Malawi Economic Monitor

DECEMBER 2021

Addressing Macro and Gender Imbalances

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December 2021

Addressing Macro and Gender Imbalances

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The Malawi Economic Monitor (MEM) provides an analysis of economic and structural development issues in Malawi. This 14th edition was published in December 2021 and is part of an ongoing series, with future editions to follow twice each year. The publication intends to foster better-informed policy analysis and debate regarding the key challenges that Malawi faces in its endeavor to achieve high rates of inclusive and sustainable economic growth.

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Abbreviations

ADB	Authorized Dealer Bank
ADMARC	Agricultural Development and Marketing Corporation
AIP	Affordable Inputs Program
Bbl	Barrel
BTI	Business Tendency Indicator
CARE	Cooperative for Assistance and Relief Everywhere
CDS	Center for Development Services
CEDOVIP	Center for Domestic Violence Prevention
CEWIGO	Centre for Women in Governance
COP26	26th Conference of Parties (United Nations Climate Change Conference)
COVID-19	Corona Virus Disease 2019
CPI	Consumer Price Index
CRM	Credit Relief Measures
DRC	Democratic Republic of Congo
DSA	Debt Sustainability Analysis
DSSI	Debt Service Suspension Initiative
ECD	Early Childhood Development
EMDEs	Emerging Market and Developing Economies
EPAG	Economic Empowerment of Adolescent Girls and Young Women
FAO	Food and Agriculture Organization
FAWE	Forum for Africa Women Educationalists
FDI	Foreign Domestic Investment
FEWS NET	Famine Early Warning System Network
FHHs	Female-Headed Households
FID	Final Investment Decision
FISP	Farm Input Subsidy Program
FLFP	Female Labor Force Participation
FXB	Foreign Exchange Bureau
FY	Financial Year
GBV	Gender Based Violence
GDP	Gross Domestic Product
GIL	Gender Innovation Lab
GVP	Gender Violence Prevention
IFIs	International Financial Institutions
IHS	Information Handling Services
ILO	International Labour Organization
IMF	International Monetary Fund
IPV	Intimate Partner Violence
LFP	Labor Force Participation
LFPR	Labor Force Participation Rate
LSMS	Living Standard Measurement Study
MDI	Microfinance Deposit-taking Institution
MFI	Microfinance Institution
MHC	Malawi Housing Corporation
MLFP	Male Labor Force Participation
MoF	Ministry of Finance
MoGCDSW	Ministry of Gender, Children, Disability and Social Welfare
MPC	Monetary Policy Committee
MSMEs	Micro, Small and Medium Enterprises
MTO	Money Transfer Operator
MVAC	Malawi Vulnerability Assessment Committee
MWK	Malawian Kwacha
NFRA	National Food Reserve Agency
NGO	Non-Governmental Organization
NPL	Non-Performing Loan

NSO	National Statistical Office
PAYE	Pay As You Earn
PFM	Public Financial Management
PMI	Purchasing Managers Index
POS	Point of Sale Terminals
PPP	Public-Private Partnerships
PSC	Private Sector Credit
PSF	Price Stabilization Fund
PV	Present Value
RBM	Reserve Bank of Malawi
SDR	Special Drawing Rights
SMEs	Small and Medium Enterprises
SOE	State-Owned Enterprise
SOP	Standard Operating Procedure
SRH	Sexual Reproductive Health
SSA	Sub-Saharan Africa
TFR	Total Fertility Rate
TNM	Telekom Networks Malawi
TT	Telegraphic Transfer
UAE	United Arab Emirates
UCW	Unpaid Care Work
UN	United Nations
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNFPA	United Nations Population Fund
UNWTO	United Nations World Tourism Organization
US	United States
USAID	United States Agency for International Development
US$	United States Dollars
WB	World Bank
WBL	Women, Business and the Law
WEO	World Economic Outlook

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OVERVIEW

Growth is picking up modestly, but Malawi is facing a fourth wave

After several months of low COVID-19 case numbers, Malawi is facing a fourth wave. While an increasing share of the global population is protected by vaccines, only about 6.5 percent of the population is vaccinated in Malawi, increasing the country's vulnerability to the virus. The Government response to the third wave was less stringent than in previous waves and businesses began adapting to COVID-19 restrictions. Thus, overall, it had less of an economic impact than in earlier waves. However, with cases accelerating rapidly in mid-December, Malawi is beginning a fourth wave of infections induced by the Omicron variant, and the Government has modestly tightened restrictions.

Economic growth is projected to pick up from 0.8 percent in 2020 to 2.4 percent in 2021, primarily driven by one-time increases in the agricultural sector. With a population growth rate around 3.0 percent, however, this level of economic growth equates to a contraction in per capita output. Favorable weather, as well as increased fertilizer use due to the Affordable Inputs Program (AIP), led to record harvests. While agriculture accounts for the bulk of overall growth, growth in services and industry sectors has improved but remains tepid. With less stringent social distancing policies, demand is improving from low levels. However, the private sector still faces multiple concerns which weigh on performance and investment. These include limited availability of foreign exchange, compulsory liquidation of foreign exchange, inflation on imported items (particularly fuel), perceptions of heavy taxation, limited credit, and cumbersome regulation.

Headline inflation has increased to double digits in November and recent price increases have heightened concerns about the cost of living. Food inflation increased to 12.8 percent and non-food inflation to 9.5 percent, combining into a headline figure of 11.1 percent year-on-year in November 2021. Maize prices have been gradually increasing since May 2021, when the lowest prices since 2018 were recorded. The Price Stabilization Fund mechanism delayed the impact of increased global oil prices, leading to an abrupt 28 percent upward price adjustment on fuel in October 2021. This added to pressures on non-food inflation from the depreciation of the Malawi Kwacha.

The depreciation of the Malawi Kwacha has slowed in recent months despite heightened concerns about foreign exchange availability. Increasing spreads between official exchange rates and foreign exchange bureau cash rates, combined with private sector challenges to access foreign exchange, reflect additional room for balancing foreign exchange supply with demand. The allocation of US$ 188.7 million in Special Drawing Rights (SDRs) from the International Monetary Fund (IMF) provided a short-lived boost to the Reserve Bank of Malawi's (RBM's) foreign exchange reserves, which have fallen to low levels. The policy rate was maintained at 12 percent in November 2021 amidst tight domestic liquidity and increased imported inflation pressure.

Trade is rebounding, but Malawi's trade balance remains pronouncedly negative. After contracting in 2020, exports are expanding due to increases in tobacco, soya, and other cash crops. However, imports are also increasing due to rising commodity prices and increasing demand. The trade deficit is largely financed through foreign aid and is supported by remittances, which have fully recovered from the pandemic and exceed 2019 levels.

The budgeted fiscal deficit of an annualized 9.1 percent of GDP is the highest in years. The optimistic assumption of increased revenues contrasts with numerous tax measures for FY2021/22, many of which will reduce the tax intake. Revenue collection underperformed in the first quarter. Expenditure is budgeted to increase sharply to 25.1 percent of GDP, driven by a jump in development expenditure. While expenditure was within the target for the first quarter, it is expected to increase during the remainder of the fiscal year. The expansionary fiscal stance is straining an already dire public debt situation. The Government predominantly finances its deficits with high-cost domestic debt.

COVID-19 related borrowing and the conversion of swaps supporting the exchange rate into commercial debt by the central bank has increased external borrowing.

Macroeconomic imbalances increase risks to the outlook and need to be urgently and decisively addressed

Malawi's economic growth for 2022 is projected to pick up to 3 percent, leaving per capita incomes stagnant. Even this modest growth rate is at risk from shocks emanating from macroeconomic imbalances. Public debt is high and will continue to grow at an increasing rate without decisive Government action, while imbalances in the foreign exchange market may lead to further constraints on the private sector. Significant and increasing commercial borrowing to bolster the exchange rate amplifies the risks from a sudden stop on external financing, which would have adverse implications on growth and macroeconomic stability. Meanwhile, the agriculture sector remains vulnerable to weather-related shocks. Furthermore, external risks could undermine an economic recovery in Malawi, due to high volatility in energy prices, the fourth wave of COVID-19 infections and potential for additional waves, including risks from new variants, and the risk of transport disruptions.

Targeted investments in human capital and COVID-19 containment measures remain priorities for an inclusive recovery. Accelerated vaccine rollout across the country will reduce Malawi's vulnerability to COVID-19. Additionally, enhanced access to learning and health-promoting interventions can put Malawians on a path to lower poverty in the medium term. In light of tight fiscal space, the Government will need to carefully prioritize expenditure.

The Government must act decisively to address mounting macroeconomic challenges. With the accumulation of domestic and external debt accelerating, the Government needs to reduce fiscal deficits and rein in fiscal risks. This will call for hard decisions in the upcoming FY2022/23 budget, including on the AIP and containment of expenditure on wages and goods and services. Stronger public financial management (PFM) will be critical to make optimal use of limited resources, as well as strengthening oversight of state-owned enterprises (SOEs). Moreover, greater exchange rate flexibility can additionally help reduce the current account deficit, support competitiveness and rebuild reserves.

Strengthened governance is not only a necessary step toward a more productive public sector but is also critical for a more competitive economy. Medium-term economic prospects will depend on economic diversification, a commercialized agricultural sector, and enhanced economic competitiveness. All three objectives will benefit from an effective public sector that acts in a predictable and rules-based manner. Malawi needs to rebalance spending away from fiscally unsustainable maize input subsidies toward investment to promote diversification and growth. Subsidies need to be affordable, more cost-efficient, and with lower fiscal risks. Untargeted subsidies implicit in price controls are detrimental and inefficient. Targeted cash transfers to the most vulnerable, on the other hand, could more efficiently address food insecurity and reduce poverty. In addition, growth in the commercial agribusiness sector requires predictable and transparent trade policies that encourage investment and export-oriented business models. Moreover, supporting diversification outside of agriculture calls for expanding reliable access to electricity, and transparent and predictable tax policies and business regulations that support value addition. Finally, reducing Government borrowing will be key to help ease pressure on interest rates which will help enable broader access to finance.

Reducing gender gaps in economic opportunities is key to unlocking Malawi's full inclusive growth potential

Promoting gender equality is a central development agenda in Malawi, but gender gaps persist across several economic dimensions. According to the 2021 World Economic Forum Gender Gap Report, women in Malawi continue to be disadvantaged across several areas of economic participation:

the country ranks 111 out of 151 countries in the Economic Participation and Opportunity Index lagging many other countries in sub-Saharan Africa (SSA) (World Economic Forum 2021). Moreover, female wage workers earn about 64 cents for each dollar earned by men, and women-run firms' sales are below those of male entrepreneurs (World Bank, Forthcoming).

Gender disparities in agricultural productivity are wide and put a significant burden on the economy. Malawi is among the top 15 economies most dependent on agriculture. In 2017, agriculture contributed 26 percent of the country's GDP; around 59 percent of employed women and 44 percent of employed men were working in agriculture (National Statistical Office of Malawi and ICF 2017). However, large gender productivity gaps remain; plots managed by men produce an average of 25 percent higher yields than plots managed by women. Estimates suggest that closing the gender gap in agricultural productivity in Malawi could lift more than 238,000 people out of poverty and increase the country's total GDP by 2.1 percent (UN Women, UNDP, WB, UNEP 2015; Kilic, T. et al. 2015; Goldstein et al. 2015).

The COVID-19 pandemic has further widened economic gender gaps. While 84 percent of businesses in Malawi witnessed an average decline of 36 percent in sales at the end of 2020, it was more pronounced among female-owned firms; female-led firms experienced an average decline of 40 percent, compared to around 35 percent among male-owned firms (Avalos et al. 2021). In May 2021, 56 percent of female-headed households reported reductions in their total income, compared to 40 percent of male-headed ones (National Statistical Office of Malawi 2021).

Giving women equal opportunities in the workplace, and eliminating the pay gap, can drive inclusive growth. At 72.5 percent, female labor force participation (FLFP) is high, however, it is still significantly below that of males. Moreover, the hours worked by women, and the quality of the participation, is significantly inferior to that of males. Likewise, the gender gap in hourly wage in Malawi is higher than the average worldwide and is above that of several low-income countries (ILO 2018). A 25 percent reduction in gender gaps in the labor market can increase global GDP by 3.9 percent by 2025 (ILO 2017). In SSA, a 25 percent reduction in gender gaps in the labor market is expected to lead to 2.2 percent GDP growth by 2025 (ibid).

Ending child marriage, reducing fertility, and increasing women's educational opportunities are key to boosting female participation in the economy. The Gender Parity Index (GP!) in Malawi (the ratio of school enrollment for male and girl students) is at 0.84 for secondary enrollment (World Bank, Forthcoming). Likewise, the country has one of the highest rates of child marriage in the world, with half of girls married before their 18th birthday. Low levels of educational attainment and high levels of child marriage are associated with decreased levels of human capital accumulation, which affects women's school-to-work transition, and hampers their capacity to participate in the workforce (Awokuse and Ogundari 2018; Wodon et al. 2017). In addition, literature suggests that high rates of fertility have a profoundly negative effect on female labor force participation, with a direct effect concentrated among the 20-39 years age group (Bloom et al. 2007).

To realize Malawi's full potential and boost economic development, Malawi must invest in improving women's economic opportunities. This requires a wide-ranging and comprehensive approach, which addresses several of the core areas of distress that affect women's ability to participate and perform well in the labor market. The Government should promote initiatives to boost the market prospects of adolescent youth, strengthen women's management of financial resources, and advance the agenda to eliminate child marriage. In addition, it should enhance access to reproductive health services to reduce fertility, take a multi-pronged approach to ending GVP and IPV, offer women access to more productive labor and inputs to boost their agricultural capacity, and provide socio-emotional and professional training aimed at bettering women's business and life skills.

