

MALAWI

Table 1 **2022**

Population, million	20.4
GDP, current US\$ billion	11.9
GDP per capita, current US\$	581.1
International poverty rate (\$2.15) ^a	70.1
Lower middle-income poverty rate (\$3.65) ^a	89.1
Upper middle-income poverty rate (\$6.85) ^a	97.3
Gini index ^a	38.5
School enrollment, primary (% gross) ^b	144.8
Life expectancy at birth, years ^b	63.7
Total GHG emissions (mtCO2e)	20.3

Source: WDI, Macro Poverty Outlook, and official data.

a/ Most recent value (2019), 2017 PPPs.

b/ WDI for School enrollment (2019); Life expectancy (2020).

With lower agricultural output, erratic electricity supply, forex shortages affecting importation of raw materials and high global commodity prices, GDP growth declined to 0.9 percent in 2022. Economic growth is projected to increase only slightly to 1.4 percent in 2023 with the impacts of Tropical Cyclone Freddy on the South negating anticipated improvements in agricultural performance. In light of persistently elevated inflation, poverty rates are expected to remain high.

Key conditions and challenges

Malawi's overreliance on rainfed and primary agriculture limits the economy's potential for inclusive growth. Output is disrupted by changing weather, flooding, and the unreliable supply of fertilizer. Policies that distort agricultural markets discourage investments that could boost productivity, exports, and foreign exchange needed to finance essential imports.

Growth remains vulnerable to internal and external risks. Volatile agriculture growth driven by the occurrence of disruptive weather patterns and erratic electricity supply emanating from delays in the repair of the Kapichira hydropower plant continues to undermine economic growth. This has been compounded by persistent forex shortages constraining the importation of raw materials for production. Weak governance and policy implementation are creating additional challenges for the business environment.

Export recovery remains weak. With imports expected to significantly recover from the slump in 2022, this will continue to strain the current account balance, exacerbating the foreign exchange reserves accumulation efforts. The limited efforts to address the widening exchange rate premium will also exert additional pressures on reserves.

The government is still implementing an expansionary fiscal policy and growing statutory spending consumes almost all revenue. This creates significant challenges for fiscal

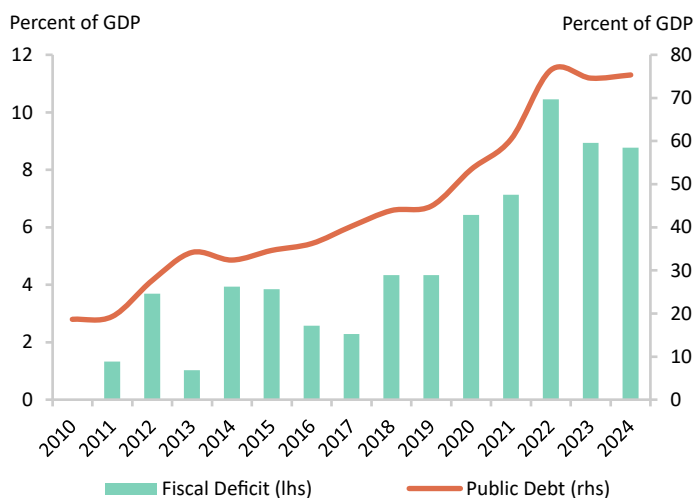
consolidation. The government's recourse to high-cost domestic borrowing, due to limited external financing, exerts additional pressure on public debt, which the November 2022 Debt Sustainability Analysis rates as in distress. With debt restructuring negotiations progressing slowly, there is a risk that public debt may rise further.

Recurrent weather shocks, including a drought in 2016 and cyclones in 2019, 2022 and again recently in March 2023, have contributed to high vulnerability and food insecurity. This has been compounded by high population growth and weak economic dynamism. As a result, incomes remain low and stagnant, with the share of people living below \$2.15 a day increasing from 66 percent to 70 percent in one decade.

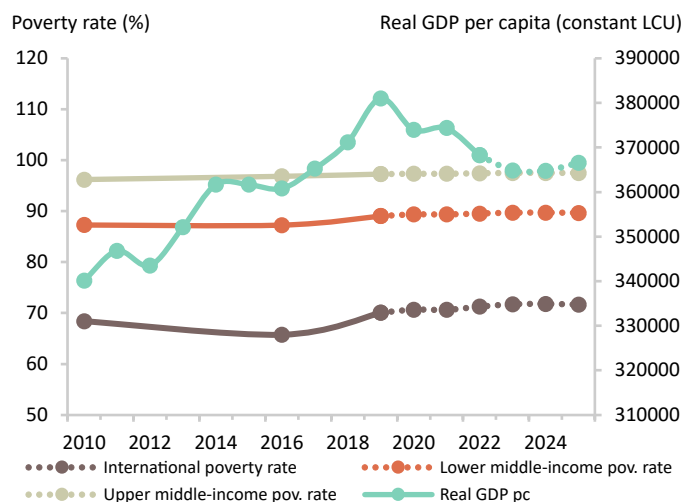
Recent developments

A series of exogenous shocks in 2022 delayed the country's recovery from the COVID-19 pandemic. Tropical cyclones disrupted agriculture and electricity generation. High global commodity prices reduced raw materials imports. Economic growth declined to 0.9 percent in 2022 from 2.8 percent in 2021.

