MALAWI

Table 1	2019
Population, million	18.6
GDP, current US$ billion	7.7
GDP per capita, current US$	411.6
International poverty rate ($1.9)[a]	70.8
Lower middle-income poverty rate ($3.2)[a]	89.6
Gini index[a]	44.7
School enrollment, primary (% gross)[b]	142.5
Life expectancy at birth, years[b]	63.8

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2016), 2011 PPPs.
(b) Most recent WDI value (2018).

The COVID-19 pandemic disrupted a third year of faster economic growth for Malawi, as global and domestic social distancing behavior and policies disrupted economic activity. Economic growth for 2020 is projected at 1.3 percent, with poor performance in services and industry sectors partially offset by a second consecutive strong agricultural harvest. Economic growth in the medium term is expected to reach towards 4.9 percent, but this will depend on the pace of recovery from the pandemic both in Malawi and the global economy.

Recent developments

The economy is projected to grow by 1.3 percent in 2020, a downward revision from 4.8 percent projected in September 2019, due to the impact of the COVID-19 pandemic. The disruption in global value chains has slowed importation of production inputs, increased trade and logistics costs, cut tourism earnings, and reduced remittances. This has been compounded by social distancing behavior and policies to contain the spread of the virus. However, a second consecutive year of good agriculture harvest, apart from tobacco, helped alleviate some of the negative impact on growth. In addition, the new administration is expected to present a return to political stability for Malawi, following a year-long political impasse after the contested May 2019 Presidential elections, which also negatively impacted economic activity and investment.

Poverty reduction stagnated in Malawi even before the COVID-19 crisis. The share of the population below the international poverty line of $1.90 per day has moderately decreased from 70 percent in 2017 to 69 percent in 2019. Frequent natural disasters affect the rural poor's ability to escape from poverty, and the COVID-19 pandemic poses a new challenge for households. Data from phone surveys collected in July 2020 show that although most respondents kept their job, 9 percent stopped working, with similar effects across rural and urban areas. In the same way, 64 percent of small family-owned and operated businesses reported earning less revenue from sales after March 2020.

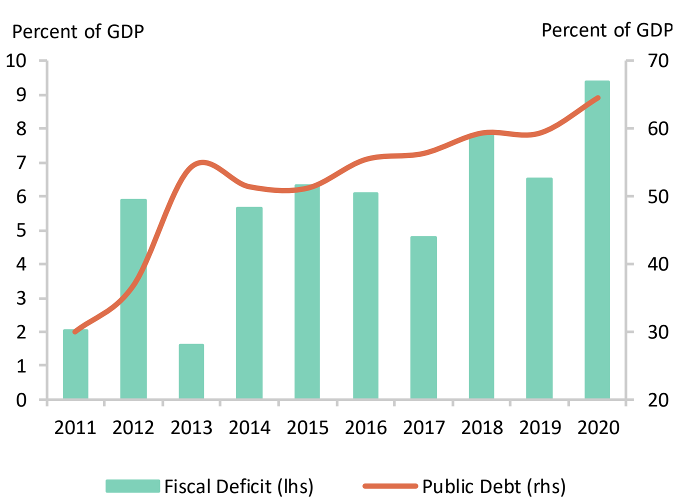
Headline inflation decelerated to 7.6 percent in August 2020, supported by a decline in food prices and reduced global oil prices. Food inflation decelerated to 11.3 percent due to improved food availability following the harvest. Non-food inflation also decelerated to 4.4 percent in August 2020 facilitated by a reduction in global oil prices.

Pressures on the Malawi kwacha (MK) increased in mid-2020, leading to a depreciation of 1.9 percent from July to mid-September 2020 against the United States dollar. Gross official foreign reserves have remained above three months import cover for most of 2020, despite reports of delays in accessing foreign exchange by some parts of the private sector.

The fiscal deficit widened to 9.4 percent of GDP in FY2019/20, a significant increase from 6.5 percent in FY2018/19. Revenues underperformed through the fiscal year and worsened with the onset of the pandemic. This was compounded by recurrent expenditure overruns, particularly in the third quarter, with expenditure pressures in advance of presidential elections in June 2020, as well as rising spending related to the pandemic, including increased allowances and recruitment of medical personnel. The deficit was largely financed by high-cost domestic borrowing, which contributed to an increase in domestic debt to 36.5 percent of GDP and domestic interest costs of 4.3 percent of GDP in 2020.

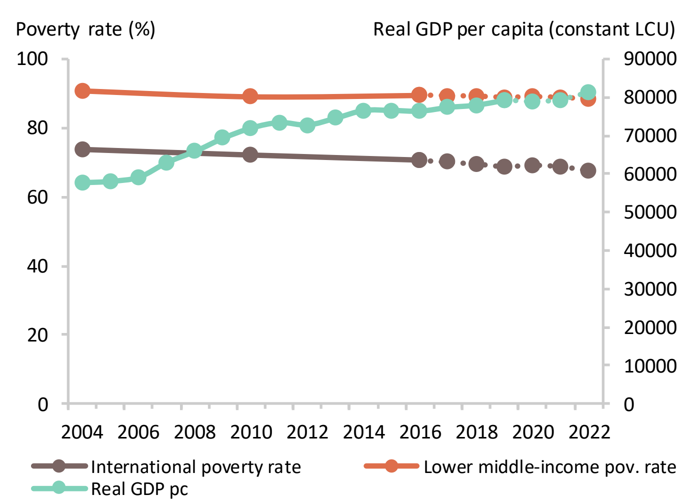
The pandemic is contributing to a widening of the current account deficit, which is expected to reach to 19.6 percent of GDP.

