

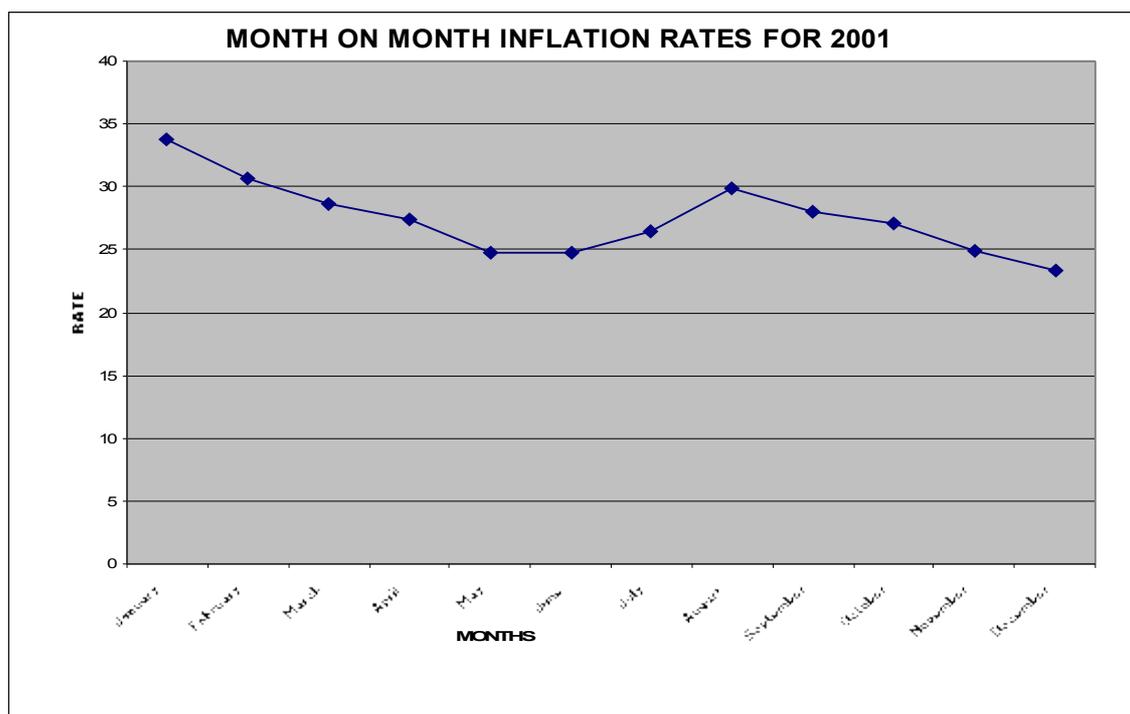
MALAWI STOCK EXCHANGE

ANNUAL MARKET PERFORMANCE REVIEW 2001

1. ECONOMIC PERFORMANCE

1.1 Inflation

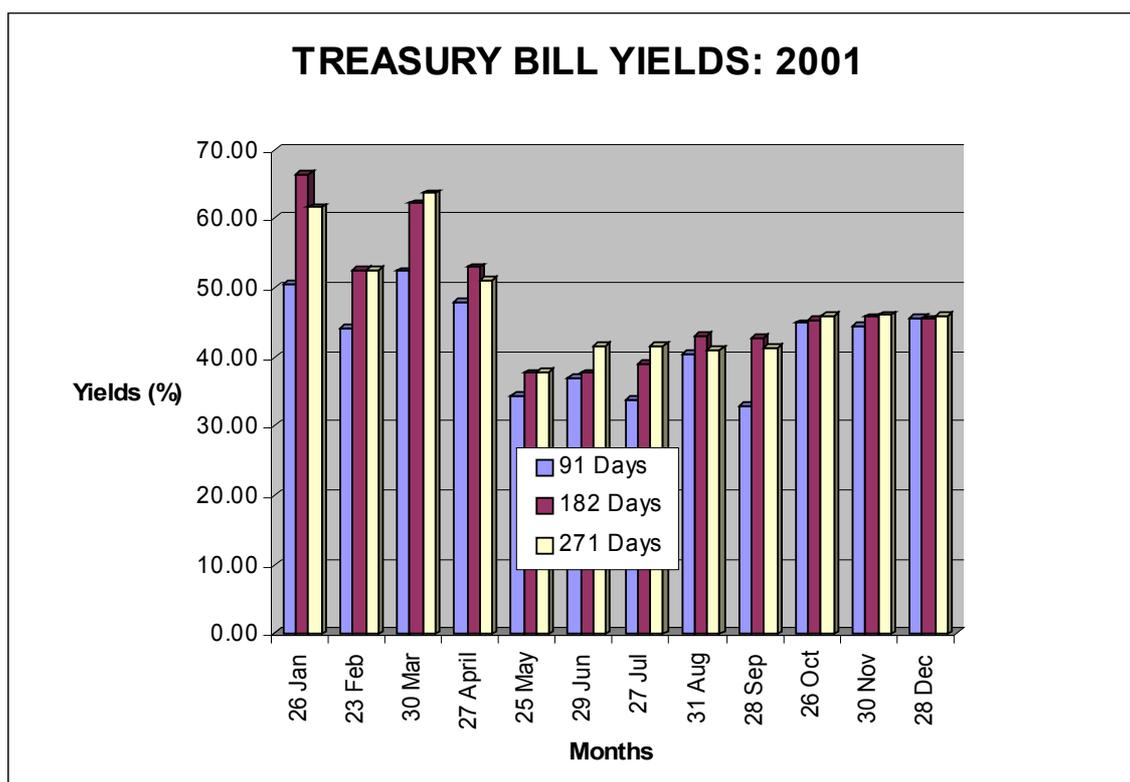
The rate of inflation as measured by the percentage changes in the consumer price index (CPI) is projected to close the year at 23.3 percent for the month of December but currently stands at 24.9 percent for the month of November, 2001. The projected 23.3 percent December end inflation rate is 12.1 points lower than the previous year's close at 35.40 percent. The decrease could be attributable to downward revisions of the price of petroleum products as well as the appreciation of the Kwacha. The appreciation of the Kwacha resulted into an influx of cheaper food imports from neighbouring Zimbabwe and South Africa. The country also experienced an influx of maize imports from Tanzania and this coupled with food imports from Zimbabwe and South Africa created intense competition especially in the maize business hence forcing the country's larger mills to reduce their prices effective November 1, 2001 by 10 percent. The drop in interest rates during the year under review has also contributed to the drop in inflation rates as they too have subdued effect on inflation. The exhibited trend of inflation rate towards the end of the year predicts a decrease in the annualised average national inflation rate to 27.5 percent down by 2 points from 29.5 percent annual inflation registered in 2000.



Note: CPI is a measure of changes in the cost of a representative basket of commodities while as average annual inflation is the average percentage change in the consumer price index.

1.2 Interest rates