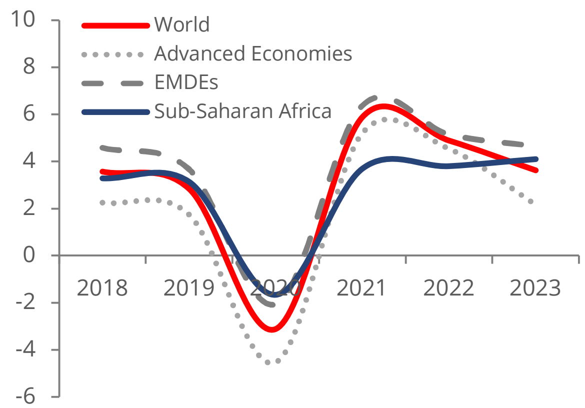
1. Economic Developments

1.1 Global and Regional Context

The global economy has entered a strong but uneven and risky recovery

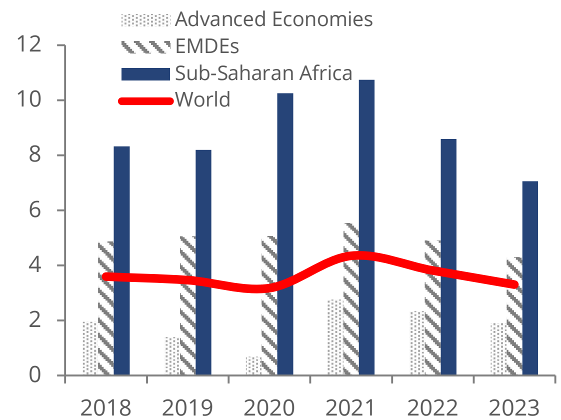
1. **The global economic rebound in 2021 has been strong but uneven.** Global economic growth is projected at 5.9 percent in 2021 (see Figure 1). Emerging Markets and Developing Economies (EMDEs) are expected to grow at 6.4 percent, with SSA growing more slowly at 3.7 percent, following a shallower dip in economic output during the pandemic. Growth in high-income countries has been revised slightly downwards from projections at the beginning of the year due to supply chain issues. However, record levels of fiscal stimulus and economies opening up continue to translate into levels of global growth not seen since the early 1970s. The allocation of US$ 650 billion in SDRs has eased liquidity pressures in some economies. Japan and some economies in developing Asia are seeing their COVID-19 eradication efforts challenged by the spread of Delta variants. While they weathered 2020 relatively less scarred, they are growing less quickly than initially expected in 2021. Meanwhile, unexpectedly strong terms of trade are boosting commodity exporters. Nonetheless, the cross-border trade in services, particularly tourism, remains subdued.

Figure 1: Global growth projections are positive, but mask significant downside risks
Real GDP growth, percent



Source: IMF World Economic Outlook

Figure 2: Inflation is rising globally, with highest levels in Sub-Saharan Africa
Percent



Source: IMF World Economic Outlook

2. **In late November 2021, the World Health Organization declared Omicron a COVID-19 variant of concern.** The new variant was first detected in South Africa but quickly spread around the world, having been recorded in 85 countries by December 17, 2021. With over 50 mutations to the spike protein, there are concerns that Omicron could be more infectious and better at evading immune defenses than previous variants, although details are still limited at the time of publication. Global financial markets nevertheless slumped in anticipation of disruptions, albeit less so than in spring 2020.

3. **The 26th Conference of Parties (COP26) United Nations Climate Change Conference in November 2021 attempts to address catastrophic climate change with tougher targets.** Even with stricter nationally determined contributions agreed at COP26, temperatures are likely to exceed the targeted 1.5 degrees set by the Paris agreement. COP26 was also marked by pledges of net-zero emissions far in the future and the announcements of groups of countries promising accelerated action on matters such as phasing out coal power plants. A pledged US$ 100 billion annually to finance adaptation and mitigation of climate change in poorer countries remained elusive.

4. **Inflationary pressures have increased globally, largely due to supply-demand mismatches.** Similar levels of inflation were last seen in SSA in 2008 and in EMDEs in 2012, while they

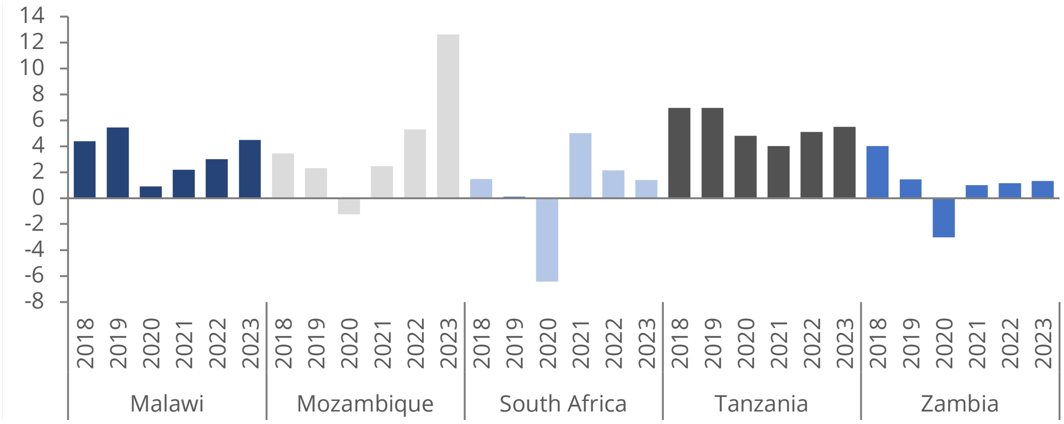
have not been seen since the early 1990s in advanced economies. Inflation accelerated further towards the end of 2021, with the United States of America reporting 6.8 percent in November and the Euro area 4.9 percent. Inflation risks are particularly problematic in SSA where inflation has been high and rising for several years (see Figure 2). Due to high shares of food products in their consumer baskets, the region is also highly exposed to food prices. Nominal global food prices have risen more than 40 percent since the start of the pandemic. Protective policies and market isolation cushioned real local prices of staples to an increase of 4 percent in EMDEs. However, local price variation and price volatility have also increased. Additionally, more isolated markets could also increase vulnerability to local food supply shortages. The combination of rising food prices and falling incomes exacerbates inequality.

5. **Global human capital accumulation continued to experience setbacks.** Setbacks are particularly large in education. As of July 2021, less than half of schools were fully open, in both EMDEs and advanced economies (IMF 2021). With average returns to schooling typically estimated at around 10 percent per year of additional instruction, the pandemic is inflicting long term economic damage through this channel alone (Montenegro and Patrinos 2014). Health is another negatively affected dimension of human capital, which is being impacted directly by the virus and indirectly through, for instance, decreased availability of non-COVID-19 related care as well as nutrition. Additionally, while pandemic-induced unemployment provides opportunities for post-pandemic economic restructuring, the loss of skill and experience should not be underestimated.

6. **Commodity exporting economies in Sub-Saharan Africa were supported by improved terms of trade, but other economies have experienced weak growth.** Improvements were induced by some of the most common export commodities in the region commanding higher prices (see Box 3). Oil exporters, such as Nigeria, saw their economies boosted, as well as countries that rely on other extractives, such as the Democratic Republic of Congo and Zambia. On the other hand, countries more reliant on the services sector continued to experience growth challenges. Overall, SSA remains the region with the slowest economic rebound, the most constrained monetary policy, the smallest fiscal space, and perhaps the greatest vulnerability to climate-related shocks.

Figure 3: Malawi's neighbors and South Africa are slowly returning to economic expansion

Real GDP growth, percent



Source: IMF World Economic Outlook

7. **In line with regional and global trends, economies in neighboring countries and South Africa are improving slowly (Figure 3).** All neighbors and South Africa saw their economies boosted by increased commodity prices. Gold, which South Africa and Tanzania export, remained at historically high prices. Copper, aluminum, and energy commodities – the main exports of Mozambique and Zambia – rallied more recently. Maize harvests in Southern Africa stood 28 percent above their five-year average with South Africa, Zambia, Malawi, and Tanzania producing a surplus (FEWS NET 2021). However, the security situation in Mozambique remains tense. Total, the French energy giant,

suspended its US$20 billion liquefied natural gas project in the north of the country on security grounds. Mozambique, together with Zambia, raised policy rates earliest in the region amidst mounting inflationary pressures. In an effort to tackle economic hardships following its sovereign default, the new administration in Zambia has reached a staff-level agreement with the IMF on restructuring its debt (which stands at 115 percent of GDP) and has increased its debt transparency.

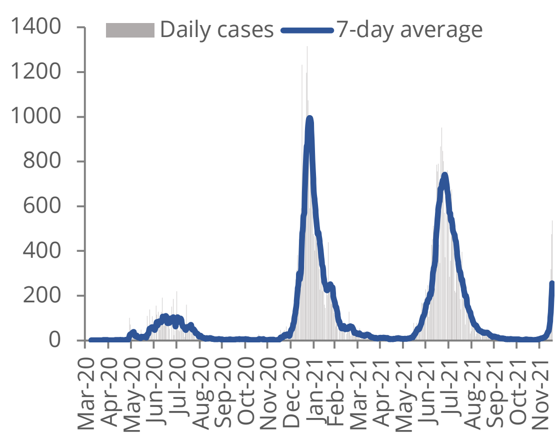
1.2 Recent Economic Developments

Growth in Malawi is picking up modestly following a record harvest, but the country is facing a fourth wave

8. Malawi weathered a third wave of COVID-19 infections between June and August 2021, but after several months of low case numbers, it is facing a fourth wave. Between mid-October and mid-December 2021 daily new cases were back to low double digits. But case numbers have been accelerating rapidly in mid-December, indicating the beginning of a fourth wave driven by the newly detected Omicron variant (Figure 5). Many countries quickly closed their borders for travelers from Malawi and other Southern African countries.

Figure 4: A fourth wave is beginning in Malawi

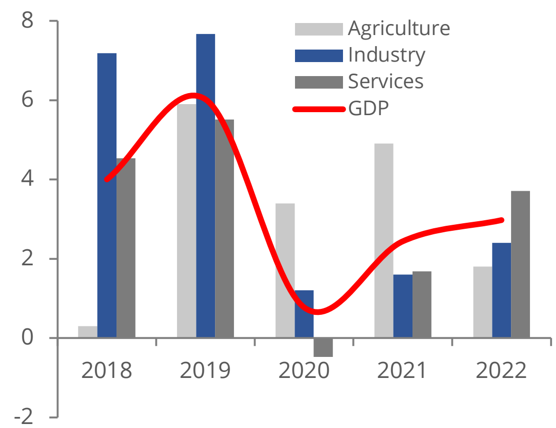
Daily confirmed Covid-19 case numbers in Malawi



Source: Our World in Data

Figure 5: Sectoral and overall economic growth

Percent



Source: World Bank MFMod

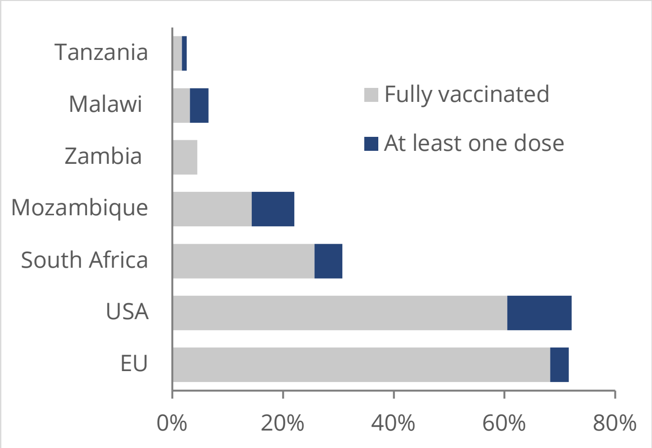
9. Only about 6.5 percent of the population is vaccinated in Malawi (see Box 1). At the same time, seroprevalence surveys, measuring the presence of antibodies against COVID-19, suggest that there have been widespread infections with the virus in Malawi, with potentially more than half of some segments of the population estimated to have contracted the virus, which could provide some degree of immunity (Mandolo et al. 2021). The Government response to the third wave was less stringent than in previous waves. For instance, international travel did not face additional restrictions, schools were only closed when an infection cluster was detected, and a nightly curfew was set at 10 pm, later than in previous waves. Regulations were relaxed further in October 2021. At the same time, businesses began adapting to COVID-19 restrictions. For example, businesses increasingly relied on digital finance (see Box 5), adjusted their supply chains, and implemented health protocols. Thus, overall, the third wave of infections had less of an economic impact than in earlier ones. However, with the onset of a fourth wave in in mid-December 2021, the Government increased social distancing measures, but only modestly to level 2 (of 5 levels). Level 2, for instance, allows for indoor gatherings of up to 100 people.

Box 1: The great vaccine divide and its economic consequences

Despite the global progress on vaccination, the vaccination rate is significantly lower in developing countries. With a total of 5.3 million confirmed COVID-19 deaths,[1] the pandemic has had a heavy human toll. While the share of the world's population protected by vaccines exceeds half (56.4 percent as of November 30, 2021), only 7.3 percent of low-income country inhabitants have received at least one dose. In Malawi, 6.5 percent of the population received at least one dose, putting it ahead of many other EMDEs, but behind every single high-income nation (Figure 4). In addition to health effects, this may have economic consequences.

