of other proposed retail projects such as Real Time Credit (RTC) & Automated Debit Order System (ADOS). Undertaking of the latter two projects hugely depends on the successful implementation of the ATM and POS Interoperability Project.

7.4.3 ECCH – Self Assessment

The RBM conducted a self-assessment exercise of the ECCH system against the BIS Core Principles for Systemically Important Systems (CPSIPS) in August 2010. The self-assessment exercise aimed at identifying infrastructural and operational risks in the ECCH system with a view of instituting effective mitigating and/or remedial measures where necessary. Results of the self-assessment exercise indicated no serious risks albeit the need for a few additional operational guidelines such as the introduction of a Value Cap on cheque transactions. Consultations on the Value Cap are at an advanced stage and clearing banks are expected to make a final decision on the issue by September 2011.

7.4.4 Credit Reference Bureau (CRB) Act

The law governing the operations of credit reference bureaus in the country was formally ratified by parliament in early 2010. However, the Credit Reference Bureau is yet to assume full operations due to other licensing requirements by the central bank.

7.5 Electronic Money (E-Money) and Mobile Banking Initiatives

RBM is currently making final consultations on the draft Mobile Payments Guidelines before release of the same to the market anytime before the end of the year 2011. The guidelines were drafted on the basis of risk-based Know Your Customer (KYC) processes and it is hoped that once released, they will spur activity and competition in the country's mobile payments arena.



7.6 Oversight Issues

Based on its capacity as overseer of the payments system, RBM carried out several onsite and offsite activities aimed at mitigating systemic risk arising from credit, liquidity, legal and operational shortfalls in the national payments system. The RBM's oversight activities, which are based on the adopted Oversight Policy of 2008, extended to participants in MITASS and ECCH systems as well as on MALSWITCH in its capacity as technical administrators of both systems.

7.7 Conclusion

In summary, though as a country Malawi managed to achieve success in other reform activities such as restructuring of the payments unit at the RBM into a full department, upgrading of the RTGS operating system from Windows 2000 server to Windows XP, the enactment of the Credit Reference Bureau (CRB) Act and successfully conducting a self-assessment of ECCH system, progress on other reform initiatives such as ATM & POS Interoperability project was slow. However, efforts are being made to expedite implementation of all outstanding projects as outlined in the country's 2009-2013 Vision and Strategy Framework. In doing this, the RBM will continue to cooperate with relevant domestic and foreign stakeholders like the NPC, BAM, Malawi Government, SADC and the IMF.



8.0 SUPERVISION OF THE BANKING SYSTEM

Supervision of Financial Institutions Division is mandated under the Financial Services Act, 2010 to supervise and regulate the activities of financial institutions registered under the various sectoral laws in order to ensure safety and soundness of the financial system in Malawi.

8.1 On-Going Supervision

During the period ended 31st December 2010, the Division continued to monitor financial condition and performance of the banking system and capital market players through off-site surveillance based on financial statements submitted on a regular basis. Preparatory work for the commencement of full scale off-site surveillance of microfinance institutions is currently underway. The Department also conducted on site examinations on four commercial banks and five entities dealing in securities and the results were duly reported to the concerned institutions.

The Division also conducted full scope Anti-Money Laundering and Terrorist Financing (AML/CFT) examinations at two commercial banks. The arrangement is based on a Memorandum of Understanding (MoU) between the RBM and the Financial Intelligence Unit (FIU) that was signed in December 2009 and which became operational in January 2010. The MoU outlines the areas of cooperation and exchange of information between the RBM and the FIU in the area of AML/CFT. During the year, the RBM held one meeting with the FIU and shared on-site examination findings with the Unit.

8.2 Laws and Regulations

The Financial Services Act, Banking Act, the Credit Reference Bureau (CRB) Act, the Securities Act, the Microfinance Act and the Insurance Act were all enacted by Parliament in 2010 and are fully operational. Draft laws governing operations of SACCOs and pensions were finalized and presented to Cabinet for approval and onward submission to Parliament for enactment. In addition to the Acts above, the Division drafted three Regulations and eighteen Directives to govern operations of the financial institutions. Out of the twenty one, only the Collective Investment Scheme Directive was gazetted and was fully operational during the year.

Guidelines on Corporate Governance and on Mergers and Acquisition were formally issued to the banking industry and are now fully operational. Guidelines on electronic banking were also drafted and are expected to be issued in 2011. A Problem Bank Resolution Framework was also drafted and its finalization is expected in 2011 to include procedures for handling systematically important institutions.



Besides the Bills, the Division also drafted some directives and regulations with the view to complement the provisions of the existing laws and the Bills. As such several workshops were conducted in order to solicit views and comment on the draft regulations. The exercise was conducted with financial assistance mostly from development partners. The Division also reviewed the Asset Classification Directive in order to incorporate the requirements of International Accounting Standard 39.

8.3 Licensing

No new applicant was licensed during the year. However, the Division received a number of formal applications, one from a bank to introduce an Islamic banking window, a number of inquiries from prospective investors wishing to open new banks including one on Islamic banking, three from capital market institutions keen to operate investment schemes and a number of enquiries from prospective investors wishing to establish microfinance institutions. Two new applications for credit reference bureaus were received and one was fully evaluated. The banking sector however continued to grow in terms of new branch network and product range. Out of the existing 11 banks, 9 opened a total of 44 new branches (including agencies and kiosks). In terms of new product development, approvals were mainly in the areas of mobile phone and internet banking as well as customized savings accounts with specific incentives.

8.4 Risk Based Supervision and Basle II

Preparations towards adoption of Basel II that commenced in January 2009 continued in 2010. Among the key activities; the Department carried out the first Quantitative Impact Study (QIS) to assess the likely impact of Basel II rules on existing capital levels of banks.

8.5 Consolidated Supervision

A Policy Paper on Consolidated Supervision was formally approved by Executive Management in 2010. IMF East AFRITAC will provide technical assistance to the Department in 2011 on how to implement consolidated supervision.

8.6 Deposit Insurance Scheme

The Department, with technical support from FSVCC, carried out a survey (through a questionnaire) to gauge markets' views on the need to establish a Deposit Insurance Scheme (DIS) in Malawi. All the banks, except one, indicated that a DIS would benefit the country. In addition, all but two institutions indicated that they would benefit from a DIS. An action plan on the operationalisation of a DIS will be drawn in the first quarter of 2011.