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.

Delays in transportation of goods due to mobility restrictions, combined with weaker tobacco production affected the performance of exports. Mobility restrictions in trading partners contributed to declining imports. However, with the relaxation of mobility restrictions in South Africa, Malawi's imports partially rebounded from June.

Outlook

Real GDP growth is projected to pick up to 3.3 percent in 2021, assuming a gradual containment of the COVID-19 pandemic. Growth is expected to be driven by agriculture, owing to the expanded agricultural input subsidy, which should support household incomes in the short term. In addition, activity is expected to rebound in the services sector, which has been heavily hit by the pandemic. As a result of heightened economic and health risk associated with COVID-19, the share of the population below the poverty line in 2020 is projected to stagnate around 69 percent as in 2019. The prospect of faster growth, after economic uncertainties subside and agricultural output improves, will likely decrease poverty to 67 percent by 2022.

The government presented an expansionary FY2020/21 budget proposal in September 2020, with the deficit expected to reach over 12 percent of GDP. This is mainly driven by an expansion of expenditure, largely due to the implementation of the Affordable Input Program (AIP) which has increased beneficiaries from 900,000 previously to more than 4.2 million smallholder farmers. The program is expected to cost around 2.4 percent of GDP. The accumulation of high cost domestic debt combined with increasing interest rates are contributing to increasing interest payments, which are expected to reach around 5.6 percent of GDP. Further, pensions and gratuities are proposed to increase by 18.4 percent (in nominal terms) and wages and salaries by 13.5 percent. Revenue is expected to rebound only gradually as economic activity slowly picks up. Public sector reforms could translate to improved performance of parastatals and reduce their vulnerability to fiscal risks over the medium term. Further, development of the Domestic Resource Mobilization Strategy could increase the efficiency and equity of tax collection and translate to increased resource envelope.

The current account deficit is projected to slightly improve to around 19.2 percent of GDP in the medium term. Malawi should enjoy increased exports and remittance inflows as the global economy recovers from the COVID-19 pandemic. Imports are also expected to increase, particularly in the short term, as the government imports more fertilizer and inputs under the AIP.

Risks and challenges

The impact of the COVID-19 pandemic on the global and Malawian economy continues to increase uncertainty looking forward. A resurgence in COVID-19 cases could depress economic activity, especially in the services sector, and reduce government revenues, while also increasing health expenditure. This would expand the fiscal deficit further and increase the already high domestic debt burden. This comes at a time the government needs to rein in expenditure in order to reduce high cost domestic borrowing, which is increasingly crowding out fiscal space for development expenditure. In addition, Malawi's rain-fed agriculture sector is highly vulnerable to weather shocks, which could weaken growth in the agriculture sector, increase food security, and worsen poverty. This calls for investment and policies to support agricultural diversification and commercialization.

TABLE 2 Malawi / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	4.0	3.5	4.4	1.3	3.3	4.9
Private Consumption	11.4	7.3	3.9	1.8	4.0	3.9
Government Consumption	-2.3	-14.3	3.5	12.7	5.0	0.6
Gross Fixed Capital Investment	-6.0	-2.9	6.0	10.1	0.8	2.9
Exports, Goods and Services	3.7	6.9	3.8	2.7	3.4	4.0
Imports, Goods and Services	-1.5	6.4	3.6	4.7	3.8	2.9
Real GDP growth, at constant factor prices	4.0	2.9	4.4	1.3	3.3	4.9
Agriculture	5.0	2.4	4.3	3.0	4.1	4.0
Industry	2.2	2.2	3.8	1.2	2.8	4.4
Services	4.0	3.4	4.5	0.5	2.9	5.5
Inflation (Consumer Price Index)	11.5	9.2	9.3	9.5	8.8	7.5
Current Account Balance (% of GDP)	-22.4	-20.5	-17.8	-19.6	-19.2	-18.9
Net Foreign Direct Investment (% of GDP)	1.5	1.5	1.4	1.1	1.3	1.8
Fiscal Balance (% of GDP)	-4.8	-7.8	-6.5	-9.4	-12.4	-9.7
Debt (% of GDP)	56.4	59.4	59.4	64.6	72.5	75.2
Primary Balance (% of GDP)	-0.5	-3.9	-2.6	-5.0	-6.7	-3.2
International poverty rate ($1.9 in 2011 PPP)[a,b]	70.2	69.7	68.9	69.3	68.9	67.7
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	89.4	89.2	88.9	89.0	88.8	88.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.

(a) Calculations based on 2016-IHS-IV. Actual data: 2016. Nowcast: 2017-2019. Forecast are from 2020 to 2022.
(b) Projection using neutral distribution (2016) with pass-through = 1 based on GDP per capita in constant LCU.