MALAWI

Table 1	2020
Population, million	19.1
GDP, current US$ billion	8.1
GDP per capita, current US$	425.3
International poverty rate ($1.9)[a]	69.2
Gini index[a]	44.7
School enrollment, primary (% gross)[b]	144.8
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) WDI for school enrollment (2019); life expectancy (2018).

Malawi's economic growth fell to 0.8 percent in 2020 and is expected to pick up to 2.8 percent in 2021. The country's services and industry sectors have been heavily affected by the COVID-19 pandemic. Malawi will benefit from a one-time boost to maize production in 2021 due to favorable weather and extensive input subsidies. However, it will need to strengthen fiscal sustainability and invest in diversification in order to sustainably increase growth and reduce persistently high poverty levels.

Key conditions and challenges

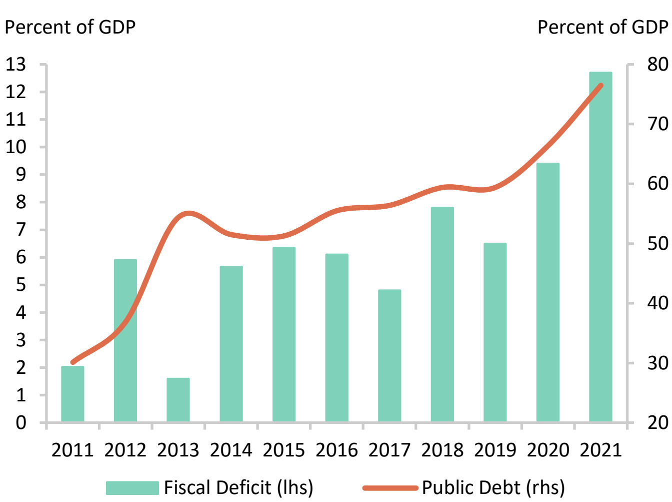
Malawi's continued reliance on subsistence, rainfed agriculture has limited its growth potential, increases its susceptibility to weather shocks, and creates food insecurity. This has been compounded by trade restrictions, which impede investment and commercialization, and erratic electricity supply that limits value addition and slows economic diversification. Public investment has been low, offset by large and increasing subsidies to maize production. These factors have contributed to persistently high poverty levels and limited structural transformation. The share of the population below the international poverty line of $1.90 per day has decreased only marginally from 72 percent in 2010 to 68 percent in 2019. Weak budget management and economic policies have contributed to recurring and increasing fiscal deficits, which have been largely funded by high-cost domestic borrowing. This has led to a high level of domestic debt, which increasingly reduces fiscal space for development spending and also risks crowding out private sector investment. While Malawi has benefitted from exchange rate stability and lower inflation in recent years, this has also contributed to real appreciation, which reduces competitiveness.

The COVID-19 pandemic has heavily impacted Malawi's economy, with a second wave affecting the country since mid-December 2020. Trade disruptions, lower tourism and remittances, and social distancing policies and behavior have slowed activity in the service and industry sectors but has been partially offset by a strong agriculture harvest due to favorable weather conditions. The urban poor have been particularly affected, and an estimated 12 percent of the total economically active population have experienced job losses. The COVID-19 pandemic is reducing revenues and increasing expenditure for COVID-response, which together with expansionary policies by the new administration, further worsen the fiscal position and reduce fiscal space. In particular, the new administration is implementing a costly universal agricultural input subsidy that will boost maize production in the short term, but will need to be reformed to make it fiscally sustainable and support diversification. The nature of the recovery will depend on the evolution of the pandemic in Malawi. A strong recovery and higher growth will be needed in the medium term for the country to reduce its debt burden and to sustainably reduce poverty.

Recent developments

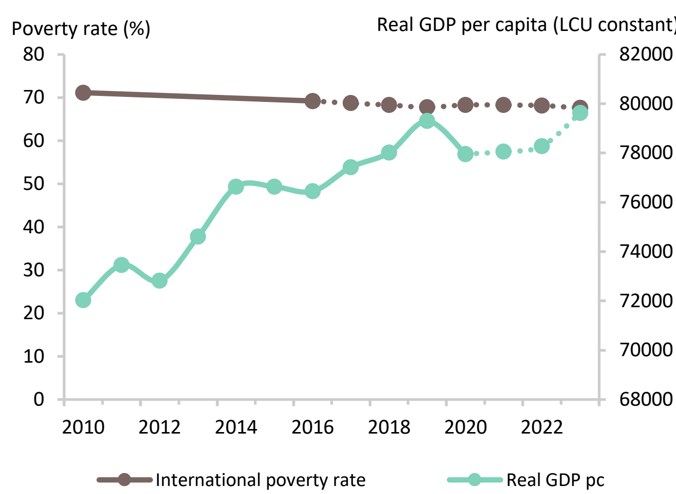
Growth in 2020 is estimated at 0.8 percent, down from the pre-COVID projection of 4.8 percent. With population growth around 3.0 percent, this represents a contraction in per capita GDP of greater than 2 percent. Political stability returned following the June 2020 Presidential elections; however, global and domestic factors emanating from the pandemic are

FIGURE 1 Malawi / Fiscal deficit and public debt



Sources: Ministry of Finance and World Bank.

