

MALAWI

Growth slowed to 1.8 percent in 2024 due to a severe drought and is projected at 2.0 percent for 2025 amid a weak recovery and continued foreign currency shortages. High inflation, driven by deficit financing and escalating food and utility costs, exacerbates poverty and food insecurity. 71.3 percent of Malawians are expected to be below the \$2.15 per day poverty line in 2025.

Key conditions and challenges

In the past three years, per capita income has declined as Malawi's economic growth lagged population growth. The period has seen widening fiscal and current account deficits, an unsustainable debt burden, increasing capital and price controls, and severe foreign exchange shortages, hindering economic stabilization efforts. Frequent climatic disasters and other exogenous shocks have exacerbated these challenges, making it difficult for poor households to build resilience.

Despite attempts at stabilization, efforts to address rising fiscal and external imbalances have stalled, deepening macroeconomic challenges. Structural challenges are compounded by fiscal slippages financed by high-cost domestic debt, with debt service consuming over 56.0 percent of domestic revenue in 2024. The country remains in external debt distress and the debt-to-GDP ratio has reached 90.2 percent. While agreements to restructure official bilateral debt have been reached, progress on restructuring external commercial debt is advancing slowly. Quasi-fiscal activities, such as below-market sales of foreign exchange, have increased, posing fiscal risks. Official foreign-exchange reserves

Population ¹ million	21.7	Poverty ² millions living on less than \$2.15/day	13.3
Life expectancy at birth ³ years	62.9	School enrollment ⁴ primary (% gross)	135.4
GDP ⁵ current US\$, billion	11.0	GDP per capita ⁶ current US\$	508.4

Sources: WDI, MFM, and official data. 1/ 2024. 2/ 2019 (2017 PPPs). 3/ 2022. 4/ 2023. 5/ 2024. 6/ 2024.

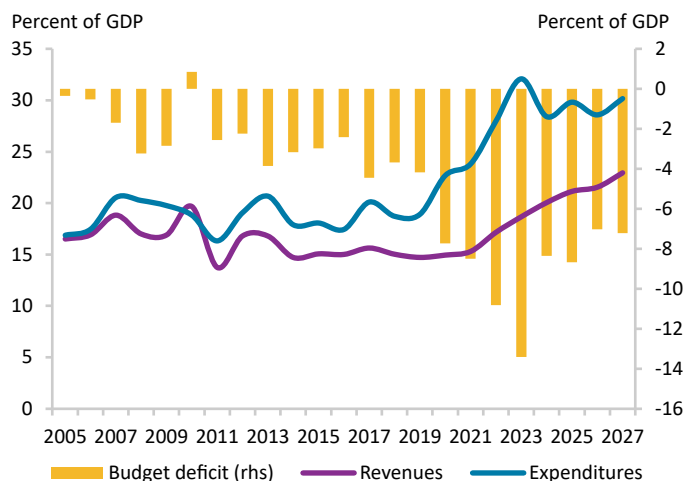
remain critically low, as inflows from official exports, foreign investment, remittances and grants have not kept pace with import demand. Consequently, foreign exchange is tightly rationed, and there is a growing spread between the official exchange rate and the parallel market rate.

Despite significant progress in reducing child mortality and fertility rates, hunger remains a critical concern due to successive weak harvests since 2022. This has hindered human capital development, with the rate of stunted children under five stagnant at 38.0 percent since 2015. Foreign exchange constraints have also limited imports to compensate for the food supply deficit.

Recent developments

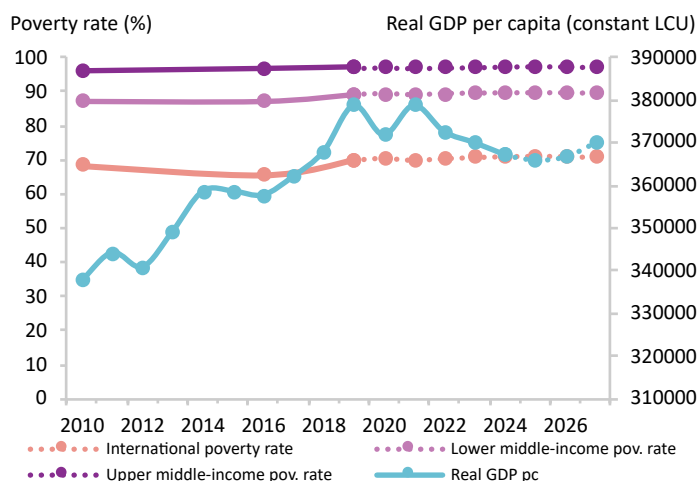
In 2024, Malawi's economy faced significant challenges, with real GDP growth slowing to 1.8 percent due to a severe drought and acute foreign exchange shortages. The poverty rate rose to 71.2 percent. The interplay of external sector imbalances, inflationary pressures, and fiscal constraints has deepened economic vulnerabilities, impeding recovery prospects.

FIGURE 1 / Actual and projected revenues, expenditures, and budget deficit



Source: World Bank staff estimates and projections.