Low vaccination rates may hold back the economic recovery. Some sectors – such as international tourism – may only return to pre-pandemic levels when the hazards from COVID-19 are fully under control, which may require documented widespread immunity. Additionally, Malawi relies on a favorable economic climate in the region for trade. Yet, vaccination rates remain below the global average in all neighboring countries and South Africa, which exposes Malawi to additional risks. COVID-19 can have adverse long-term effects on health and avoiding some of these with a relatively cheap vaccine is almost certain to be a high-returns investment.

Figure 6: Share of population vaccinated against COVID-19
Percent



Source: Our World in Data. As of 14/12/2021 for EU, US, and ZM. First dose information for ZM missing. As of 13/12/2021 for MW, MZ, and ZA. As of 06/12/2021 for TZ.

Securing vaccines from the global community and supplying them across Malawi are key priorities. Despite quickly expanding access to the entire adult population, slow take-up led to 20,000 expired vaccine doses being destroyed in May 2021. Supplies ran out in June 2021, further challenging the Government target to inoculate 60 percent of Malawi's population before December 2022. With 1.3 million of the 2.8 million doses that arrived in the country between March and November 2021 remaining to be administered, both the Johnson & Johnson and AstraZeneca vaccines are widely available again, primarily in urban centers. Supply in rich countries is plentiful, which could lead them to donate doses at an increasing rate to countries with low vaccination rates. This change in circumstances will call Malawi's Government to task. The availability of vaccines remains uneven, and hesitancy is widespread. The World Bank High-Frequency Phone Survey on COVID-19 showed that 48 percent of respondents were not willing to get vaccinated in March 2021. The Government should effectively sensitize the population and ensure a safe and stable supply of vaccines across the whole country to absorb as much of the supply as it can. Malawi will also have to rely on effective actions by its neighbors to effectively avoid further deadly and economically detrimental waves of COVID-19.

10. **Economic growth is picking up modestly from 0.8 percent in 2020 to a projected 2.4 percent in 2021, primarily driven by increases in the agricultural sector (Figure 6).** With a population growth rate around 3.0 percent, however, the level of economic growth recorded in both years equates to a contraction in per capita output. Fortunate weather, as well as increased fertilizer use due to the AIP expanding fertilizer to all rural farming households, led to record harvests in 2021. Maize production increased to an estimated 4.6 million tons of maize in 2021, a 21 percent increase over the bumper harvest of 2020, estimated at 3.8 million tons. Other crops also recorded above-average harvests, including pulses (1.0 million tons), sugar (0.30 million tons), and rice (0.16 million

[1] Malawi contributed 2,310 confirmed COVID-19 deaths to this figure as of December 15, 2021. However, it is uncertain to which degree this is an understatement. Vital statistics are unavailable in Malawi. Thus, excess deaths–one of the preferred methods to measure the pandemic's human toll–cannot be calculated reliably. Half of Malawi's confirmed COVID-19 deaths were recorded in the third wave after June 2021. It is uncertain whether this reflects higher actual mortality or a more efficient testing regime.

tons). However, trade restrictions often held back many Malawians from exporting surplus harvests. While some exports have been reported, export restrictions were not formally lifted. Unfavorable policies including ad hoc and restrictive trade restrictions have contributed to low investment and productivity in the sector. While three out of four Malawians work in agriculture, the sector only contributes a quarter to GDP.

11. Despite record harvests, food insecurity continued at a high level. The strong maize harvest has led to an estimated surplus national production of 1 million tons (IPC Global Support Unit 2021). The number of Malawians facing high-level acute food insecurity decreased from an estimated 1.69 million in September 2020 to a still high 1.06 million in September 2021 (over 5 percent of the population) according to Malawi Vulnerability Assessment Committee (MVAC) estimates (IPC Global Support Unit, 2021). With continuing high food insecurity, this raises the question if AIP resources could have been used more efficiently.[2] With a budget of MK 142 billion in FY2021/22 – over 40 percent of the agriculture sector budget, and about 7 percent of the national budget – the program has considerable opportunity costs in terms of fiscal space and the use of foreign exchange. It also risks locking smallholder farmers into maize production in the medium term, rather than promoting agricultural diversification.

12. Growth in the services and industry sectors has improved in 2021 but remains tepid. Accommodation and food services, wholesale and retail trade, transport, and professional services related to education were among the most affected sectors at the outset of the pandemic due to a heavy impact of social distancing measures and reduced demand. Yet with loosened social distancing policies and a decline in precautionary behavior, demand is still weak but improving from low levels. Businesses have also been adapting better to COVID-19 conditions. Accommodation and food service activities – the most affected sub-sector in 2020, when RBM estimated them to have contracted by 21 percent – are expected to experience modest growth of 1.3 percent in 2021. The two publicly traded companies in the sector, Sunbird and Blantyre Hotels Limited (BHL), experienced a significant revenue loss in 2020, due to the unprecedented drop in international arrivals. The telecoms industry, however, was a stronger performer. It recorded 6 percent revenue growth in 2020 and continued to grow at 12 percent year-on-year in the first half of 2021 (Airtel 2021; TNM 2021). A solar project in Salima, which came online in November 2021 with an additional 60 MW – more than 10 percent of current installed capacity – may help alleviate energy shortages.

13. The private sector still faces multiple concerns which weigh on performance and investment. Limited foreign exchange has become an increasing challenge, and some firms express concerns that this could be exacerbated by the compulsory liquidation of foreign exchange recently announced by the RBM. Other emerging challenges include inflation on imported items, particularly for fuel, following the fuel price increase of 28 percent in October (see Box 2). In addition, businesses express concerns about heavy taxation (especially on raw materials); heavy Government borrowing from the market which crowds out private sector borrowing; and, for international firms, a procurement directive that was recently introduced requiring that 30 percent of Government projects should go to local businesses.

[2] In the first year of AIP implementation (2020/21), maize production only increased by 21 percent over the previous year (4.6 million tons versus 3.8 million tons). While this is partly attributed to good weather, importing an additional 0.9 million tons of maize would have cost less than the program itself.

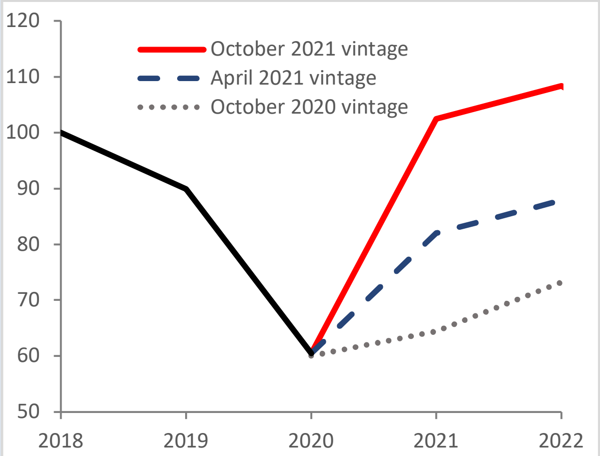
Box 2: Malawi is confronting increased commodities prices

Many commodity prices have increased sharply since the beginning of the year to levels last seen during the commodities boom ending in 2014. Commodity prices are particularly volatile when compared to other products. Nevertheless, structural factors often support large and prolonged periods of elevated commodity prices. The last major period of elevated prices was primarily brought about by the surprise increase in demand from a booming Chinese economy. Supply was not able to respond quickly because commodity exploration and development often take many years to get to market.

The commodity-intensive post-pandemic global growth could lead to elevated prices in the medium term. When commodity prices increased sharply at the beginning of the year, many experts believed it reflected a temporary shortage. When oil prices, for instance, rallied by nearly 50 percent from US$ 49 to US$ 72 (per bbl) in the first half of 2021, many analysts expected these prices to fall again. However, public spending to support recovery, particularly in wealthy countries, led to a powerful and sudden resurgence of demand which outstripped supply. Since then, many forecasts had to be revised upwards reflecting prolonged price increases (Figure 7).

Figure 7: Rising oil price forecasts

Oil price forecast by forecast vintage, US$ index, 2018=100



Source: World Bank, Commodity Markets Outlook

Higher commodity prices worsen Malawi's terms of trade, widen the external imbalance, and increase pressure on the exchange rate. Higher international prices of mineral and energy resources will lead to more expensive goods such as petroleum products. Chemical fertilizer will also increase in price, as it is largely produced from energy commodities. Increased fertilizer prices will have far-reaching effects, due to fertilizer's role as a principal input for the Malawian economy, and it would also increase the fiscal cost of the AIP in its current form. Global food prices, too, have already started to respond to higher energy and fertilizer prices, reminiscent of the 2007-2008 commodity price-induced global food crisis. While many of Malawi's exports are commodities, they are unlikely to benefit from structural price increases to the same degree as the commodities that Malawi imports. For instance, the global tobacco supply can adjust from one planting season to another, and thus rarely experiences prolonged elevated price levels.

14. The COVID-19 pandemic has impacted Malawi's human capital accumulation. A second COVID-19 wave led to school closures, followed by widespread teacher strikes over additional hazard pay. The Ministry of Education added five weeks to the end of the 2021 instruction period to catch up on pandemic-induced learning losses. In addition to direct impacts on health, another dimension of human capital, the pandemic has also led to indirect setbacks. The utilization of broader healthcare services unrelated to COVID-19 decreased early in the pandemic, but there were minimal disruptions in the third wave. However, substantial disruptions to maternal services and child vaccinations have persisted, particularly in southern regions. A recent study estimates that the pandemic is may have caused a 4.3 percent increase in child deaths and a 4.1 percent increase in maternal deaths in Malawi between March 2020 and June 2021 through limited utilization of critical health care services such as antenatal care and childhood vaccines (Ahmed et al. forthcoming). These figures exceed averages for 18 low- and lower-middle-income countries of 3.8 and 1.4 percent, respectively. Additionally, there are concerns that the pandemic has led to a surge in adolescent pregnancies, which were already high in Malawi before the pandemic. Nearly one in three girls aged 15 to 19 had already begun childbearing pre-pandemic. (World Bank, Forthcoming). The pandemic thus also risks progress made on the gender gap (see special topic).

15. Reduced AIDS infections and a new vaccine against malaria may give a much-needed boost to human capital. New AIDS infections, a major driver of human capital loss and mortality in Malawi, are estimated at 19,000 in 2021, the lowest since records began (National Aids Commission Malawi, 2021). The fight against malaria may benefit from a new malaria vaccine which was piloted in Malawi, clinical trials for which indicate a 30 percent reduction in deadly severe malaria. Any gains in human capital would be dearly needed. Malawi's Human Capital Index of 0.41 indicates that children born in Malawi today will be 41 percent as productive when grown up as they could be if they enjoyed complete education and full health (World Bank 2020).

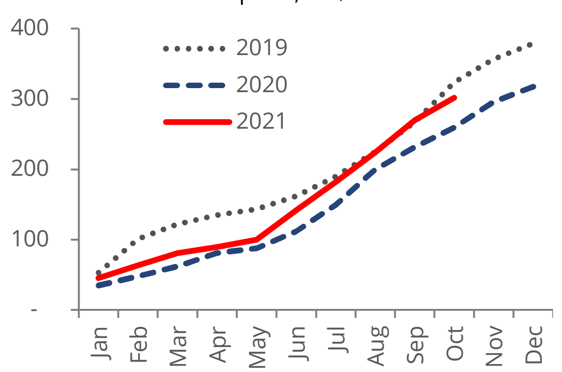
Rising commodity prices have increased both exports and imports

16. Malawi's trade balance remains pronouncedly negative in 2021. After contracting in 2020, exports are expanding again in 2021. However, imports are expanding from a higher base, despite the depreciation of the Kwacha. The negative trade balance is also impacted by Malawi's expansionary fiscal stance (see Box 4) and exerts downward pressure on the exchange rate. To a large extent, the trade deficit is financed through foreign aid.

17. The rebound in trade is driven by increased commodity prices. After a slow start of the year, tobacco exports are catching up to pre-pandemic levels, reaching US$ 302 million through October 2021, up from US$ 257 million through the same period in 2020 (Figure 8). Prices were higher in 2021 (US$ 3.43 in 2021, US$ 3.42 in 2020, up from US$ 3.32 in 2019) and volumes increased by 16 percent over the same period in 2020, despite still down on 2019 volumes (88 million kgs in 2021, up from 76 million kgs in 2020, but down on 97 million kgs in 2019). Soya bean exports were reported to exceed historical trends, although some of this could reflect informal re-exports from Zambia. Tea production is up by 17 percent through November compared to a year earlier. Combined with sharply increasing prices for African tea since July, this should assist Malawian exports to catch up with the previous year, although, through September, exports were down by 8 percent. Increased commodity prices are also affecting fuel. Despite a 7 percent decrease in fuel import volumes through October 2021 over 2020 levels, the value of imported fuel increased by 38 percent (Figure 9). Various price controls mean that domestic demand does not immediately respond to changes in international markets, and price changes, when they eventually occur, can be abrupt (see Box 3).

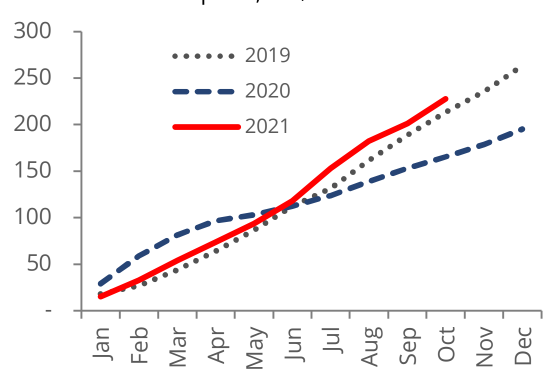
18. Imports have been increasingly impaired by the unavailability of foreign exchange. Many primary imports, such as fuel, are protected from forex shortages through special facilities by the RBM. However, many investment goods are not, and as a result, manufacturing and export development can be hampered by limited foreign exchange.