9.0 STATISTICAL ANNEX TABLES

Table 1: Reserve Bank of Malawi: Assets and Liabilities (K'mn).....	104
Table 2: Monetary Authorities: Assets and Liabilities (K'mn)	105
Table 3: Commercial Banks: Assets and Liabilities (K'mn).....	106
Table 4: Monetary Survey: (K'mn).....	107
Table 5 Official Foreign Exchange Reserves and Net Foreign Assets of Commercial Banks (K'mn)	107
Table 6: Money and Quasi-Money (K'mn)	108
Table 7a: Commercial Banks: Advances by Main Sector (K'mn).....	108
Table 7b: Commercial Banks: Demand Deposits by Main Sector (K'mn)	108
Table 8: Principal Interest Rates	109
Table 9a: Other Financial Institutions: Summary of Assets (K'mn)	109
Table 9b: Other Financial Institutions: Summary of Liabilities (K'mn).....	109
Table 10: Central Government Operations: Revenues (K'mn)	110
Table 11: Central Government Operations: Expenditures (K'mn)	110
Table 12 Stocks managed by Reserve Bank of Malawi as at end 31 December 2009.....	111
Table 13: Balance of Payments Summary (K'mn)	111
Table 14 Selected Foreign Exchange Rates ^{1,2}	112
Table 15: Domestic Exports by Main Commodity (K'mn)	112
Table 16: Gross Domestic Product by Economic Activity (K'mn).....	113
Table 17: The National Composite Price Index (2000=100)	114

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

1.0 LIABILITIES	2005	2006	2007	2008	2009	2010
1.1 Foreign Sector	11,259.1	5,057.6	7,124.7	19,931.3	33,763.9	37,467.0
1.1.1 Deposits of International Agencies	11.0	9.2	349.1	24.3	46.7	30.9
1.1.2 Other IMF and Commercial loans	9,306.4	2,747.7	4,344.7	17,530.3	18,527.1	22,022.8
1.1.3 Allocation Of SDR	1,941.6	2,300.7	2,430.8	2,376.8	15,190.1	15,413.3
1.2 Official sector	10,988.5	7,136.9	23,466.5	29,288.4	23,874.2	30,198.2
1.2.1 Government deposits	10,988.5	7,136.9	23,466.5	29,288.4	23,874.2	30,198.2
1.2.2 Statutory bodies deposits	-	-	-	-	-	-
1.3 Domestic Banks	9,096.6	6,868.8	7,496.4	10,786.1	22,899.9	25,569.1
1.3.1 Deposits with RBM	6,332.5	3,489.0	2,855.1	5,805.7	16,910.9	17,879.4
1.3.2 Currency in Banks	2,764.0	3,379.8	4,641.3	4,980.4	5,989.0	7,689.6
1.4 Private sector deposits						
1.4.1 Currency Outside Banks	11,514	14,653	19,561	25,261.3	27,493.1	31,843.4
1.5 Capital Reserves Undistributed Income	10,438	10,134	13,716	58,121.3	44,402.9	46,223.4
Total Liabilities	53,296.2	43,851.2	71,365.2	143,388.4	152,434.0	171,306.1
2.0 ASSETS						
2.1 Foreign sector	19,303.0	18,155.2	34,829.4	35,930.2	23,629.7	45,084.4
2.1.1 Balance with non-resident Bank	18,767.6	17,574.9	29,342.0	32,698.8	19,675.4	41,350.9
2.1.2 Bills and other Securities	-	-	4,959.0	2,715.1	3,116.4	2,926.7
2.1.3 Holdings of SDR and R.P.F.	535.4	580.4	528.4	516.3	837.9	806.8
2.2 Official Sector	22,879.9	15,156.4	24,503.0	88,369.4	111,053.9	103,870.5
2.2.1 Central Government	22,879.9	15,156.4	23,236.7	86,396.6	110,075.8	103,171.5
2.2.1.1 Treasury Bills and advances	21,937.2	14,336.7	22,936.7	56,247.7	78,298.9	73,923.7
2.2.2 Local Registered Stocks (LRS)	942.7	819.7	300.0	30,148.9	31,776.9	29,247.8
2.2.2 Statutory Bodies	-	-	1,266.3	1,972.8	978.1	699.0
2.3 Banks including other Financial	2.1	21.9	108.5	1.2	2.3	11.8
2.3.1 Loans and Advances	1.9	1.9	1.5	1.2	1.2	1.2
2.3.2 Internal Bills Purchased and discounted	0.2	20.0	107.0	-	1.1	10.7
2.4 Other Assets	11,111.2	10,517.6	11,924.2	19,087.7	17,748.2	22,339.3
Total Assets	53,296	43,851	71,365	143,388.4	152,434.0	171,306.1