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



Source: World Bank. Notes: See footnotes in table on the next page.

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). This imbalance severely strained official foreign exchange reserves, which have remained below one month of import cover for the past two years, exacerbating the country's vulnerability to shocks. Implementation of exchange rate reforms announced in November 2023 has stalled, leading to a widening spread between official and parallel rates and increasing distortions in the foreign exchange market.

Following a period of moderation in late 2024, inflationary pressures have reemerged, primarily driven by escalating food and utility costs, as well as depreciation of the parallel exchange rate, with the poorest households and those in urban areas hit hardest. Headline inflation remains high at 30.7 percent in February 2025, largely due to a sharp rise in food prices, disproportionately affecting the poorest households. The Reserve Bank of Malawi has maintained the monetary policy rate at 26.0 percent since February 2024. Concurrently, money supply growth remains elevated, reaching 37.8 percent in February 2025, driven in part by high deficit financing.

The fiscal deficit in 2024 remained high at 8.4 percent, driven by overly optimistic revenue projections and expenditure slippages. The primary deficit remains high at 1.4 percent of GDP.

Outlook

Real GDP is projected to grow modestly by 2.0 percent in 2025, which would not be sufficient to prevent a fourth consecutive contraction in per capita income. GDP growth will be driven by a modest recovery in the agricultural sector, which experienced negative growth in 2024

due to El Niño-induced drought conditions. Additionally, modest growth is anticipated in the industrial and services sectors. However, these sectors remain subdued due to the continued unavailability of foreign exchange, which is constraining the importation of production inputs. Real GDP growth is projected at 2.4 percent in 2026. This stagnation impedes efforts to reduce poverty.

The budget deficit is expected to widen to 8.7 percent of GDP in 2025, driven by election year spending and the need to absorb some critical expenditures previously financed by the United States government. 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. The real appreciation of the official exchange rate will continue to incentivize imports and discourage export growth, deepening external imbalances.

The number of people living in poverty is expected to increase in 2025 amidst this challenging economic environment and rising food insecurity, with an additional 417,000 people falling below the \$2.15 per day threshold, bringing the total number of people living in poverty to 15.8 million.

The outlook is subject to significant downside risks, including potential fiscal slippages that could entrench macroeconomic instability. While direct and indirect effects of recent trade policy shifts have caused a downward shift in growth projections, continued uncertainty and weaker than expected global demand may further adversely affect Malawi's growth prospects. Failure to address external imbalances may further perpetuate input shortages. Upside risks include the potential unfreezing of US aid to Malawi, easing of trade restrictions, faster-than-expected development of mining mega-projects, and the rapid conclusion of debt-restructuring negotiations with commercial external creditors.

Recent history and projections

	2022	2023	2024e	2025f	2026f	2027f
Real GDP growth, at constant market prices	0.9	1.9	1.8	2.0	2.4	3.2
Private consumption	0.6	3.8	4.7	4.8	5.6	5.6
Government consumption	-5.8	14.8	15.5	0.4	-1.9	2.5
Gross fixed capital investment	12.4	-14.3	-14.2	-11.6	-25.1	-33.8
Exports, goods and services	3.1	3.5	8.8	6.7	6.0	6.0
Imports, goods and services	3.9	3.9	9.6	6.3	3.9	3.9
Real GDP growth, at constant factor prices	1.1	1.7	1.8	2.0	2.4	3.2
Agriculture	0.9	0.7	-0.2	2.2	3.0	3.9
Industry	-0.7	2.5	2.1	2.2	2.2	2.7
Services	1.9	1.8	2.6	1.8	2.2	3.1
Inflation (consumer price index)	20.9	28.7	32.3	34.7	27.8	19.4
Current account balance (% of GDP)	-17.8	-17.8	-22.0	-21.9	-17.7	-17.1
Net foreign direct investment inflow (% of GDP)	1.7	1.6	1.1	1.0	1.3	1.2
Fiscal balance (% of GDP)	-10.8	-13.4	-8.4	-8.7	-7.1	-7.3
Revenues (% of GDP)	17.2	18.7	20.1	21.2	21.7	23.2
Debt (% of GDP)	76.7	90.3	90.2	81.9	78.8	64.9
Primary balance (% of GDP)	-6.1	-8.3	-1.4	-0.6	-1.2	-1.6
International poverty rate (\$2.15 in 2017 PPP)^{1,2}	70.6	70.9	71.2	71.3	71.2	70.9
Lower middle-income poverty rate (\$3.65 in 2017 PPP)^{1,2}	89.3	89.4	89.5	89.5	89.5	89.4
Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{1,2}	97.4	97.4	97.4	97.5	97.4	97.4
GHG emissions growth (mtCO2e)	1.5	1.6	1.5	1.5	1.5	1.5

Source: World Bank, Poverty and Economic Policy Global Departments. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast. Data in annual percent change unless indicated otherwise.

1/ Calculations based on 2019-IHS-V. Actual data: 2019. Nowcast: 2020-2024. Forecasts are from 2025 to 2027.

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