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The World Bank  
1818 H Street NW  
Washington DC 20433  
Telephone: 202-473-1000  
Internet: [www.worldbank.org](http://www.worldbank.org)

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This edition was prepared by Jakob Engel (Senior Country Economist, Task Team Leader), Anwar Mussa (Economist, co-Task Team Leader), Efrem Zeph Nath Chilima (Senior Private Sector Specialist, co-Task Team Leader), Lina Marcela Cardona (Senior Economist), Innocent Njati Banda (Financial Sector Specialist), Miles McKenna (Country Officer), and Alexandra Soininen (Consultant). The report was edited by Marcello Arrigo (Consultant).

Abha Prasad (Practice Manager, Economic Policies), Alwaleed Alatabani (Practice Manager, Finance, Competitiveness and Investment), Firas Raad (Country Manager, Malawi), Milena Stefanova (Operations Manager, Malawi), and Nathan M. Belete (Country Director, Malawi) provided overall guidance. The team wishes to thank Aghassi Mkrtchyan (Lead Country Economist) and peer reviewers Angella Faith Montfaucon (Senior Economist) and Blerta Qerimi (Senior Private Sector Specialist) for their constructive input.

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The World Bank team welcomes feedback on the structure and content of the Malawi Economic Monitor. Please send comments to Jakob Engel ([jengel@worldbank.org](mailto:jengel@worldbank.org)), Efrem Chilima ([echilima@worldbank.org](mailto:echilima@worldbank.org)) and Anwar Mussa ([amussa@worldbank.org](mailto:amussa@worldbank.org)).

# ABBREVIATIONS

AfCFTA	African Continental Free Trade Area	NOCMA	National Oil Company of Malawi
CBOE	Chicago Board Option Exchange	NPL	Non-Performing Loan
DSA	Debt Sustainability Analysis	NSO	National Statistical Office
EPU	Economic Policy Uncertainty	PFM	Public Financial Management
ESCOM	Electricity Supply Corporation of Malawi	PPG	Public and Publicly Guaranteed
FCS	Food Consumption Score	PPP	Purchasing Power Parity
FRED	Federal Reserve Economic Data	PPTS	Percentage Points
FY	Financial Year	PSIP	Public Sector Investment Programme
GDP	Gross Domestic Product	PV	Present Value
HIPC	Heavily Indebted Poor Countries	RBM	Reserve Bank of Malawi
IMF	International Monetary Fund	ROA	Return on Assets
IPC	Integrated Food Security Phase Classification	ROE	Return on Equity
KG	Kilogram	SADC	Southern African Development Community
LRR	Liquidity Reserve Requirement	SME	Small and Medium-sized Enterprises
MEM	Malawi Economic Monitor	SOE	State-Owned Enterprise
MERA	Malawi Energy Regulatory Authority	SSA	Sub-Saharan Africa
MFMod	World Bank Macroeconomic and Fiscal Model	TPU	Trade Policy Uncertainty
MoFEA	Ministry of Finance and Economic Affairs	US	United States
MT	Metric Tons	US\$	United States Dollar
MWK	Malawian kwacha	VAT	Value-Added Tax
NDVI	Normalized Difference Vegetation Index		

# OVERVIEW

## Malawi's economy is in a deep and protracted crisis marked by elevated inflation, declining living standards, and high rates of food insecurity

Since 2020, Malawi's economy has experienced a deep and protracted economic crisis. Economic growth rates have dropped from an average of 4.1 percent (2011–2019) to 2.2 percent since 2020. This economic growth rate is below the population growth rate of 2.6 percent, resulting in declining incomes for the average Malawian. In 2024, economic output growth further slowed to 1.8 percent, influenced by an El-Niño-induced drought and continued foreign exchange shortages.

While external shocks like cyclones, droughts and geopolitical instability have adversely affected Malawi, their impacts were exacerbated by policy shortfalls. Neighboring countries have tended to recover more quickly from the same shocks but Malawi's challenges have been compounded by long-standing policies that have contributed to widening fiscal and current account deficits. These include a procyclical fiscal policy stance, an overvalued official exchange rate, unsustainable borrowing practices, increasing trade restrictions, and price controls. Exchange rate distortions have grown, driving parallel market premia to periodically exceed 150 percent. The government's economic reform program supported by the International Monetary Fund (IMF) Extended Credit Facility and development partner support, was launched in November 2023 to restore macroeconomic stability. However, program implementation faced numerous challenges and was not able to stabilize the economy, resulting in its automatic termination in May 2025.

Many Malawians are facing food insecurity, a situation worsened by climatic shocks, insufficient investment in climate-resilient agriculture, and limited foreign exchange, which hampers the ability to import food and agricultural inputs. Since the 2022/23 cropping season, staple grain production has consistently fallen short of domestic needs. The latest crop estimates predict maize production at around 2.9 million metric tons for the 2024/25 season, below the national requirement of at least 3.3 to 3.5 million metric tons, indicating that many Malawians will face food shortages later this year. Although this season maize production increased by 5.4 percent compared to the previous year, it remains 24.7 percent lower than the average from 2019–23. Exchange rate distortions greatly reduce the availability of forex, which severely impacts the ability to import food and agricultural raw materials. As a result, millions of Malawians will continue to face food insecurity.

Inflation remains elevated, influenced by high food prices, exchange rate dynamics, and monetary expansion fueled by high fiscal deficits. In early 2025, a spike in maize prices and continued high money supply growth to support large fiscal deficits, pushed inflation to over 30 percent after a slight decline at the end of 2024. This was compounded by inadequate foreign exchange in the official market, resulting in increased activity and a depreciation of the kwacha in the parallel market, further contributing to inflationary pressures. By May 2025, inflation had moderated to 27.7 percent, driven by a decline in food inflation at the start of the harvesting period, though non-food inflation remained elevated. The strong correlation between money growth and inflation suggests that fiscal deficits are a key source of inflationary pressure. Continued expansionary fiscal policy has constrained the ability of the Reserve Bank of Malawi (RBM) to effectively bring inflation under control.

Malawi's private sector is facing a challenging business environment. The impacts of deteriorating macroeconomic conditions and acute input shortages are further strained by restrictive trade policies, including newly imposed import bans on a wide range of goods. Foreign exchange shortages result in increased costs for exporters, while implicitly subsidizing importers with access to foreign currency at

the official rate. They further disincentivize investment in export-oriented sectors. Operational costs are further strained by load-shedding and fuel shortages, while restrictive trade policies, including newly imposed import bans on a wide range of goods, add to these difficulties.

**The high cost of borrowing further limits investment and expansion opportunities.** Despite easing some emergency measures, a long-term solution to address structural foreign exchange market challenges has yet to be implemented. The RBM has announced a reduction in the mandatory conversion rate for export revenues from 30 percent to 25 percent, with further reductions for qualifying companies anticipated. However, the disappointing tobacco and macadamia harvests have neither significantly bolstered foreign exchange reserves, nor reduced the exchange rate differential between the official and the parallel market.

### **Fiscal imbalances are becoming more pronounced due to expenditure overruns and revenue shortfalls, increasing the need for borrowing and deepening current account imbalances**

**In the fiscal year (FY) 2024/25, the government deviated from its approved budget, leading to over-spending and revenue shortfalls.** Revenues were 1.9 percentage points of gross domestic product (GDP) below expectations due to overly ambitious projections and delays in implementing tax policy measures. Expenditures exceeded the approved level by 1.6 percentage points of GDP due to increased allocations to development projects and higher than anticipated increase in civil service wages. As a result, the budget deficit reached 10.5 percent of GDP, surpassing the approved target of 7.0 percent by 3.5 percentage points or MWK 720 billion. The pattern of fiscal overruns has worsened over recent years and contributed to Malawi's fiscal deficits being among the highest in Africa. They are largely financed by costly domestic borrowing, with interest payments on domestic debt reaching 7.0 percent of GDP in 2024, consuming 45.8 percent of domestic revenue and crowding out public investments and social spending.

**The 2025/26 budget is poised to maintain a trajectory of high spending, influenced by election year pressures.** The approved budget anticipates a deficit of 9.2 percent of GDP, driven by high spending and based on optimistic macroeconomic assumptions (3.4 percent GDP growth and 22.3 percent inflation for FY 2025/26). However, several economic challenges may impact these assumptions, including ongoing shortages for critical inputs, a fragile agricultural recovery, and reduced external assistance. The International Food Policy Research Institute estimates that reduced bilateral support could lower GDP by one percent in 2025, with long-term negative impacts on Malawi's human capital and agricultural productivity (Cockx et al. 2025). The World Bank forecasts GDP growth at 2.0 percent for 2025 and inflation to remain elevated. Despite historical challenges in revenue collection, the budget aims to increase tax revenue to 16.2 percent of GDP, relying on anticipated improvements in tax administration and enforcement. Expenditures are expected to total 30 percent of GDP, with domestic interest payments expected to consume 50.2 percent of tax revenue in FY2025/26. If these targets are not met, the fiscal deficit may again surpass 10 percent of GDP, especially given the historical trend of deficits significantly exceeding approved budgets during election years.

**Malawi's public debt situation remains challenging, with the restructuring of external commercial debt, initiated in 2022, still unresolved.** The joint World Bank/IMF 2025 Debt Sustainability Analysis (DSA) (forthcoming) classifies Malawi's external and overall public debt as "in distress," consistent with the findings of the previous November 2023 DSA. There is potential for external debt to become sustainable in the medium term, provided the external debt restructuring process initiated in 2022 is successfully completed. While Malawi has made progress with official bilateral creditors, agreements with external commercial creditors, especially Afreximbank and Trade and Development Bank, are proceeding slowly. Further delays in finalizing the restructuring will exacerbate the government's financing challenges.

**In 2024, Malawi's current account deficit reached 22.0 percent of GDP, driven by declining export competitiveness and persistent fiscal deficits.** The trade deficit increased by 27.0 percent in the first quarter of 2025 compared to the same period in the previous year. In May alone, imports were 9 times higher than exports. If

this trend continues, the country may face an even larger trade imbalance by the end of 2025, further straining foreign currency reserves and the current account. Elevated levels of government spending have contributed to a savings-investment gap, leading to the importation of capital and exacerbating the current account imbalance. The large gap between the parallel foreign exchange market and the official rate remains wide, further impeding official exports. These distortions, along with structural issues and the widening trade deficit, have led to declining reserves. Currently, official reserves cover less than one month of import cover, while economy-wide reserves cover 2–2.5 months. The RBM has been a net seller of foreign exchange in recent months.

**Against these headwinds, the banking sector exhibits resilience, though credit vulnerabilities and sovereign risks are rising.** Malawi's banking sector has strong capital buffers, adequate liquidity, and profitability but the growing non-performing loan (NPL) levels over the past year, at 6.5 percent in May, suggests potential credit vulnerabilities in some banks. While currently manageable, these relatively heightened levels could be exacerbated by current economic instability. The significant increases in profits earned by Malawi's commercial banks in recent years has been notable in an otherwise challenging economic outlook, but this profitability is driven by high levels of government borrowing. Credit allocation to the private sector has declined in inflation-adjusted terms over the past years.

### **Amidst rising global and domestic uncertainty, macroeconomic stabilization is becoming paramount to avoid a further deterioration of the economy**

**Malawi's economy continues to be in a vulnerable position.** GDP growth for 2025 has been downgraded to 2.0 percent, from 4.2 percent projected at the end of 2024, due to a weaker-than-expected agricultural season, the suspension of some bilateral foreign assistance and the continued difficulties faced by the private sector to import critical inputs. The premature end of the IMF program may also likely have implications for other external financing. Real GDP growth is projected at 2.4 percent in 2026. Continued economic stagnation will impede efforts to reduce poverty.

**Fiscal and external imbalances continue to increase.** The budget deficit is expected to widen in 2025, driven by election year spending and the need to absorb some critical expenditures, including those previously financed through aid flows that are now declining. The ongoing structural challenges in the exchange rate market will continue to incentivize imports and discourage export growth, deepening external imbalances. The outlook is subject to significant downside risks, including potential fiscal overruns, especially in the context of election spending pressures, that could entrench macroeconomic instability.


















**As elections approach, macro-fiscal risks are rising, leaving Malawi susceptible to external shocks and other crises.** Continued delays in addressing persistent fiscal and current account deficits increase the risk of further deterioration. External conditions are also becoming increasingly less favorable as foreign aid flows continue declining and global trade uncertainty spills over into Malawi. Climate-related shocks are also becoming more severe and frequent. Finally, elections create their own fiscal risks as spending and borrowing pressures intensify.

