



Low Income Country Profile

Malawi

March 14, 2008

Malawi is a landlocked nation in Southern Africa, which borders Mozambique, Tanzania and Zambia. It is among the poorest countries in the world with a per capita income of just \$179 (IMF estimate for 2007). In a 2006 World Bank survey of per capita income, it ranked 179th of the 182 nations and territories listed. Only Liberia, the Democratic Republic of the Congo and Burundi, had a lower per capita income. The economy is dominated by the agricultural sector, which accounts for 35.5 percent of GDP and employs about 90 percent of the labor force. The major crops grown are tobacco, coffee, cotton, macadamia nuts, tea (Malawi is the second largest tea producer in Africa after Kenya), corn, potatoes, tapioca and sorghum. Tobacco is the major export earner, accounting for 52.5 percent of total exports in 2006, followed by tea with a 9.2 percent share. The industrial sector is relatively small, amounting to 20 percent of GDP. It employs 3 percent of the labor force. Manufactured exports accounted for 24.4 percent of the total in 2006. Apparel items are the largest non agricultural export.

The IMF estimated the economy expanded by 2.9 percent per year between 1998 and 2007. This compares unfavorably to the 3.7 percent per annum advance in Kenya, the 4.0 rise in Zambia, the 5.8 percent growth in Tanzania and the 8.2 percent increase in Mozambique. The relatively modest gains in the economy were largely eroded by the rapid annual population growth rate of 2.5 percent (UNDP estimate for 2005-2015). Much quicker economic growth is required to create the job opportunities for the rapidly expanding labor force. According to the UNDP, 47.1 percent of the population is under the age of fifteen. This compares to 32.1 percent in South Africa, 42.6 percent in Kenya and 20.8 percent in the US. Only Guinea Bissau, Niger, Mali, the Democratic Republic of the Congo and Uganda of the nations surveyed by the UNDP have a higher ratio.

Malawi is heavily dependent on foreign aid to sustain its economy. In 2005, Official Development Assistance totaled \$575.3 mln and was equivalent of 27.8 percent of GDP. This is the highest ratio of any country surveyed by the UNDP except for the Solomon Islands, Timor-Leste, Burundi, Sao Tome and Principe, Eritrea, Sierra Leone and the Congo. The IMF estimated that foreign grants accounted for 43.0 percent of government revenue in fiscal year 06/07 (fiscal year ends June 30).

On September 1, 2006, the IMF and the World Bank indicated that Malawi had made sufficient progress in implementing its Poverty Reduction Program to reach the "completion point" under the Heavily Indebted Poor Country (HIPC) Initiative, thus making it eligible for debt relief. It became the 20th country to reach the completion point. The estimated value of debt relief and additional aid assistance (which is spread over a number of years) under the HIPC initiative and the Multilateral Debt Relief Initiative (MDRI) was placed at \$3.1bn. As a result of the debt relief received by Malawi, the IMF estimates debt servicing costs will decline from 21.9 percent of export receipts in 2005 to just 2.2 percent in 2008.

I. Political Environment

Index	Rank	Score
Freedom House Index 2007	Status: Partly Free	Political Rights: 4.0/7.0 Civil Liberties: 3.0/7.0

Malawi is a multi-party democracy. The President is Bingu wa Mutharika. He is both the head of state and the head of government. The last election was held on March 24, 2004. Mr. Mutharika won the elections with 35.9 percent of the vote. His nearest rival received 27.1 percent of the ballots. The President serves for a five year term and is eligible for re-election to an additional five-year term. The next election will be held in May 2009.

There is a unicameral legislature. The National Assembly has 193 seats, which are chosen by popular vote to a five year term. The elections for the National Assembly coincide with those of the Presidency. The largest party in the National Assembly is the Malawi Congress Party (MCP). It has 56 seats. The United Democratic Front Party (UDF), the party President Mutharika belonged to when he ran for President, has 49 seats. President Mutharika however resigned from the party on February 5, 2005 following a dispute with the former President and leader of the UDF, Bakili Muluzi, over his efforts to eradicate corruption. Mutharika formed a new party, the Democratic Progressive Party (DPP).