Source: Reserve Bank of Malawi

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

	2005	2006	2007	2008	2009	2010
1.0 LIABILITIES						
1.1 Foreign Sector	11,259.1	5,057.6	7,124.7	19,931.3	33,763.9	37,467.0
1.1.1 Deposits of International Agencies	11,259.1	5,057.6	7,124.7	19,931.3	33,763.9	37,467.0
1.2 Official sector	11,422.7	7,696.9	24,053.2	29,691.2	24,330.3	30,656.9
1.2.1 Central Government deposits	11,422.7	7,696.9	24,053.2	29,691.2	24,330.3	30,656.9
1.2.1.1 Deposits with RBM	10,988.5	7,136.9	23,466.5	29,288.4	23,874.2	30,198.2
1.2.1.2 Treasury Holdings	434.1	560.0	586.8	402.8	456.2	458.7
1.2.2 Statutory Bodies	-	-	-	-	-	-
1.2.2.1 Deposits with RBM	-	-	-	-	-	-
1.2.2.2 Special A/c Bal	-	-	-	-	-	-
1.3 Domestic Banks	9,096.6	6,868.8	7,496.4	10,786.1	22,899.9	25,569.1
1.3.1 Deposits with RBM	6,332.5	3,489.0	2,855.1	5,805.7	16,910.9	17,879.4
1.3.2 Currency in Banks	2,764.0	3,379.8	4,641.3	4,980.4	5,989.0	7,689.6
1.3.3 Reserve Bank Bills	-	-	-	-	-	-
1.4 Private sector deposits						
1.4.1 Currency Outside Banks	11,514.1	14,653.5	19,561.3	25,261.3	27,493.1	31,848.3
1.5 Capital Reserves Undistributed Income	10,438.0	10,134.4	13,716.4	58,121.3	44,402.9	46,223.4
Total Liabilities	53,730.4	44,411.2	71,952.0	143,791.2	152,890.2	171,764.8
2.0 ASSETS						
2.1 Foreign sector	19,737.1	18,715.3	35,416.2	36,333.0	24,085.9	45,543.1
2.1.1 Reserve Bank ¹	19,303.0	18,155.2	34,829.4	35,930.2	23,629.7	45,084.4
2.1.2 Treasury Crown Agents	434.1	560.0	586.8	402.8	456.2	458.7
2.1.3 Reserve Position In IMF	-	-	-	-	-	-
2.1.4 Special Account Balance	-	-	-	-	-	-
2.2 Official Sector	22,879.9	15,156.4	24,503.0	88,369.4	111,053.9	103,870.5
2.1 Reserve Bank Credit to Central Govt.	22,879.9	15,156.4	23,236.7	86,396.6	110,075.8	103,171.5
2.2 Reserve Bank Credit to Statutory Bodies	-	-	1,266.3	1,972.8	978.1	699.0
2.3 Banks including other Financial	2.1	21.9	108.5	1.2	2.3	11.8
2.3.1 RBM Credit to other Domestic Banks	2.1	21.9	108.5	1.2	2.3	11.8
2.3.2 RBM Credit to other banks	-	-	-	-	-	-
2.4 Other Assets	11,111.2	10,517.6	11,924.2	19,087.7	17,748.2	22,339.3
Total Assets	53,730.4	44,411.2	71,952.0	143,791.2	152,890.2	171,764.8

Source: Reserve Bank of Malawi and Ministry of Finance

¹Including holding of SDRs

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

	2005	2006	2007	2008	2009	2010
1.0 LIABILITIES						
1.1 Foreign Sector	1,832.2	2,633.1	5,845.6	4,168.3	3,966.8	1,577.6
1.1.1 Deposits of nonresidents	580.8	603.0	827.4	870.0	999.8	654.3
1.1.2 Liabilities to banks abroad	1,251.5	2,030.1	5,018.1	3,298.4	2,967.0	923.3
1.2 Official sector	2,330.9	2,300.2	3,437.1	4,961.8	5,013.3	10,113.5
1.2.1 Government deposits	497.0	725.1	977.0	2,708.1	1,328.3	6,044.7
1.2.2 Statutory bodies deposits	1,833.9	1,575.1	2,460.2	2,253.7	3,685.0	4,068.8
1.3 Domestic Banks	754.2	841.2	352.1	1,859.4	1,922.0	2,640.1
1.3.1 Liabilities to RBM	0.0	0.0	0.0	0.0	0.0	0
1.3.2 Liabilities to other domestic banks	754.2	841.2	352.1	1,859.4	1,922.0	2,640.1
1.4 Private sector deposits	52,408.2	60,395.5	82,858.3	112,128.3	142,854.1	167,980.8
1.4.1 Demand deposits	20,249.3	21,883.4	32,799.4	44,095.3	52,847.3	68,304.8
1.4.2 Time and Savings deposits	32,158.8	38,512.1	50,058.9	68,033.1	90,006.8	99,676.1
1.5 Capital accounts	10,566.0	13,980.2	16,577.6	25,232.4	32,757.4	39,908.2
1.6 Other Liabilities	6,094.4	8,870.4	10,842.9	16,385.9	18,734.2	22,946.8
Total Liabilities	73,985.9	89,020.7	119,913.6	164,736.2	205,247.8	245,166.9
Acceptances, Guarantees, etc.	8,431.4	11,333.1	13,685.0	18,050.3	17,299.8	17,370.6
2.0 ASSETS						
2.1 Foreign sector	6,266.9	10,289.9	7,808.7	7,433.8	11,368.2	13,878.3
2.1.1 Claims on banks abroad	6,241.4	10,202.9	7,791.8	7,400.2	11,352.2	13,826.8
2.1.2 Bills payable abroad	-59.6	-18.7	-58.0	2.9	-12.8	0.0
2.1.3 Loans and advances to non-residents	85.2	105.8	74.9	30.7	28.7	51.5
2.2 Official Sector	15,756.4	14,817.4	25,375.1	33,928.9	34,297.8	28,075.7
2.2.1 Claims on Central Government	15,449.2	13,605.0	22,904.9	29,858.3	29,036.6	24,112.3
2.2.1.1 Local Registered Stocks (LRS)	1,998.2	1,984.7	2,284.3	2,456.5	2,385.0	2,412.7
2.2.1.2 Treasury Bills (TBs) and advances	13,451.0	11,620.2	20,620.6	27,401.9	26,651.6	21,699.7
2.2.2 Claims on Statutory Bodies	307.2	1,212.4	2,470.2	4,070.6	5,261.3	3,963.3
2.3 Domestic Banks	11,704.8	8,119.3	9,163.7	14,597.6	21,309.2	22,395.3
2.3.1 Claims on RBM	10,315.1	7,354.9	8,543.7	14,032.8	20,620.4	21,849.6
2.3.1.1 Deposits in RBM ¹	7,551.0	3,975.2	3,902.4	9,052.3	14,631.4	14,159.9
2.3.1.2 Currency in banks	2,764.0	3,379.8	4,641.3	4,980.4	5,989.0	7,689.6
2.3.2 Claims on other domestic banks	1,389.7	764.3	620.0	564.9	688.8	545.7
2.4 Private sector loans and advances	24,133.6	37,188.9	47,267.1	68,143.5	95,043.6	121,632.5
2.5 Other	16,124.2	18,605.2	30,299.0	40,632.3	43,228.9	33,933.2
Total Assets	73,985.9	89,020.7	119,913.6	164,736.2	205,247.8	245,166.9