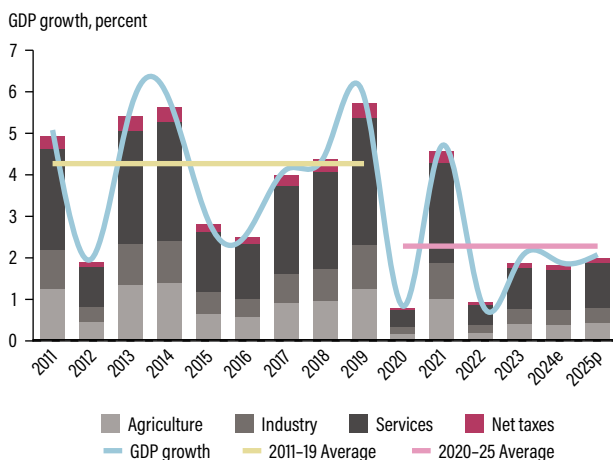
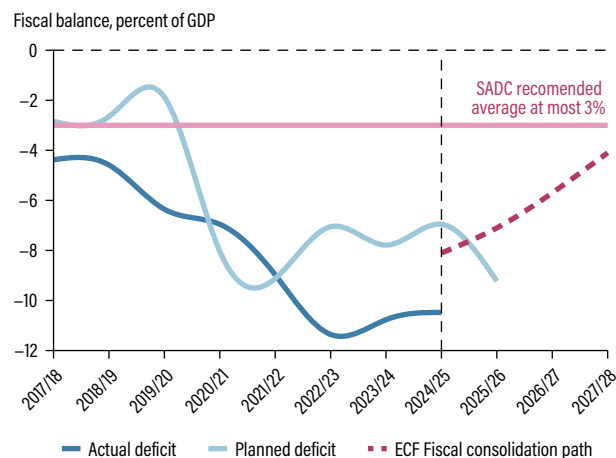
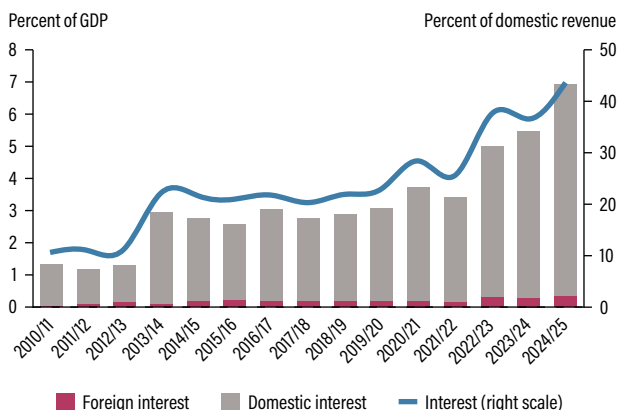
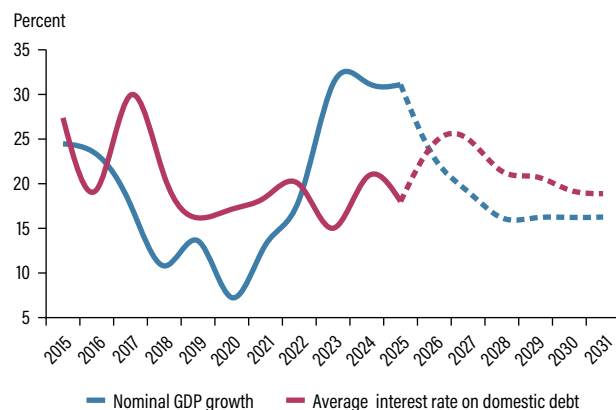
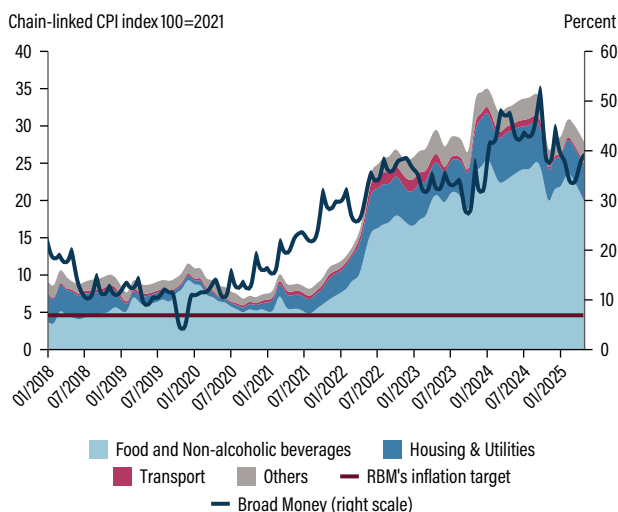
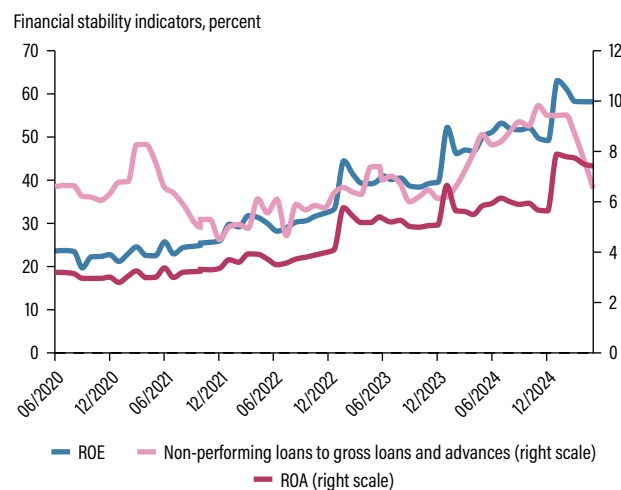
**As Malawians navigate both global and domestic uncertainty, the 21<sup>st</sup> edition of the Malawi Economic Monitor argues for the importance of taking urgent and targeted actions to stabilize the economy.** Malawi's economy is facing increasing pressure from rising imbalances, shifting global trade and aid dynamics, and the upcoming general elections. It will be important to focus on stabilization, along with a coherent macroeconomic framework that does not further exacerbate a deterioration of fiscal and external balances. There are some bright spots in the economy, especially through mega-projects in the energy and mining sector that are advancing. For these to help drive growth, sectoral and macro-fiscal reforms will need to move forward to ensure the country makes the most of these opportunities.

**To create the conditions for growth, there is a need to shift from “business as usual”. This will require urgent reforms in three areas:**

- i) **Restoring macroeconomic stability:** Increasing domestic revenues through reforms to increase the progressivity of the tax system and the efficiency of tax administration, reducing wasteful spending, finalizing debt restructuring and controlling borrowing and reducing inflation by limiting money supply growth.
- ii) **Supporting investment and export growth:** Phasing out the implicit fuel subsidy, implementing reforms to enable the mining sector to support growth over many decades, removing foreign exchange surrender requirements and reducing trade barriers.
- iii) **Building resilience and protecting the poor:** Addressing the growing risks from climate change by investing in climate-resilient agriculture, increasing the shock-responsiveness and sustainability of the social protection system and mitigating food insecurity risks by importing grain for the coming lean season.

**TABLE O.1** Priority Policy Areas and Key Actions

 <b>1. Restoring macroeconomic stability</b>			
<b>Increase domestic revenues</b>	Address significant exemptions in the tax code (especially on VAT) and move forward with tax administration and digitization reforms.	Short	
<b>Improve the efficiency of public spending</b>	Improve oversight of the wage bill to remove ghost workers, increase the effectiveness of PFM systems and strengthen the PSIP framework by improving screening criteria and cancelling idle or underperforming projects.	Short	
<b>Finalize debt restructuring and reduce borrowing</b>	Conclude external debt restructuring to sustainably deliver debt relief and contain domestic borrowing by sticking to approved budgets.	Short	
<b>Control inflation</b>	Limit the growth of the money supply and halt monetary financing of the deficit, while addressing supply-side constraints, especially through increased agricultural production and improved access to food imports.	Short	
<b>Remove distortions in the foreign exchange market</b>	Ensure that the official exchange rate reflects market fundamentals, and that fiscal and monetary policy are supporting the removal of distortions.	Short	
<b>Minimize SOE fiscal risks</b>	Strengthen analysis and disclosure of fiscal risks emanating from SOE operations and incorporate quasi-fiscal subsidies in budgets.	Medium	
<b>Safeguard financial sector stability</b>	Moderate borrowing from the financial sector to reduce risks associated with the sector's significant exposure to government due to the rapidly growing holdings of treasury securities.	Medium	
 <b>2. Supporting investment and export growth</b>			
<b>Phase out implicit fuel subsidy</b>	Address fuel shortages by making pump prices cost-reflective and removing distortions in the fuel market.	Short	
<b>Maximize the benefits from Malawi's mineral wealth</b>	Increase efficiency and improve transparency of sector by streamlining permitting, creating a model MDA to standardize fiscal terms, define government equity stake, reduce discretionary tax incentives and clarify the governance of the planned sovereign wealth fund.	Medium	
<b>Phase out foreign-exchange surrender and conversion requirements</b>	Clarify new regulations on export surrender requirements with a focus on steering foreign exchange towards the most productive firms and the most critical sectors.	Short	
<b>Remove trade barriers</b>	Convert import bans to tariffs and move forward with rationalization of non-tariff barriers.	Short	
 <b>3. Building resilience and protecting the poor</b>			
<b>Invest in climate-resilient agriculture</b>	Reallocate spending from the fertilizer subsidy to improve early warning systems for pests, diseases and extreme weather, invest in irrigation systems and climate-adapted crops and varieties, and promote climate-smart agriculture.	Medium	
<b>Implement Social Protection Policy</b>	Move forward with implementation of new social protection policy to increase sustainability and shock-sensitivity of system.	Medium	
<b>Import food</b>	Ensure sufficient food for the coming lean season by pre-positioning imports of grain.	Short	

**FIGURE O.1** A snapshot of Malawi's recent economic developments**a. Real GDP growth has been subdued since 2020****b. Initially approved budgets are not adhered to****c. Interest payments are approaching 50 percent of domestic revenues and 7 percent of GDP****d. Malawi's debt dynamics are unfavorable as returns from borrowing have been below yields****e. Inflation remains elevated, amid money supply growth and high food prices****f. Malawi's banks continue to be extraordinarily profitable, with non-performing loans elevated but stable**

Sources: World Bank using MoFEA, MFMOD, NSO, RBM, IMF and 2025 DSA (forthcoming) data.

Notes: CPI = Consumer Price Index; ROE = Return on equity; ROA = Return on assets

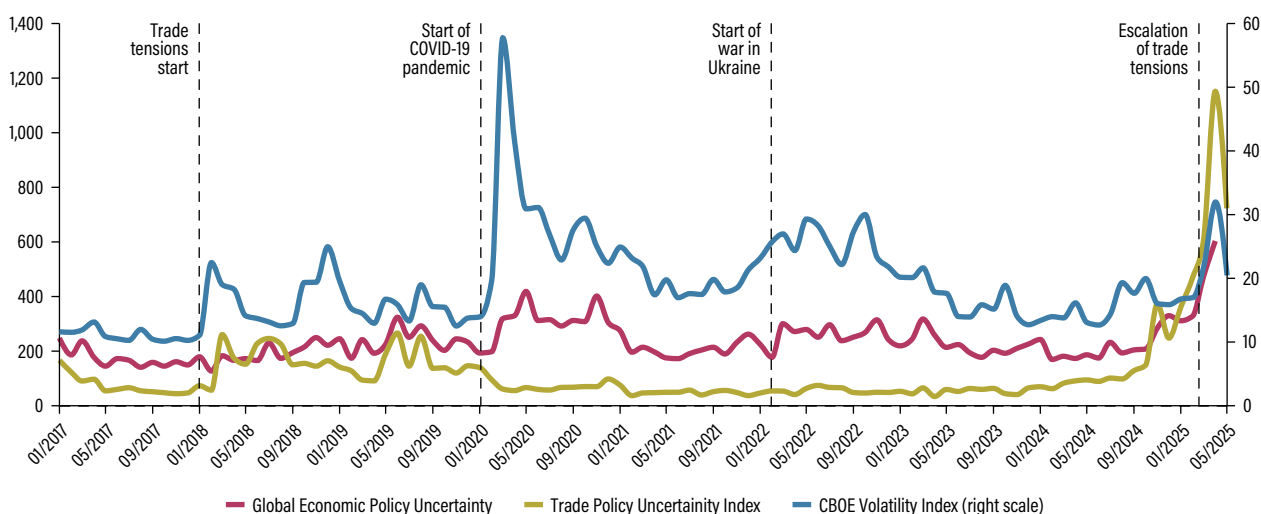
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## GLOBAL AND REGIONAL CONTEXT

**The global economy faces significant volatility, as heightened policy uncertainty adversely impacts growth prospects**

Policy uncertainty and financial market instability have considerably worsened the economic outlook for 2025 (Figure 1). The imposition of higher tariffs is expected to disrupt global supply chains, raise production costs, and postpone crucial investment decisions. Policy uncertainty lingers, and some bilateral tariffs remain significantly higher than at any time in the last 70 years.

**FIGURE 1** The global economy has entered a volatile phase



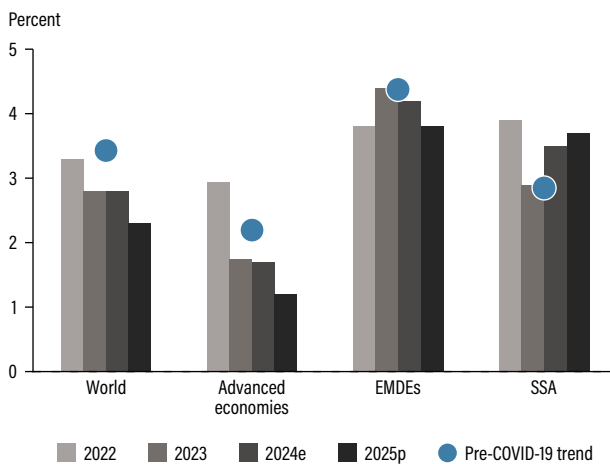
Sources: World Bank elaboration based on Trade Policy Uncertainty Index, Federal Reserve Economic Data (FRED), and Index of Global Economic Policy Uncertainty.

Note: The Trade Policy Uncertainty (TPU) Index, constructed by the International Finance Division of the Federal Reserve Board, measures media attention to news related to trade policy uncertainty. The Global Economic Policy Uncertainty (GPEU) Index is a GDP-weighted average of national EPU indices for 20 countries: Australia, Brazil, Canada, Chile, China, France, Germany, Greece, India, Ireland, Italy, Japan, Mexico, the Netherlands, Russia, South Korea, Spain, Sweden, the UK, and the US. The CBOE Volatility Index measures market expectation of near-term volatility, as conveyed by stock-index option prices.

**GDP growth forecasts are more uncertain than in past years, with baseline projections indicating a broad-based downgrade.** Accounting for developments and policy pronouncements as of late May 2025, global economic growth is projected to decelerate to 2.3 percent in 2025—a decline from 2.8 percent in 2024, and 0.4 percentage points below the January forecast (World Bank 2025a). This downward revision encompasses both developed and developing economies, where recent growth trends were already weaker than before the COVID-19 pandemic—except for Sub-Saharan Africa (SSA) (Figure 2). The slowdown is exacerbated by expectations of slumping global trade growth and declining cross-border investment flows. Many trade-dependent developing nations face challenges from reduced exports, declining commodity prices, tighter financial conditions, and elevated debt levels.

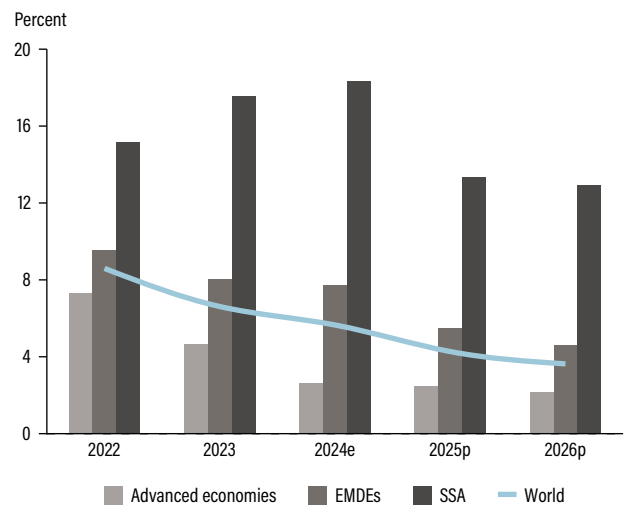
**While global inflation is easing, there is uncertainty about its trajectory.** The global inflation rate is estimated to drop from 5.7 percent in 2024 to 4.3 percent in 2025 (IMF 2025) (Figure 3), as diminishing demand and less-constrained supply push down the prices of oil and certain other commodities. Nonetheless, policy and geopolitical uncertainty may exert upward pressure on consumer prices, which could potentially trigger a resurgence of inflation. Increasing inflation in advanced economies will tighten global financing conditions further, and the need to manage existing debt obligations in emerging markets will further complicate the economic environment for these economies. Moreover, while slightly mitigating inflationary pressure, falling commodity prices also threaten growth prospects in the two-thirds of developing economies that depend on commodity exports.

**FIGURE 2** GDP growth rates for 2025 are projected to include broad-based downgrades, but SSA remains resilient



Source: World Bank based on Global Economic Prospects, June 2025 data.  
Notes: Pre-COVID-19 trend refers to the average growth rate over 2015–2019.  
p = projection.