Figure 8: Malawi's main export, tobacco, is catching up to pre-pandemic levels...
Cumulative tobacco exports, US$ million



Source: World Bank staff calculations based on Tobacco Commission data

Figure 9: ...while its main import, fuel, has already overtaken them.
Cumulative fuel imports, US$ million



Source: World Bank staff calculations based on data from the Malawi Energy Regulatory Authority

Box 3: Price controls can have unintended consequences

Price controls are commonly defined as any government intervention that leads to prices which are higher or lower than the level that would exist in a competitive market. Enacting price controls can take many forms: the government prescribing a price, setting price ceilings or floors, granting preferential access to foreign exchange, influencing production levels, or subsidizing goods. Typically, price controls aim at protecting vulnerable consumers or industries from price shocks. They are widespread, particularly in EMDEs controlling energy and essential products.

A variety of products in Malawi are price-controlled using a variety of mechanisms. The Government controls adjustments in electricity and water prices. Petroleum products not only have set prices but also benefit from preferential foreign exchange access. Most Malawians purchase fertilizer through the AIP at below-market rates. The Government sets farm-gate prices for many crops, intervenes in maize markets through the Agricultural Development and Marketing Corporation (ADMARC) and the National Food Reserve Agency (NFRA), and urban housing markets through the Malawi Housing Corporation (MHC).

While typically undertaken for good intentions, price controls can have several unintended consequences. From a crippled Zimbabwean transport sector to frequent blackouts in Zambia and empty shelves in Venezuela, the adverse consequences of price controls often only become visible in the extremes. The list below summarizes some of the general side effects of price controls:

- *Underinvestment.* Below-market rates disincentivize producers to invest in sectors that do not deliver market-level returns. Policy uncertainty often compounds this effect. The aggregate effect of insufficient investment can be slower growth and increased poverty levels.
- *Draining budgets.* Price controls act as an implicit tax or subsidy that can quickly drain public funds, especially for products with volatile prices. This can be accelerated when people hedge against the government's ability to maintain price control, for example by stockpiling fuel in anticipation of a price rise if/when government becomes unable to maintain current price levels.
- *Price jumps.* Exhausted stabilization funds can lead to large adjustments in prices. The increase in fuel prices in Malawi on October 9, 2021 by up to 28 percent in one day is one such example. The sudden movement in price did not give consumers time to adjust, the way more gradual changes would have.
- *Unintended beneficiaries.* Often the primary beneficiaries of price controls are not the people most in need. Elites that are well connected can capture program benefits, such as agricultural input schemes or guaranteed minimum prices. Unintended beneficiaries often result from poor design, with private vehicle owners benefitting the most from petrol subsidies, wealthy households using subsidized electricity, and select importers disproportionately accessing a subsidized exchange rate.
- *Black markets.* An extreme example of unintended beneficiaries takes the form of subsidized goods being smuggled out of the country. Similarly, black markets for goods and services subsidized or not taxed by price controls can benefit select people with privileged access.
- *Distorted incentives.* Distorted prices can lead to wasteful and inefficient behavior. For instance, cheap petrol can lead to less fuel-efficient cars while subsidizing staples can lead to their overconsumption at the cost of more micronutrient-dense food.

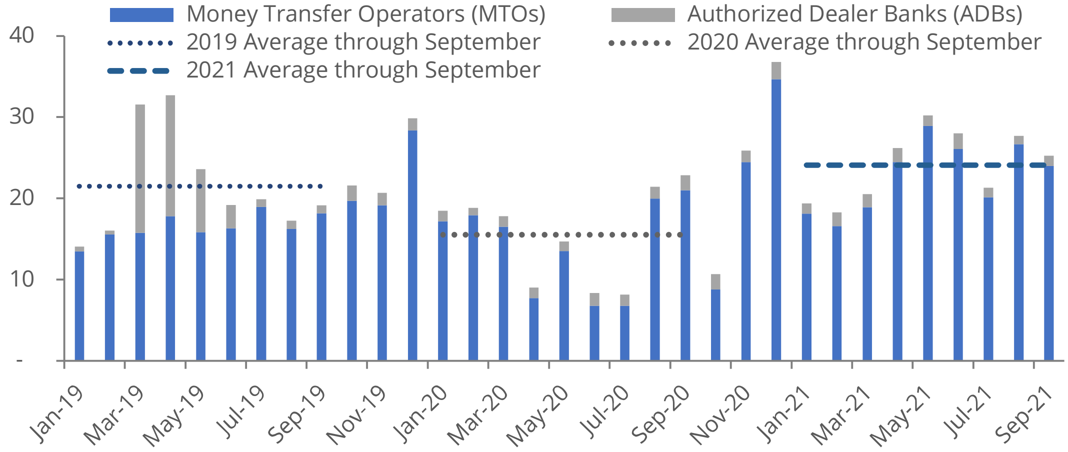
Despite the detrimental effects of price controls, weakening or even abandoning them is often accompanied by political, social, and economic challenges. Recent protests around rising fertilizer and energy prices – demanding more intervention to combat price movements driven by external forces – demonstrate that loosening price controls can be difficult. Subsidies implicit in controlled prices can be replaced with more efficient targeted social cash transfers to the vulnerable. For example, this could be an option to support the vulnerable while scaling down the AIP. Ensuring effective regulation and adequate competition is often a prerequisite to loosening price controls. When loosening price controls is not feasible, enhanced transparency and the appropriate choice of price control mechanism can help limit negative effects.

Sources: Guenette, J. 2020, Malawi Energy Regulatory Authority 2021, World Bank staff analysis.

19. Remittances have recovered, with 2021 levels through September exceeding pre-pandemic levels (2019) by 12 percent (Figure 10). Remittances have reached US$ 217 million through September 2021, up 55 percent over the same period in 2020. On an annual basis, this could reach 2.4 percent of GDP, helping cover about 10 percent of total imports or 20 percent of the trade deficit. The largest source of remittances is South Africa, where economic growth is projected at 5 percent in 2021.

Figure 10: Remittances have fully recovered in 2021 from a decline in 2020

US$ millions



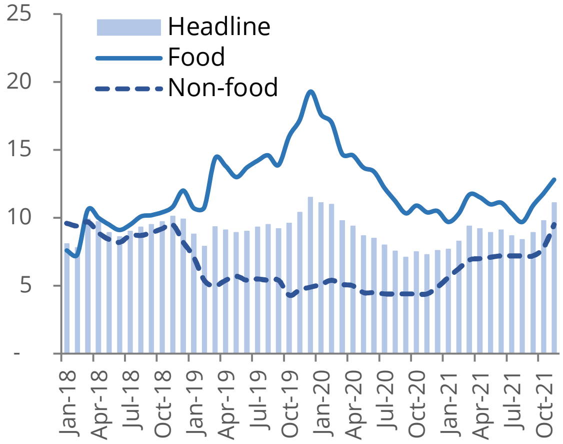
Source: World Bank with data from Reserve Bank of Malawi

Headline inflation has increased to double digits, with recent price increases heightening concerns about cost of living

20. Inflation has picked up to 11.1 percent in November due to increases in both food and non-food inflation (Figure 11). Food inflation increased to 12.8 percent in November 2021. Maize prices have been gradually increasing since the end of the harvest, reaching K146 per kilogram in November 2021, up from K126.8 per kilogram in May 2021 (which was the lowest since 2018), but have consistently remained lower than the previous season (Figure 12). In addition, the application of value added tax (VAT) reforms introduced in the FY2021/22 budget has resulted in an increase of other food prices on the domestic market. Non-food inflation has picked up due to adjustments in fuel prices in March and October 2021 and the modest depreciation of the Kwacha. The Price Stabilization Fund (PSF) mechanism, funded by a fuel levy paid by consumers, has been temporarily cushioning domestic prices from the impact of increasing global oil prices (see Box 3 on Price Controls). However, the PSF could only delay the adjustment of local prices to higher international prices, and the depletion of PSF resources led to the abrupt 28 percent upward adjustment in October 2021. This contributed to the upward push in non-food inflation to 9.5 percent in November 2021.

Figure 11: Food and non-food inflation have increased since recent lows

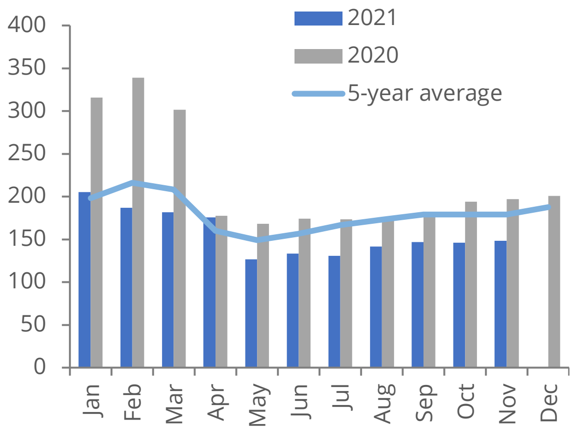
Headline, food and non-food Inflation, y-o-y, percent



Source: World Bank staff calculations based on National Statistical Office (NSO) data

Figure 12: Maize prices are lower this season

Maize prices, MWK per kilogram



Source: World Bank staff calculations based on data from FAO FPMA tool

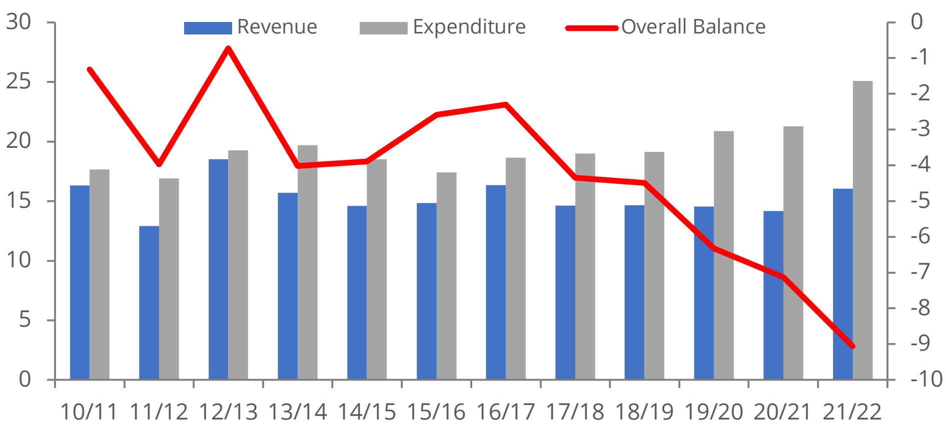
The FY2021/22 budget expands the fiscal deficit to the highest in recent years

21. **Adjusted to reflect the 9-month fiscal year, the FY2021/22 fiscal deficit is budgeted to widen to 9.1 percent of GDP, which would be the highest in recent years (Figure 13).** Significant increases in expenditure, despite limited revenue growth, are key drivers of widening fiscal deficits. The worsening fiscal situation is further being exacerbated by the COVID-19 pandemic.

22. **Taxes and grants are budgeted to increase revenue to 16.0 percent of GDP, but optimistic assumptions could lead to revenue shortfalls.** Tax revenues are expected to increase considerably, from 12.0 to 13.2 percent of GDP between FY2020/21 and FY2021/22, which would represent the highest tax intake in recent years as a share of GDP. This is expected across all the major categories of taxes. These budgeted increases are combined with numerous tax measures for FY2021/22, many of which will reduce the tax intake, and could make achieving these figures even more difficult. Disbursement of external donor grants is anticipated to improve from an outturn of 1.5 percent of GDP in FY2020/21 to 2.1 percent of GDP in FY2021/22.

Figure 13: Fiscal Deficits

Percent of GDP, Overall Balance (rhs)



Source: World Bank with data from Ministry of Finance

23. Expenditure, already at high levels, is budgeted to increase in FY2021/22, due to a surge in domestically financed development expenditure. Total expenditure is budgeted to increase to 25.1 percent of GDP, a jump from 21.3 percent in FY2020/21. This jump is driven by a budgeted increase in development expenditure to 7.2 percent of GDP in FY2021/22 from an outturn of 3.6 percent in FY2020/21. This increase is budgeted in both foreign and domestically financed components, which are expected to rise to 4.4 and 2.8 percent of GDP, respectively, from 2.6 and 1.0 percent in FY2020/21. Recurrent expenses are budgeted to increase modestly from 17.7 to 17.9 percent of GDP. Across the categories, interest expense, grants and social benefits are expected to increase. Although it remains level in Kwacha terms, the AIP increases from 1.3 to 1.6 percent of GDP due to the shortened fiscal year. By guaranteeing the price which farmers pay, instead of providing a fixed benefit, this exposes the Government to fiscal risk if imported fertilizer costs continue to increase and could lead to overspending – as often occurred in the past with the Farm Input Subsidy Program (FISP). Generic goods and services, which historically overspend, is budgeted to decrease from 2.2 to 2.0 percent of GDP, contributing to a decline in goods and services from 3.6 to 3.3 percent of GDP. Compensation of employees is budgeted to maintain its FY2020/21 outturn levels of 5.7 percent of GDP.

