

MALAWI

Key conditions and challenges

Table 1 **2021**

Population, million	19.6
GDP, current US\$ billion	12.3
GDP per capita, current US\$	626.3
International poverty rate (\$1.9) ^a	73.5
Lower middle-income poverty rate (\$3.2) ^a	90.4
Upper middle-income poverty rate (\$5.5) ^a	97.1
Gini index ^a	38.5
School enrollment, primary (% gross) ^b	144.8
Life expectancy at birth, years ^b	64.3
Total GHG Emissions (mtCO2e)	28.2

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2019), 2011 PPPs.
b/ Most recent WDI value (2019).

Malawi's GDP growth rose to 2.8 percent in 2021, boosted by an improved agricultural harvest and the diminishing impact of the COVID-19 pandemic. However, growth is projected to stagnate in 2022 due to weather shocks and increased commodity prices, contributing to rising inflation and challenging the government's fiscal consolidation efforts. These dynamics reduce the impact of growth on poverty, which remains persistent and is among the highest in the region.

The economy continues to recover from the impacts of the COVID-19 pandemic. Cases surged during the spread of the Omicron variant in late 2021, but symptoms associated with the strain were milder and the government did not impose substantial additional mobility restrictions. However, vaccine uptake is low, and the country remains susceptible to new strains of the virus.

Exports continue to recover slowly, while imports have been increasing from a higher base, which continues to weaken the current account balance. Investment is limited by a weak business environment characterized by limited access to credit, numerous non-tariff barriers, and high transport costs. Together with erratic electricity supply, this constrains diversification and increased value addition despite the growth of some sectors, such as soya and mining. High reliance on subsistence rain-fed agriculture, susceptible to weather shocks, further impedes economic activity.

Implementation of expansionary policies and weak fiscal management have contributed to high fiscal deficits, resulting in increased high-cost domestic debt. This has crowded out private investment. The recent uptake of non-concessional external debt has pushed Malawi into high risk of public debt distress.

Associated higher debt servicing costs further reduce fiscal space for government investment.

Frequent weather shocks, along with the slow pace of structural transformation, have contributed to the high and stagnant poverty rate in the last decade. Between 2010 and 2020, the share of people below the \$1.90 per day poverty line increased from 72 percent to 74 percent.

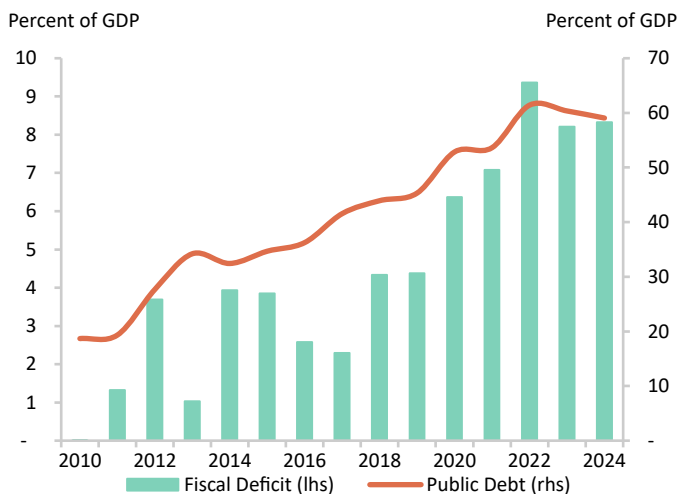
Recent developments

Economic growth increased to 2.8 percent of GDP in 2021 despite three waves of COVID-19 infections. Growth was driven by the strong performance of the agricultural sector, aided by favorable weather and increased input use. This offset weak growth in industry and services, which were more significantly impacted by restrictions related to COVID-19.

Headline inflation increased to 13.0 percent in February 2022, above the monetary policy rate of 12 percent. Food inflation reached 15.3 percent, largely due to an increase in maize prices, while non-food inflation has been driven by rising fuel prices. The official exchange rate remained relatively stable for the second half of 2021 but rising global commodity prices contributed to inflation, and the spread between the official and cash exchange rate has widened.

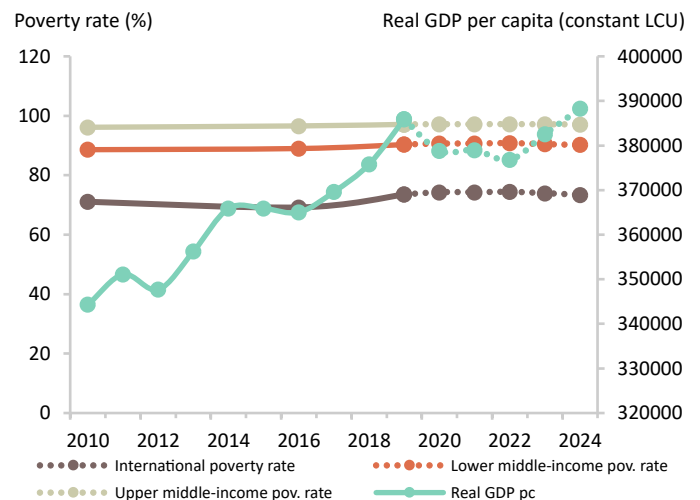
The FY22 budget deficit is expected to increase further, reaching 9.4 percent of GDP. The government is optimistic

FIGURE 1 Malawi / Fiscal deficit and public debt



Sources: Ministry of Finance, Economic Planning and Development, World Bank.