**FIGURE 3** While inflation continues to decelerate, significant risks remain



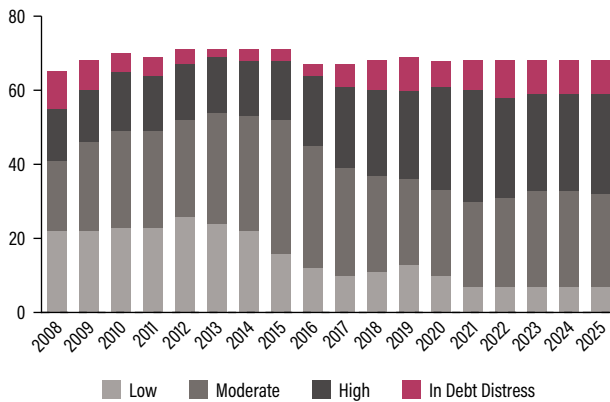
Source: World Bank based on World Economic Outlook, April 2025 data.

**In this context, economic growth in Sub-Saharan Africa is projected to remain resilient.** GDP growth in the region is expected to rise from 3.5 percent in 2024 to 3.7 percent in 2025, but remains subdued relative to earlier expectations, reflecting a constrained macroeconomic environment (World Bank 2025b). Elevated public debt levels, high interest burdens, and increased debt-servicing costs continue to limit fiscal space. 36 out of 68 low-income countries are deemed at high risk of debt distress or already in debt distress, compared to just 19 a decade ago (Figure 4). This spurs the need for fiscal consolidation in several countries, even as pressing financing requirements persist amid a decline in international development assistance.

**Elevated bond yields in advanced economies are likely to exacerbate the diversion of global financial flows away from Sub-Saharan Africa, compounding the strain on the region's macroeconomic environment.** Reacting to persistent global volatility and heightened risk aversion, investors are increasingly reallocating capital toward perceived safe-haven assets and stable markets—primarily within developed economies (Figure 5). This reallocation has come at the expense of financial inflows to Sub-Saharan Africa, further tightening the region's access to external financing. The resulting contraction in capital availability will exert upward pressure on domestic borrowing costs, just as central banks are navigating the delicate process of monetary policy normalization. Together, these dynamics risk dampening domestic investment and consumption, thereby suppressing aggregate demand and impeding economic recovery across the region. Domestically, recent and ongoing political instability and conflict—particularly in Sudan, Democratic Republic of Congo, and Mozambique—threaten to undermine economic performance, with risks of heightened food price inflation and disrupted supply chains.

**FIGURE 4** More than half of low-income countries are either in debt distress or at high risk of it...

Debt distress risk level or in debt distress

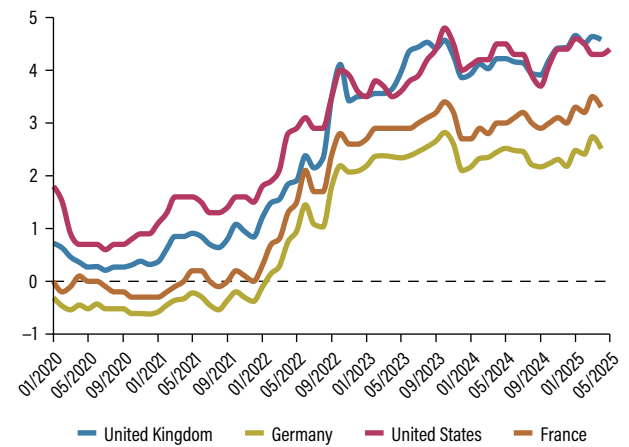


Source: World Bank-IMF LIC DSD Database as of May 2025.

Note: Classifies 68 low-income countries as at low, or moderate, or high risk of debt distress, or already in debt distress.

**FIGURE 5** ...while global financial conditions are tightening

Percent



Source: World Bank on FRED data May 2025.

Note: 10-year yields on government securities from select advanced countries.

**Softening inflation across many African economies presents an opportunity for monetary easing.**

The unwinding of tight monetary policy is contingent upon the transience of recent inflationary upticks. Should inflationary and currency depreciation pressures remain contained, central banks may lower policy rates, potentially bolstering domestic consumption and investment.

## 2

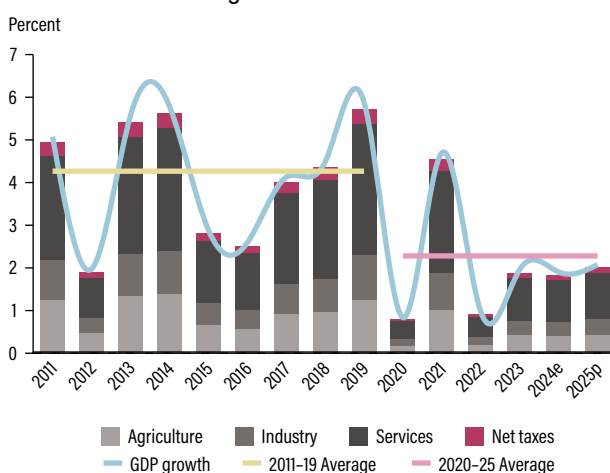
## RECENT ECONOMIC DEVELOPMENTS

### Malawi's economy remains under significant strain, with decreasing per capita incomes and rising food insecurity

Since 2020, the Malawian economy has faced protracted difficulties. After averaging 4.1 percent between 2011 and 2019, the GDP growth rate sharply declined in 2020 at the height of the COVID-19 pandemic (Figure 6) and has averaged 2.2 percent since, below the population growth rate of 2.6 percent, which implies a decline in the income of the average Malawian over this period.

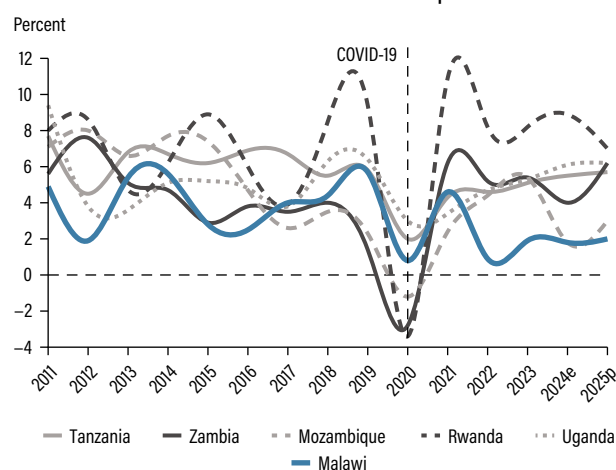
While Malawi has experienced frequent external shocks—such as cyclones and drought—its subdued economic performance has been driven by policy choices across successive governments. External shocks have compounded Malawi's economic challenges, but neighboring countries impacted by the same events have generally recovered much more rapidly (Figure 7). This suggests that Malawi's economic challenges are in part driven by policies enacted over successive governments that amplify the country's vulnerability and weaken its ability to absorb shocks. This includes a highly procyclical fiscal policy, an overvalued and fixed official exchange rate, unsustainable borrowing, a restrictive trade environment, and increasingly more stringent capital and price controls.

**FIGURE 6** Real GDP growth has been subdued since 2020...



Source: World Bank, based on NSO and MFMOD data.

**FIGURE 7** ...and is lower than in Malawi's peers



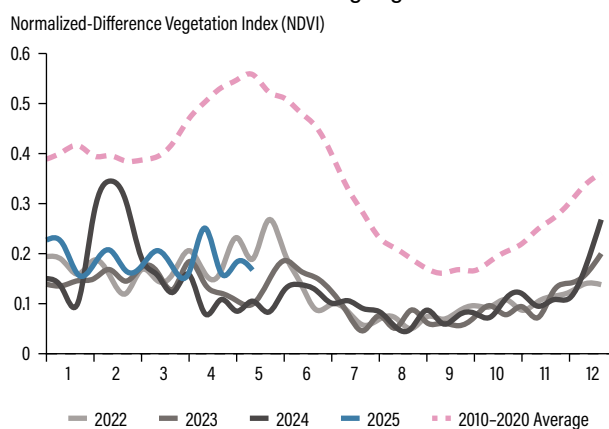
Source: World Bank, based on April 2025 MPO data from April 2025.

Frequent climate-related shocks, underinvestment in resilient agriculture production and a critical lack of foreign exchange to support fertilizer and grain imports compromise food security. Since the 2022/23 cropping season, the production of staple grains has not met domestic demand. Maize production in the 2024/25 cropping season is projected to stand at approximately 2.9 million metric tons

(MT), below the national annual requirement of at least 3.3 million MT, suggesting that many Malawians may again go without sufficient food later this year. While this season's maize production was 5.4 percent higher than the year before, it was still 24.7 percent lower than the 2019–23 average (Agriculture Production Estimates Survey, June 2025). The normalized difference vegetation index (NDVI), a satellite-based measure used to evaluate vegetation health and density, corroborates this trend, showing a decline in vegetation health and density in recent years compared to the long-term average over the past decade (Figure 8). Moreover, the existing foreign exchange shortage limits the ability to import food to supplement domestic demand. As a result, millions of Malawians face acute and crisis-level food insecurity (IPC Phase 3 or above).

**The 2025 tobacco marketing season is expected to underwhelm, as lower prices drag down revenues, requiring strategic adjustments.** During the first eleven weeks of the tobacco marketing season, which began on April 9, a total of 113.0 million kilograms (kg) of tobacco were sold. This represents a 0.9 percent increase compared to the same period in the previous season. The rise in sales volume suggests an increase in production, following a year of low output due to an El Niño-induced drought. According to the June 2025 third round crop estimates, the country produced approximately 119 million kg of tobacco, marking a 36.6 percent increase compared to 2024. However, the price of tobacco decreased from an average of US\$2.8/kg in 2024 to US\$2.4/kg by the eleventh week of the 2025 season. This price drop led to a 13.3 percent decline in revenue compared to the same period in 2024, with earnings falling from US\$327.0 million to US\$283.6 million (Figure 9). Given that tobacco is Malawi's main source of foreign exchange among exports, the reduction in sales is concerning, especially since the country's official foreign reserves currently cover less than one month of import. Moreover, tobacco has a negative market development gap. This gap, derived from the difference between observed and adjusted costs, and exchange rate misalignments, indicates a saturated or declining market. Consequently, there are limited opportunities for market growth, highlighting the need to diversify or adjust marketing strategies (World Bank 2025c).

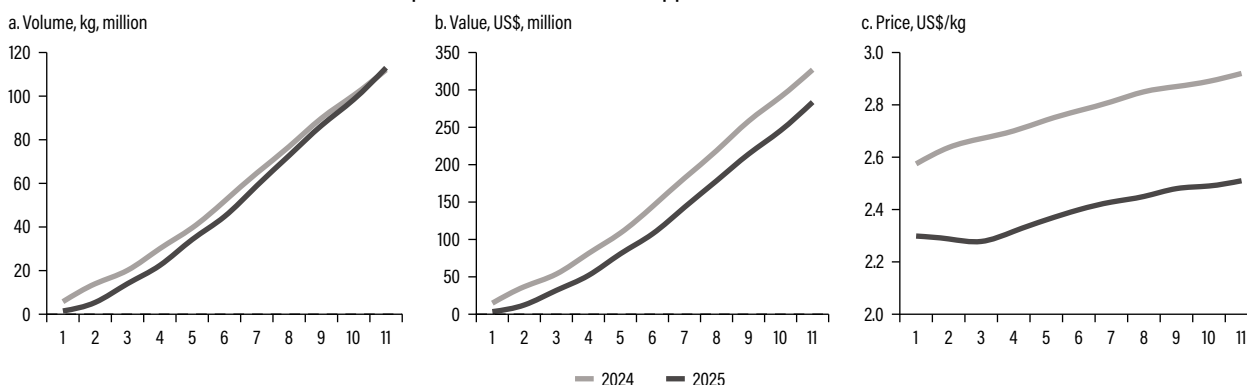
**FIGURE 8** Malawi has been losing vegetation cover



Source: World Bank on FAO data.

Notes: NDVI values range from -1 to +1, with higher values indicating denser and healthier vegetation. Horizontal axis shows months of calendar year.

**FIGURE 9** Tobacco sales value and the price of tobacco have dropped in 2025



Source: World Bank, based on Tobacco Commission data.

Notes: Horizontal axis shows weeks of tobacco season. The 2024 season lasted 16 weeks.

**After peaking in February, maize prices fell thereafter, driven by the arrival of the new harvest and cheaper imports from Tanzania, Zambia, and Mozambique.** These price declines offer relief to consumers but obscure deeper vulnerabilities in the food system. Despite lower retail prices, they remain above 2024 levels and the five-year average, but are below the government-set minimum farmgate price (MWK 1,050/kg) in most markets. This has raised concerns about income losses for smallholder

farmers, who rely on immediate post-harvest sales for their livelihoods. Compounding the situation, free maize distributions during the harvest period have likely saturated local markets, pushing prices further down. The quality of the newly harvested grain is often poor, with high moisture content making it unsuitable for milling or storage and reducing its commercial value (IFPRI 2025).

**These market dynamics reflect a broader and more fragile food security landscape.** Malawi continues to face a significant food insecurity crisis in 2025, largely fueled by El Niño-induced dry spells that have damaged 44 percent of the national crop area in the 2023/24 cropping season. Without sustained support—through both aid and market stabilization—the upcoming lean season may deepen food insecurity, affecting both households struggling with high costs and producers coping with suppressed returns. In parallel, prices of other key staple foods have also shown downward trends during the April–May 2025 period. The prices of beans, cowpeas, and pigeon peas fell by 5, 9, and 6 percent, respectively, while cooking oil prices declined by 9 percent. These declines are partly attributed to seasonal harvest availability. This provides benefits for consumers, but also risks undermining producer incomes, particularly in rural areas where pulses and oilseeds are important cash crops. Combined with persistent food inflation (32.7 percent as of May), this reinforces the fragility of household purchasing power and the uneven benefits of falling prices in a stressed food economy. Access to credit is a key mechanism households use to manage food insecurity and navigate shocks but remains highly constrained (Box 1).

#### BOX 1 For many food-insecure households, borrowing from village banks is a key coping strategy

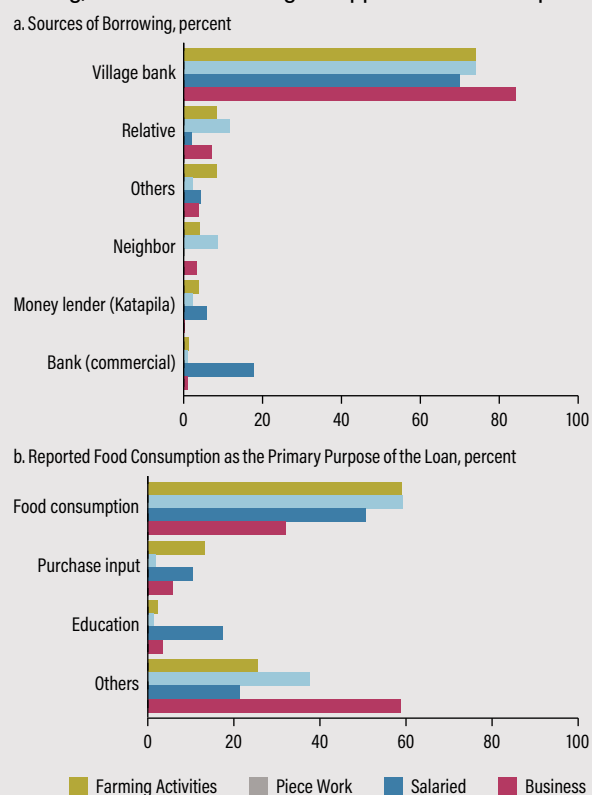
**While financial inclusion remains limited, borrowing—especially through informal village banks—helps many families meet basic consumption needs.** New evidence from the Rapid Feedback Monitoring System conducted in 2024 suggest that patterns of credit access and use differ across livelihood groups, revealing important disparities in financial vulnerability and the coping options available to different types of households. Salaried workers tend to have more diverse and nutritionally balanced diets than farmers and ganyu laborers. Their higher Food Consumption Scores (FCS) reflect greater frequency and quality of food intake. In contrast, over one-third of households engaged in farming, piecework, or informal businesses are classified as “borderline” on the FCS, suggesting limited dietary diversity, low consumption of nutrient-rich foods, and a greater risk of food insecurity and malnutrition.