Source: Commercial banks' reports

¹Including Reserve Bank of Malawi Bills

Table 4: Monetary Survey: (K'mn)

	2005	2006	2007	2008	2009	2010
1.0 Net foreign assets	12,912.7	21,314.4	30,254.6	19,667.1	(2,276.8)	20,376.8
1.1 Monetary authorities	8,478.1	13,657.6	28,291.5	16,401.7	(9,678.1)	8,076.1
1.2 Commercial banks	4,434.6	7,656.8	1,963.1	3,265.5	7,401.3	12,300.7
2.0 Net domestic credit	50,850.2	58,740.7	72,115.1	158,042.4	214,736.7	216,877.1
2.1 Net Claims on the Official sector	26,716.6	21,551.8	24,848.0	89,898.9	119,693.1	95,244.6
2.1.1 Net claims on government	26,409.5	20,339.4	21,111.4	83,855.5	113,453.7	90,582.2
2.1.1.1 Monetary authorities	11,457.2	7,459.5	(816.5)	56,705.4	85,745.5	72,514.6
2.1.1.2 Commercial banks	14,952.2	12,879.8	21,927.9	27,150.2	27,708.3	18,067.7
2.1.2 Gross claims on statutory bodies	307.2	1,212.4	3,736.5	6,043.4	6,239.3	4,662.4
2.1.2.1 Monetary authorities	-	-	1,266.3	1,972.8	978.1	699.0
2.1.2.2 Commercial banks	307.2	1,212.4	2,470.2	4,070.6	5,261.3	3,963.3
2.2 Gross claims on private sector	24,133.6	37,188.9	47,267.1	68,143.5	95,043.6	121,632.5
3.0 Total net domestic credit and net foreign assets	63,762.9	80,055.1	102,369.7	177,709.5	212,460.0	216,877.1
4.0 Liabilities to Private Sector						
4.1 Money and quasi-money	65,756.1	76,624.0	104,879.8	139,643.3	174,032.2	203,898.0
4.1.1 Narrow Money	32,879.8	37,226.2	54,016.4	70,596.7	81,900.3	102,112.2
4.1.2 Quasi-money	32,876.4	39,397.9	50,863.4	69,046.6	92,132.0	101,785.8
5.0 Capital accounts	10,566.0	13,980.2	16,577.6	25,232.4	32,757.4	39,908.2
6.0 Unsectored accounts (net)	(1,993.2)	3,431.0	(2,510.0)	38,066.2	38,427.7	33,355.9
7.0 Total Domestic Liabilities	52,843.4	55,309.6	74,625.1	119,976.2	176,309.0	203,898.0

Source: Reserve Bank of Malawi

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

	2005	2006	2007	2008	2009	2010
1.0 Official Foreign Exchange Reserves						
1.1 Reserve Bank Foreign Assets:						
1.1.1 Foreign Assets	19,303.0	18,155.2	34,829.4	35,930.2	23,629.7	45,084.4
1.1.1.1 Balance with foreign Banks	18,767.6	17,574.9	34,301.0	35,413.9	22,791.8	44,277.6
1.1.1.2 SDR and RPF	535.4	580.4	528.4	516.3	837.9	806.8
1.1.2 Foreign Liabs. International Agencies	11,259.1	5,057.6	7,124.7	19,931.3	33,763.9	37,467.0
1.2 Net Foreign Exchange Reserves (RBM)	8,043.9	13,097.6	27,704.8	15,998.9	-10,134.2	7,617.4
1.3 Balance with Crown Agents and Special Accounts	434.1	560.0	586.8	402.8	456.2	458.7
1.4 Gross Official Reserves	19,737.1	18,715.3	35,416.2	36,333.0	24,085.9	45,543.1
1.5 Net Official Reserves	8,478.1	13,657.6	28,291.5	16,401.7	-9,678.1	8,076.1
2.0 Net Foreign Assets of Commercial Banks						
2.1 Foreign Assets	4,434.6	7,656.8	1,963.1	3,265.5	7,401.3	13,878.3
2.1.1 Claims on foreign Bank	6,266.9	10,289.9	7,808.7	7,433.8	11,368.2	13,826.8
2.1.2 Loan & Advances to non-residents	6,241.4	10,202.9	7,791.8	7,400.2	11,352.2	51.5
2.2 Foreign Liabilities	25.5	87.0	16.9	33.6	16.0	1,577.6
2.2.1 Liabilities to Foreign Banks	1,832.2	2,633.1	5,845.6	4,168.3	3,966.8	923.3
2.2.2 Deposits of non-residents	1,251.5	2,030.1	5,018.1	3,298.4	2,967.0	654.3
3.0 Total net foreign Assets	580.8	603.0	827.4	870.0	999.8	20,376.8

Source: Reserve Bank of Malawi

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

	2005	2006	2007	2008	2009	2010
1. Money						
1.1 Currency outside banks.....	11,514.1	14,653.5	19,561.3	25,261.3	27,493.1	31,848.3
1.2 Demand deposits.....	21,365.7	22,572.7	34,455.1	45,335.5	54,407.1	70,263.9
1.3 Total money (1.1+1.2).....	32,879.8	37,226.2	54,016.4	70,596.7	81,900.3	102,112.2
2. Quasi-money	32,876.4	39,397.9	50,863.4	69,046.6	92,132.0	101,785.8
3. Total money and quasi-money (1+2)	65,756.1	76,624.0	104,879.8	139,643.3	174,032.2	203,898.0