The pass-through of high global commodity prices, compounded by the devaluation of the Malawi kwacha in May 2022, pushed domestic inflation upwards, peaking at 26.7 percent in October 2022 and again in February 2023 (year-on-year), the highest rate since 2013. To contain the effect of inflation, the Reserve Bank of Malawi increased the policy rate

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.

to 18 percent in October 2022. Pressures on the official exchange rate remain significant, with the premium increasing to over 50 percent as of end of March 2023.

Despite good revenue performance, there has been limited progress toward fiscal consolidation in FY2022/23. By the end of the third quarter (December 2022), revenue amounted to 11.6 percent of GDP. Expenditure totaled 18.3 percent of GDP driven by higher spending on interest, wages and salaries, and goods and services. Consequently, the fiscal deficit widened, reaching 6.7 percent of GDP for the first nine months of the year. High deficits have constrained fiscal space, in turn reducing expenditure to support poverty reduction aims.

Forex shortages and rising global commodity prices resulted in a significant import compression, narrowing the current account deficit to 3.2 percent of GDP. Gross official reserves remained low, with import cover at less than one month at the end of 2022.

High domestic food prices for maize and other staples continue to exert pressure on household incomes, pushing many into poverty. In turn for 2022, the proportion of

people living on less than \$2.15 a day has increased slightly to at 71 percent.

Outlook

Malawi's economy is projected to grow by 1.4 percent in 2023. This modest acceleration assumes gradual macroeconomic stabilization and resumed electricity generation at the Kapichira hydropower plant. While some recovery in agriculture is expected, the impacts of Cyclone Freddy, which hit Malawi in March 2023, as well as disruptions in fertilizer distribution could lower yields, especially in the Southern Region. Domestic food prices will likely remain relatively high, but global commodity prices are projected to continue easing, contributing to a projected decline in inflation to 19.7 percent in 2023.

Fiscal consolidation efforts are challenged by continued spending pressures and in particular the high share of statutory expenditures. While revenue collection is projected at 14.5 percent of GDP, expenditure is projected to decrease to 23.3 percent of GDP, driven by the wage bill and

high debt servicing costs. The fiscal deficit is projected to stagnate at 8.8 percent of GDP in FY2023/24 from a likely outturn of 8.9 percent of GDP in FY2022/23.

Reliance on high-cost domestic borrowing will keep the government from reducing interest spending and keep public debt high. Successful efforts to finalize debt restructuring will be key to bolster fiscal consolidation efforts and stabilize the economy.

As imports are projected to significantly pick up in 2023, a worsening current account deficit will continue straining foreign reserves and likely result in continued forex shortages. Agricultural exports are also expected to improve, albeit moderately. Consequently, the current account deficit is projected to widen further to 11.3 percent of GDP in 2023.

Malawi will remain vulnerable to external shocks. Flooding induced by Tropical Cyclone Freddy will negatively affect agricultural production and food security. High food prices will continue constraining food availability, especially for net consumers. As growth remains low, the poverty rate is likely to increase to 72 percent in 2023.

TABLE 2 Malawi / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	0.8	2.8	0.9	1.4	2.4	3.0
Private Consumption	0.8	2.6	0.6	3.5	3.6	3.5
Government Consumption	0.8	-1.1	4.3	3.5	-0.5	5.7
Gross Fixed Capital Investment	0.8	-0.2	-6.5	-7.3	1.4	1.7
Exports, Goods and Services	0.8	2.9	3.6	4.6	5.8	5.9
Imports, Goods and Services	0.8	0.4	0.1	5.8	5.9	6.0
Real GDP growth, at constant factor prices	0.8	2.8	0.9	1.4	2.4	3.0
Agriculture	3.4	5.2	-1.0	0.5	2.4	2.6
Industry	1.2	1.9	0.9	1.3	2.4	3.0
Services	-0.5	2.0	1.8	1.8	2.5	3.1
Inflation (Consumer Price Index)	8.6	9.2	21.8	19.7	16.8	14.3
Current Account Balance (% of GDP)	-13.8	-14.3	-3.2	-11.3	-11.3	-11.7
Net Foreign Direct Investment Inflow (% of GDP)	3.5	0.8	1.3	1.3	1.4	1.4
Fiscal Balance (% of GDP)	-6.4	-7.1	-10.4	-8.9	-8.8	-8.9
Revenues (% of GDP)	14.7	14.1	13.0	14.7	14.5	14.6
Debt (% of GDP)	53.4	60.5	76.5	74.6	75.3	76.1
Primary Balance (% of GDP)	-3.4	-3.3	-5.2	-2.3	-2.3	-2.3
International poverty rate (\$2.15 in 2017 PPP)^{a,b}	70.7	70.6	71.3	71.7	71.8	71.7
Lower middle-income poverty rate (\$3.65 in 2017 PPP)^{a,b}	89.4	89.4	89.5	89.7	89.7	89.7
Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{a,b}	97.4	97.4	97.5	97.5	97.5	97.5
GHG emissions growth (mtCO₂e)	1.7	1.6	1.4	1.5	1.5	1.5
Energy related GHG emissions (% of total)	7.1	7.0	7.0	6.9	6.8	6.7

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

Notes: e = estimate, f = forecast.

a/ Calculations based on 2019-IHS-V. Actual data: 2019. Nowcast: 2020-2022. Forecasts are from 2023 to 2025.

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