Malawi

Recent macroeconomic and financial developments

GDP growth increased to 3.9% in 2021 amid the third wave of COVID-19, from 0.9% in 2020. Growth in 2021 was driven by agriculture (6.3%), wholesale (2%), accommodation (1.3%), financial services (4.8%), and transport services (3.1%). Manufacturing (0.6%), mining (1.1%), electricity (1.1%), and construction (1.1%) all saw contractions. Implementation of the COVID-19 Socio-economic Recovery Plan 2021–2023 is underway. Monetary policy remained relatively easy with the key policy rate at 12% during the year to November 2021. Inflation was 9.3% in 2021, up from 8.8% in 2020 on account of higher fuel prices but lower food inflation. The Malawian kwacha averaged 747 against the dollar in 2020 but depreciated to MWK 821.5 at end-October 2021.

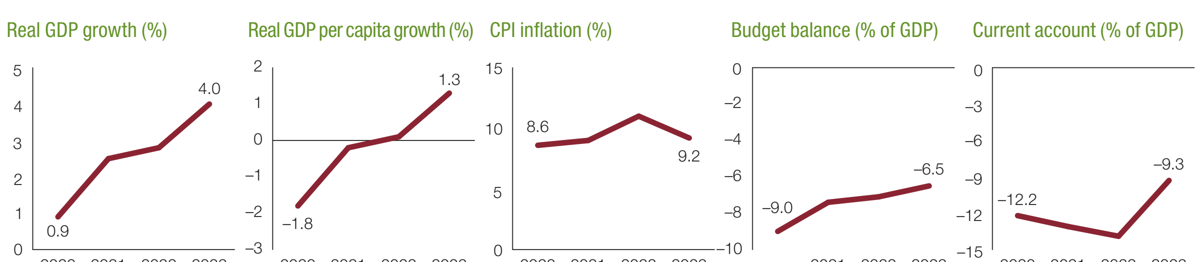
The banking sector remains profitable and well capitalized with core capital and total capital ratios of 17.2% and 20.7% in December 2021, and growth in credit to the private sector doubling to 30.1% in 2021 from 11.7% in 2020. The current account deficit widened from 12.2% to 13.1% of GDP in 2020 and 2021 due to falling exports. Official reserves stood at 1.4 months of imports in December 2021, underpinned by tobacco exports and the SDR allocation of $133 million, which is expected to increase gross reserves to 1.5 months of imports in 2022. The remaining SDR was used for budget support targeting COVID-19 and recurrent expenditure. The fiscal situation remains challenging as revenues dropped to 16.4% of GDP in FY2020/21, from 21.1% the previous year and are projected at 12.4% of GDP the following year. The fiscal deficit stabilized at 7.4% in 2021 from 9% of GDP in 2020, financed by debt and grants.

Outlook and risks

Economic growth is projected at 2.8% in 2022 and 4.0% in 2023. Prospects for improvement are anchored on stronger agriculture growth; COVID-19 containment and a successful vaccination program; and a recovery in tourism, exports, FDI, and public investment. Monetary policy is expected to remain accommodative. The current account deficit is projected to improve from 13.9% of GDP in 2022 to 9.3% of GDP in 2023, on the back of exports. Downside risks relate to persistence of COVID-19, weather shocks, rising public debt, and a worsening fiscal deficit. The public debt-to-GDP ratio will widen from 59.2% in 2021 to 64.3% in 2022, moving to crowd out the private sector. Inflation will remain relatively high at 11% in 2022 due to oil price increases before falling somewhat to 9.2% in 2023. Gross official reserves will improve to 1.5 months of imports in 2022 and 2023. Malawi is diversifying its exports towards minerals to mitigate the external sector shocks.

Climate change issues and policy options

Malawi is five on the 2021 GCRI. Its frequent cyclical weather-related shocks, including droughts, cyclones, and floods, have fed into persistent high public debt. After its 2016 drought, and 2019 floods caused by cyclones Idai and Kenneth, in 2022 cyclone Ana hit the country. The IMF estimates that Malawi could lose 0.29–0.62% of GDP per capita by 2030 and 2050. The 2020 National Adaptation Plan guides climate investment initiatives. The government has prioritized for adaptation action in agriculture, water resources, health, infrastructure, land-use planning, transport, disaster risk management, forestry, wildlife, and energy. Yet, on climate finance, this remains inadequate, while implementation of adaptation measures in the 2021 updated NDC is estimated at around $4.5 billion through 2040. According to the Voluntary National Review Report 2020, Malawi is unlikely to meet global targets on SDG 13 on climate action.



Source: Data are as of April 2022 and are from domestic authorities; figures for 2021 are estimates and figures for 2022 and 2023 are projections by the African Economic Outlook team. Data on the budget balance correspond to Malawi's fiscal year, which runs from July 1 to June 30.