Source: Reserve Bank of Malawi

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

	2004	2005	2006	2007	2008	2009	2010
Agriculture ¹	1,786.7	1,794.6	4,593.9	6,109.9	12,811.5	10,694.7	14,163.2
Mining and Quarrying.....	85.2	35.4	56.8	127.0	1,270.4	2,485.2	31,186.5
Manufacturing.....	2,327.4	2,419.2	4,059.7	4,585.0	5,234.0	14,280.1	12,478.4
Electricity, Water and Gas.....	122.5	233.5	475.0	595.2	75.5	1,807.8	762.7
Construction and Civil Engineering.....	984.1	906.2	1,045.9	1,034.2	1,206.9	1,517.5	4,262.9
Wholesale and Retail Trade.....	2,656.9	2,703.7	5,082.9	6,632.6	8,464.9	12,719.8	14,283.3
Transport, Storage and Communications.....	774.8	608.9	1,951.4	2,375.0	8,539.6	7,844.7	9,831.5
Finance, Insurance, Real Estate and Business Services.....	582.4	2,315.6	4,302.6	6,698.0	7,934.8	3,162.4	3,011.8
Community, Social and Personal Services.....	1,649.4	2,626.4	4,108.0	3,391.8	6,342.2	30,762.7	17,443.8
Personal Accounts.....	3,780.2	4,487.5	4,445.7	5,999.4	12,481.0	16,709.9	20,672.7
Total ²	14,749.7	18,131.0	30,122.0	37,548.1	64,359.7	101,983.8	128,096.9

Source: Commercial banks' reports to Reserve Bank

¹Includes forestry fishing and livestock²Excludes statutory bodies and local authorities³Figures 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)**

	2004	2005	2006	2007	2008	2009	2010
Agriculture ¹	770.7	1,377.2	1,749.5	3,466.5	6,191.8	10,530.8	8,382.4
Mining and Quarrying.....	91.4	229.4	136.0	224.4	404.4	696.7	749.6
Manufacturing.....	1,590.6	1,662.7	2,094.3	965.6	6,154.8	6,058.9	6,210.6
Electricity, Water and Gas.....	415.2	381.1	471.4	539.4	991.1	1,106.5	2,694.3
Construction and Civil Engineering.....	570.9	903.5	1,085.8	1,048.8	1,735.1	3,541.7	2,834.5
Wholesale and Retail Trade.....	3,048.6	3,381.1	3,544.8	3,360.0	272.5	628.2	11,661.5
Transport, Storage and Communications.....	1,029.6	1,946.4	2,017.9	1,396.6	2,833.3	3,436.9	6,404.4
Finance, Insurance, Real Estate and Business Services.....	1,210.2	1,490.8	1,542.4	1,226.8	3,190.3	11,544.0	4,493.3
Community, Social and Personal Services.....	4,537.5	9,792.9	10,433.1	18,454.8	31,145.8	12,150.4	18,881.1
Personal Accounts.....	4,172.4	3,576.0	5,157.6	8,365	16,513.2	21,651.3	23,263.9
Total ²	17,437.0	24,741.0	28,232.8	39,048.6	69,432.4	71,345.4	85,575.6

Source: Commercial banks' reports to Reserve Bank

¹Includes forestry fishing and livestock²Excludes statutory bodies and local authorities³Figures starting from December 1999 include Finance Bank of Malawi, First Merchant Bank and Malawi Savings Bank

Table 8: Principal Interest Rates

	2010											
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1. Bank Rate.....	15.00	15.00	15.00	15.00	15.00	15.00	15.00	13.00	13.00	13.00	13.00	13.00
2. Treasury Bills												
2.1 91 Days.....	7.47	7.33	7.34	7.25	7.04	7.23	7.50	7.51	7.14	7.01	6.93	6.20
2.2 182 Days.....	10.93	10.86	11.08	11.12	10.66	11.34	11.63	11.39	9.75	7.83	7.20	7.15
2.3 271 Days.....	10.01	10.74	10.21	11.50	10.75	11.93	12.48	12.38	10.47	8.90	7.78	7.39
3. RBM Bills												
3.1 63 Days.....												
3.2 91 Days.....												
4. Commercial Banks												
4.1 Base rates.....	19.25	19.25	19.25	19.25	19.25	19.25	19.25	17.75	17.75	17.75	17.75	17.75
4.2 Savings Deposits.....	3.33	3.33	3.33	3.33	3.33	3.33	3.33	3.75	3.75	3.75	3.75	3.75
4.3 Short Term deposit												
4.3.1 7 Days call.....	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.42	2.42	2.42	2.42	2.42
4.3.2 30 Days call.....	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.42	3.42	3.42	3.42	3.42
4.4 Fixed Deposits												
4.4.1 3 months.....	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.75	3.75	3.75	3.75	3.75
4.4.2 6 months.....												
4.4.3 12 months.....												
5. Building Societies												
5.1 Deposit rates												
5.1.1 Individual savings.....	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
5.1.2 Corporate savings.....	5.50	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	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
5.2 Mortgage rates												
5.2.1 Owner Occupied.....	19.00	19.00	19.00	19.00	19.00	19.00	19.00	17.50	17.50	17.50	17.50	17.50
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.....	19.00	19.00	19.00	19.00	19.00	19.00	19.00	17.50	17.50	17.50	17.50	17.50
6.2 Deposit rates.....	5.00	5.00	5.00	5.00	5.00	5.00	5.00	4.50	4.50	4.50	4.50	4.50
6.2.1 3 months fixed deposits	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50	5.50

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

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

	2004	2005	2006	2007	2008	2009	2010
A. Cash in Banks.....	130.3	498.5	1,165.6	1,630.5	472.8	503.6	1,185.4
B. Deposits with other domestic banks....	82.7	62.9	223.7	204.5	299.7	606.8	829.5
C. Deposits with Reserve Bank.....	408.8	748.2	1,476.1	1,697.1	100.1	203.0	974.9
D. Foreign assets.....	116.6	369.6	2,061.9	2,038.0	732.3	166.8	612.1
E. Credit to Government.....	4,186.4	2,827.4	2,811.8	4,716.1	3,707.3	4,376.9	6,259.7
F. Credit to Statutory bodies.....	5.7	0	355.3	0.2	174.1	935.7	16.0
G. Credit to Private sector.....	2,347.8	5,688.5	11,005.2	18,325.3	7,726.8	11,095.8	23,210.0
H. Total Credit (E+F+G).....	6,539.9	8,515.9	14,172.2	23,041.6	11,608.2	16,408.4	29,485.7
I. Premises and equipment.....	1,246.5	1,805.4	2,623.7	3,516.1	959.3	1,747.6	2,991.9
J. Other Assets.....	870.0	652.3	4,354.5	4,733.0	4,363.4	7,778.3	4,916.7
K. Total Assets (A+B+H+I+J).....	9,394.9	12,653.3	26,077.7	36,860.6	18,535.7	27,414.5	40,996.2