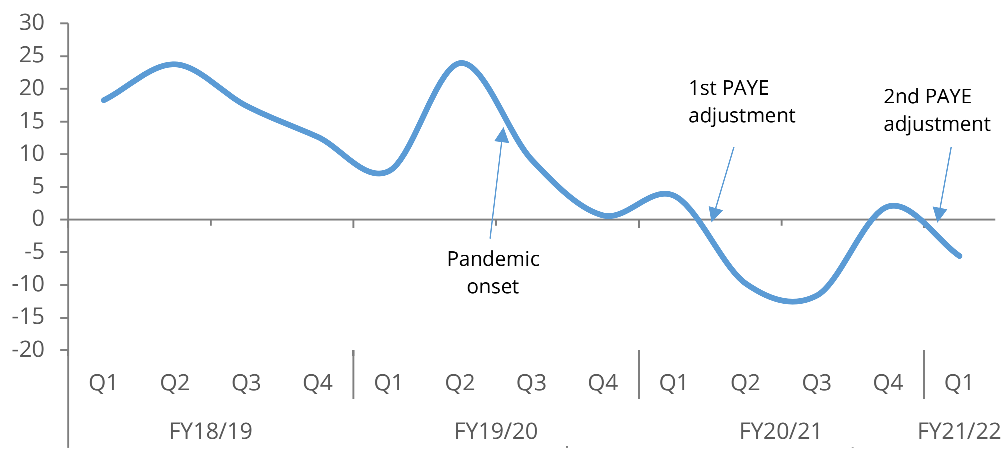
The fiscal situation deteriorated with weak revenue performance in the first quarter

24. Government operations for the first quarter resulted in a fiscal deficit of 1.6 percent of GDP. While revenue underperformed an optimistic target, the Government spent less on interest payments and on high development expenditure during the first quarter. Consequently, the shortfall in revenue was contained, which resulted in a fiscal deficit lower than budgeted.

25. Weak performance in all categories of revenue contributed to collection of 3.2 percent of GDP in the first quarter of FY2021/22, far short of optimistic targets, highlighting how revenue is unlikely to reach the fiscal year target. Tax revenue totaled 2.9 percent of GDP, comprising taxes on income and capital gains (1.4 percent), taxes on goods and services (1.3 percent), and taxes on international trade (0.3 percent). While the resumption of economic activity after the third wave was anticipated to trickle down to improved revenue collections, Government introduced tax reforms, most of which are revenue reducing in nature. Consequently, this has affected performance of taxes. For instance, the adjustments in the Pay As You Earn (PAYE) personal income tax brackets have contributed to reductions in tax intake—while PAYE income taxes were growing before the adjustments, they have declined since the introduction of the new measures (Figure 14). This followed the PAYE reform in the first quarter of FY2020/21 which also contributed to a loss in revenues.

Figure 14: The growth of PAYE income taxes has declined with PAYE adjustments

PAYE income taxes, y-o-y percent change



Source: World Bank with data from Ministry of Finance

Table 1: Fiscal Accounts

Percent of GDP

	17/18	18/19	19/20	20/21	21/22	
					1st Q	Est
Revenue	**14.6**	**14.7**	**14.6**	**14.2**	**3.2**	**16.0**
Domestic Revenue	**13.6**	**13.2**	**13.1**	**12.7**	**3.0**	**13.9**
Taxes	**12.8**	**12.8**	**12.3**	**12.0**	**2.9**	**13.2**
Taxes on Income, Profits, and Capital Gains	6.1	6.0	5.8	5.6	1.4	6.2
Taxes on Goods and Services	5.5	5.7	5.5	5.4	1.3	5.9
Taxes on International Trade and Transactions	1.1	1.1	1.0	0.9	0.3	1.0
Other Taxes	0.0	0.0	0.0	0.0	0.0	0.0
Grants	**1.0**	**1.4**	**1.5**	**1.5**	**0.2**	**2.1**
From Foreign Governments	0.6	-	-	-	-	0.7
From International Organisations	0.4	1.4	1.5	1.5	0.2	1.4
Other Revenue	**0.8**	**0.5**	**0.8**	**0.7**	**0.1**	**0.7**
Property Income	0.3	0.1	0.3	0.4	0.0	0.3
Sale of Goods and Services	0.5	0.4	0.5	0.3	0.1	0.3
Fines, Penalties, and Forfeits	0.0	0.0	0.0	0.1	0.0	0.1
Expenditure	**19.0**	**19.1**	**20.9**	**21.3**	**4.8**	**25.1**
Expense	**15.7**	**15.6**	**16.6**	**17.7**	**4.1**	**17.9**
Compensation of Employees	4.8	5.2	5.5	5.7	1.5	5.7
Goods and Services	4.5	3.4	4.0	3.6	1.1	3.3
Generic Goods and Services	2.3	2.1	2.5	2.2	0.6	2.0
Maize Purchases	1.0	0.1	0.1	0.1	0.1	0.2
Expenditure for Arrears	0.1	0.1	0.1	0.0	0.0	0.1
Interest	2.8	2.9	3.0	3.6	0.7	3.8
To Non-Residents	0.2	0.2	0.2	0.2	0.1	0.2
To Residents other than General Government	2.6	2.7	2.8	3.4	0.6	3.6
Grants	2.0	2.7	2.7	1.9	0.5	2.0
Social Benefits	1.5	1.4	1.4	2.5	0.2	2.8
Fertilizer Payments	0.4	0.4	0.3	1.3	-	1.6
Other Expenses	0.1	0.1	0.1	0.3	0.2	0.3
Acquisition Non-Financial Assets	**3.3**	**3.5**	**4.2**	**3.6**	**0.7**	**7.2**
Foreign Financed	2.2	2.2	2.4	2.6	0.3	4.4
Domestically Financed	1.1	1.4	1.8	1.0	0.5	2.8
Overall Balance Including Grants	**-4.4**	**-4.5**	**-6.3**	**-7.1**	**-1.6**	**-9.1**
Primary Balance	**-1.6**	**-1.6**	**-3.3**	**-3.5**	**-1.0**	**-5.3**
Domestic Primary Balance	**-0.4**	**-0.8**	**-2.3**	**-2.4**	**-0.9**	**-3.0**
Net Incurrence of Liabilities	**4.7**	**4.5**	**5.7**	**6.9**	**1.3**	**9.1**
Foreign Borrowing (net)	**1.8**	**0.8**	**0.8**	**1.0**	**1.3**	**1.7**
Program Borrowing	1.0	0.1	0.0	0.3	1.4	-
Project Loans	1.2	1.0	1.2	1.1	0.1	2.3
Amortization	(0.4)	(0.4)	(0.4)	(0.4)	(0.1)	(0.6)
Domestic Borrowing (net)	**3.0**	**3.8**	**4.9**	**5.9**	**(0.0)**	**7.4**

* FY2021/22 figures as a percent of GDP represent a 9-month fiscal year, to enable comparison with previous FYs.

Note: Figures are a share of rebased GDP figures.

26. Expenditure was within the target for the first quarter, but it is expected to increase in the remaining two quarters. Expenses totaled 4.1 percent of GDP during the first quarter. Higher spending was reported in generic goods and services and other expenses, which – if the current trend is maintained – would lead to overruns by the end of the fiscal year. Compensation of employees and social benefits were contained within budgeted targets in the first quarter. The Government adjusted wages by 14 percent for FY2021/22, above the rate of inflation. Taking into consideration the widening of the zero-bracket in FY2020/21 and adjustments in the other brackets in FY2021/22, this translated to a sizeable increase in real take home pay for the civil servants. Interest expense was only 0.7 percent of GDP against a budgeted target of 3.8 percent of GDP for the fiscal year. However, this is expected to increase in the remaining two quarters given the current stock of debt held in longer-term instruments associated with higher interest rates. Modest spending was also recorded in grants in the first quarter, with 0.5 percent of GDP against a fiscal year target of 2.0 percent of GDP.

27. Development expenditure also underperformed during the first quarter and will likely continue so. The Government only spent 0.5 percent of GDP against a fiscal year target of 2.8 percent in domestically financed development expenditure in the first quarter. Weak execution was also reported in a foreign financed component where only 0.3 percent of GDP has been spent in the first quarter against a budgeted fiscal year target of 4.4 percent of GDP.

28. The Government borrowed 1.3 percent of GDP to finance the deficit for the first quarter. The Government incurred 1.3 percent of GDP debt liabilities from external sources (net of amortization), which included 1.4 percent of GDP budget support in the form of SDRs from the International Monetary Fund. On the domestic front, the Government borrowed 0.7 percent of GDP from monetary authorities and repaid 0.8 percent of GDP of domestic debt held by commercial banks. This resulted in a zero net borrowing from domestic creditors. The Government expects to finance a larger proportion of the fiscal deficit using domestic borrowing. As indicated during the budget presentation, 81 percent of the deficit, equivalent to 7.4 percent of GDP, will be financed using domestic borrowing. The remaining 1.7 percent is expected to be financed through foreign borrowing.

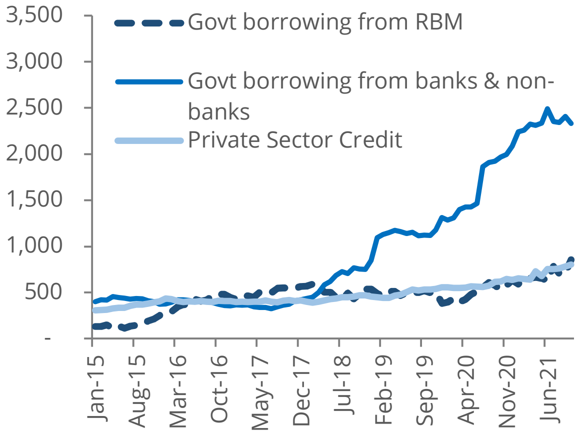
Increases in external commercial debt and high domestic borrowing are increasing debt vulnerabilities

29. Public debt has increased due to both domestic and external borrowing. Domestic debt increased from 17.5 to 21.9 percent of GDP from 2019 to 2020. External public and publicly guaranteed debt also increased from 27.7 to 32.9 percent of GDP between 2019 and 2020. As a result, public debt increased from 45.3 percent of GDP in 2019 to 54.8 percent of GDP in 2020. This was driven largely by financing of the primary deficit, which contributed 5 percent of GDP to the rise in public debt.

30. The Government continues to finance deficits with high-cost domestic debt. Much of this debt is being held by the banks and non-bank sector (77 percent as of September 2021). Government domestic borrowing continues to surge past lending to the private sector, heightening concerns of crowding out (Figure 15). Additionally, the Government has been lengthening the maturity profile by expanding issuance of longer-term treasury notes, whose interest rates are higher and increasing (ranging 16 to 23 percent). As of September 2021, 89 percent of domestic debt was held in treasury notes (Figure 16). Moreover, the Government has started to raise financing for development projects using10-year development bonds. Consequently, it is expected that the cost of servicing domestic debt will remain elevated, continuing to reduce room for discretionary spending.

Figure 15: Public domestic borrowing continues to surge past private sector credit

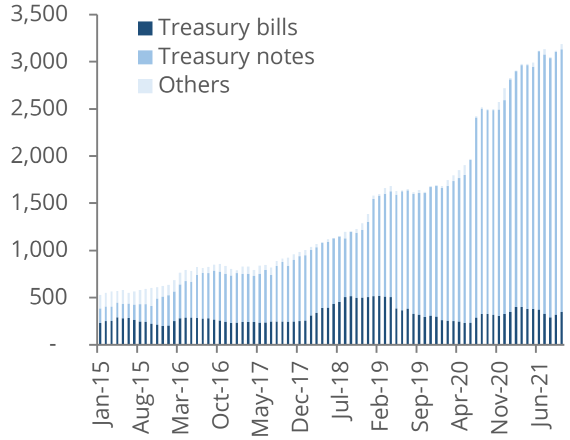
Domestic debt (MWK billion)



Source: World Bank staff calculations based on RBM data

Figure 16: The share of domestic debt held in treasury notes continues to increase

Public domestic debt by instrument (MWK billion)



Source: World Bank staff calculations based on RBM data

31. External non-concessional borrowing has also been increasing, heightening debt service concerns. Borrowing to support the COVID-19 pandemic response, as well as the conversion of foreign exchange swap arrangements to medium-term debt on commercial terms, have contributed to recent increases in foreign borrowing. Commercial debt has increased substantially to 30 percent of total external public and publicly guaranteed debt. RBM started using a revolving trade credit facility of $250 million to meet foreign exchange needs for strategic imports such as fuel and fertilizers, which was then further supplemented by foreign exchange swap arrangements. Facing difficulty in repaying some of the swap facilities, it subsequently converted some of them to medium-term loans of US$ 450 million in June 2020 and US$ 210 million in September 2021. Due to the non-concessional nature of this debt and short repayment schedules, this will substantially increase pressure on debt service in the coming years.

32. High costs associated with the current stock of both external and domestic debt has worsened the vulnerability of public debt. The cost of servicing public debt has increased, with most domestic debt contracted in long-term treasury notes associated with high interest rates. In addition, with the share of commercial external debt at non-concessional terms increasing, and high debt service requirements in the coming years, the economy is increasingly vulnerable to a sudden stop of external financing.

33. The Government is establishing a Debt Retirement Fund, which is expected to be operational in FY2022/23. Yet there are risks it could exert additional fiscal pressure and worsen a problem it is intended to solve. Some financing options, such as a levy on fuel, would put the financing cost on consumers, who already face high levies on fuel. Other options, such as using proceeds from tax revenues, would reduce resources for budget implementation. In addition, creating separate funds in the past has sometimes led to transparency issues in the use of their resources, for example in the case of the Price Stabilization Fund, which could call to question the efficiency of the use of funds.

