Malawi

Macroeconomic performance

Real GDP growth was an estimated 3.7% in 2018, down from 5.1% in 2016/17, which was a recovery from 2.7% in 2015/16. In 2016/17, growth was boosted by agricultural growth of 6.3%, up from a contraction of 0.1% in 2015/16, driven by better weather.

The fiscal deficit widened to an estimated 4.8% of GDP in 2018 from 3.7% in 2016/17. In 2017/18, the debt-to-GDP ratio was declined marginally to an estimated 58% of GDP from 59% in 2016/17, up from 30% in 2012/13. Malawi is now classified as being at a moderate risk of debt distress.

Inflation declined to an estimated 10.4% in 2017/18 from 11.5% in 2016/17, due partly to improved food supply. The Reserve Bank of Malawi gradually reduced its policy rate from 24% in November 2016 to 16% in December 2017, where it remained in 2018. In response, lending rates fell to 26.9% in July 2018, down from 33.6% in July 2017. The nominal exchange rate remained stable, fluctuating around 722 Malawian kwacha to the dollar in 2016 and 2017. Foreign exchange reserves continued to grow from 2.9% of GDP in 2013 to about 12% in 2017, in parallel with an equivalent increase in import cover from 2.1 months in 2013 to 3.6 months in July 2018.

The current account deficit was 9.8% of GDP in 2016/17, down from 13.0% in 2015/16. The improvement was due largely to a reduced import bill following the 2017 bumper harvest. However, the current account deficit worsened to an estimated 11.3% of GDP in 2017/18 but is projected to narrow slightly to 10.9% in 2018/19.

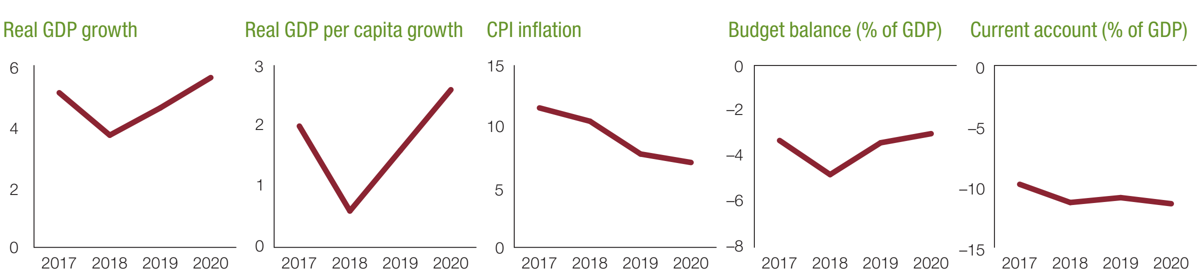
Poverty remains widespread at 51.5% nationwide in 2017, up from 50.4% in 2010, particularly in rural areas (56.6%). Extreme poverty is high, largely because of food insecurity. Incomes are very low, with GNI per capita of $360 in 2016. Inequalities are acute and rooted, with a Gini coefficient of .46 in 2010 and .44 in 2014.

Tailwinds and headwinds

GDP is projected to grow by 4.6% in 2018/19 and 5.6% in 2019/20. Agricultural improvements, stable macroeconomic fundamentals, the recovery in global commodity prices, and continued foreign direct investment inflows are projected to drive growth.

Due to high dependence on rain-fed agriculture, weather-related shocks are key risks to export commodities such as tea, tobacco, and other products, as experienced in 2017. The long dry spell in the first half of 2018 and fall 2018's armyworm infestation reduced the maize output, contributing substantially to GDP deceleration in 2018.

A number of government initiatives aim at more resilient growth. To strengthen the industrial base, constrained by inadequate energy and water supplies, a feasibility study was completed in 2017 for the Kholombidzo Hydropower Generation Project, which will increase the country's electricity generation capacity. Recognizing that agricultural performance continues to be hampered by adverse weather shocks, the government launched the National Agricultural Policy 2016 to increase production and the National Irrigation Policy 2016 to support irrigation, agricultural diversification, and value addition. In 2016, parliament enacted new land laws, including the Land Act, the Physical Planning Act, the Customary Land Act, and the Land Acquisition (Amendment) Act, to accelerate land registration for improved food production and infrastructure development.



Note: Data are for fiscal years, so 2017 refers to the 2016/17 fiscal year.
Source: Data from domestic authorities; figures for 2018 are estimates; figures for 2019 and 2020 are projections by the African Economic Outlook team.