Source: Reserve Bank of Malawi

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

	2004	2005	2006	2007	2008	2009	2010
A. Demand.....	-	697.4	2,484.6	5,213.2	2,399.3	3,494.1	5,838.7
B. Time.....	3,848.8	4,475.3	9,247.0	12,126.8	8,255.7	13,434.2	21,945.0
C. Savings.....	3,482.0	4,894.6	5,373.8	7,791.1	2,776.6	2,608.7	17.4
D. Foreign Liabilities.....	-	537.6	1,536.7	2,503.7	15.7	21.9	0.0
E. Liabilities to Reserve Bank.....	-	-	-	-	-	-	2,339.7
F. Liabilities to other domestic banks.....	1.7	0.1	111.0	508.4	1,001.7	1,099.8	2,339.7
G. Liabilities to the official sector	342.1	409.6	520.6	773.6	1,698.8	3,782.2	2,744.2
H. Capital and reserves.....	1,489.2	1,430.8	2,740.6	3,484.7	1,698.8	3,782.2	5,250.7
I. Other Liabilities.....	573.2	617.6	4,583.9	5,232.7	2,287.0	2,840.5	2,844.4
J. Total Liabilities.....	7,151.8	9,394.9	12,653.3	26,077.7	36,860.6	18,535.7	40,980.2

Source: Reserve Bank of Malawi

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

	2004	2005	2006	2007	2008	2009	2010
1. Tax Revenue	42,540.7	54,398.7	68,236.0	86,692.4	109,335.4	128,354.7	160,184.6
2. PAYE ¹	8,589.8	12,366.2	15,127.4	18,451.9	23,653.128	28,205.6	36,391.2
3. Company Tax.....	5,102.5	1,086.5	1,374.4	1,624.2	13,219.5	20,491.6	21,740.5
4. Provisional Tax.....	3,305.5	6,509.1	7,995.4	10,336.3	9,671.4	15,508.8	15,804.8
5. Withholding Tax.....	3,550.6	4,243.7	5,753.8	7,091.1	5,700.7	7,061.5	12,711.9
6. Import Duty ² (incl. surcharge).....	5,612.1	6,620.4	7,760.7	11,571.8	12,833.2	13,196.2	17,542.2
7. Surtax/Value Added Tax (VAT).....	13,331.4	6,620.4	7,877.8	9,562.3	37,668.6	40,310.6	50,172.5
8. Miscellaneous Duties.....	184.2	979.8	463.1	87.3	98.7	111.1	397.4
9. Excise Duty.....	5,768.8	7,538.5	9,217.7	11,668.7	17,301.8	19,108.3	22,888.6
10. Export Levy.....	-	-	-	-	-	-	-
11. Other	258.3	-1,559.4	-1,330.0	-2,278.7	-1,818.3	-2,476.9	-3,683.3
12. Collections of Arrears.....	-	-	-	-	-	-	-
13. Tax Refunds & Adjustment.....	-882.1	291.6	-1,483.2	-2,448.7	-2,684.9	-3,417.3	-5,853.9
14. Other (non-tax) Revenues.....	5,801.4	8,044.4	6,699.6	7,879.7	10,727.7	20,436.1	41,779.0
15. Total Revenue (1+14).....	48,342.1	62,443.1	74,935.6	94,416.2	120,063.1	148,790.8	201,963.6

Source: Ministry of Finance.

¹Pay As You Earn²Including Import Levy**Table 11: Central Government Operations: Expenditures (K'mn)**

	2004	2005	2006	2007	2008	2009	2010
1. Recurrent Expenditure.....	63,302.0	79,507.8	100,839.7	110,382.2	163,758.9	185,341.6	204,933.9
2. Wages and Salaries.....	14,139.4	18,843.2	22,058.3	27,188.6	33,908.4	41,816.2	51,362.9
3. Interest Payment.....	20,496.5	18,404.4	18,374.6	12,741.2	13,799.4	18,965.4	21,289.5
4. Other Expenditure.....	26,955.5	42,260.2	59,847.3	70,452.4	115,927.2	124,560.1	123,728.8
5. Other current transfers.....	5,181.0	16,375.3	22,669.1	30,091.3	63,380.0	84,045.0	85,979.5
6. Pensions and Gratuities.....	1,758.4	2,815.1	3,910.5	5,131.5	3,848.3	5,842.6	8,422.2
7. Un allocable Expenditures arrears).....	-	-	-	-	-	-	-
8. Special Expenditure ¹	335.0	-	-	-	-	-	-
9. Extra-budgetary.....	-	-	-	-	-	-	-
10. HIPC Expenditure.....	-	-	-	-	-	-	-
11. Development Expenditure (12+13).....	14,437.9	18,789.9	30,269.4	58,256.7	51,552.8	30,883.0	76,972.3
12. Domestically Financed.....	3,182.2	1,173.6	8,159.6	15,081.4	18,050.0	16,660.1	31,899.4
13. Foreign Financed.....	11,255.7	15,526.3	22,109.9	43,175.3	33,502.8	14,222.9	45,072.9
14. Net Lending (15-14).....	-	697.3	-	-	-	1,150.0	1,000.0
15. Lending.....	-	1,397.3	-	-	-	1,150.0	1,000.0
16. Repayment.....	-	700.0	-	-	-	-	-
17. Total Expenditure (1+11).....	77,739.9	98,995.0	131,109.1	168,638.9	215,311.7	217,374.6	282,906.2

Source: Ministry of Finance

¹Also includes mostly drought related expenditures

Table 12 Stocks managed by Reserve Bank of Malawi as at end 31 December 2009

Stock		(K'mn) Amount issued	(K'mn) Capital outstanding ¹	Price Range ²		Approximate effective yield (percent)
				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

¹ Amount 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: Balance of Payments Summary (K'mn)