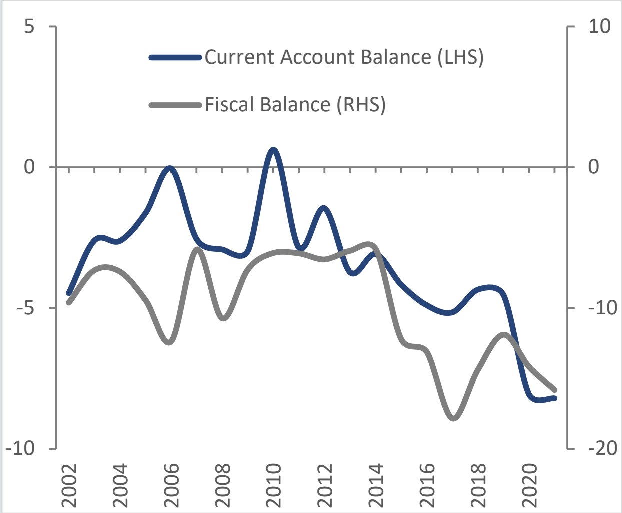
Box 4: Fiscal challenges for foreign exchange management

Central bank independence is a key tool to ensure the credibility of a country's currency guardian. However, even with full autonomy over monetary policy decisions, fiscal policy directly impacts central banks. In few sectors is this as evident as in the management of the exchange rate. According to the RBM of Malawi Act of 2018, one of the RBM's primary powers and functions is to "determine and implement the exchange rate policy". At the same time, when the Government runs a budget deficit, it needs to be financed. Eventually, the source of that finance has to be either domestic savings – which are low in Malawi – or foreign borrowing.

Large fiscal deficits unsupported by domestic savings have led to the "twin deficits" in which a fiscal deficit drives a current account deficit (Figure 17). Recently, both the fiscal balance and the current account balance have been deteriorating. The equilibrium exchange rate reflects how in the long run Malawi provides as much to the global economy – current account credits like exports – as the global economy provides to Malawi – current account debits such as imports and interest payments – except for gifts like foreign capital grants, debt write-offs, and past liabilities. Thus, the equilibrium exchange rate balances the current account. As such, attempts to uphold the value of the Malawi Kwacha will be met by a loss of reserves proportional to the current account gap. This effect is especially rapid when the availability of low-interest foreign financing is limited to both the private sector and the authorities to shift current pressures into the future.

Figure 17: Malawi's twin deficits

Percent of GDP, Fiscal balance (rhs)



Note: Data for 2020 and 2021 – IMF WEO forecasts.

Sources: World Bank, IMF, Staff Calculations

The AIP significaty contributes to Malawi's unsustainable debt, uses a large amount of scarce foreign exchange and adds to current account pressures. Fertilizer in Malawi is either completely produced abroad or predominantly from imported inputs with little value added domestically. Spending on fertilizer through the AIP thus directly increases the current account deficit and requires a large amount of foreign exchange. At the same time, the AIP incentivises Malawians to grow maize for domestic consumption, which competes for the same inputs as potential agricultural commodity exports. In addition, without external financing for the program, the external balance pressures are immediate.

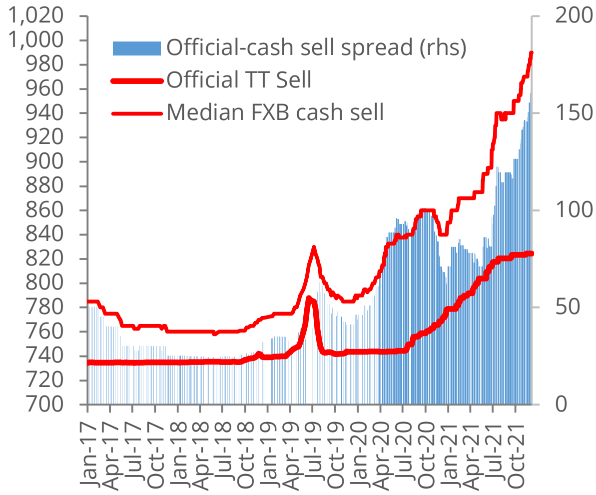
This means that the RBM needs the Government to play its part when it wants to influence the foreign exchange market. Vice versa, if the Government wants to alleviate downward pressures on the exchange rate and catalyze private investment, it needs to reduce its deficit and procure foreign grants and concessional foreign finance.

Kwacha depreciation has slowed, despite heightened concerns about foreign exchange availability

34. The depreciation of the Malawi kwacha has slowed in recent months, despite heightened concerns about foreign exchange availability. The RBM kwacha rate (for telegraphic transfers (TT) through which most foreign exchange transactions are carried out) has gradually depreciated by 10.7 percent since July 2020, although the pace of depreciation has slowed since August (Figure 18). However, since August, the spread with foreign exchange bureau (FXB) cash rates has surged to the highest levels in recent years. This coincides with heightened concerns in the private sector about foreign exchange availability as an impediment to doing business. This reflects additional room for balancing foreign exchange supply with demand. However, the allocation of foreign exchange for official sector priorities, such as fertilizer and fuel, increases distortions in the market by limiting the availability of scarce foreign exchange for private sector priorities, including imported capital inputs and supplies, which can weigh on growth and, subsequently, the ability to generate further foreign exchange. In light of concerns about limited foreign exchange supply, in August 2021, the RBM re-instated the mandatory sale of 30 percent of the foreign exchange from export proceeds. The policy is intended to increase the availability of foreign exchange, but it could also increase incentives for exporters to keep foreign exchange offshore.

Figure 18: Kwacha depreciation slowed but spreads with cash rates have increased...

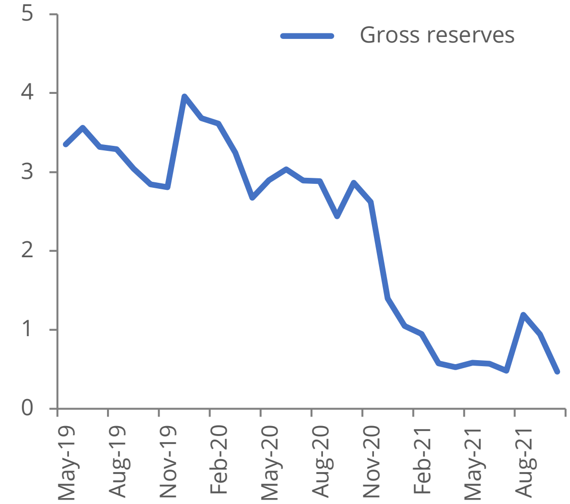
RBM telegraphic transfer (TT) and forex bureau (FXB) cash K/ US$ rates and spreads through Dec 10



Source: World Bank staff calculations based on RBM data

Figure 19: ...while reserves have declined

Official gross reserves, months import cover



Source: World Bank staff calculations based on RBM data

35. Official foreign exchange reserves have continued to decline, despite the allocation of IMF SDRs in August. Reserves have been affected by low inflows during the pandemic and the IMF's SDR allocation of US$ 188.7 million in August only provided a short-lived boost. RBM's official gross reserves have declined over the year to US$ 395.5 million as of mid-November, around 1.6 months of import cover (Figure 19). Gross reserves continue to be supported by substantial swaps and medium-term borrowing facilities.[3] Apart from IMF financing, much of this is at commercial terms, which raises questions about the sustainability of supporting the exchange rate and Government priority imports. With net reserves negative and declining, RBM foreign exchange sales have slowed considerably in 2021 – through October, they have dropped by about 78 percent from the same period in 2020. While the depreciating exchange rate will increase imported inflation and the levels of foreign borrowing in kwacha, it should also gradually help increase export competitiveness and reduce the trade imbalance.

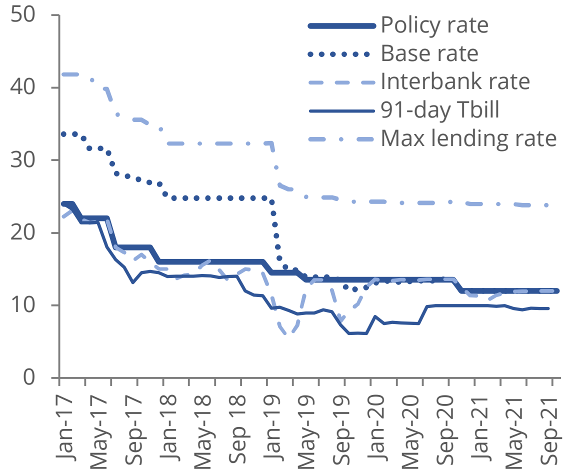
The Monetary Policy Rate has been maintained, amidst tight liquidity

36. The Monetary Policy Committee (MPC) has maintained its key policy rate since November 2020 (Figure 20). The MPC maintained the policy rate at 12 percent in its November 2021 meeting, noting that inflationary pressures were mounting, but that sources were largely exogenous and largely supply-side factors, and there were no imminent threats of double-digit inflation. Liquidity conditions were tight in the third quarter of 2021, with banks increasing utilization of the Lombard facility, and inter-bank rates closely tracking the policy rate. Nonetheless, despite a surge in Government borrowing, yields have increased only moderately since mid-2020 (Figure 21).

[3] RBM's 2020 Financial Statement, for example, discusses how RBM entered into a US$ 450 million direct note purchase facility with the Afrexim Bank in June 2020.

Figure 20: The policy rate has been maintained since November 2020

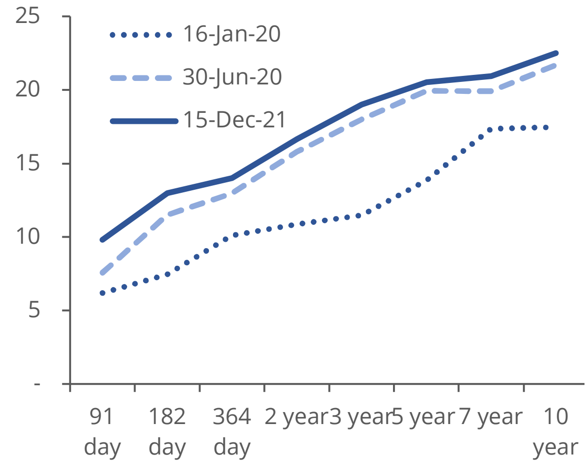
Percent



Source: World Bank staff calculations based on RBM data

Figure 21: Government borrowing yields have increased moderately since mid-2020

T-bill & T-Note interest rates, percent



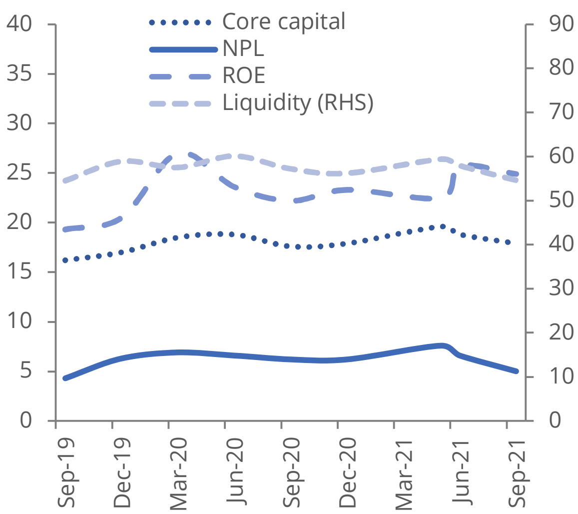
Source: World Bank staff calculations based on RBM data

Banking sector remains resilient

37. Malawi's banking sector continues to weather the challenges posed by the COVID-19 pandemic. Strong overall core capital and a drop in non-performing loans (NPLs) in 2021 highlights the stability of the banking sector at a time when COVID-19 was negatively impacting the private sector. The return on equity (ROE) peaked at 24.9 percent in September 2021, far above the 15 percent prudential requirement benchmark. Liquidity remained at a healthy level – varying between a peak of 59.4 in May and a trough of 54.6 in September 2021. A deterioration in asset quality, measured by the ratio of NPL to gross loan ratio, in the first part of 2021 up to May has since started to reverse (Figure 22). The wholesale and retail trade sector continues to dominate NPLs, followed by community, social and personal services sector and agriculture, forestry, fishing and hunting sector.

Figure 22: NPLs have declined since May 2021

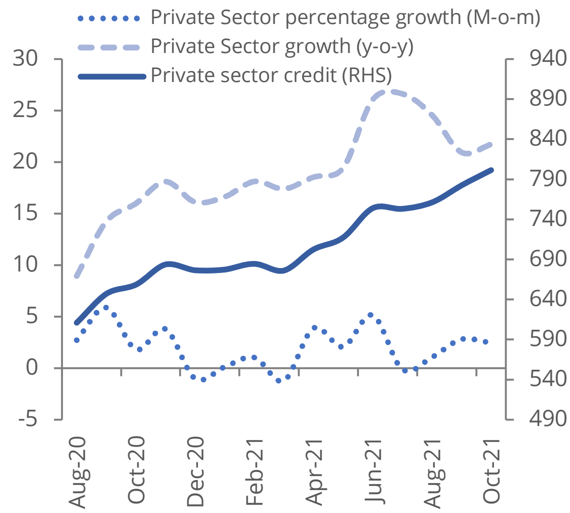
Kwacha (bn)



Source: World Bank staff calculations based on RBM data

Figure 23: Private sector credit growth has continued

Growth-percent, and PSC-Kwacha (bn)



Source: World Bank staff based on RBM data

Box 5: Performance on non-bank mobile payments and bank based digital payment channels

Both the non-bank mobile payment system and bank based digital payment channels have continued to support private sector players in 2021 during the period of the COVID-19 pandemic. This box outlines recent developments in the sector and how it can continue to support growth.

