Malawi

Recent macroeconomic and financial developments

Growth in Malawi's economy decelerated in 2020 to 1.7% from 5.7 % in 2019. The slowdown in GDP growth was driven by the outbreak of COVID–19, which necessitated a partial lockdown of the economy, resulting in subdued economic activities—mainly in tourism, the accommodation and food subsectors, transportation, and agriculture. Other sectors affected by disruptions from the COVID–19 pandemic disruptions were manufacturing and mining and quarrying. Weak global demand hurt Malawi's tobacco and other agricultural exports, and inflows of foreign direct investment (FDI). The fiscal deficit was an estimated 7.7% in 2020, a deterioration from 4.7% deficit in the previous year. The deterioration was driven by $345 million in spending to respond to the pandemic, interest payments amounting to 5.3% of GDP, and a rerun of the 2019 presidential election. The fiscal deficit pushed the debt-to-GDP ratio to 65% in June 2020 from 62% in 2019 and was financed by borrowing and budget support.

Monetary policy was accommodative to support recovery from the pandemic. The policy rate was reduced to 12% by November 2020 from 16% at the start of the year. Although the foreign exchange market experienced some pressures caused by COVID–19, average annual inflation decreased to 8.8% in 2020 from 9.4% in 2019, mainly because of reduced fuel prices implemented as part of COVID–19 response measures. The current account deficit worsened to 13.3% of GDP ($1.64 billion) in 2020 because of a decline in exports, tourism receipts, and investment inflows. International reserves stood at 3.1 months of imports in 2020, supported mainly by budget support receipts. The financial sector remained stable and capitalized, with the ratio of non-performing loans improving marginally to 5.4% in June 2020 from 5.6% in December 2019. Private sector credit growth declined to about 16.9% in October 2020 from 17.7% a year earlier.

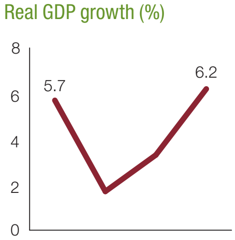
Outlook and risks

Real GDP growth is projected to grow at 3.3% in 2021 and 6.2% in 2022. The prospect for a recovery to the prepandemic level is not expected until 2022, mainly because of the uncertain effect of COVID–19 infections. The projected growth will be driven by recovery in the tourism and agriculture sectors, exports, FDI, and public investments in infrastructure (airport, roads, energy). The downside risks to the projected recovery relate to a potential second wave of COVID–19 infections, bad weather, and fiscal overruns due to revenue underperformance. The fiscal deficit is projected to widen to 10.2% in 2021, raising the debt-to-GDP ratio to 66% in 2021. The current account deficit is forecast to narrow to 12.5% of GDP in 2021 as exports rebound, then tick up to 12.9% in 2022. A rebound in domestic economic activity and a projected increase in oil prices may have pushed inflation from 8.8% in 2019 to an estimated 9% in 2020, but improved food production should help bring it down to 7.8% in 2022.

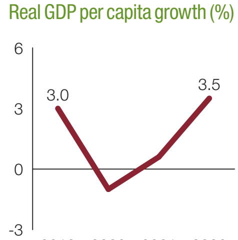
Financing issues and options

Traditionally, the domestic debt market has covered government financing needs. Since 2012, Malawi has experienced frequent weather-related shocks, including cyclone Idai in 2019, and the COVID–19 pandemic, resulting in persistent fiscal imbalances and elevated public debt levels. The emerging financing gap of $243 million (2.9% of GDP) in October 2020, combined with the COVID–19 financing needs of 3.9% of GDP, will be financed from external sources, domestic debt, and official reserves—also projected to improve to 3.3 months of imports in 2021 from 3.1 months of imports in 2020. The government is prioritizing fiscal consolidation, including strengthening domestic resource mobilization through the 2017–22 public financial management reforms program.

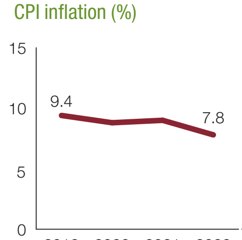
Real GDP growth (%)



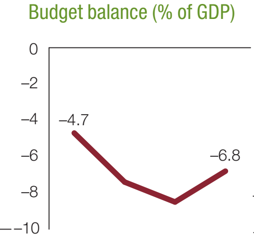
Real GDP per capita growth (%)



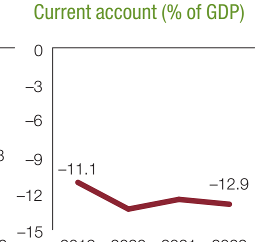
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



Source: Data are as of December 2020 and are from domestic authorities; figures for 2020 are estimates and figures for 2021 and 2022 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.