The prime rates, which are, the base lending rates at the commercial banks were registered in the range of 51-53.00 percent at the beginning of the year and increased to 58-62.00 percent in mid April 2001. The increase in the base rate was in response to an increase in the Reserve Bank rate from 61.29 percent to 75.53 percent. The Bank Rate (RBM) closed the year at 46.80 percent reflecting a 14.49 percentage point decrease from an opening level of 61.29 percent while the commercial banks base lending rates closed the year at 45-46 percent. The yields on all tenors of Treasury bills exhibited a declining trend mainly due to the introduction of Reserve Bank of Malawi bills as most investors have shifted their demand towards the RBM bills because of higher returns above the normal Government Treasury bills. The 271-days Treasury bill yield declined from its lifetime high of 84.93 percent in January, 2001 by 38.91 percentage points to close the year at 46.02 percent. The Yield on the 182-days Treasury bill dropped to 45.52 percent from 67.63 percent registered at the beginning of the year 2001 while that of 91 days stood at 45.67 percent reflecting a 13.79 percentage points decrease.



1.3 Exchange rates

The Malawi Kwacha exhibited a continuous gain in its value against most currencies of the country's major trading partners. The appreciation of the Kwacha during the year under review is as a result of the accumulated foreign reserves resulting from tobacco proceeds and donor inflows and the absence of speculative tendencies by the Authorised Dealer Banks (ADB) against the Kwacha. The ADBs suffered

massive exchange rate losses from such previous tendencies when they failed to react timeously from a change of stance by the Reserve Bank of Malawi. The Kwacha has appreciated by 18.82 percent against the US Dollar from MK80.008/US\$ registered at the beginning of the year to close the year at MK67.333/US\$. Against the British Pound Sterling, the Kwacha has gained by 25.31 percent during the same period.