**Between 15 percent and 20 percent of households reported taking out loans during the survey period.** Most borrowed from village banks, indicating the continued reliance on local, community-based lending systems. However, more formal financial products are used by households with salaried employment, who are more likely to access credit from commercial banks. Interestingly, salaried workers also report a higher use of money lenders (katapila), with 6 percent relying on this informal but high-cost credit source—compared to only 4 percent of farmers. This suggests that moneylenders may evaluate clients based on income regularity rather than occupation, favoring those with predictable earnings (Figure B1.1).

**Loan application outcomes also reveal patterns of exclusion.** Households engaged in ganyu, or informal piecework labor, experienced the highest rates of loan rejection. This likely reflects lenders’ hesitancy to extend credit to borrowers with irregular and unstable income sources, despite their frequent need for support. In all livelihood categories, the primary reason for borrowing was to purchase food, underscoring the direct link between access to credit and food security. Secondary uses of loans varied by income source: farmers

typically borrowed to purchase agricultural inputs, while salaried workers used loans to cover education costs, signaling a longer-term investment orientation.

**FIGURE B1.1** Village banks are primary source of borrowing, with most borrowing to support food consumption



Source: Author's own calculation based on RFMS 2024.

**Growing strain on household food security highlights deepening rural vulnerability and broader risks to human development.** Beyond immediate economic pressures, food insecurity continues to undermine progress in nutrition and child health. According to the latest Demographic and Health Survey, stunting among children under five has stagnated at 38 percent since 2016, showing no improvement over the past decade.

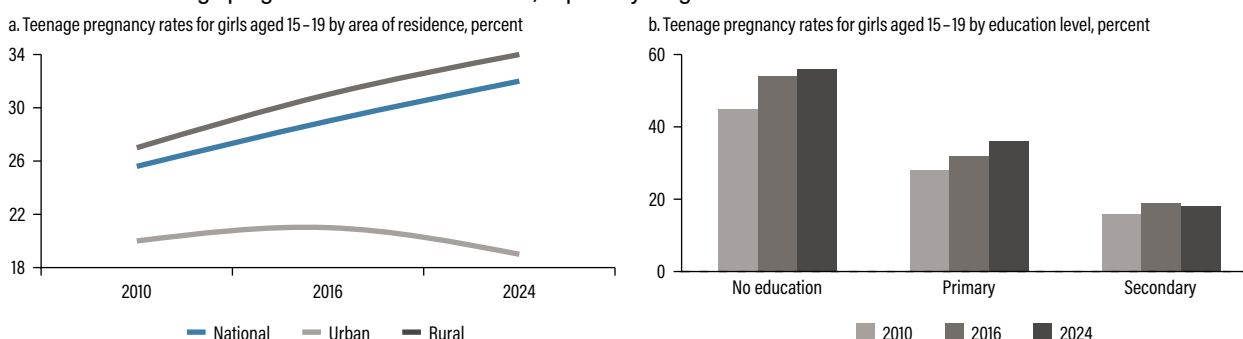
### While Malawi is confronting a host of economic challenges, it has succeeded in improving some human development outcomes

**Despite the ongoing economic challenges, Malawi has made gains in human capital development, and particularly in health outcomes.** According to the recent Demographic and Health Survey (DHS 2024), one of the most notable achievements is the substantial decline in fertility rates. In the early 1990s, women of reproductive age had an average of seven children. By 2024, this figure had nearly halved to 3.7 children per woman—below the average for Sub-Saharan Africa of 4.5 and slightly under Zambia’s rate. While fertility remains slightly higher in rural areas, the decline reflects a broad uptake of family planning and changing reproductive behavior across the country.

**Progress is also evident in early childhood survival.** Under-five mortality fell dramatically from 234 deaths per 1,000 live births in the early 1990s to 48 deaths per 1,000 in 2024—well below the Sub-Saharan Africa average of 76. Improved access to skilled birth assistance has contributed to better maternal and newborn health outcomes.

**These gains are at risk, however, particularly in the face of rising food insecurity, reductions in foreign assistance and a worrying increase in teenage pregnancy.** In 2024, 32 percent of girls aged 15–19 had been pregnant, up from 29 percent in 2015 and 27 percent in 2010 (Figure 10). The trend is especially acute among adolescent girls with no formal education—55 percent of whom have been pregnant. Teenage pregnancy is rising across all income levels, but the steepest increases are among the poorest households, where nearly half of those in the bottom two wealth quintiles report a pregnant adolescent. Prevalence climbs sharply with age, from 6 percent at age 15 to 64 percent by age 19. These trends threaten to reverse human capital gains and perpetuate intergenerational cycles of poverty.

**FIGURE 10** Teenage pregnancies remain on the rise, especially for girls with no formal education



Source: Demographic and Health Survey (DHS). Key indicators report. National Statistical Office 2024.

### The private sector struggles from a difficult business climate, a worsening macroeconomy and severe input shortages

**The private sector faces persistent challenges to profitability and growth.** Throughout the first half of 2025, businesses struggled amidst continued macroeconomic deterioration and operational obstacles. High inflation and insufficient foreign exchange to meet input demand have combined to depreciate the kwacha on the parallel market, with a pass-through effect on local prices—thus pushing up

the cost of key goods and services, such as imported machinery, spare parts, and agricultural inputs. Managing operational costs was also a challenge, with the return of load-shedding and fuel shortages acting as a drag on productivity. In addition, businesses had to contend with new, restrictive trade policies. Even among the few companies capable of successfully managing such headwinds, the prohibitively high cost of borrowing has constrained the appetite for investment and expansion.

**A long-term policy solution to the structural challenges in the foreign exchange market has yet to be put forward by the authorities, despite some easing of strict emergency measures.** Access to foreign currency remains the paramount concern of most private sector actors. In April the RBM announced plans to ease its policy on the mandatory conversion of export revenues denominated in foreign currency to Malawian kwacha. The previous requirement to convert 30 percent of export proceeds was reduced to 25 percent, and the ratio is anticipated to be lower for companies that meet certain criteria (yet to be disclosed at the time of writing). The onset of the tobacco and macadamia harvest season, which traditionally boosts foreign exchange inflows via exports, has yet to have a major impact on reserves or on the spread between the official and parallel exchange rates.

**Ongoing power challenges underscore the urgent need for both short-term mitigation measures, and the acceleration of long-term projects to enhance generation capacity and grid stability, as well as the reform of energy sector state-owned enterprises (SOEs).** Despite political challenges, adherence to the four-year base tariff schedule approved by the Malawi Energy Regulatory Authority (MERA)—aiming to increase the electricity tariff toward a more cost-reflective rate—is important to avoid the accumulation of arrears, while enabling the Electricity Supply Commission of Malawi (ESCOM) to effectively maintain the power network and start saving for future improvements. In the longer term, the government will need to continue to channel resources and enact reforms to deliver more transformational projects, such as the Mpatamanga Hydropower Storage Project, and the integration into the regional power-trading market through the Mozambique-Malawi Power Transmission Project. In May, the World Bank Group's Board of Directors approved a US\$350 million International Development Association grant to fund the first phase of the Mpatamanga project. In the coming months, a consortium of development finance lenders will need to assess and approve the allocation of the remaining US\$900 million to make the project a reality.

**In mid-2025, fuel shortages returned, exacerbated by a decision by the government to maintain fuel prices below market rates.** Occasional fuel shortages continue to arise because importers, which source fuel on the international market at its going rate, lack sufficient and affordable access to US dollars, while being forced to sell domestically at a fixed pump price that is far below cost recovery. Over time, unsustainable losses have caused a build-up of unpaid debts to international fuel suppliers and financiers. One consequence is that importers have stopped paying statutory levies to the government—which fund important public programs, such as road maintenance and rural electrification—to prioritize servicing their debts. This situation is unsustainable, posing significant risks to the stability of fuel supply. Maintaining unsustainable fuel prices and an overvalued exchange rate has serious implications for government revenue and development funding. For businesses, fuel shortages stifle productivity, degrade capital-asset use, increase logistics costs, cut into firm profits and discourage further investment.

**The government's plans to revive growth include more public investment in support of small and medium-sized enterprises (SMEs) as well as measures that place further restrictions on the private sector.** In March 2025, the Ministry of Trade and Industry introduced import bans on a broad set of products, ostensibly in response to the country's widening trade gap and resulting shortages of foreign currency. The government believed that such products could be competitively produced within Malawi. The extent to which this will be possible was to be assessed over subsequent months.

**The decision to introduce import bans created considerable uncertainty among companies engaged in import and export, and prompted a trade dispute with Tanzania.** When Malawi banned the importation of several agricultural products—such as flour, rice, bananas, maize, and ginger—to protect

domestic producers and conserve foreign currency, Tanzania responded with sweeping bans on agricultural imports from Malawi. This included halting the transit of Malawian goods through Tanzanian territory—a critical route to foreign markets for landlocked Malawi—and suspending fertilizer exports to Malawi, which are critical to the country’s agrarian economy. Diplomatic tensions eased in late April through early May after high-level ministerial talks in Tanzania. Tanzania lifted its ban on April 26, after Malawi agreed to revoke its import prohibitions. Both governments pledged to finalize a “Simplified Trade Regime Agreement” by May 30 to streamline customs processes and improve cross-border trade, especially for small-scale traders. It is not clear whether this agreement has been finalized.

**The bans have had significant short-term consequences and illustrate a troubling long-term trend.**

In their immediate aftermath, cross-border trade and supply chains were disrupted. Trucks carrying perishable goods were stranded at border points. Small-scale cross-border traders—disproportionately women—reported income losses of up to 60 percent. Malawian businesses were forced to reroute imports and exports through Mozambique’s ports at Beira and Nacala—routes that can be more costly and less reliable. Bans on imports of cheaper and more accessible food products also threaten food security and boost food prices, contributing to the country’s already-high inflation rate. The moves also compounded uncertainty around Malawi’s trade policy and market access, reinforcing a longer-term trend of frequent policy changes implemented with little consultations with the private sector. This discourages investors, who need confidence in policy stability, and foster informal trade across the country’s porous borders. The episode also underscored the importance of diplomatic dialogue and formal trade agreements to preserve the goals of regional economic integration under the Southern African Development Community (SADC) and the African Continental Free Trade Agreement (AfCFTA). Lessons from Nigeria, which has had a very comprehensive set of import restrictions that are slowly being dismantled, shows some of the unintended consequences of such measures (Box 2).

**BOX 2** Nigeria’s experience highlights the unintended consequences of import barriers

**Nigeria has one of the most restrictive import regimes in the world, including high tariffs, import bans, and foreign exchange restrictions.** Although these measures were intended to support the country’s industrialization and security goals, they have had numerous unintended consequences that may provide helpful lessons for Malawi, as it significantly increases the scale and scope of trade restrictions.

**One of the areas where Nigeria’s trade restrictions have had the most impact is customs evasion.** Import bans, in combination with unpredictable enforcement and cumbersome customs procedures, result in large volumes of smuggling. The loss in revenue from these bans has been estimated at 0.4 percent of GDP, or US\$1.8 billion annually. Secondly, import bans have caused the prices of affected goods to increase by as much as 38 percent (World Bank 2022). Import prohibitions also tend to hurt poorer

households relatively more as banned goods generally are those most consumed by the poor (such as staple foods). Dabelan and Nga (2018) estimated that eliminating import bans would reduce national poverty rates by 2.6 percentage points. Finally, these measures inhibit the efficiency of domestic firms by raising the cost of many of their production inputs, thereby constraining their competitiveness and limiting their potential to export to regional and global markets.

**Nigeria’s extensive import restrictions have done little to actually bolster industrial development and create efficient import-substituting industries.** After 15 years of progressively increasing trade barriers, their limited impact is also being more widely recognized within the Nigerian government, which is rethinking its approach to industrial policy, and beginning to lift bans to replace these with tariffs.

**Progress on large-scale mining projects has continued.** As noted in the previous Malawi Economic Monitor (World Bank 2025b), mining is positioned to become the largest export sector and a significant source of revenues within the next decade. The operator of the Kayelekera uranium mine has signed a Mineral Development Agreement (MDA) with the government and is in the process of securing permits to restart production at the site within the next year. MDAs have also been signed for the Kanyika Niobium and Songwe Hills Rare Earths projects, which are advancing to the permitting stage.

**The expected fiscal benefits of mining development will likely require between five and 10 years to materialize and are subject to considerable uncertainty.** New World Bank estimates indicate that government revenues from mining could reach up to 5 percent of GDP by 2033, depending on whether certain high-risk projects are completed and whether government can successfully capture revenues

in line with the existing statutory fiscal framework (World Bank 2025, forthcoming).<sup>1</sup> In a “business as usual scenario”, including only two low- and medium-risk projects (the Kayelekera uranium mine, and the Kasiya rutile mine), annual fiscal revenues from mining would increase to over US\$200 million by the early 2030s—equal to approximately 10 percent of total fiscal revenues in the 2024/25 fiscal year, or about 2 percent of current GDP (Figure 11). The “unconstrained” scenario includes additional high-risk projects (for heavy sands in Makanjira, rare earths in Kangankunde and Songwe Hill, niobium in Kanyika, and graphite in Malingunde), significantly increasing revenue potential.

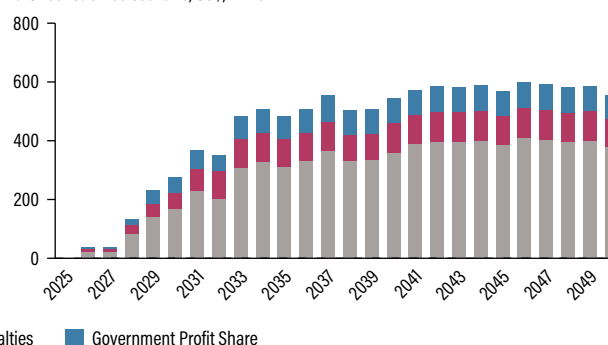
**FIGURE 11** Fiscal revenues from the mining sector will likely peak at 2–5 percent of GDP, depending on the number of operational projects

Projected government revenue assuming agreements are in line with statutory framework

a. Business-As-Usual scenario, US\$, million



b. Unconstrained scenario, US\$, million



Source: World Bank projections based on publicly available information as of 2025.

