New Malawi Economic Monitor Calls for Restoration of Macroeconomic Stability

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A new report by the World Bank analyzing Malawis economic development shows that the countrys economy continues to grow at a moderate pace and that GDP will not be overly affected by the floods that hit the country early this year. The economy is however characterized by macroeconomic instability and barriers to trade which Government needs to act on to improve growth prospects.
The maiden Malawi Economic Monitor report released in Lilongwe today, is intended to provide an analysis of economic and structural development issues in Malawi, and will be published bi-annually. The first issue is titled "Managing Fiscal Pressures." The report provides a macroeconomic outlook for Malawi, and in this first edition has a special topic on building trade competitiveness, addressing constraints that limit the country from benefiting from opportunities created by international trade.
The report indicates that Malawis GDP growth rate remained stable in 2014 estimated at 5.7 per cent, driven by expansion in agricultural, information and communications, and the wholesale and trade sectors. GDP growth rate is however projected to slow down to 5.1 per cent in 2015 mainly due to adverse weather which is likely to affect agricultural production, and subsequent manufacturing.
Downside risks to growth include a continued high rate of inflation averaging 23.8 per cent in 2014, high interest rates above 40 per cent, and a weak fiscal environment. Malawis budget position is under pressure with the country expected to run a deficit of 5.9 per cent of GDP during the 2014/15 fiscal year, compounded by the loss of budget support from donors. Further, public debt has risen sharply in recent years, with annual debt service costs now at a value equivalent to 5.3 per cent of GDP.
"With these significant challenges, Malawi needs to prioritize the restoration of macroeconomic stability through such actions as reducing the size of the budget deficit, scaling back domestic borrowing, and reforming key subsidy programs particularly the fertilizer input subsidy," says Richard Record, Senior Country Economist for Malawi and lead author of the report. He adds that Government should continue implementing public financial management reforms to rebuild confidence in the integrity of Government accounts.
On the special focus on trade, the report observes that terms of trade have moved against Malawi over recent decades, with the unit value of exports falling compared to the unit value of imported goods. "This means the country has to trade an increasingly large volume of exports to pay for the same volume of imports. But Malawi has a real opportunity if she reduces her trade costs," says Mombert Hoppe, Trade Economist for Malawi and contributing author.
To achieve this, the report recommends reforms for the country to build its competitiveness which include removing domestic policies that depress the performance of the export sector such as export bans; reviewing existing import and export licenses; and reducing barriers to competition in the transport sector to reduce transport prices.
Overall, the aim of the Economic Monitor report is to foster better informed policy analysis and debate regarding key challenges that Malawi needs to address in order to achieve high rates of stable, inclusive and sustainable economic growth.
The report is available at: www.worldbank.org/malawi

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