Within the sub-region, the Kwacha firmed vis-à-vis the official Zimbabwean Dollar rate by 18.6 percent to reach MK1.250 per Zimbabwean Dollar at the close of the year from an opening level of MK1.483 per Zimbabwean Dollar. The loss in value of the Zimbabwean Dollar was due to the economic instability resulting from the land invasion of white farms by the local Zimbabwean citizens. The instability experienced in the Zimbabwean economy trickled down to the South African economy, which saw the Rand depreciating in its value against not only the US Dollar but also the Kwacha. The Kwacha gained against the South African Rand by 112.14 percent from an exchange rate of MK10.9/ZAR registered in January, 2001 to MK5.138/ZAR registered at the close of the year under review.

The Reserve Bank of Malawi needs to be commended and encouraged for their role in the stabilisation of interest rates and exchange rates through proper monetary policy management. The stance taken by the Bank when it refused to buy excess foreign currency from the ADBs at high exchange rates needs to be applauded. The stand made it possible for the Bank to contain the depreciation of the Kwacha as the ADBs wanted to use the Bank in their drive for profit maximisation to the disadvantage of the economy. However, the basic problem still remains that interest rates are still too high and beyond the reach of most in the private sector. There is also a general consensus that fiscal policy discipline is still eluding the Treasury as the budget deficits continue to get worse.

2. MARKET PERFORMANCE

2.1 Market Statistics

In 260 business days of the year 2001, a total of 182,928,035 shares were transacted at the exchange at a total consideration of MK1,453,403,147.18 (US\$21,235,324) in 1,327 trades. This gives an average daily turnover of MK5,590,012.10 (US\$81,674.32) reflecting a 163.25 percent increase from the daily average turnover of MK2,123,473.22 registered in 2000. With regards to share volume, the daily average increased by 67.23 percent from the volume of 109,385,588 shares recorded in the preceding year of 2000. The highest sales of shares were recorded in the fourth quarter of the year with 142,757,563 shares traded at a total turnover of MK1,081,495,851.00 (US\$16,223,000) in 182 trades representing 78.04 percent of the traded shares in the year under review. The outstanding performance of the year

2001 is attributable to the block sales of 120,000,000 shares of Commercial Bank of Malawi to Stanbic of South Africa.

The Malawi All Share Index opened the year at 518.40 points and increased to its lifetime high of 578.47 points in May, 2001. This was however followed by a drop to close the year at 458.74 points. Overall, the MASI lost by 11.5 percent during the year under review. The foreign share index, represented by Old Mutual Plc remained stable over the first half of the year but dropped during the last half of the year to 213.68 points and increased to its life-time high of 238.89 points on March 9th, 2001 before closing the year at 188.54 points representing a 11.7 percent decrease. The drop in the Foreign Share Index is as a result of the depreciation of the South African Rand since OML plc price is denominated in Rand prices because of its dual listing. This in turn affected the Malawi All Share Index substantially.

Table 1: Market Statistics

YEAR	MKT. CAP MKm	MKT. CAP MKm*	TURNOVER MK	VOLUME of Shares
1st Qtr. 2001	684,811.55	11,571.35	104,996,690.48	12,377,812
2nd Qtr. 2001	684,874.41	11,634.21	43,543,207.20	1,006,140
3rd Qtr. 2001	578,776.26	11,837.15	223,367,398.50	26,786,520
4th Qtr. 2001	543,218.65	10,517.09	1,081,495,851.00	142,757,563
Total 2001	543,218.65	10,517.09	1,453,403,147.18	182,928,035
Total 2000	613,751.29	11,224.81	552,103,037.94	115,749,308

* Excludes non-Malawi register Old Mutual plc shares

2.2 Market liquidity

The liquidity level as measured by the ratio of Total Value of Trades to Market Capitalisation (TVT/MCAP) an indicator of the liquidity of the assets traded on the market during the year 2001 was registered at 13.82 percent up from 4.92 percent registered in 2000. While using the ratio of Total Value of trades to GDP (TVT/GDP) which measures the ability to trade economically significant positions on the stock market, exhibited the liquidity level of 1.50 percent reflecting an increase of 154.2 percent from 0.59 percent registered in 2000.