**Government revenues from mining activity would primarily derive from corporate income tax and, to a lesser extent, from royalty payments and profit sharing.** While useful to alleviate fiscal and foreign-exchange constraints, the projected fiscal revenue in the “unconstrained” scenario (equal to approximately 5 percent of GDP) would be significant but not transformative. It is approximately equivalent to the general budget support that Malawi used to receive from international donors, before the “Cashgate” scandal in 2013 led to a curtailing of such funding.

## Fiscal challenges persist, amid expenditure overruns and revenue shortfalls

**In the fiscal year 2024/25, the government overspent even as revenues failed to meet expectations, resulting in a significant deviation from the budget approved at the beginning of the year.** Revenues fell short of the budgeted level (equal to 22.1 percent of GDP) by 1.9 percentage points (MWK 390.2 billion), due to overambitious projections and the delayed approval of planned tax measures. Expenditures exceeded the approved level of 29.1 percent of GDP by 1.6 percentage points (MWK 330.2 billion), primarily driven by above-target development spending and by rigid expenditures, especially wages. Consequently, the budget deficit widened to 10.5 percent of GDP, 3.5 percentage points (MWK 720.4 billion) above the approved level of 7.0 percent of GDP (Table 1).

**The fiscal outturn reflects a persistent pattern of budgetary overruns, whereby actual expenditures consistently exceed the levels set in both the initial budget and in its mid-year revision.** This trend has been evident over several years (Figure 12) and helps to explain why the country has recorded some of the highest fiscal deficits among African nations (World Bank 2024). The economic reform program initiated in November 2023 with support from the IMF aimed to restore macroeconomic stability through

1 For MDAs signed to date, the government has made concessions on key sources of revenue relative to the statutory fiscal framework to secure these agreements. This means capturing the full revenue potential under the statutory fiscal framework is highly unlikely.

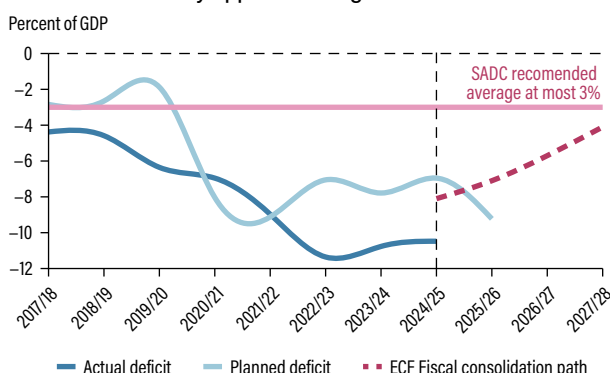
six pillars: establishing a sustainable fiscal position, ensuring price stability and financial-sector security, rebuilding international reserves, normalizing the foreign-exchange market, restoring debt sustainability and external viability, and addressing governance weaknesses. However, the implementation of this reform agenda faltered, and no program reviews were completed within 18 months of its approval. As a result, the arrangement with the IMF was automatically terminated on May 14, 2025<sup>2</sup>.

**TABLE 1** Fiscal Accounts

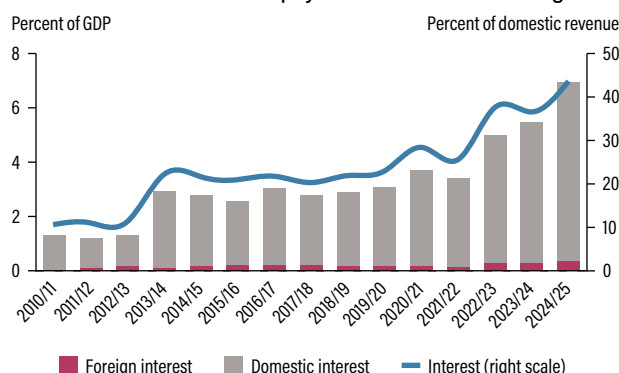
	2021/22	2022/23	2023/24	2024/25	
				Approved	Outturn
<b>Revenue</b>	<b>15.2</b>	<b>16.7</b>	<b>21.7</b>	<b>22.1</b>	<b>20.2</b>
<b>Domestic Revenue</b>	<b>13.4</b>	<b>13.3</b>	<b>14.9</b>	<b>16.4</b>	<b>15.9</b>
<b>Taxes</b>	<b>12.6</b>	<b>12.7</b>	<b>13.9</b>	<b>15.8</b>	<b>14.9</b>
Taxes on income, profits and capital gains	5.7	6.0	6.8	7.7	7.6
Taxes on goods and services	5.8	5.5	5.7	6.2	5.9
Taxes on international trade and transactions	1.1	1.2	1.4	1.8	1.3
Other taxes	0.0	0.0	0.0	0.0	0.0
<b>Grants</b>	<b>1.9</b>	<b>3.4</b>	<b>6.8</b>	<b>5.7</b>	<b>4.2</b>
From foreign governments	0.0	0.2	0.0	0.4	0.0
From international organizations	1.9	3.2	6.8	5.3	4.2
<b>Other Revenue</b>	<b>0.7</b>	<b>0.6</b>	<b>1.0</b>	<b>0.6</b>	<b>1.1</b>
Property income	0.1	0.1	0.7	0.1	0.8
Sale of goods and services	0.6	0.4	0.3	0.3	0.2
Fines, penalties and forfeits	0.0	0.0	0.1	0.0	0.0
<b>Expenditure</b>	<b>24.2</b>	<b>28.1</b>	<b>32.5</b>	<b>29.1</b>	<b>30.7</b>
<b>Expense</b>	<b>19.3</b>	<b>20.4</b>	<b>24.6</b>	<b>20.5</b>	<b>23.0</b>
Compensation of employees	6.3	6.2	6.4	5.4	6.4
Goods and services	3.9	3.4	3.6	4.1	4.5
Generic goods and services	2.3	2.0	2.4	2.4	2.6
Interest	3.4	5.0	5.5	7.1	6.9
To non-residents	0.2	0.3	0.3	0.4	0.4
To residents other than general government	3.3	4.7	5.2	6.7	6.6
Grants	2.2	3.6	6.7	2.0	3.1
Social benefits	3.1	2.1	1.9	1.7	1.8
Fertilizer payments	2.0	1.1	0.7	0.7	0.6
Other expenses	0.4	0.1	0.5	0.2	0.2
<b>Acquisition of Non-Financial Assets</b>	<b>4.9</b>	<b>7.7</b>	<b>7.9</b>	<b>8.6</b>	<b>7.6</b>
Foreign financed	3.1	5.9	6.0	6.7	5.5
Domestically financed	1.8	1.8	1.9	1.9	2.2
<b>Overall balance (accrual basis)</b>	<b>-9.0</b>	<b>-11.4</b>	<b>-10.8</b>	<b>-7.0</b>	<b>-10.5</b>
<b>Overall balance (cash basis)</b>	<b>-11.3</b>	<b>-8.9</b>	<b>-10.2</b>	<b>0.0</b>	<b>-11.2</b>
<b>Discrepancy between cash and commitment balance</b>	<b>-2.4</b>	<b>2.5</b>	<b>0.6</b>	<b>0.0</b>	<b>-0.7</b>
<b>Primary Balance</b>	<b>-5.6</b>	<b>-6.4</b>	<b>-5.3</b>	<b>0.0</b>	<b>-3.6</b>
<b>Net Incurrence of Liabilities</b>	<b>11.3</b>	<b>8.9</b>	<b>10.2</b>	<b>7.0</b>	<b>11.2</b>
<b>Foreign Liabilities</b>	<b>2.7</b>	<b>2.0</b>	<b>1.3</b>	<b>0.7</b>	<b>1.1</b>
Borrowing	1.2	2.7	3.0	1.8	2.0
Amortization	-0.4	-0.7	-1.9	-1.1	-0.9
<b>Domestic Liabilities</b>	<b>8.6</b>	<b>6.9</b>	<b>8.9</b>	<b>6.3</b>	<b>10.1</b>

Sources: World Bank staff calculations based on MoFEA and MFMod data.

2 <https://www.imf.org/en/Countries/MWI/malawi-qandas>

**FIGURE 12** Initially approved budgets are not adhered to

Source: World Bank calculations based on MoFEA and IMF data.

**FIGURE 13** ...and interest payments have been soaring

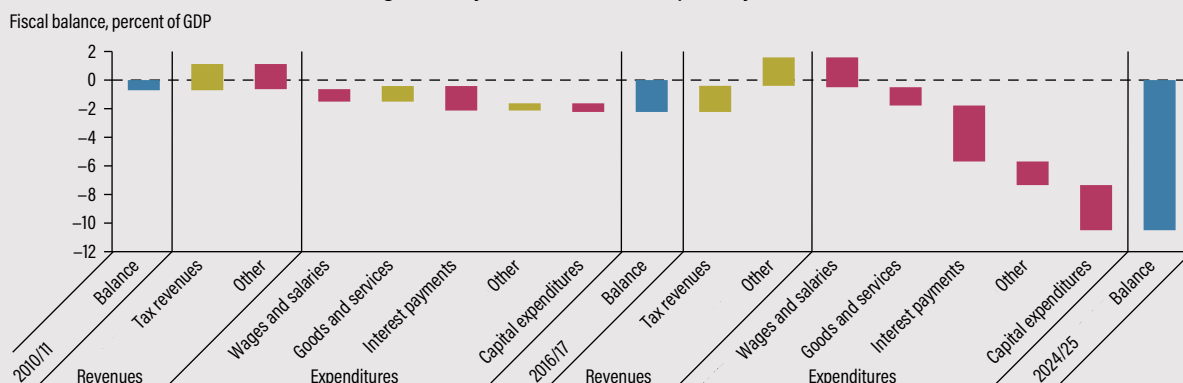
Source: World Bank calculations based on MoFEA data.

**Successive fiscal deficits are financed through costly domestic borrowing, and the interest bill continues to rapidly increase—crowding out public investment and social spending.** To finance the high and persistent fiscal deficits, Malawi has become increasingly reliant on high-cost domestic debt (Box 3). As a result, driven by domestic borrowing, debt-servicing costs have increased significantly in recent years (Figure 13), with domestic interest payments consuming 45.8 percent of domestic revenue in FY2024/25—the single largest budget line. Overall, interest payments surged to 7.0 percent of GDP in 2024.

**BOX 3** Recent drivers of the fiscal deficit

Malawi's fiscal deficit averaged 2.4 percent of GDP between FY2010/11 and FY2016/17, but started to balloon in FY2017/18. Major factors behind the widening of the fiscal deficit include underperformance on revenue mobilization, escalating debt-service obligations, and significant increases in spending on goods and services, as well as on capital investments (Figure B3.1). Specifically, total revenue averaged 14.8 percent of GDP during FY2017/18–FY2024/25, down from 15.6 percent over FY2010/11–FY2016/17. External grants declined modestly, averaging 2.8 percent of GDP versus 3.2 percent in the earlier period.

However, the most significant contributor to the fiscal imbalance has been the near-doubling of total expenditures—from 17.0 percent of GDP in FY2010/11 to an estimated 30.7 percent in FY2024/25. In the past six fiscal years, the most pronounced spending increases were recorded in capital expenditure (with a rise equal to 3.4 percentage points (ppts) of GDP), wages and salaries (2.4 ppts) and interest payments (3.9 ppts). This underscores the magnitude of the fiscal consolidation challenge, as the latter two categories are rigid in nature and cannot be deferred.

**FIGURE B3.1** The fiscal deficit has significantly deteriorated in the past 6 years

Source: World Bank on MFMMod and MoFEA data.

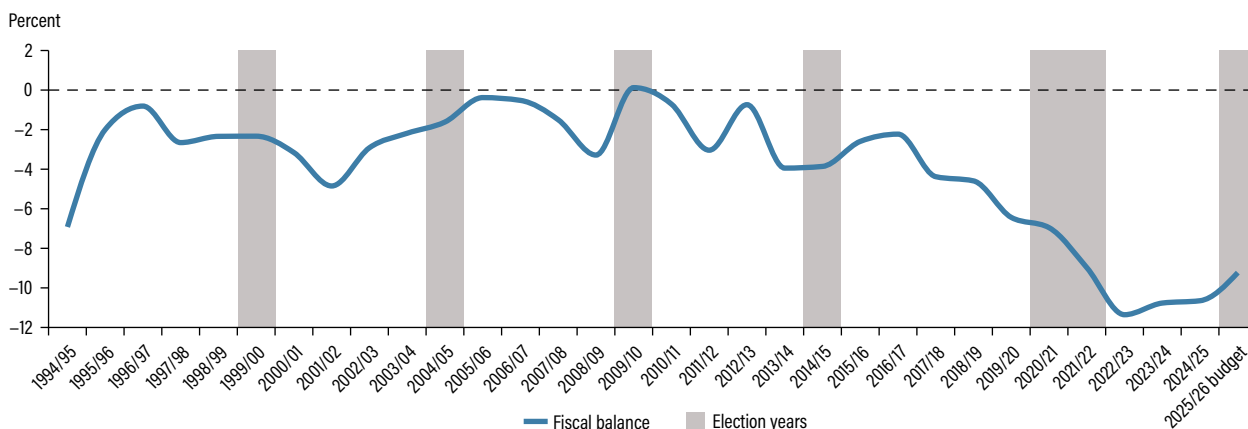
**The approved budget for FY2025/26 signals another year of high spending, with the deficit projected to reach 9.2 percent of GDP.** This projection is premised on an assumed real GDP growth rate of 3.4 percent, and an average inflation rate of 22.3 percent—assumptions that appear overly optimistic at this stage, considering the prevailing economic headwinds (including a fragile recovery in the agricultural

sector and the decline in external assistance following the suspension of several donor-funded projects). A recent study by the International Food Policy Research Institute estimated the impact of the reduction in bilateral foreign assistance on Malawi. In 2025 alone, Malawi faces a potential decline in foreign-exchange inflows of around US\$177 million (equal to 6.3 percent of its import bill), and GDP could be approximately 1 percent lower than it would have been if donor assistance had continued (Cockx et al. 2025). Beyond 2025, impacts multiply as cuts to spending in health, education, and agriculture affect productivity. As a result, GDP is expected to suffer a cumulative drop of US\$1.3 billion by 2030.

**Contrasting with the budget's projections, the latest World Bank Macro Poverty Outlook (World Bank 2025d) estimates GDP growth for 2025 to stand at a more subdued 2.0 percent, and inflation above 30 percent.** The budget anticipates tax revenue to amount to 16.2 percent of GDP, and total revenue to 20.8 percent. These forecasts rely heavily on plans to broaden the tax base through automation of tax administration and stricter enforcement—objectives that remain contingent on sufficient financing and improvements in implementation capacity. Insufficient agricultural output puts pressure on food prices, particularly during the lean season, with inflation expected to remain elevated at around 30 percent.

**The budget sets expenditures at 30 percent of GDP, with domestic interest payments alone projected to absorb 50.2 percent of tax revenue—maintaining their position as the budget's largest line item.** Given these dynamics, the actual fiscal deficit is likely to exceed the announced 9.2 percent, with a risk of again breaching 10 percent. This concern is amplified by the electoral cycle and the upcoming 2025 general elections. Deficits in election years have historically been more than 70 percent higher, on average, than in non-election years (World Bank 2025b; Figure 14).

