Casa África – Business Opportunities

Republic of Malawi

The forecast for GDP growth in the coming years is positive, due to the recovery in agriculture and the improved supply of electricity. Estimated GDP growth for 2019 is 5.0%, one percentage point higher than the previous year, despite the effects of Cyclone Idai. Growth was underpinned by continued macroeconomic stability and improved agricultural performance, supported by prudent policies, improved external financing, favorable terms of trade, and increased investment in trade-related connectivity infrastructure. Growth of 5.2% is projected for 2020 and 5.5% for 2021. Inflation for 2019 was estimated at 9.0% and the projection for 2020 places it at 8.4%, well below previous years. The reconstruction after the cyclone created fiscal pressures in the country. The fiscal deficit was estimated at 5.9% of GDP in 2019 and is projected at 4.3% in 2020. The current account deficit was estimated at 16.9% of GDP in 2019, with a small increase from the previous year due to the decline in tobacco prices. The current account is projected to deteriorate by 17.4% of GDP in 2020 and by 17.8% in 2021, driven by post-cyclone infrastructure imports.

Continued maintenance of the country's macroeconomic stability, coupled with monetary easing in 2019 aimed at stimulating demand, could boost capital flows, increase economic activity and restore growth by supporting credit to the private sector. In addition, the government has proposed to strengthen value added through the Special Economic Zone (SEZ) bill to regulate exports through a national strategy. The country will also give priority to exports of tea, pulses, oilseeds, and minerals.

Malawi's landlocked development depends largely on foreign trade from foreign seaports, such as those in Tanzania and Mozambique. The trade is unstable, characterized by laws prohibiting exports, lack of infrastructure and inadequate diversification. Tobacco accounts for 50% of exports and is very vulnerable to price volatility, followed by coffee and tea. Imports greatly exceed exports, and the main goods imported are fuels, minerals and machinery. Belgium, South Africa and Zambia are the country's main suppliers. In terms of exports, South Africa is the country's main customer, followed by China and India.

Despite the good economic outlook, adverse weather, fiscal policy slippages and reduced business confidence could hurt the economy. In addition, the costs of cyclone recovery still remain, so the goal of reducing the deficit in a fiscal space constrained by rising public debt is a challenge. Risk reduction measures to increase the resilience to shocks for the majority of the population engaged in agriculture would boost growth. On the other hand, the lack of skilled workers makes the labour market dysfunctional, suggesting the need for training and education to improve employability and productivity.

AEO: https://www.afdb.org/en/documents/african-economic-outlook-2020

ICEX: http://www.exteriores.gob.es/Documents/FichasPais/MALAWI_FICHA%20PAIS.pdf