	2006	2007	2008	2009	2010
1.0 Merchandise					
1.1 Exports (f.o.b).....	73,803.7	110,546.0	134,049.7	167,913.3	177,246.9
1.2 Imports (f.o.b).....	143,537.4	135,988.7	242,154.0	221,841.6	283,112.1
1.3 Trade Balance (1.1-1.2).....	-69,733.7	-25,814.4	-108,568.9	54,318.5	106,233.2
2.0 Services (net)					
2.1 Non- factor services.....	-28,120.2	20,899.2	37,471.1	38,670.3	48,363.2
2.2 Factor services.....	-4,847.3	3,155.2	3,461.2	5,374.7	8,600.7
2.3 Total services (2.1+2.2).....	-32,967.5	44,054.4	40,932.3	44,045.0	56,936.9
3.0 Balance on goods and services (1.3+2.3)	-102,701.2	18,240.0	-67,636.6	98,364.0	164,970.1
4.1 Private transfers.....	10,599.7	7,854.2	17,785.1	14,170.7	15,206.6
5.0 Current Account Balance (3.0+4.1).....	-92,101.5	-42,014.6	-131,716.2	-84,192.7	-147,990.5
6.0 Capital Account Balance (6.1+6.2).....	38,768.3	64,788.1	-110,305.4	-97,101.8	-102,385.0
6.1 Long-term capital					
(6.1.1+6.1.2+6.1.3+6.1.4+6.1.5).....	38,687.2	64,704.6	110,219.5	97,009.9	102,286.7
6.1.1 Government transfers (net).....	20,634.5	37,704.1	85,770.6	77,527.9	84,406.2
Receipts.....	20,734.3	37,774.4	85,849.7	77,618.7	84,509.5
Payments.....	99.8	70.30	79.10	90.80	103.24
6.1.2 Government drawings (net).....	6,112.3	12,042.9	9,607.6	9,761.1	6,976.0
Receipts.....	14,171.4	13,165.5	10,443.3	11,448.6	9,078.3
Payments.....	8,059.1	1,122.6	835.7	1,727.5	2,102.3
6.1.3 Foreign Direct Investment (net)	9,819.2	12,883.8	12,691.7	7,720.6	8,764.8
6.1.4 Public Enterprises (net).....	1,632.0	1,570.5	1,654.5	1,470.6	1,593.2
6.1.5 Private sector (net).....	489.1	503.3	495.1	529.8	546.5
6.2 Net short-term capital.....	81.1	83.5	85.9	91.9	98.4
7.0 Errors and omissions.....	30,626.5	-27,308.2	27,272.6	8,801.1	23,185.6
8.0 Balance before debt relief.....	-22,706.7	-4,534.8	5,861.8	21,710.2	-22,419.9
9.0 Debt relief.....	14,925.4	155.4	-	-	-
10.0 Balance after debt relief.....	-7,781.3	-4,379.4	5,861.8	21,710.2	-22,419.9
11.0 Change in Net Foreign Assets of the Banking System (- implies increase).....	7,781.3	4,379.4	-5,861.8	-21,710.2	22,419.9

Table 14 Selected Foreign Exchange Rates^{1,2}

End of	Malawi Kwacha per Pound		Malawi Kwacha Per U.S dollar		Malawi Kwacha Per Euro ³		Malawi Kwacha Per S.A Rand		Malawi Kwacha Per Zim dollar		Malawi Kwacha Per Zambian Kwacha	
	Buying	Selling	Buying	Selling	Buying	Selling	Buying	Selling	Buying	Selling	Buying	Selling
1995...	24.01	24.25	15.21	15.36	10.62	10.82	4.20	4.24	1.76	1.78	0.02	0.02
1996...	25.37	25.62	15.25	15.40	9.82	9.92	3.26	3.29	1.42	1.43	0.01	0.01
1997...	27.03	27.30	16.48	16.64	9.52	9.62	3.57	3.61	1.37	1.39	0.01	0.01
1998...	51.34	51.85	30.92	31.03	9.44	9.53	3.55	3.58	1.36	1.38	0.02	0.02
1999...	70.97	71.68	43.87	44.31	47.24	47.01	7.19	7.26	1.15	1.16	0.02	0.02
2000...	89.02	89.92	59.25	59.84	54.13	54.68	8.46	8.54	1.33	1.34	0.02	0.02
2001...	103.44	104.48	71.84	72.56	64.37	65.02	8.53	8.61	1.31	1.32	0.02	0.02
2002...	114.85	116.00	76.28	77.09	72.30	73.03	7.34	7.39	1.39	1.40	0.61	0.62
2003...	158.66	159.86	96.96	97.92	109.86	110.96	13.04	13.15	0.51	0.52	0.02	0.02
2004...	198.50	200.50	108.40	109.50	135.00	136.20	17.00	17.20	0.02	0.02	0.02	0.02
2005...	214.20	216.30	117.90	119.00	146.40	147.90	18.50	18.70	0.02	0.02	0.02	0.02
2006...	249.59	251.89	135.34	136.68	170.11	171.83	20.32	20.22	0.02	0.02	0.02	0.02
2007...	279.22	282.00	139.31	141.55	191.20	193.45	19.75	19.93	0.38	0.39	0.17	0.17
2008...	259.24	261.84	139.82	141.23	205.62	207.70	17.17	17.34	0.98	0.99	0.04	0.04
2009....	219.91	222.05	140.46	141.87	195.72	197.69	16.95	17.13	00.0	00.0	0.02	0.03
2010	231.27	233.59	149.74	151.23	197.90	199.89	20.47	20.67	0.00	0.00	0.03	0.03

¹Averages of daily rates quoted by the Reserve Bank for dealing with commercial banks in Malawi

²From 7th February 1994 the Malawi Kwacha exchange rates became market determined

³Before January 1999, these rates were quoted as Kwacha per Deutch Mark

Table 14: Commodity Imports and Exports¹ Value f.o.b (K'mn)