**FIGURE 14** Fiscal deficits in elections years have been higher than preceding years



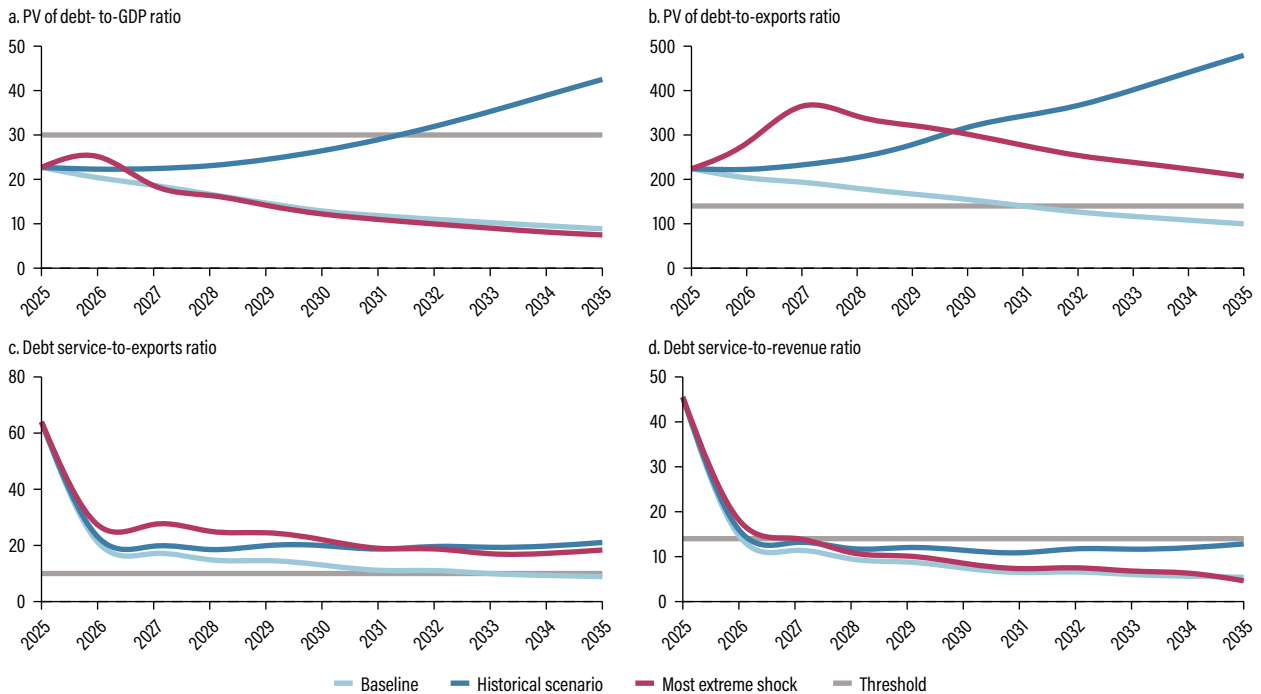
Source: World Bank on MoFEA data.

## Malawi remains in debt distress while the pace of borrowing increases, constraining fiscal space and crowding out credit to the private sector

**Malawi's public debt remains unsustainable, amid the unresolved restructuring of the external commercial debt and continued high-cost domestic borrowing.** The joint World Bank/IMF 2025 DSA (forthcoming) classifies Malawi's external and overall public debt as "in distress," as did the November 2023 DSA. In the baseline scenario, the Present Value (PV) of the Public and Publicly Guaranteed (PPG) external debt relative to GDP remains below the risk threshold throughout the forecast period. However, there are breaches in the PV of debt-to-exports, debt service-to-revenue, and debt service-to-exports ratios, with the latter continuing to exceed the threshold in the medium term. In 2024, the PV of Malawi's overall public debt stood at approximately 79 percent of GDP, significantly above the distress threshold over the medium term and beyond (Figure 15).

**FIGURE 15** Malawi's external debt is in debt distress, and absent of sustained reforms and successful restructuring, its debt is unsustainable

Indicators of public and publicly guaranteed external debt

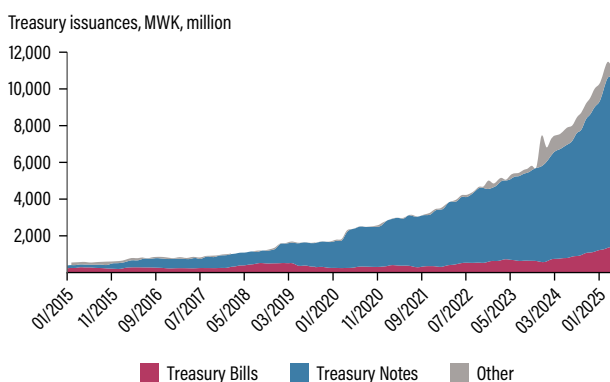


Source: Joint World Bank/IMF DSA (2025, forthcoming).

**External debt could potentially be sustainable in the medium term, contingent upon the successful completion of the debt-restructuring process initiated in 2022.** So far, Malawi has made progress with official bilateral creditors, but an agreement with other external creditors (especially Afreximbank and Trade and Development Bank) remains elusive. Any further delays in finalizing the restructuring will exacerbate the challenges in bridging the government's financing gaps.

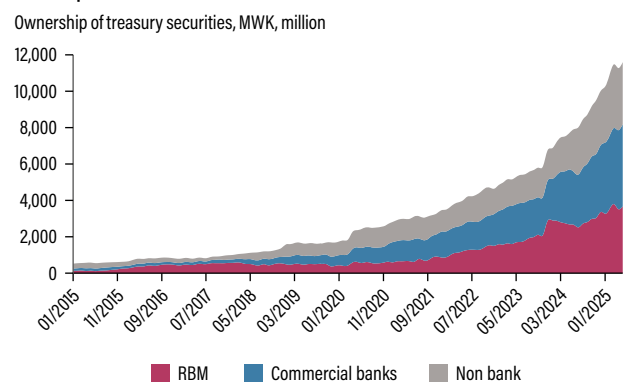
**The government's increasing reliance on high-cost domestic borrowing is crowding out critical expenditures on social sectors and infrastructure priorities.** The surging issuance of high-cost treasury notes has been amplifying the financial sector's exposure to significant risks (Figure 16), with the balance sheet of the sector expanding on the back of successive record deficits (Figure 17). Simultaneously, this

**FIGURE 16** Issuance of high-cost domestic debt continues to rise



Source: World Bank calculations based on RBM data.

**FIGURE 17** The financial sector is significantly exposed to the public sector



Source: World Bank calculations based on RBM data.

dynamic constrains the ability of the private sector to access credit. Notably, the private sector's share of total domestic credit declined from 73.2 percent in 2015 to 19.1 percent in 2025. Without substantial fiscal consolidation, among other measures, this trajectory poses a growing threat to macro-financial stability and long-term growth. The opportunity cost is considerable: resources absorbed by interest payments could otherwise be directed toward development-enhancing investments. Thus, tackling the rising interest bill will create space for domestically financed investment and pro-poor spending, while also ameliorating the inter-dependence between government and the financial sector. It is therefore imperative that the government returns to a path of fiscal consolidation (Box 4). This can particularly be supported by increased efficiency in spending and greater revenue collection, primarily by expanding the tax base.

#### BOX 4 The urgent need for fiscal consolidation

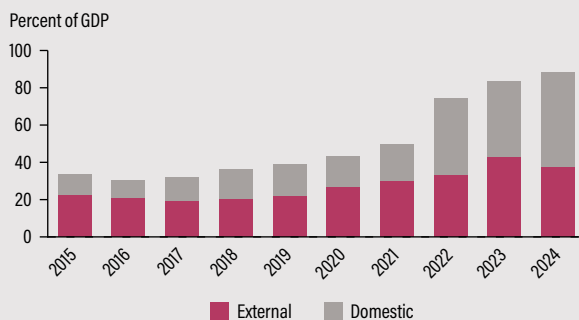
**Malawi has run some of the highest fiscal deficits in the world, relative to GDP, in the past five years.** As a result, public debt has soared, with the domestic debt more than doubling over this period (Figure B4.1). The country's risk of debt distress rose from moderate to high in 2021. In 2022, Malawi's external debt was reclassified as "in distress" as solvency and liquidity thresholds were breached, and restructuring efforts commenced.

**Inefficient public investment and widening fiscal deficits have done little to boost economic growth.** Fiscal deficits averaged around 3 percent of GDP over 2010–19, before spiking in 2020 and averaging around 10 percent of GDP over the past four years — as primary balances failed to stabilize the debt (Figure B4.3). Public spending has done little to support economic growth, as many public investments were inadequately screened and implemented, with resources thinly spread across too many projects. Moreover, most spending has been channeled to

recurrent expenditures. As is the case for a business, a country only benefits from borrowing if (a) the expected return is higher than the costs, and (b) it can service the debt. Malawi, however, is struggling on both fronts. The rate of return associated with borrowing (proxied by nominal GDP growth rate (g)) has been systematically lower than the average yield on domestic debt (r) (Figure B4.4), and the country is now in arrears with some external creditors.

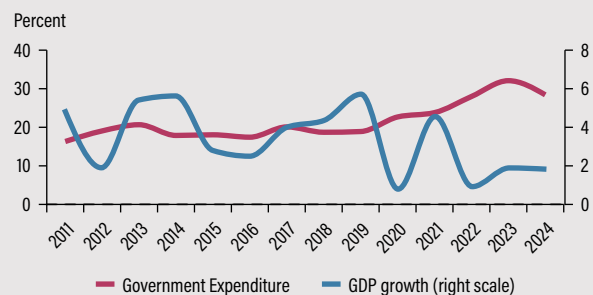
**Despite the temptation to increase spending in the face of the country's social challenges and infrastructure constraints, the government needs to spend less, more efficiently to prevent a worsening of the debt crisis.** If Malawi fails to rein in public finances, debt levels will escalate further, resulting in even higher costs for future borrowing and less fiscal space for pro-poor spending and investments. The government will also increasingly struggle over time to fulfill its debt-service obligations.

**FIGURE B4.1** Debt has risen significantly...



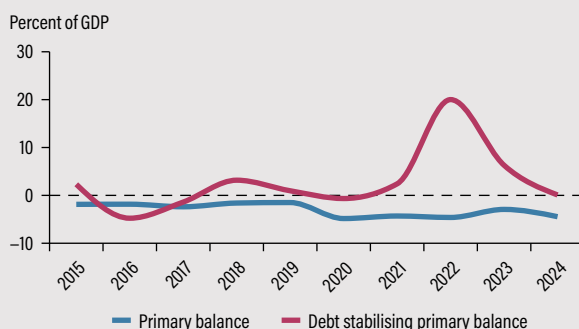
Source: Joint World Bank/IMF DSA (2025, forthcoming).

**FIGURE B4.2** ...yet public spending has not supported growth



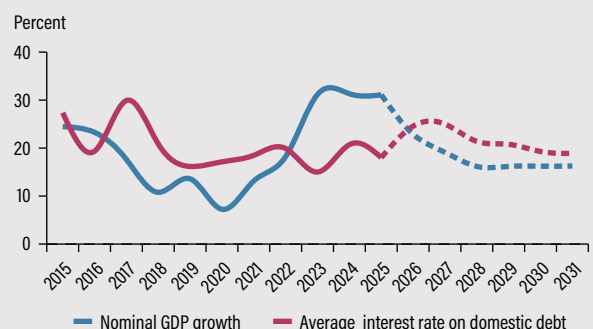
Source: World Bank based on MoFEA and MFMOD data.

**FIGURE B4.3** Primary balances have been insufficient to stabilize debt...



Source: World Bank calculation on 2025 DSA (forthcoming) data.

**FIGURE B4.4** ...and Malawi's domestic debt dynamics are unfavorable



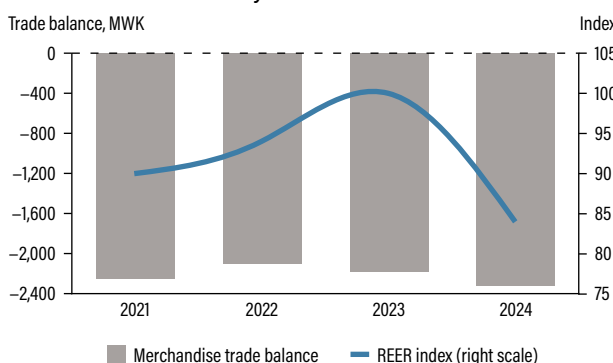
Source: World Bank calculation on 2025 DSA (forthcoming) data.

### The current account deficit hit a record high in 2024, as export competitiveness continues to decline

The real effective exchange rate (at the official rate) appreciated by 16.0 percent in 2024, resulting in loss of external competitiveness. The appreciation was driven by high domestic inflation, and by a nominal exchange rate fixed at a level that overvalued the kwacha. This adversely affected Malawi's trade balance by making imported goods more attractive for those with access to foreign exchange at the official rate, while discouraging exports (Figure 18). Malawi's imports totaled US\$3.3 billion in 2024, while exports amounted to US\$0.9 billion.

The external sector deteriorated sharply, with the current account deficit widening to 22.0 percent of GDP in 2024. Imports surged to 28.4 percent of GDP, far outpacing exports (10.1 percent of GDP). Merchandise trade data from early 2025 suggest that Malawi is on track for its highest trade deficit in recent years. According to the National Statistical Office (NSO) trade bulletins, imports continue to exceed exports by a substantial margin (Figure 19). In the first quarter of 2025 alone, Malawi recorded goods imports totaling US\$0.8 billion against exports of just US\$0.2 billion, resulting in a trade deficit of US\$0.6 billion. The trade deficit for the first quarter of 2024 stood at US\$0.5 billion, indicating a quarter-on-quarter increase of 27 percent in the first three months of 2025. In May alone, imports were 9 times higher than exports. If this trend persists, the country is likely to register a significantly higher trade imbalance by year-end than in previous years, intensifying pressure on foreign currency reserves and the current account.

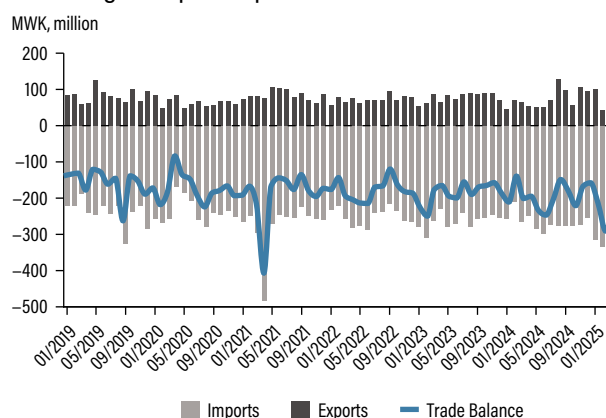
**FIGURE 18** The trade deficit widened in 2024, in the context of an overvalued currency...



Source: World Bank staff calculations based on NSO and IMF International Financial Statistics data.