FIGURE 2 Malawi / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: See Table 2.

that revenues (including disbursement of grants) will increase to 16.7 percent of GDP. Expenditure is expected to increase significantly to 26.0 percent of GDP, driven by a surge in domestically financed development expenditure, rising debt servicing costs, social benefits (including implementation of the Affordable Input Program), and grants. The resultant deficit will be financed using high-cost domestic resources, further exacerbating an already challenging public debt situation.

The current account deficit remained large in 2021, at 13.0 percent of GDP. As mobility restrictions imposed to contain the pandemic were slowly eased, the performance of exports improved. Rising prices of goods such as fuel and fertilizer have resulted in rising import costs. Rising food prices have impacted households' budget by reducing consumption levels, resulting in declining welfare and counteracting improvements in economic growth. In turn, Malawi's \$1.90 international poverty rate has remained at 74 percent.

Outlook

Growth is projected to decline to 2.1 percent in 2022, from 2.8 percent in 2021. This reduction is largely due to weather-related shocks, macro-fiscal imbalances, and the impacts of the Russia-Ukraine war. The late onset of rains has been compounded by heavy rainfall and floods caused by Tropical Cyclones Ana and Gombe, which have negatively impacted production of key export crops and other sectors that rely on agricultural inputs. Electricity disruptions from the damaged Kapichira hydroelectric power station are affecting industry. The Russia-Ukraine conflict has impacted the economy through both direct price effects and implications on downstream activities. Instability in global commodity markets is resulting in higher prices for fuel and fertilizer, further constraining foreign currency reserves and exerting downward pressure on the exchange rate. Global commodity prices, which were already

elevated from pandemic-induced supply-chain disruptions and increased global demand, are also rising due to the conflict.

The current account deficit is estimated to increase to 14.4 percent of GDP. Exports are expected to maintain their current upward momentum, but the cost of imports is expected to increase, offsetting export gains. Rising commodity prices will also exert upward pressure on inflation. Supply-related pressures on the agriculture sector due to weather shocks could push average annual inflation into double digits. As a result of consolidation efforts on both revenues and expenditures, the FY23 fiscal deficit is expected to decline to 8.2 percent of GDP. Revenue is projected to increase to 16.8 percent of GDP driven by an increase in grant disbursements. Meanwhile, expenditure is expected to drop to 25 percent of GDP.

Due to the weather-related shocks affecting agricultural productivity and incomes, the share of the population below the international \$1.90 poverty line is projected to stagnate around 74 percent in 2022 and 2023.

TABLE 2 Malawi / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	5.4	0.8	2.8	2.1	4.3	4.2
Private Consumption	5.4	0.8	2.9	2.5	5.0	5.2
Government Consumption	5.4	0.8	-2.9	7.1	0.5	-3.6
Gross Fixed Capital Investment	5.4	0.8	6.1	0.8	2.5	6.2
Exports, Goods and Services	5.4	0.8	5.5	2.1	3.6	4.1
Imports, Goods and Services	5.4	0.8	4.3	3.6	4.0	5.2
Real GDP growth, at constant factor prices	6.0	0.8	2.8	2.1	4.3	4.2
Agriculture	5.9	3.4	5.2	-3.0	3.4	3.1
Industry	7.7	1.2	1.9	2.0	4.1	4.5
Services	5.5	-0.5	2.0	4.4	4.7	4.6
Inflation (Consumer Price Index)	9.4	8.6	9.3	12.6	11.5	9.8
Current Account Balance (% of GDP)	-13.8	-11.7	-13.0	-14.4	-13.6	-13.4
Net Foreign Direct Investment (% of GDP)	0.3	0.6	0.3	0.8	0.6	0.6
Fiscal Balance (% of GDP)	-4.4	-6.4	-7.1	-9.4	-8.2	-8.3
Debt (% of GDP)	45.3	52.8	53.6	61.5	60.3	58.9
Primary Balance (% of GDP)	-1.5	-3.3	-3.3	-4.9	-2.9	-3.2
International poverty rate (\$1.9 in 2011 PPP)^{a,b}	73.5	74.3	74.3	74.4	74.0	73.4
Lower middle-income poverty rate (\$3.2 in 2011 PPP)^{a,b}	90.4	90.7	90.7	90.8	90.5	90.3
Upper middle-income poverty rate (\$5.5 in 2011 PPP)^{a,b}	97.1	97.2	97.2	97.2	97.1	97.1
GHG emissions growth (mtCO₂e)	1.6	1.4	2.1	1.9	2.4	1.8
Energy related GHG emissions (% of total)	34.2	34.2	34.2	34.5	34.7	34.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

a/ Calculations based on 2019-IHS-V. Actual data: 2019. Nowcast: 2020-2021. Forecasts are from 2022 to 2024.

b/ Projection using neutral distribution (2019) with pass-through = 0.7 based on GDP per capita in constant LCU.