MARKET LIQUIDITY : 2000 & 2001					
YEAR	Mkt. Cap/GDP	Mkt. Cap/GDP*	TVT/GDP	TVT/Mkt. Cap*	Shares Traded/ Shares In Issue* %
Ended	%	%	%	%	
2000	656.62	12.01	0.59	4.92	7.16
2001	560.89	10.86	1.50	13.89	11.27

* Excludes non-Malawi register Old Mutual plc shares

2.3 COMPANY TRADING

All the eight listed stocks were active during the year. Regardless of all being active, Commercial Bank of Malawi registered the highest sales with a trade volume of 121,017,366 shares accounting for 66.156 percent, seconded by National Bank of Malawi with 51,698,200 shares accounting for 28.26 percent. The highest price gainer was National Bank of Malawi by 13.82 percent, which opened the year at MK6.15/share to close at MK7.00/share. Other gainers were Commercial Bank of Malawi, National Insurance Company Limited, and Blantyre Hotels Limited who closed 9.15 percent, 6.67 percent and 0.69 percent higher respectively. Losers in the year under review were PIM (-11.11%), OML (-11.76%) and SUCOMA (-3.64%) with respective counters closing at MK 2.40, MK 150.00 and MK 5.30 per share.

Company	Opening Price	Closing Price	Change in Price	Share Vol. Trade	% Traded
BHL	4.37	4.40	0.03	40,200	0.022
CBM	7.10	7.75	0.65	121,017,366	66.156
NBM	6.15	7.00	0.85	51,698,200	28.26
NICO	1.50	1.60	0.10	521,400	0.285
PCL	16.50	16.50	0.00	3,016,712	1.649
PIM	2.70	2.40	-0.30	1,345,916	0.736
SUCOMA	5.50	5.30	-0.20	4,755,890	2.599
OML	170.00	150.00	-20.0	532,351	0.291
				182,928,035	100.00

3. MARKET DEVELOPMENT

A lot of market developments have happened during the year under review hence instead of giving a detailed analysis, we have focussed our attention on the major developments which have a direct or an indirect bearing on either the stock market performance or development. Below are some of the market developments that happened during the year under review:

- During the 2001/2002-budget presentation, the Dividend tax account was abolished. A 10% withholding tax on dividend distributed was however introduced.
- Withholding tax threshold on interest accruing from savings in commercial bank deposits has been increased from MK 500.00 to MK 10,000.00.
- The Exchange has granted a licence to a second stock broking company, NICORP securities Limited, which will start its operations in January, 2002 in partnership with Corporate Securities Limited, a member of the Zimbabwe Stock Exchange.

- During the year under review, the Reserve Bank of Malawi through the Malawi Stock Exchange approved the first two issues of commercial paper on the Malawi market. The paper is not listed yet at the stock exchange but the exchange hopes to benefit from its involvement in the future due to public awareness and improved market liquidity, once listed and traded on the exchange.
- The Malawi Stock Exchange, in its drive to stimulate stock market investment, through market awareness campaign, launched a jingle advertisement on both Radios 1 and 2 of Malawi Broadcasting Corporation. The response was overwhelming judging from the number of enquiries from the public.
- The Malawi Stock Exchange and the Reserve Bank of Malawi are in the process of reviewing/finalising a revised draft of the new Malawi Securities Law to replace the existing Capital Market Development Act of 1990. They are also drafting the Central Depository and Clearing bill, which will facilitate electronic clearing and settlement and enable dematerialisation of share certificates.
- The MSE has lined up several stock market investment seminars, which will also culminate in the drafting of a Strategic Plan for the Exchange in the first quarter of 2002.
- The MSE witnessed its first scrip dividend issue, which was done by SUCOMA.
- The MSE expects its first rights and public offering (new capital raising) on the market by Blantyre Hotels limited by April 2002.
- The MSE expects at least one new listing by June 2002, being Sunbird Tourism and Hotels Limited.

KEY MACROECONOMIC INDICATORS				
	Jan. 2000	Dec. 2000	Jan. 2001	Dec. 2001
Inflation Rate	30.20	35.40	33.70	23.30
RBM Bank Rate	47.00	50.23	61.29	46.80
Prime Rate	47.50	51-53.00	51- 53.00	45- 46.00
TB YIELD				
91 Days T-Bill	39.32	67.46	50.55	45.67
182 Days T-Bill	51.90	64.78	66.43	45.52
271 Days T-Bill	47.30	76.75	61.60	46.02
RBM BILL YIELD				
60 Days RBM Bill	-	73.64	72.51	-
63 Days RBM Bill	-	-	39.86 (June)	46.36
91 Days RBM Bill	-	-	40.15 (June)	46.37
EXCHANGE RATES				
MK/US\$	46.618	80.008	80.008	67.333
MK/GBP	77.435	121.105	122.291	97.589
MK/ZAR	7.585	10.792	10.900	5.138
MK/DEM	24.040	38.792	39.918	31.119
MK/YPY	0.454	0.715	0.704	0.534
MK/ZWD	1.247	1.483	1.483	1.250