Note: The REER is the weighted average of a country's currency in relation to an index or basket of other major currencies. The weights are determined by comparing the relative trade balance of a country's currency against that of each country in the index.

**FIGURE 19** ...and this trend is continuing, with imports continuing to outpace exports



Source: World Bank staff calculations based on NSO data.

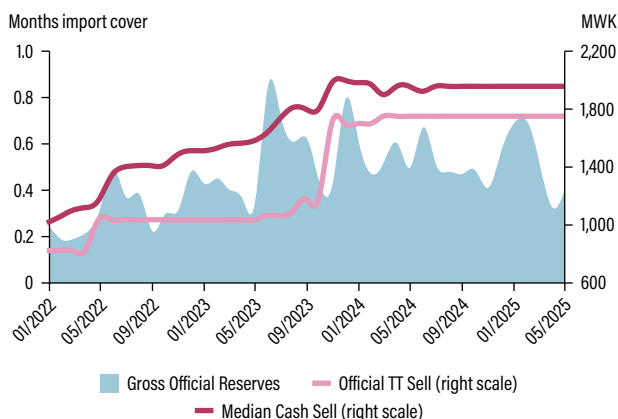
Note: Seasonally adjusted.

The policy response from the government has primarily relied on administrative measures that do not address key structural bottlenecks. Such measures include import and export bans, price controls, restrictions on access to foreign exchange on the parallel market, and a mandatory requirement to convert export proceeds at the official rate. Although designed to increase the availability of foreign currency, these measures have not boosted the accumulation of reserves and may have even reinforced existing challenges. For example, they incentivize the underreporting of foreign exchange sources, including exports and remittances, the overreporting of imports to justify the purchase of a scarce foreign currency at the official rate, and increased informal imports and exports. This creates arbitrage opportunities, where excess foreign currency is sold on the informal market for higher returns.

Official foreign exchange reserves remain critically low, due to limited exchange-rate flexibility and ongoing sales to authorized dealer banks. Since the devaluation carried out in November 2023, the RBM has maintained a largely stable official exchange rate, with the spread between bureau rate and official rate sitting at about 10–12 percent (Figure 20). However, the gap between the parallel-market and official rates

has widened significantly, reportedly peaking at over 150 percent in early 2025. Foreign exchange market distortions, combined with structural issues and a widening trade deficit, have drained reserves. Currently, official reserves cover less than one month of imports, while economy-wide reserves cover between two and two and a half months of imports. Additionally, the RBM has been a net seller of foreign exchange. Since 2019, it has sold US\$2.9 billion to authorized dealer banks while only purchasing US\$2.4 billion (Figure 21).

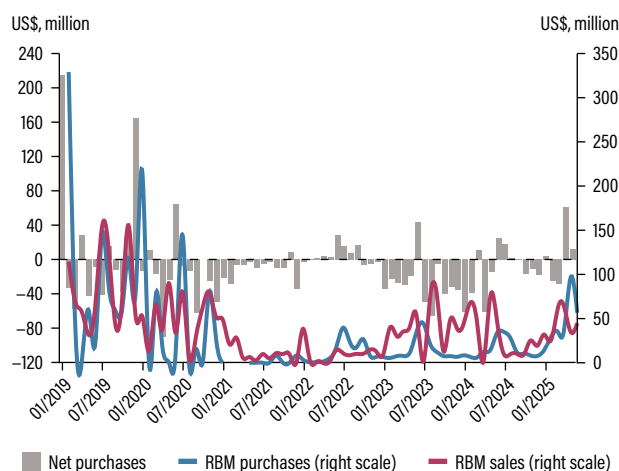
**FIGURE 20** Reserve accumulation has been challenging for the RBM...



Source: World Bank on RBM data.

Notes: TT= Telegraphic Transfer, Cash sell= Bureau rate.

**FIGURE 21** ...as the RBM remains a net seller of forex

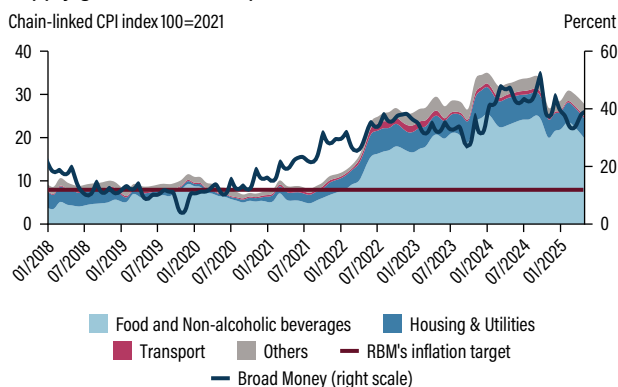


Source: World Bank on RBM data.

## Inflation remains elevated in the context of high money supply growth

**After showing signs of moderation at the end of 2024, inflationary pressures have reemerged amid rising food prices, a widening parallel market spread, and deficit financing.** The inflation rate declined to 27.0 percent in November 2024 after peaking at 35.0 percent the previous January, as the effects of the kwacha's depreciation of November 2023 subsided (Figure 22). However, inflationary pressures resurfaced in early 2025, with the rate climbing to 30.7 percent in February—as maize prices reached their highest levels in nearly two decades (Figure 23), and substantial deficit financing boosted money supply. Additionally, persistent foreign exchange shortages have compelled importers to utilize the parallel market, contributing to pass-through inflation. The recent easing of inflation to 27.5 percent, as of May 2025, aligns with the commencement of the crop harvest season which has reduced pressure on food prices.

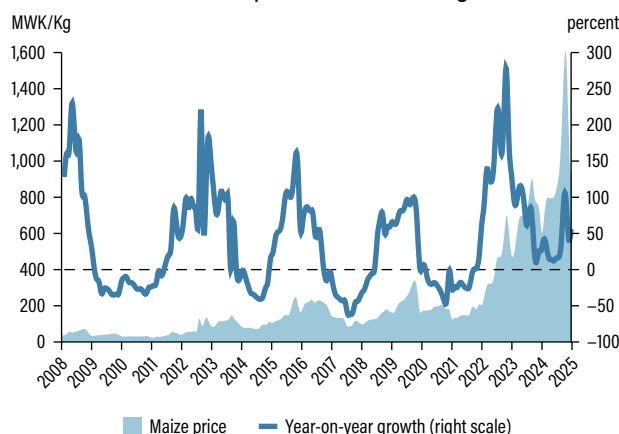
**FIGURE 22** Inflation remains elevated, amid high money supply growth and food prices



Source: World Bank on NSO and RBM data.

Note: RBM targets a medium inflation rate of 5 percent.

**FIGURE 23** ...as maize prices hit a record high

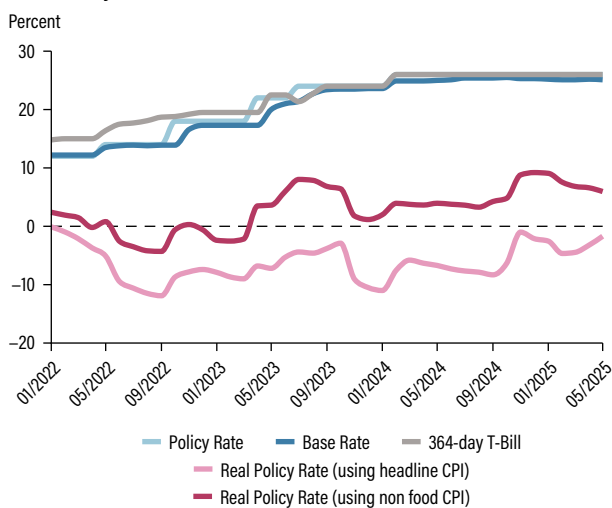


Source: World Bank on FAO FPMA tool.

**Fiscal deficit financing contributes to elevated inflation** (Figure 24). The RBM has maintained the monetary policy rate at 26 percent since February 2024 (Figure 25). It has used adjustments to the Liquidity Reserve Requirement (LRR) Ratio as a primary tool for monetary policy, raising the ratio for domestic deposits by 125 basis points in November 2024. However, excess liquidity in the banking sector hinders the effectiveness of tightening measures, which have been insufficient to bring down inflation in the context of fiscal dominance. The strong correlation between money supply growth and inflation, coupled with the significant contribution of government financing to such growth, suggests that substantial inflationary pressures stem from escalating fiscal deficits. Consequently, despite the high policy rate, the lack of alignment between fiscal and monetary policy (World Bank 2025b) restricts the RBM's ability to effectively control inflation.

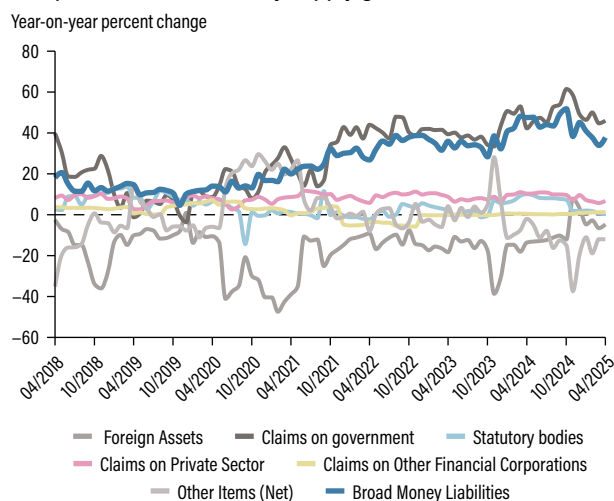
**Yields on government securities have been stable, in the context of a steady policy rate.** Similarly, commercial banks have kept their base lending rates largely unchanged, at approximately 25.0 percent (Figure 25 and Figure 26). The high borrowing costs, coupled with excessive borrowing by the government continues to deter and crowd out private sector borrowing.

**FIGURE 25** The policy rate has been fixed at 26 percent since early 2024



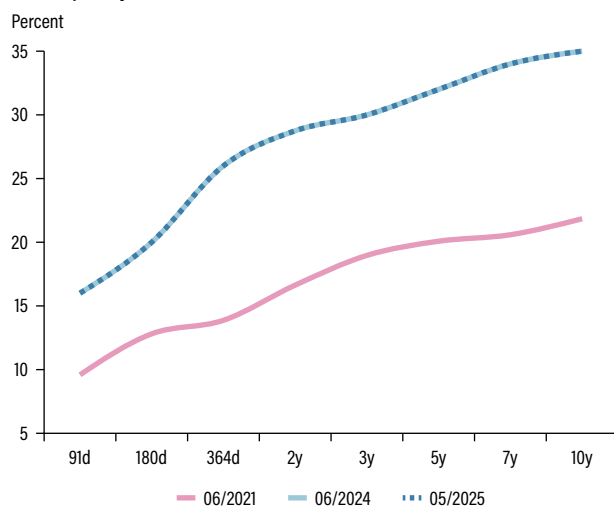
Source: World Bank based on NSO and RBM data.

**FIGURE 24** Deficit financing has been the largest component of broad money supply growth



Source: World Bank on Depository Corporations Survey data.

**FIGURE 26** Yields on domestic securities have not varied in the past year



Source: World Bank based on NSO data.

## Financial sector capital, profitability and liquidity positions continue improving, supported by government borrowing at the cost of increased private sector credit

**The Malawian banking sector continues to exhibit resilience, though credit vulnerabilities are rising.** Malawi's banking sector has strong capital buffers, adequate liquidity, and profitability (Figure 27). However, the 6.5 percent NPLs ratio, which has been fluctuating over the past year (reaching 9.8 percent), suggests potential credit vulnerabilities. While currently manageable,

these fluctuations and the relatively heightened levels could be exacerbated by the current economic instability, industry-specific challenges, or borrower creditworthiness issue. Provisions for NPLs are at 38.4 percent, providing a buffer against potential losses.

**The sector's earnings and profitability are strong, with return on assets (ROA) increasing to 7.4 percent and return on equity (ROE) to 58.2 percent as of May 2025.** However, as for other indicators, there is a wide range among banks in terms of ROE (from 10.7 percent to 88.7 percent). Interest margins are robust, contributing to strong profitability, but this relies on continued government borrowing. Liquidity positions are stable, with liquid assets to deposits and short-term liabilities at 54.5 percent. The total loans to total deposits ratio is low, indicating room for increased credit to the private sector. Liquid assets account for 39.4 percent of total assets.

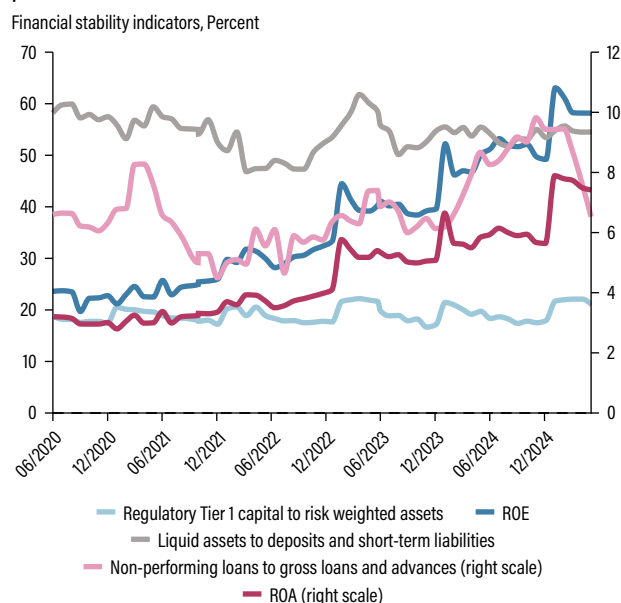
**Private sector credit growth is solid, increasing by 21.3 percent year-on-year to MWK 1,476.5 billion in April 2025, though this is a decline in real terms.** The community, social, and personal services sector dominates credit allocation, with a nominal growth of 22.9 percent (Figure 28). The agricultural sector received MWK 305 billion in credit, with a stable share of total private sector credit. The manufacturing sector has the third highest share, followed by the wholesale and retail sector, which saw a decrease in its share. The mining and quarrying sector receives limited credit despite its strategic importance.

**Despite the wider economic challenges, Malawi's capital market remains bullish.** The total market capitalization for the 16 publicly listed companies increased by 138.7 percent between April 2024 and April 2025 reflecting the general increase in share prices for almost all the 16 listed stocks. Accordingly, the Malawi All Share Index (MASI) increased by 153.6 percent between April 2024 and April 2025.

**The debt securities market is dominated by government treasury notes and government development bonds that have for a long time been held to maturity, with no trades on the secondary market.** As of April 2025, 106 debts instruments with a total value of MWK5.75 trillion, representing an increase in value of 62.4 percent from MWK3.54 trillion (76 debt instruments) in April 2024. This increase represents the continued dominance of government borrowing while the lack of corporate bonds reflects the need to develop the market to facilitate access to affordable financing by the private sector.