	2005	2006	2007	2008	2009	2009	2010
1. Imports	119.1	143.5	153.5	182.8	199.5	325.6	119.1
2. Domestic exports.....	59.2	73.4	111.3	113.8	121.2	159.2	59.2
3. Re-exports.....	1.0	0.4	-	0.1	0.1	0.2	1.0
4. Total exports (2+3).....	60.3	73.8	111.4	113.9	121.3	159.4	60.3
5. Visible trade balance (4-1)..	-58.8	-69.7	-42.2	-68.9	-78.2	166.2	-58.8
Indices (1994=100)							
Imports							
Volume.....	244.4	264.9	237.9	423.7	385.4	460.8	244.4
Unit value.....	1,156.2	1,285.6	1,356.1	1,356.1	1,366.0	1,457.9	1,156.2
Domestic exports:.....							
Volume.....	125.6	126.7	131.7	134.9	176.0	157.9	125.6
Unit value.....	1,577.8	1,864.3	2,454.7	3,206.2	3,314.9	2,532.9	1,577.8
Terms of trade.....	171.4	183.8	283.3	318.9	414.2	382.7	171.4

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 15: Domestic Exports by Main Commodity (K'mn)

	2003	2004	2005	2006	2007	2008	2009	2010
Tobacco....	20,072.3	28,209.6	32,938.9	39,403.5	57,006.3	61,088.0	57,230.2	87,490.4
Tea.....	3,666.9	5,141.2	5,909.9	6,514.9	7,200.4	10,190.5	7,000.0	12,078.7
Cotton.....	483.9	2,224.3	1,847.1	1,832.7	3,062.2	3,732.8	3,070.4	1,751.5
Sugar.....	4,884.5	4,444.4	4,887.2	6,503.0	6,756.4	7,681.0	8,496.4	10,324.3
Other.....	10,837.2	...	13,573.0	18,912.0	39,344.7	34,322.6	45,411.1	47,446.4
Total.....	42,252.0	54,419.6	60,251.3	73,803.7	113,370.0	117,014.9	121,208.1	159,225.0

Source: National Statistical Office

Table 16: Gross Domestic Product by Economic Activity (K'mn)

	2007	2008	2009	2010*	2011*
A. Agriculture, forestry and fishing	134,851.5	145,424.1	165,677.7	167,903.1	179,142.8
of which:					
i. Crop, animal production, hunting and related services.....	125,573.4	134,972.0	154,666.4	156,348.0	167,135.1
ii. Forestry and logging	5,130.2	5,489.8	5,846.6	6,226.5	6,600.1
iii. Fishing and aquaculture.....	4,148.0	4,962.3	5,164.7	5,328.6	5,407.7
B. Mining and Quarrying.....	5,093.8	5,726.6	6,458.5	9,869.4	12,522.9
C. Manufacturing.....	42,813.5	49,235.1	51,898.2	55,134.6	57,919.5
D+ E. Utilities.....	6,060.6	6,234.8	6,234.8	6,527.6	6,964.6
F. Construction.....	15,844.0	17,125.3	18,227.5	21,859.3	22,772.5
G. Wholesale and retail.....	80,069.0	86,485.7	91,335.8	95,989.5	102,564.3
H. Transport and storage.....	16,068.0	16,983.0	18,115.1	19,845.7	22,061.8
I. Accommodation and food service activities.....	7,325.4	7,918.4	8,966.7	10,573.7	12,146.2
J. Information and communication.....	13,724.9	21,656.5	23,688.2	28,277.8	31,218.0
K. Financial and Insurance activities.....	28,230.2	31,619.6	34,128.4	37,461.4	39,943.7
L. Real estate activities.....	20,671.0	21,615.5	22,806.2	25,001.8	25,993.6
M.+ N. Professional, scientific and technical activities, administrative and support service activities.....	7,022.7	7,530.1	7,987.5	8,828.7	9,406.6
O. Public administration and defence....	13,857.9	14,884.4	15,616.5	17,125.8	18,085.2
P. Education.....	8,508.1	9,442.0	9,886.3	10,805.8	11,383.1
Q. Human health and social work activities	18,882.7	20,802.9	22,122.4	24,373.9	25,436.4
R+S+T+U Other services, nec	17,646.1	18,296.5	18,946.8	20,504.1	21,235.0
GDP in 2006 constant	448,369.7	487,764.9	524,550.9	558,426.9	593,055.1
GDP per capita (current market prices).....	36,673.5	43,039.2	49,435.5	56,786.0	64,477.0
GDP at current prices	484,091.0	572,421.2	667,379.2	772,290.2	883,334.7

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 17: The National Composite Price Index (2000=100)

	All items	Food costs	Beverages and Tobacco	Clothing and Foot wear	Housing	Household operation	Transportation	Miscellaneous
Overall Weight	100.0	58.1	5.9	8.5	12.1	4.1	5.1	6.2
Period								
1990.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1991.....	108.2	108.4	106.5	104.8	114.1	104.4	112.1	105.9
1992.....	133.4	138.9	137.4	114.4	136.7	131.7	130.5	116.7
1993.....	163.8	175.7	180.1	126.2	159.0	158.4	149.4	149.9
1994.....	220.5	242.9	259.8	149.3	191.7	219.3	197.3	206.3
1995.....	404.2	408.6	463.6	231.9	325.9	385.2	332.4	337.1
1996.....	556.2	680.7	598.0	278.0	429.6	444.9	440.4	403.3
1997.....	607.1	736.8	701.2	296.6	480.9	504.6	486.6	435.1
1998.....	787.7	941.2	1,178.3	333.7	607.2	751.3	666.1	530.9
1999.....	1,140.5	1,346.0	1,734.0	417.7	991.5	981.5	971.5	1,015.1
2000.....	100	100	100	100	100	100	100	100
2001.....	122.7	117.6	131.0	130.5	132.9	129.3	129.7	122.1
2002.....	140.8	136.4	136.8	153.6	156.6	143.9	143.9	134.4
2003.....	154.3	143.6	165.8	166.8	180.0	172.9	172.1	148.3
2004.....	172.0	154.4	196.5	179.5	211.7	218.3	202.8	169.1
2005.....	198.5	181.0	240.6	192.8	236.9	269.0	230.1	182.6
2006.....	226.1	209.1	273.5	208.8	266.9	313.5	261.6	197.5
2007.....	244.1	224.7	302.6	221.2	291.4	336.2	289.2	211.6
2008.....	265.4	240.3	332.0	237.6	319.1	383.5	338.9	232.3
2009.....	287.7	258.0	369.0	259.1	328.3	452.8	380.1	263.1
2010.....	308.9	271.6	416.0	278.9	349.2	511.4	427.7	286.9

Source: National Statistical Office