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



Source: World Bank. Notes: see Table 2.

affecting Malawi's economy, including: 1) disruption in global value chains, trade and logistics; 2) decrease in tourism; and 3) decrease in remittances. This has combined with social distancing policies and behavior contributing to reduction in domestic demand. Lower international oil prices, on the other hand, helped reduce the import bill and alleviated fuel and transportation price pressures. A reduction in international remittances and tourism also contributed to a worsening external sector balance, with the current account deficit estimated to widen to 18.3 percent of GDP in 2020, which is largely financed by development assistance. Headline inflation decelerated to 7.6 percent in December 2020, down from a recent peak of 11.5 percent in December 2019, supported by lower food and global oil prices.

The FY2020 fiscal deficit expanded to 9.4 percent of GDP, far wider than the revised target of 5.4 percent of GDP. This was due to optimistic revenue assumptions combined with weaker growth due to the pandemic, as well as recurrent expenditure overruns due to election-related pressures, COVID-19 response, higher domestic interest payments, and repayment of unbudgeted arrears. Financing of the fiscal deficit, largely using domestic resources has pushed domestic debt beyond external debt levels. Public debt increased to 66.4 percent of GDP in 2020.

Outlook

The second wave of the pandemic which started in late 2020 has been more intense than the first and is further disrupting economic activity. Extensive input subsidies and favorable weather are expected to contribute to a one-time jump in maize production, which, combined with a pickup in tobacco production after 2020's weak harvest, should lead to a strong agriculture performance in 2021. However, the vaccine is not expected to reach a significant portion of the population until at least mid-2022. As such, social distancing policies and behavior are expected to weigh on economic activity and suppress domestic demand and only a weak rebound is expected in the services and industry sectors in 2021. International tourism, in particular, is unlikely to return to previous levels in the short term. These factors are expected to lead to growth of 2.8 percent in 2021. With GDP per capita growth remaining low, the share of the population below the international $1.90 poverty line is projected to continue to stagnate around 68 percent in 2021 and remain near this level through 2023.

The FY2021 budget is expansionary and the projected fiscal deficit of 12.7 percent of GDP could widen further. Revenue and grants are already weaker than budgeted, which may further underperform due to PAYE tax reform measures implemented since November. Expenditure has increased substantially due to the Affordable Inputs Program (AIP) for the agriculture sector and increasing interest payments. The wage and pension bill is also increasing moderately. In addition, more resources are needed for pandemic response, and expenditure arrears are resurfacing. The deficit will be largely financed by domestic borrowing. The Government needs to contain spending in order to limit rapidly increasing interest costs and reduce domestic debt.

The current account deficit is projected to remain near 18 percent of GDP over the medium term. A good agricultural performance will induce a one-time increase in agriculture exports. However, steadily declining global demand for tobacco and limited agricultural diversification will hamper export growth. Health response materials will also boost imports.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	3.5	4.4	0.8	2.8	3.0	4.5
Private Consumption	7.3	3.9	1.8	2.4	2.5	2.9
Government Consumption	-14.3	3.5	12.7	-6.5	6.5	6.9
Gross Fixed Capital Investment	-2.9	6.0	5.9	0.1	9.0	8.2
Exports, Goods and Services	6.9	3.8	-5.0	4.8	-0.3	2.5
Imports, Goods and Services	6.4	3.6	-1.8	2.9	1.1	2.4
Real GDP growth, at constant factor prices	2.9	4.4	0.8	2.8	3.0	4.5
Agriculture	2.4	4.3	3.4	5.2	1.7	3.2
Industry	2.2	3.8	1.2	1.6	2.4	4.3
Services	3.4	4.5	-0.7	1.9	3.8	5.2
Inflation (Consumer Price Index)	9.2	9.4	8.6	8.8	7.6	7.0
Current Account Balance (% of GDP)	-20.5	-17.2	-18.3	-17.4	-18.1	-17.9
Net Foreign Direct Investment (% of GDP)	1.5	1.4	1.1	1.0	1.8	2.2
Fiscal Balance (% of GDP)	-7.8	-6.5	-9.4	-12.7	-9.5	-8.9
Debt (% of GDP)	59.4	59.4	66.4	76.5	80.6	83.6
Primary Balance (% of GDP)	-3.9	-2.6	-5.0	-7.0	-3.0	-1.9
International poverty rate ($1.9 in 2011 PPP)[a,b]	68.3	67.8	68.3	68.3	68.2	67.6

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: 2017-2020. Forecast are from 2021 to 2023.

(b) Projection using neutral distribution (2016) with pass-through = 0.7 based on GDP per capita in constant LCU.