The split between President Mutharika and his former party became so personal that UDF members of the National Assembly tried but failed to have him impeached in 2005. In another sign of the deep political divisions in the country, Vice-President, Cassim Chilumpha was arrested in April 2006 and charged with plotting the President's assassination. Relations between the President and Parliament have become so antagonistic that it has become increasingly difficult for him to get any major legislation approved. The Parliament for instance, has held up the passage of the budget.

According to a Freedom House assessment of the political environment, "Freedom of speech and press is legally guaranteed and generally respected...Nevertheless, the state controls the majority of broadcast media...The government generally respects freedom of association and assembly...The right to organize labor unions and to strike is legally protected...The judiciary has demonstrated independence in its decisions...due process is not always respected by the overburdened court system, which lacks resources, personnel and training."

II. Country Credit Ratings

Credit Rating (as of date of publication)	Standard & Poor's	Moody's	Fitch Ratings
	N/A	N/A	B-/Stable

Malawi has only received a credit rating from Fitch. In March of 2007, it upgraded its rating for Malawi to B-/Stable from triple C/Positive. This is the same level as Lebanon and Bolivia and is the lowest of any country rated by Fitch except Argentina, which is rated restricted default. Malawi is only one of twelve sub-Saharan African nations that are rated by Fitch.

Commenting on the upgrade, Finance Minister Goodall Gondwe said, "This is a signal to the rest of the world that Malawi is ready to participate in the global economy and that it has the ability and is willing to repay debt...This upgrade...is nothing to write home about but considering our circumstances...this is very important because it will help build more donor confidence, increase investment and it signals our road to economic recovery." Fitch cited international debt relief, a reduction in the budget deficit and tighter controls on public spending as the main reasons for the upgrade.

III. Business Environment

Index	Rank	Score
World Bank Ease of Doing Business 2008	127/178	N/A
World Bank Gov Indicator 2006, Regulatory Quality	25.9 Percentile	-0.64
World Bank Gov. Indicator 2006, Political Stability	45.7 Percentile	0.02
World Bank Gov Indicators 2006, Control of Corruption	25.7 Percentile	-0.74
World Bank Gov Indicators 2006, Rule of Law	43.3 Percentile	-0.46
Economic Freedom of the World Index 2007	122/141	5.5/10.0
Transparency International Corruption Perception Index 2007	118/179	2.7/10.0
Bertelsmann Transformation Index 2006	77/119	4.89/10.0
Heritage Foundation Economic Freedom Index 2008	120/157	53.8/100
Milken Institute Capital Access Index 2006	108/122	2.60

Malawi has adopted a very liberal attitude towards foreign investment. There are no major restrictions on ownership, size of investment and the source of funds used. There are no limits on remittance of foreign capital, profits and loan and lease repayments. All the commercial banks are authorized by the Central Bank to approve remittances, and approvals are routine as long sufficient foreign exchange is available. The constitution prohibits expropriation of property without “just” compensation. Foreign investors can participate in the privatization of state holdings but are restricted to a 49 percent stake. Malawian nationals are offered preferential treatment in the privatization process, including discounted share prices and subsidized credit.

According to data from the United Nations Conference on Trade and Development (UNCTAD), Foreign Direct Investment (FDI) in 2006 was just \$30 mln. and was equivalent to 14.4 percent of gross fixed capital formation. The stock of FDI at the end of 2006 was \$536 mln., which represented 23.9 percent of GDP. This was below the 30.0 percent average for Southern Africa. The UNCTAD ranks Malawi 138 of 141 nations in its Inward Potential Performance Index (covering 2003-2005). The index measures the attractiveness of a nation to FDI based upon several criteria including per capita income, GDP growth over the previous ten years, research and development spending as a percent of GDP and the ratio of tertiary students in the population. Only Haiti, the Democratic Republic of the Congo and Zimbabwe had a lower ranking.

President Mutharika ran on a very strong anti-corruption platform and he has moved aggressively to fulfill his promise to implement a “zero tolerance” policy. Following his election, the mandate of the Anti-Corruption Bureau has been strengthened. It has persecuted several high profile individuals. The Minister of Education for instance, was removed for misappropriating of funds while a former finance minister and mayor of Blantyre were convicted of corruption. The State Department 2007 Investment Climate Report for Malawi acknowledged that corruption has diminished since the election of President Bingu Wa Mutharika, but it also said, “There are serious incidences and allegations of corruption, particularly in the area of customs and excise tax and government procurement.”

