

Malawi

Malawi's real gross domestic product (GDP) is estimated to fall to 6.7% in 2010 from 7.6% in 2009 due to reduced agriculture output for maize and tobacco as a result of the drought experienced in some parts of the country at the beginning of the 2009/10 growing season. The main driving force for economic growth in 2010 has been strong performance in mining and quarrying, construction, financial and insurance services and information and technology.

Private sector growth in Malawi is largely constrained by a poor regulatory environment and inadequate infrastructure in transportation, telecommunications, power and water supply. The authorities have since introduced a number of reforms aimed at improving the business climate. In spite of these reforms, Malawi performed poorly in the 2011 *Doing Business Survey* ranking 133 out of 183 economies, one place lower than in the 2010 survey.

China and India are the most important Emerging Partners (EPs) for Malawi. Other EPs with diplomatic, trade and co-operation agreements albeit at different degrees are Brazil and Cuba. The EPs' interventions have concentrated on infrastructural development, agriculture, education and health. The EPs' investments have increased employment and economic activities in Malawi. Additionally, Chinese and Indian goods are found to be cheaper than Western alternatives on the market.

The political and macroeconomic environment remained stable in Malawi through 2010. Malawi's real gross domestic product (GDP) is estimated to fall to 6.7% in 2010 from 7.6% in 2009. The slight reduction in real GDP growth is largely attributed to reduced agriculture output for maize and tobacco due to the drought experienced in some parts of the country at the beginning of the 2009/10 growing season. The main driving force for economic growth in 2010 has been strong performance in mining and quarrying, construction, financial and insurance services and information and technology. Real GDP growth is forecast at 6.4% in 2011 and 6.0% in 2012 reflecting stability in uranium output and levelling off of productivity gains in the agriculture sector as the agricultural growth rate has peaked.

The recent global financial crisis had a limited impact on Malawi's economy. However, the key sector affected was the export sector, which faced fluctuating international prices (tea, coffee, tobacco) resulting in worsened terms of trade. Official development assistance (ODA), foreign direct investment (FDI) and remittances to Malawi also declined following the global credit crisis. In order to mitigate the impact of the global recession on the Malawi economy, the Reserve Bank of Malawi, among other initiatives, maintained the bank rate at 15.0% and issued Repurchase Agreements (REPO) instruments to combat inflationary pressures.

Malawi has made considerable progress on most Millennium Development Goals (MDGs) targets. According to Malawi's MDG report 2010, the country is on track to attain five of the eight MDG targets by 2015. The five MDG targets that are likely to be achieved are the eradication of extreme poverty, reduction of infant mortality, combating HIV/AIDS, malaria and other diseases, ensuring environmental sustainability, and developing global partnership for development. The three MDG targets in doubt are achieving universal primary education, reducing gender inequality and maternal mortality.

In 2010, the Government of Malawi (GoM) continued with the execution of the Farm Inputs Subsidy Programme (FISP). The FISP in its sixth year of implementation was designed to achieve food security and raise smallholder's income through increased maize and legume production. In the 2010/11 agricultural season, the Government FISP package include subsidies of 160 000 metric tonnes of fertiliser for maize; 8 000 metric tonnes of improved maize seeds and 1 600 metric tonnes of legume seeds. The FISP has been a very successful programme since introduction, leading to record surpluses in maize production including 1.3 million metric tonnes in 2008/09. Although Malawi experienced a prolonged period of abnormal dry weather in some areas in 2010, the country still recorded a surplus of about 900 000 metric tonnes of maize above annual food requirement.

Malawi's Emerging Partners (EPs) have concentrated on infrastructural development, agriculture, education and health. The EPs' investment has generated employment especially for Malawi's youth and their goods are found to be cheaper than western alternatives on the market. The overall advantage is that they are complementing traditional partners and not substituting them. The increasing importance of EPs notwithstanding, the share of traditional partners such as the UK, the USA and the EU in trade, ODA and FDI flows to Malawi is still significant. However, the increasing presence of China and India in Malawi comes with a number of challenges including flooding the market with cheaper Chinese and Indian goods which make local industries uncompetitive.

Table 1: Macroeconomic indicators

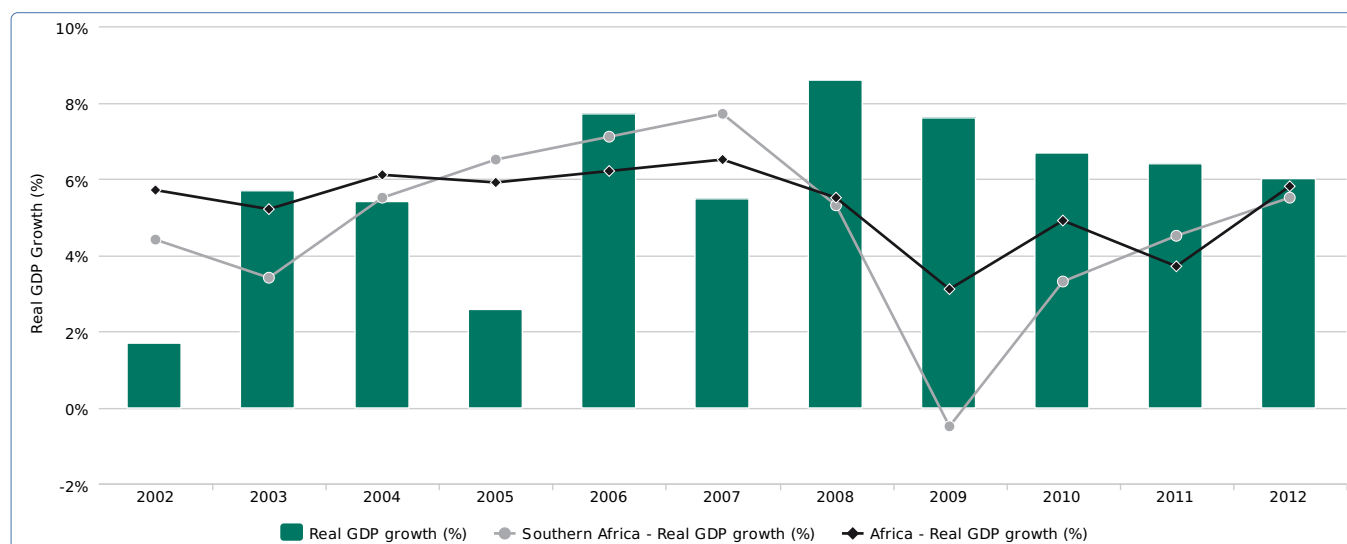
	2009	2010	2011	2012
Real GDP growth	7.6	6.7	6.4	6
CPI inflation	8.4	7.7	7.6	6.2
Budget balance % GDP	-3.6	-1.1	-6.3	-7.4
Current account % GDP	-2.1	1.1	-1.6	-3.3

Source: National authorities' data; estimates and projections based on authors' calculations. Figures for budget balance refer to fiscal year July (n-1)/ June (n).

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink  <http://dx.doi.org/10.1787/888932406650>

Figure 1: Real GDP growth (S)



Source: IMF and local authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink  <http://dx.doi.org/10.1787/888932404294>