(a) **Non-Bank Mobile Payments:** The number of registered mobile money subscribers grew by 7.5 percent over the level in June 2020, to 9.3 million as at June 2021. While that is the case, there was a slowdown in the usage of the mobile money services as the 90-day activity rate for mobile money subscribers dropped to 56.1 percent in June from 73.3 percent in March. This was due to reduced activity from subscribers who had only been active mobile money users to access social cash transfer programs, and disengaged once the supporting programs wound up. In addition, the number of mobile money agents rose by 36.9 percent from the first quarter of 2021 to June 2021. There was, however, a slight drop in the proportion of agents who were active over a 90-day period from 74.7 percent in March of the same year to 71.2 percent (82,190 agents) in June 2021.

(b) **Bank Based Digital Payment Channels:**

- **Internet Banking**: The total number of subscribers for internet banking services rose by 8.4 percent to 268,259 in the second quarter of 2021. Similarly, during that period, the volume and value of transactions increased by 17.8 percent and 10.6 percent to 778,823 and K1.1 trillion.
- **Mobile Banking Services:** The total number of mobile banking subscribers rose by 5.3 percent to 1.12 million during the period under review. The volume of transactions declined by 4.0 percent to 7.4 million whereas the value of transactions increased by 21.2 percent to K235.1 billion during the same period.
- **Point of Sale Services:** Despite a decline of Point of Sales (POS) terminals deployed across the country by 1.7 percent to 2,866 during the second quarter of 2021, usage of the same increased as both the volume and value of POS transactions rose by 19.3 percent and 29.7 percent, respectively.

The non-bank mobile payment system and bank based digital payment channels can continue to play a strong role in a conducive policy environment. First, non-bank mobile service providers should be encouraged to incentivize their agents to remain active. They should, for instance, be empowered to maintain sufficient liquidity to meet customer transaction demands. In addition, more effort should be placed on digital financial literacy and consumer protections that aim to raise confidence in the user base. Finally, the cost of digital finance services should be reduced by considering the fees charged and areas of taxation in the sector.

Source: RBM Second Quarter National Payments Report

38. Private sector credit has expanded in 2021. Despite the COVID-19 pandemic, private sector credit has been on a positive trend in 2021 (Figure 23). Year-on-year, credit has increased rapidly, growing by an average of 24 percent in nominal terms between June and October 2021, and about 17 percent in real terms. Compared to the levels in October 2020, the growth in private sector lending is on account of increased lending to mining and quarrying sector at 147.4 percent, community, social, and personal services sector at 127.6 percent; restaurants and hotels sector at 47.1 percent; and construction sector at 46.4 percent. Notably, there was no significant growth in lending to manufacturing sector, wholesale and retail trade sector, real estate sector and agriculture, forestry, fishing and hunting sector.

39. Digital finance services (DFS) played a key role in supporting the private sector during the year. Relative to the first quarter of 2021, retail DFS transactions registered an improved performance as both the volume and value of transactions rose by 26.2 percent and 19.2 percent to K181.7 million and K2.3 trillion, respectively. Further analysis shows significant improvements compared to a similar period in 2020. This is evidenced by a stock volume increase of 81.1 percent whereas the value increased by 51.4 percent in June 2021.

1.3 Medium Term Economic Outlook

40. Global growth is projected at 4.9 and 3.6 percent in 2022 and 2023, respectively, highlighting how the post-pandemic rebound is expected to slow gradually. Inflation pressures are likely to subside as the global economy gradually rebalances and supply chain disruptions subside. However, these forecasts are subject to significant adverse risks. Growth is at risk of further waves of COVID-19 and due to new variants, premature withdrawal of monetary and fiscal support, and potentially heightened macroeconomic volatility that could arise when global financial conditions tighten. Supply-demand mismatches could persist, potentially due to another wave of COVID-19 cases, which could contribute to sustained elevated inflation. This could raise inflation expectations, which would risk creating self-reinforcing cycles of inflation and inflation expectations which are difficult for policy makers to counteract.

41. Malawi's economic growth is projected to pick up further to 3 percent in 2022, although at this level, per capita incomes will still stagnate. This growth is expected to be driven by continued gradual recovery in services and manufacturing, the sectors benefiting the most from the country opening up after COVID-19 restrictions ease, and the fiscal expansion. However, agriculture sector growth is expected to decline following the one-time boost from AIP contributing to 2021's strong harvest. AIP is expected to, at best, maintain maize production levels and it will not help diversify growth.

42. Even this modest growth is exposed to significant downward risk, largely reflecting structural issues and macroeconomic imbalances. Despite projections of normal to above-normal rainfall for the 2021/22 agricultural season, Malawi is still highly vulnerable to weather-related shocks. As such, the risks of losing the considerable public expenditure on AIP with a drought will increase by the year, which, at best, would hold maize production constant. The program comes with very high opportunity costs, diverting resources from much needed investment to support economic diversification, and governance issues may weaken the effectiveness of the second round of the program. Additionally, external shocks, such as high global energy prices, the fourth wave of COVID-19 cases and potential for new waves and variants of COVID-19, and potential transport disruptions, pose additional risks to the Malawian economy. Human capital losses induced by the pandemic may further weigh on longer-term growth.

43. Rising macroeconomic imbalances are increasing the risks to growth. Public debt continues to surge upwards, thereby increasing interest rates, which reduces the ability of the private sector to invest in diversification. High fiscal deficits are expected to continue, which will only worsen this condition. At the same time, limited foreign exchange is increasingly a key constraint for the private sector. Scarce foreign exchange is being prioritized for goods such as fuel and fertilizer, thereby subsidizing consumption. Significant and increasing commercial borrowing to bolster the exchange rate increases the risks of a stop of external financing, which would have adverse implications on growth and macroeconomic stability. Both issues heighten concerns about the sustainability of debt and increase the dependency on external financing.

44. Inflation has returned to double digits and faces upward risks. Global oil prices are expected to continue rising and the consequent increase in domestic fuel prices would spillover to higher prices for other goods and services, which has already occurred with the recent 28 percent adjustment of fuel. Continued kwacha depreciation would also increase imported inflation, considering the high dependence of imported raw materials for production and other consumption goods.

45. With tobacco exports expected to decline in the medium term, Malawi needs to diversify its export base. Other potential cash crops, such as soya and macadamia nuts, are still far from reaching levels similar to tobacco. Additionally, a more flexible exchange rate regime would allow for prices that incentivize exports. Supportive policies are also needed, including avoiding unpredictable export restrictions and heavy-handed administrative measures. Together, these policies would allow for increased investments in productivity. The mining sector is also often portrayed as promising. However, most projects in the sector are still in the feasibility-study stages, and as such, some may not materialize. Those that do will take some more years to reach higher production levels. The mining sector also does not play into Malawi's primary global competitive advantage: the abundance of motivated, young workers.

46. High and increasing fiscal deficits will continue pushing up debt levels which will increasingly reduce fiscal space to invest in growth and diversification. The Government's expansionary fiscal policies of decreasing taxes while increasing recurrent and development expenditure are worsening an already dire debt situation. This will continue to increase debt service as a share of revenue, further reducing fiscal space to invest in development. The Government substantially increasing the take home pay of civil servants with two PAYE reductions, combined with a nominal increase in wages that was above inflation, has also heightened the fiscal crisis. Moreover, continuing the AIP in its current form will continue to subsidize consumption instead of investment in economic diversification. In doing so, it strains the fiscal deficit and increases domestic debt, while also exerting pressure on imports and scarce foreign exchange, particularly given increasing international fertilizer prices. The fiscal situation is being exacerbated by optimistic revenue assumptions, which lead to poor budget decisions and inflated expenditure ceilings, thereby contributing to revenue shortfalls and further increasing fiscal deficits.

47. Public debt levels will also remain high in the medium term, increasing debt vulnerabilities. While financing of fiscal deficits has contributed to a rise in domestic debt, recent increases in external borrowing and exchange rate depreciation are also increasing foreign debt. Also, taking into consideration associated high debt servicing and limited export growth, public debt vulnerabilities will remain elevated without a substantial fiscal adjustment.

48. While a substantial external imbalance is expected to continue, this will depend on the availability of foreign financing. Any imports exceeding exports need to be financed by foreign grants, foreign loans, or the drawdown of deposits. Historically, Malawi has predominantly relied on foreign aid to support its external balance. However, reductions in aid flows to Malawi could result from the need for development partners to address their own domestic issues.

Bold reforms are needed to strengthen growth and support macroeconomic stability

49. The Government needs to address key challenges to support economic growth and stability. This includes making further progress with vaccinations to control the COVID-19 pandemic and addressing macroeconomic imbalances to create a stable foundation for growth. Malawi needs to prioritize fiscal policies that rationalize expenditure and increase revenues to reduce fiscal deficits and stabilize debt levels. Over the medium term, the country needs to promote agricultural commercialization, economic diversification, and private sector led growth. For Malawi to become an upper middle-income country by 2063 with the new vision "Malawi 2063", it will need to accelerate economic growth to double digits, which would necessitate drastic structural shifts and private sector led growth. Bold reforms are needed in three key areas:

1) Supporting COVID-19 containment and investing in human capital are key priorities for inclusive recovery.

- **Malawi needs to secure access to vaccines and accelerate the vaccine rollout across the country to reduce vulnerability to COVID-19.** Achieving high vaccination coverage is the most effective way to prevent illness from the virus, promote economic recovery, and save lives. A higher vaccination coverage and documented immunization will create opportunities to revive economic activity, especially in tourism and service sector hit hardest by the COVID-19 pandemic. In addition, an increased vaccination rate can help the Government keep schools open and create safe classroom environments. This will enhance access to learning and education for students impacted by school closures.

2) Stronger economic management is needed to return the debt trajectory to a sustainable path and to support the macroeconomic stability that is needed for growth.

- **With fiscal deficits increasing and debt levels accelerating, the Government needs to take bold steps to rein in expenditure.** Higher expenditure for wages, the AIP, debt service, and a surge in development spending, as well as for pandemic response, are contributing to higher deficits and increasingly problematic debt levels. Malawi has critical spending needs across a range of sectors, and to reduce fiscal deficits will require strengthening budget planning and focusing expenditure where it can achieve the most impact. This will call for prioritizing expenditure in a sustainable medium-term fiscal framework, based on realistic revenue and grant assumptions. Difficult economic policy decisions have sometimes been delayed in the past (see, e.g., World Bank Country Economic Memorandum 2017 [Record, R., Kumar, P., Kandoole, P. 2018]), but the Government will need to make hard decisions already in the FY2022/23 budget. The country needs to strengthen momentum on reforming subsidy policies, by cutting blanket fertilizer subsidies and reallocating resources to support the most vulnerable through well-targeted social safety net programs, which are more efficient and effective to achieve poverty reduction. Wage increases need to be considered in light of fiscal sustainability. High levels of development spending should undergo rigorous cost benefit analysis to ensure projects justify high borrowing costs. Over the medium term, it will be important to balance strengthening revenue mobilization with implementing policies to support private sector growth. Improving tax compliance is a key priority to strengthen revenue potential. It requires both improving Government's tax collection capacity as well as increasing the taxpayer's inclination to comply through better communication and tax administration services.
- **Strengthening governance measures will also be critical, including continuing public financial management (PFM) reforms and improving oversight of SOEs to reduce fiscal risks.** This would include ensuring the new IFMIS is fully utilized to reduce manual transactions and ensuring commitment controls. In addition, there is a strong need to reduce the fiscal risks posed by SOEs by continuing with efforts to ensure compliance with financial reporting and audits, as well as carrying out aggregate analysis of the fiscal risks posed by SOEs. This should include close oversight of debt contracted by SOEs and RBM.
- **Increasing exchange rate flexibility can support competitiveness and help improve the external balance.** While kwacha flexibility has increased in the last year, private sector concerns about queues for foreign exchange have increased, while efforts to defend the currency have increased external financing vulnerabilities. These concerns could be offset by increased exchange rate flexibility, which could further help rebuild foreign exchange reserves. Ensuring a more market driven access to foreign exchange can help ensure optimal use of limited foreign exchange, instead of subsidizing consumption.
- **Broader efforts to control prices can be costly and inefficient**. This is true for the exchange rate as much as for other prices, such as energy and fertilizer. Allowing prices to be determined more by markets would help goods to be used more efficiently and could also free up more resources to protect the vulnerable.

3) Promoting agricultural commercialization, economic diversification, and competitiveness is critical to improve trade balance and spur economic development.

- **Agricultural commercialization and diversification will be critical to support increased incomes.** The Malawian economy is heavily dependent on agriculture production, which is concentrated on a small number of crops and vulnerable to climate-related shocks. Close to 80 percent of the population relies on rain-fed smallholder agriculture for their livelihoods. Diversification of crops and further investment in new sources of growth, such as digital infrastructure and services, will help to manage volatility and provide a more resilient path for economic development. Malawi needs to rebalance spending away from fiscally unsustainable maize input subsidies and towards investment that promotes diversification and growth. Subsidies need to be affordable, more cost-efficient, and with lower fiscal risks. Targeted cash transfers to the most vulnerable, on the other hand, could more efficiently address food insecurity and reduce poverty. In addition, growth in commercial agribusiness sector requires predictable and transparent trade policies that encourage investment and export-oriented business models. As such, a sound implementation and monitoring framework of trade measures under the Control of Goods Act would help safeguard food security and balance this with increasing export potential, as well as development of regional and global value chains.
- **Policies to promote diversification outside of agriculture will be critical to promote structural transformation and job creation.** Expanding access to reliable electricity will be critical to support value addition. The Government should also review and revise tax policies and business regulation to increase transparency, reduce ad hoc changes, and to support value addition. In addition, reducing Government borrowing will be key to help ease pressure on interest rates, which will help enable broader access to finance.