Transparency International ranks Malawi 118 out of 179 in its corruption perception index. Malawi also scores low in many of the World Bank indicators. For example, it is 127 of 178 in ease of doing business. Although Malawi does not achieve an average ranking for any of the World Bank's governance indicators, it does rank high in relation to other sub-Saharan African nations in several categories. For example, it ranks around the 45 percentile for political stability and rule of law. By comparison, the average for sub-Saharan Africa for these categories is the 32.6 and the 28.8 percentiles.

The Fraser Institute places Malawi 122 of 141 in its World Freedom index. The Heritage Foundation ranks it 120 of 157 in its Economic Freedom Index. This places Malawi 24th out of the 40 sub-Saharan African countries that it surveys. According to the Heritage Foundation, Malawi has average levels of investment freedom and financial freedom. "The labor market is...flexible, and employment regulation does not impede job creation...A weak rule of law jeopardizes the protection of property rights and corruption is widespread...the top income and corporate tax rates are fairly high. Inflation is high...There are import controls...burdensome regulations, and a customs process that can be non-transparent and corrupt, which adds to the cost of trade...The legal system is slow, and contract enforcement can be uncertain."

IV. Standards Compliance Assessments

IMF Dissemination Standard	Subscription Status
Special Data Dissemination Standard	Not a SDDS Subscriber
General Data Dissemination Standard	GDDS Subscriber

IMF Assessment	Standards Assessed	Dates	Compliance Level
Reports on Standards and Codes (ROSCs)	Data Dissemination Fiscal Transparency	Feb. 7, 2005 March 12, 2007	Low Low
Financial Sector Assessment Programs (FSAPs)	N/A	N/A	

Malawi has been assessed by the IMF with respect to Data Dissemination and Fiscal transparency. In its December 17, 2005 report on Data Dissemination, the IMF noted that "Malawi was making great efforts to strengthen its statistical system despite resource constraints." Fiscal data on central and government statistics were deemed to be inadequate and no statistics were published for such key economic indicators as employment, unemployment, earnings and indices of agricultural output. Much of the data that is published is not released on a timely basis." With respect to the accuracy and reliability of the data, the IMF said, "While source data are broadly accurate for consumer prices and monetary statistics, there are significant deficiencies in national account, government finance, and balance of payments statistics. The statistical techniques used for compiling government finance and monetary statistics are sound, but there remains scope for improvement in national account statistics." The report on fiscal transparency assessed Malawi's compliance at a low level. It indicated that although there had been improvements in fiscal transparency in certain areas, such as the introduction of a medium-term expenditure framework, "these developments were not applied consistently across the different areas of fiscal management and insufficient attention was given to data quality."

V. Human Capital

Index	Rank	Score
UNDP Human Development Index 2007	164/177	0.437/1.0

Malawi ranks 166 of 177 in the UNDP Human Development Index in 2007. Many of its major social and health indicators reflect the country's underdevelopment and the existence of widespread poverty. There are just 2 physicians per 100,000 people (it is tied with Niger and Tanzania for the lowest number of physicians), the infant mortality rate is 79 per 1,000 live births, the probability of not surviving till the age of 40 at birth is 44.4%, the electrification rate is just 7% (only Mozambique and the Democratic Republic of the Congo had a lower rate of those surveyed by the UNDP while Burkina Faso was also at 7%), 22% of the children 5 years and younger are underweight for their age and 53 percent are under height for their age, the life expectancy is just 46.3 years (only eleven countries tracked by the UNDP have a lower life expectancy rate), 62.9% of the population lives on \$2 or less a day (a household survey conducted between March 2004 and April 2005 found that 22% of the population lives on the equivalent of 24 cents a day or less), 35 percent of the population is undernourished, the prevalence of tuberculosis cases is 518 per 100,000 people, 18 percent of one-year olds are not fully immunized against measles, the maternal mortality rate is 980 per 1000,000 live births and 27% of the population does not have access to clean drinking water.

A high level of HIV/AIDs, places great strains on the health care system. The UN estimates the prevalence of HIV/AIDs for the population between the ages of 15 and 49 at 14.1% (only 7 other countries the UNDP compiles data for have a higher rate). Another major burden on the health care system is the high incidence of malaria. The World Health Organization estimated that in 2003, there were 86,000 inpatient and 3 mln. outpatient cases of malaria.