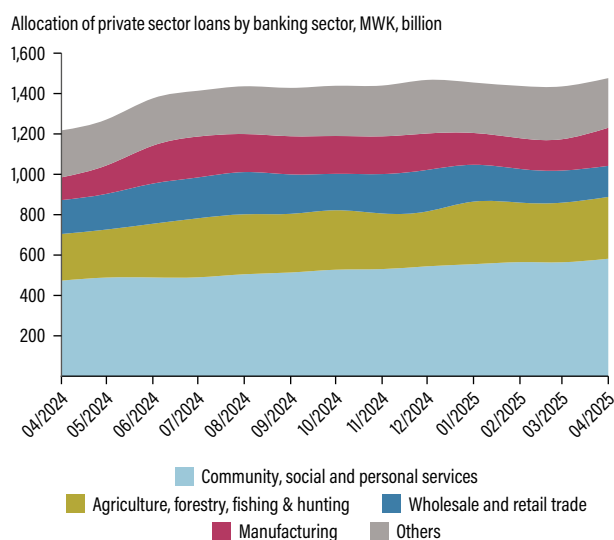
**The insurance sector remains resilient, but continues to be exposed to the risk of concentration of investments in listed equities and government securities.** Life insurance companies are generally well capitalized and liquid while some players in the general insurance sector are facing capital and liquidity challenges. Moving ahead, the impact of climate change will likely also have an increasing impact on the sector (Box 5).

**FIGURE 27** Malawi's banks continue to be extraordinarily profitable



Source: World Bank using RBM data.

**FIGURE 28** The community, social and personal services sector continues to dominate credit allocation



Source: World Bank using RBM data.

**BOX 5** Weathering the storm: Empowering Malawi's financial institutions and SMEs in an era of heightened climate disaster risks

**Malawi's vibrant community of SMEs forms a crucial engine of its economy.** SMEs contribute to nearly half of Malawi's GDP and a quarter of the labor force. Yet, these dynamic businesses often face a significant hurdle: accessing the finance needed to fuel their growth and potential.

**In 2022, the World Bank's Financial Inclusion and Entrepreneurship Scaling (FinES) project stepped in to provide vital interim low-cost financing to assist Malawian SMEs in navigating the turbulent waters of the post Covid-19 pandemic recovery.** However, these enterprises and others face an even more enduring threat than the pandemic itself: the escalating impacts of climate disasters. The devastation caused by Cyclone Freddy in March 2023, and the recent El Niño-induced drought impacting the 2023/2024 agriculture season serve as painful reminders of Malawi's vulnerability to climate disasters. These events leave a trail of destruction that disproportionately impacts SMEs, particularly those in the agriculture sector, that

are already struggling to stay afloat given other economic challenges the country is facing.

**The vulnerability to climate disasters extends beyond just the SMEs themselves – banks and insurers are already feeling the pressure.** According to new RBM and World Bank's analysis, some insurers indicated large losses resulting from recent cyclones, with up to 200 percent loss ratios for property business lines. This may have affected liquidity for insurers, further pushing up costs and reducing customers' ability to purchase insurance. The banking sector is similarly at risk, with more than 60 percent of gross loans exposed to sectors that are very vulnerable to natural disasters.

**The path forward requires innovative solutions that bridge the gap between managing disaster risks and fostering economic growth.** The regulatory authorities and other stakeholders must explore mechanisms that enable financial institutions to confidently support SMEs in this evolving landscape, ensuring that Malawi's entrepreneurial spirit can weather any storm.

Source: RBM and World Bank 2024.

## 3

## MEDIUM-TERM ECONOMIC OUTLOOK

**Malawi's economy continues to face significant challenges.** The GDP growth forecast for 2025 has been downgraded to 2.0 percent, from 4.2 percent at the end of 2024, due to the impact of a weak agricultural season, continued foreign exchange shortages impeding the importation of production inputs, along with the suspension of some bilateral foreign assistance. The premature end of the IMF program may also impact budget support and other external financing. Real GDP growth is projected at 2.4 percent in 2026. This stagnation impedes efforts to reduce poverty.

**Fiscal and external imbalances continue to deteriorate.** The budget deficit is expected to remain high in FY2025/26, driven by election year spending and the need to absorb some critical expenditures previously financed by bilateral support. Inflation is expected to remain above 30 percent due to a weaker agricultural recovery, the imposition of new import bans constraining supply, as well as continued high money supply growth. If the official exchange rate remains overvalued, it will continue to incentivize imports and discourage export growth, deepening external imbalances.

**As elections approach, macro-fiscal risks are rising.** Depleted buffers and persistent fiscal and current account deficits leave Malawi susceptible to external shocks and other crises. Continued delays in advancing reforms increases the risks of further deterioration. External conditions are also becoming increasingly less favorable as foreign aid flows continue declining and global policy uncertainty spills over into Malawi. Climate-related shocks are also becoming more severe and urgent. Elections create their own fiscal risks as spending and borrowing pressures intensify. However, Malawi's recent history also provides lessons to policymakers on how severe macro-fiscal crises can be overcome (see Box 6).

### BOX 6 Lessons from Malawi's "millennium crisis" can help address current challenges

**In the mid-1990s, Malawi experienced its most severe economic crisis of the post-independence era.** At that time, Malawi's fiscal deficit steadily widened to over 20 percent, with fiscal restraint collapsing in the run-up to the 1994 election. Left with few options, the government resorted to monetary financing of the fiscal deficit, and between 1988 and 1993 the money supply increased by 260 percent. In 1995, inflation peaked at close to 100 percent. The result was a decade of economic stagnation that only ended following painful adjustment reforms and debt relief in the early 2000s.

**Between 2000 and 2005, the Malawian authorities took significant actions to reduce high inflation rates and foster economic recovery, including monetary tightening, fiscal consolidation and structural reforms:**

- **Fiscal policy:** fiscal consolidation was crucial for stabilizing the economy, including a significant fiscal adjustment, strict expenditure management and several revenue measures

including collection of interim dividends from parastatals, taxation of housing allowances for higher-ranked civil servants, increases in license fees, and suspension of certain import duty remissions.

- **Monetary policy:** the RBM curbed inflation through elevated nominal interest rates, a concerted focus on reducing money supply growth, a shift to a flexible exchange rate, and tightening of reserve requirements and liquidity.

**This was supported by wider structural reforms and a rebound in agricultural production, as well as stepped up support by international financial institutions and development partners.** While reforms were often "two steps forward, one step backward", and entailed trade-offs (for example, in terms of the impact of sustained tight monetary policy on dampening output), overall inflation was brought into single digits by 2003. This helped set Malawi up for the sustained high rates of growth achieved in the years from 2005-11, following HIPC debt relief.

**In the context of growing imbalances and increasing global challenges, it will be critical for the economy to become more resilient.** Currently the policy and institutional framework do not effectively support the adjustment of the economy to shocks. A fixed and overvalued exchange rate and highly pro-cyclical fiscal policy means that at the macroeconomic level, imbalances accumulate, and adjustment costs can be large and sudden. These are in turn often borne by the most vulnerable. At the household level, there are also numerous structural impediments to resilience that constrain entrepreneurship and the functioning of markets. Building more resilience into the economy means shifting towards a growth and development model that is adaptive and commensurate with Malawi's state capacity and its revenues. Achieving this will require the government to focus its efforts on the most critical issues, where the public sector is best suited to lead.

**The outlook is subject to significant downside risks, including potential budgetary overruns, especially in the context of election spending pressures, that could further entrench macroeconomic instability.** While direct and indirect effects of recent trade conflicts have caused a downward shift in growth projections, continued uncertainty and weaker-than-expected global demand may further adversely affect Malawi's growth prospects. Climate-related disasters and failure to address external imbalances may further perpetuate input shortages. Upside risks include the easing of trade restrictions, faster-than-expected development of mining mega-projects, and the rapid conclusion of debt-restructuring negotiations with commercial external creditors.


















### **Key policy priorities include macroeconomic stability, increasing investment and exports, and resilience to shocks**

**As Malawians navigate both global and domestic uncertainty, the 21<sup>st</sup> edition of the Malawi Economic Monitor argues for the importance of taking decisive actions to prevent a further deterioration of the economy.** Malawi's economy is facing increasing pressure from rising fiscal and external imbalances, shifting global trade and aid dynamics, and the upcoming general elections. When the new "home-grown strategy" is announced, it is important that a focus on stabilization is central, along with a coherent and consistent macroeconomic framework that does not further exacerbate fiscal and external imbalances. There are some bright spots in the economy that can drive growth over the medium term, especially through mega-projects in the energy and mining sectors. Critical decisions will need to be made in the coming months to ensure that these projects continue to advance and that the country can make the most of these opportunities.

**To create the conditions for growth, there is a need to shift from business as usual. This will require urgent reforms in three areas (Table 2):**

- i) **Restoring macroeconomic stability:** Increasing domestic revenues through reforms to increase the progressivity of the tax system and the efficiency of tax administration, reducing wasteful spending, finalizing debt restructuring and controlling borrowing, and reducing inflation by limiting money supply growth.
- ii) **Supporting investment and export growth:** Phasing out the implicit fuel subsidy, moving forward with the implementation of key mining sector reforms, phasing out foreign exchange surrender requirements and removing unnecessary trade barriers.
- iii) **Building resilience and protecting the poor:** Addressing the growing risks from climate change by investing in climate-resilient agriculture, increasing the shock-responsiveness and sustainability of the social protection system and mitigating food insecurity risks by importing grain for the coming lean season.

**TABLE 2** Priority Policy Areas and Key Actions

 <b>1. Restoring macroeconomic stability</b>			
<b>Increase domestic revenues</b>	Address significant exemptions in the tax code (especially on VAT) and move forward with tax administration and digitization reforms.	Short	
<b>Improve the efficiency of public spending</b>	Improve oversight of the wage bill to remove ghost workers, increase the effectiveness of PFM systems and strengthen the PSIP framework by improving screening criteria and cancelling idle or underperforming projects.	Short	
<b>Finalize debt restructuring and reduce borrowing</b>	Conclude external debt restructuring to sustainably deliver debt relief and contain domestic borrowing by sticking to approved budgets.	Short	
<b>Control inflation</b>	Limit the growth of the money supply and halt monetary financing of the deficit, while addressing supply-side constraints, especially through increased agricultural production and improved access to food imports.	Short	
<b>Remove distortions in the foreign exchange market</b>	Ensure that the official exchange rate reflects market fundamentals, and that fiscal and monetary policy are supporting the removal of distortions.	Short	
<b>Minimize SOE fiscal risks</b>	Strengthen analysis and disclosure of fiscal risks emanating from SOE operations and incorporate quasi-fiscal subsidies in budgets.	Medium	
<b>Safeguard financial sector stability</b>	Moderate borrowing from the financial sector to reduce risks associated with the sector's significant exposure to government due to the rapidly growing holdings of treasury securities.	Medium	
 <b>2. Supporting investment and export growth</b>			
<b>Phase out implicit fuel subsidy</b>	Address fuel shortages by making pump prices cost-reflective and removing distortions in the fuel market.	Short	
<b>Maximize the benefits from Malawi's mineral wealth</b>	Increase efficiency and improve transparency of sector by streamlining permitting, creating a model MDA to standardize fiscal terms, define government equity stake, reduce discretionary tax incentives and clarify the governance of the planned sovereign wealth fund.	Medium	
<b>Phase out foreign-exchange surrender and conversion requirements</b>	Clarify new regulations on export surrender requirements with a focus on steering foreign exchange towards the most productive firms and the most critical sectors.	Short	
<b>Remove trade barriers</b>	Convert import bans to tariffs and move forward with rationalization of non-tariff barriers.	Short	
 <b>3. Building resilience and protecting the poor</b>			
<b>Invest in climate-resilient agriculture</b>	Reallocate spending from the fertilizer subsidy to improve early warning systems for pests, diseases and extreme weather, invest in irrigation systems and climate-adapted crops and varieties, and promote climate-smart agriculture.	Medium	
<b>Implement Social Protection Policy</b>	Move forward with implementation of new social protection policy to increase sustainability and shock-sensitivity of system.	Medium	
<b>Import food</b>	Ensure sufficient food for the coming lean season by pre-positioning imports of grain.	Short	



Initiate



Strengthen



Sustain

**TABLE 3** Key Macroeconomic and Financial Indicators

	2023	2024	2025	2026	2027
	Actual	Est.	Projection		
National Accounts and Prices					
GDP at constant market prices (% change)	1.9	1.8	2.0	2.4	3.2
Agriculture	0.7	-0.2	2.2	3.0	3.9
Industry	2.5	2.1	2.2	2.2	2.7
Services	1.8	2.6	1.8	2.2	3.1
Nominal GDP (billions of MWK)	14,760.0	19,137.3	25,145.9	31,366.2	36,694.3
Consumer prices (annual average)	28.7	32.3	...	...	...
Central Government (% of GDP)					
Revenue	18.7	20.1	21.2	21.7	23.2
Tax revenue	13.4	14.7	15.6	15.9	17.2
Grants	4.1	4.3	4.3	4.5	4.5
Expenditure	32.1	28.4	29.9	28.7	30.4
Overall balance (excl. grants)	-17.5	-12.7	-13.0	-11.5	-11.8
Overall balance (incl. grants)	-13.4	-8.4	-8.7	-7.1	-7.3
Foreign financing	1.5	0.7	0.6	0.6	0.6
Total domestic financing	8.4	8.6	8.7	9.5	9.1
Primary balance	-8.3	-1.4	-0.6	-1.2	-1.6
Money and Credit (% change)					
Broad money	32.2	45.1	38.8	55.8	43.3
Credit to the private sector	17.6	29.3	20.6	17.0	12.6
External Sector (US\$ millions, unless otherwise indicated)					
Exports (goods and services)	1,521	1,433	1,531	1,711	1,806
Imports (goods and services)	3,984	4,173	4,151	3,971	4,190
Gross official reserves	201	149	...	...	...
(months of imports)	0.6	0.4	0.6	0.8	1
Current account (percent of GDP)	-17.8	-22.0	-21.9	-17.7	-17.1
Exchange rate (MWK/US\$ average)	1161.1	1738.3	...	...	...
Debt Stock (% of GDP)					
External debt	43.2	37.4	30.4	26.9	23.3
Domestic public debt	40.4	50.7	48.4	50.8	54.8
Total public debt	83.6	88.1	78.8	77.6	78.0
Poverty					
International poverty rate (\$3.00 in 2021 PPP)	76.0	76.3	76.5	76.3	76.0
Lower middle-income poverty rate (\$4.20 in 2021 PPP)	87.7	87.9	87.9	87.9	87.7
Upper middle-income poverty rate (\$8.30 in 2021 PPP)	97.2	97.2	97.2	97.2	97.2

Source: World Bank staff calculations based on 2025 DSA (forthcoming), MFMod, MoFEA, RBM and IMF data.

Notes: Fiscal data are presented on a calendar-year basis. Poverty rates are calculated in 2017 purchasing power parity (PPP) terms.

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The World Bank Malawi Office  
Plot 13/59 Off Presidential Way  
Mulanje House, City Centre  
P.O. Box 30557  
Lilongwe  
Malawi

Tel: 265 1 770 611

Fax: 265 1 770 158

Email: [infomalawi@worldbank.org](mailto:infomalawi@worldbank.org)  
[www.worldbank.org/malawi](http://www.worldbank.org/malawi)

The World Bank  
1818 H Street, NW  
Washington, D.C. 20433  
USA

Tel: +1 202 473 1000

Fax: +1 202 477 6391

[www.worldbank.org](http://www.worldbank.org)