Malawi ranks very favorably in many key education criteria when compared to other African nations. The combined gross enrollment rate for primary, secondary and tertiary education of 63.1 percent for instance, is one of the highest in Africa. By comparison, the ratio in neighboring Zambia, Mozambique and Tanzania are 60.5 percent, 52.9 percent and 50.4 percent respectively. The average length of time spent in school of 9.4 years is higher than the 8 year average in sub-Saharan Africa and 91 percent of boys and 95 percent of girls attend primary school, which is better than the average in sub Saharan Africa of 72 percent for boys and 66 percent for girls. Although the literacy rate for those 15 years and older of 64.1 percent is slightly below the 68.7 percent average for sub-Saharan Africa, the female literacy rate of 54 percent is above the 50.4 percent average in Africa. Education is considered a high priority by the government and as a result, it is allocated a 24.6 percent share of the budget.

VI. CIPE/CARE – Grassroots Activity Interview

IESC/FSVC/Financial Stability Institute/Toronto Center/Central Bank Publications/FIRST/DFID Accounting/Auditing /Bankruptcy via interview

VII. Economic Overview

1. IMF Country Data Overview 2007 (Est.)						
GDP Growth	GDP:	GDP per capita:	CPI:	Current Account as % of GDP	Budget deficit as % of GDP	FDI (UNCTAD 2006)
7.6% (Fiscal Year)	\$2.4 bln.	\$179	8.1% (Fiscal year)	-3.2%	-1.2% (Fiscal Year)	\$30 mln.

2. US Department State Background Notes (as of February 2008)

Malawi is a landlocked country with a high population density that is heavily dependent upon the agricultural sector. About 90 percent of the population is engaged in subsistence farming. The country's great dependence on agriculture makes it very vulnerable to declines in the export prices of its major crop exports (tobacco, cotton and sugar) and drought. High transportation costs resulting from a poor infrastructure is a serious impediment to economic development. Other impediments to economic growth include a limited pool of skilled labor, bureaucratic red tape and an inadequate electric supply. Recent government steps to upgrade the road network and private sector investment in the railroad and telecommunications sectors have begun to modestly enhance the business environment.

Malawi has enacted broad economic reforms under IMF guidance including the elimination of price controls, liberalization trade and foreign exchange regulations, rationalization of taxes, privatizing state-owned enterprises and reforming the civil service.

3. IMF Article IV Consultation

In its Fourth and Fifth review of Malawi's Poverty Reduction and Growth Facility that was published on January 4, 2008, the IMF praised the country's economic performance. It said, "Excellent weather, a supportive international environment, and generally strong policy implementation have led to high growth, falling inflation, rising international reserves, more credit to the private sector, and falling domestic debt relative to GDP." The IMF particularly highlighted the fall in inflation, which was prompted by "bumper harvests" and "good monetary and fiscal policy implementation." The pace of inflation decelerated from 16 percent in mid 2006 to 7 percent at the end of September 2007. Although the IMF report noted that "progress on structural reforms has been substantive," it urged the government to take further steps to liberalize the economy.

Economic Outlook

The economic reforms that have recently been put in place and the debt relief Malawi has received have helped to spur growth. After advancing by just 3.6 percent in FY 2004/05, the economy grew by 5.1 percent in FY 05/06 and the IMF estimated growth accelerated to 7.6 percent in 06/07. For FY 07/08, the IMF foresees an expansion of 7.3 percent. Inflation is expected to moderate this fiscal year to 7 percent (annual average) from 7.7 percent in the previous fiscal year and 15.3 percent on 05/06.

Malawi's near-term economic outlook though may not be as optimistic as the IMF is forecasting. This is particularly so in light of the high price of oil. Malawi has no indigenous sources of coal, natural gas and oil. It imports about 6,000 barrels of oil a day. In 2007, petroleum imports accounted for 15.4 percent of total imports. Higher oil and food prices may make it difficult for Malawi to make significant progress in restraining inflation. In addition, lower tea prices are hampering exports of the country's second largest source of foreign exchange after tobacco.

VIII. Membership in international organizations

Financial Action Task Force (FATF)	Not a member
International Federation of Accountants (IFAC)	Yes, a member
World Trade Organization (WTO)	Yes, a member since May 31, 1995