2. Reducing Gender Gaps in Economic Opportunities is Key to Unlocking Malawi's Full Inclusive Growth Potential

Promoting gender equality is a key development agenda in Malawi, but gender gaps persist across several economic dimensions. In addition, the pandemic has disproportionately affected businesswomen and female-headed households in Malawi and exacerbated pre-existing inequalities. As the country pursues an inclusive and resilient economic recovery, it must aim to reduce the many barriers that women continue to face. This entails increasing access to equal pay, business opportunities, and the key inputs required to increase female agricultural productivity. It also involves addressing several of the core factors which hamper women's human capital accumulation.

50. Promoting gender equality is a central development agenda in Malawi, but gender gaps persist across several economic dimensions. According to the 2021 World Economic Forum Gender Gap Report, women in Malawi continue to be disadvantaged across several areas of economic participation: Malawi ranks 111 out of 151 countries included, and is behind other countries in SSA (World Economic Forum 2021).[4] Moreover, women continue to struggle across several areas related to economic opportunities: female wage workers earn about 64 cents for each dollar earned by men, and women entrepreneurs' firm sales are below those of male entrepreneurs (World Bank, Forthcoming).

51. Gender disparities in agricultural productivity are wide, which puts a significant burden on the economy. Malawi is among the top 15 economies most dependent on agriculture. In 2017, agriculture contributed 26 percent of the country's GDP (ibid); and around 59 percent of employed women and 44 percent of employed men were working in agriculture (National Statistical Office of Malawi and ICF. 2017). However, large gender productivity gaps remain, and plots managed by men produce an average of 25 percent higher yields than plots managed by women. Estimates suggest that closing the gender gap in agricultural productivity in Malawi could lift more than 238,000 people out of poverty and increase the country's total GDP by 2.1 percent (UN Women, UNDP, WB, UNEP 2015; Kilic et al. 2015; Goldstein et al. 2015).

52. The COVID-19 pandemic has further widened economic gender gaps. While 84 percent of businesses witnessed an average decline of 36 percent in sales of their products at the end of 2020, it was more pronounced among female-owned firms; female-led firms experienced an average decline of 40 percent, compared to around 35 percent among male-owned firms (Avalos et al. 2021). In May 2021, 56 percent of female-headed households had reported reductions in their total income, compared to 40 percent of men (National Statistical Office of Malawi 2021).

53. Giving women equal opportunities in the workplace and eliminating the pay gap, can drive inclusive growth. The gender gap in hourly wage inequality in Malawi is higher than the average worldwide and is above that of several low-income countries (ILO 2018). Female labor force participation (FLFP), at 72.5 percent, is high, but this masks the many significant challenges women workers in Malawi continue to face: average weekly hours worked, at 17, are low (and lower for women than for men) (Gross, Muller, 2021). Diminishing gender wage gaps are associated with increases in GDP (ibid). Moreover, a 25 percent reduction in gender gaps in labor market participation is estimated to increase global GDP by 3.9 percent by 2025 (ILO 2017). In SSA, a 25 percent reduction in gender gaps in the labor market is expected to lead to 2.2 percent GDP growth by 2025 (ibid).

54. Ending child marriage, reducing fertility, increasing educational opportunities and amplifying female voice and agency are also key to increasing women's economic empowerment. The Gender Parity Ratio in Malawi, which is the ratio of school enrollment for male

[4] The composite indicator of the Economic Participation and Opportunity Index of the World Economic Forum Gender Gap report includes labor force participation, wage inequality, estimated earned income, percent women legislators, percent senior officials and managers, and percent women who are professional and technical workers.

and female students, is at 84 percent for secondary enrollment (World Bank, Forthcoming). Likewise, the country has one of the highest rates of child marriage in the world, with half of girls married before their 18th birthday. Low levels of educational attainment and high levels of child marriage are associated with decreased levels of human capital accumulation, which affects women's school-to-work transition and hampers their ability to participate in the workforce (Awokuse and Ogundari, 2018; Wodon et al, 2017). In addition, literature suggests that high rates of fertility have a profoundly negative effect on female labor force participation. The direct effect is concentrated among the 20-39 years age group (Bloom et al, 2007).

55. To realize Malawi's full potential and boost economic development, Malawi must invest in improving women's economic opportunities. This requires a wide-ranging, comprehensive approach, which addresses several of the core issues that affect women's ability to participate and perform well in the labor market. The Government should promote initiatives to boost the work prospects of adolescent youth, strengthen women's management of financial resources, and advance the agenda to eliminate child-marriage. In addition, it should enhance women's access to reproductive health services to reduce fertility, take a multi-pronged approach to ending GVP and IPV, offer women access to more productive labor and inputs to boost their agricultural capacity, and provide socio-emotional and professional training aimed at bettering women's business and life skills.

The COVID-19 pandemic has worsened the economic conditions of women in the country

56. The impact of the pandemic has been more severe on female-owned companies than on male-owned companies. The Business Pulse Survey in Malawi found that 84 percent of businesses in November–December 2020 experienced a decline in sales relative to the same period in 2019. Moreover, compared to male-owned firms, female led firms had a larger decline in sales compared to male-owned firms, had a more pronounced decrease in operating hours, and could cover fewer weeks of operating costs with their available cash/external finance (Avalos et al. 2021).

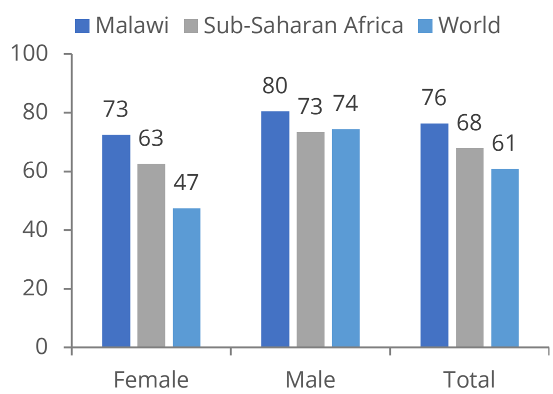
57. Similarly, in SSA, the economic effects among women-owned businesses were worse than among those owned by men. Facebook's COVID-19 Future of Business Survey found that the business closure rate as of May 2020 in SSA was 43 percent for those businesses owned by women, compared to 34 percent for those owned by men (Goldstein, Martinez, et al, 2020). For women, business shutdowns were associated with school closures, highlighting the additional impact that childcare responsibilities exert on women's economic opportunities. The survey also found that consumer-facing sectors in SSA experienced a more severe demand shock from the pandemic; this is relevant to the gender gap in Malawi, as 93 percent of women's businesses sell to final consumers, compared to 87 percent of men's businesses (World Bank, Forthcoming).

58. The Malawi World Bank High Frequency surveys suggest that COVID-19 has deeply affected the economic resilience of female-headed households. In May 2021, 56 percent of female-headed households had reported reductions in their total income, compared to 40 percent of men (National Statistical Office of Malawi 2020-2021). Moreover, in May 2021, compared to men, female-headed households had found it more difficult to recover their income from non-farm family businesses and wage employment. Likewise, COVID-19 has increased food insecurity among female-headed households; in June 2021, almost 60 of female-headed households reported being worried about running out of food in the last month, in contrast to almost 40 percent of male-headed households.

Women in Malawi continue to face numerous barriers to access economic opportunities

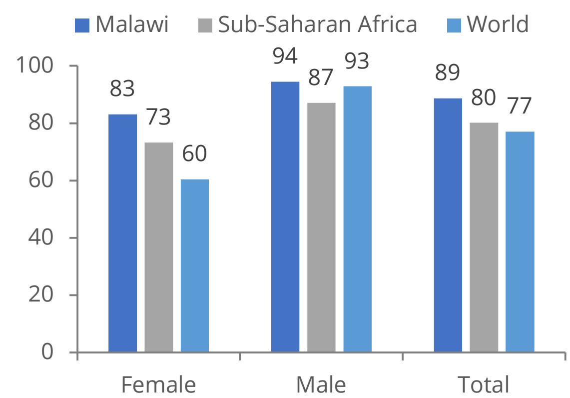
59. Although the country has elevated FLFP rates,[5] the average hours worked are low. In Malawi, total labor force participation (LFP) is 76.3 percent; FLFP is 72.5 percent and MLFP is 80.4 percent (Figure 24).[6] These are higher than the global estimates, and the estimates for SSA: LFP in SSA is 67.9 percent, FLFP participation in SSA is at 62.6 percent, and MLFP participation is at 73.3 percent. Globally, LFP is 60.9 percent, MLFP is at 74.3 percent and FLFP is at 47.4 percent. Around 88.7 percent of the population aged 25-34 in Malawi is in the labor force, higher than the estimates of 80.2 percent of the population in SSA and 77 percent of the global population (Figure 25). However, although LFP is high, on average, a working person works only 17 hours a week (Gross et al. 2021).[7] Moreover, women work significantly fewer hours than men: men work an average of 20 hours, whereas women work an estimated 14 and significant gaps in LFP between women and men in Malawi persist (ibid).

Figure 24: Labor Force Participation Rate in 2019
Percent



Source: Own elaboration using ILO Model Estimates retrieved via ILOSTAT

Figure 25: Labor Force Participation Rate in 2019; ages 25-34
Percent



Source: Own elaboration using ILO Model Estimates retrieved via ILOSTAT

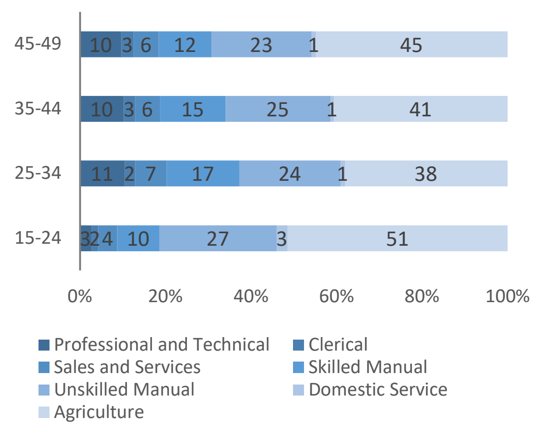
60. The high rates of FLFP mask significant challenges women in Malawi continue to face across several economic dimensions. While FLFP is high, the quality of the participation is below that of men across several indicators. Moreover, gender gaps persist across numerous areas of the economy. These include gender gaps in agricultural productivity, wage-work, women entrepreneurship, as well as several operational challenges that businesswomen continue to struggle with. These challenges are fleshed out below.

61. Gender disparities in agricultural productivity are wide. Malawi is one of the world's 15 national economies most dependent on agriculture. In 2017, agriculture contributed 26 percent of the country's GDP (World Bank, Forthcoming). Around 59 percent of employed women and 44 percent of employed men participated in agriculture; around 54 percent of those women employed and aged between 25 and 34 participated in agriculture, compared to 38 percent of men (Figures 26 and 27). Plots managed by men produce an average of 25 higher yields than plots managed by women. The gender gap in agricultural productivity is driven by a series of factors: women have unequal use of land

[5] The labor force comprises all persons of working age who furnish the supply of labor for the production of goods and services during a specified time-reference period. It refers to the sum of all persons of working age who are employed and those who are unemployed.
[6] The LFPR displayed by the ILO differ slightly from those in the Malawi 2019-2020 LSMS. According to the 2019-2020 LSMSJS, labor force participation is at 80.2 percent for men, compared to 71.9 percent for women (LSMS 2019/2020; Gross, Muller, 2021).
[7] Total hours are calculated by summing the hours worked in agricultural activities, fishery activities, wage jobs, unpaid apprenticeships, ganyu labor, non-agricultural businesses and others.

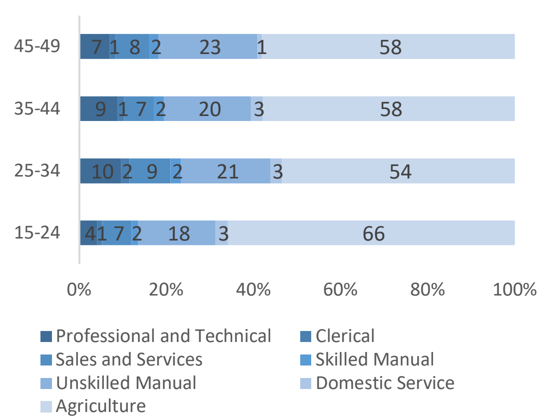
inputs, lower access to farm labor, inferior access to improved agricultural inputs and technology, and lower participation in the cash crop/export crop value chains (ibid).

Figure 26: Malawi; Men – ages 15-49 employed in the 12 months before survey
Percent



Source: Own elaboration using National Statistical Office of Malawi and ICF. 2017.

Figure 27: Malawi; Women – ages 15-49 employed in the 12 months before survey
Percent



Source: Own elaboration using National Statistical Office of Malawi and ICF. 2017.

62. **Likewise, women wage workers receive lower pay than men.** The latest LSMS (Living Standard Measurement Study) data for Malawi shows that 9.6 percent of the labor force was engaged in wage, salary, or commission activities (Malawi LSMS 2019-2020). The mean gender pay gap or monthly earnings between men and women is 36.2 percent. In other words, women wage workers earn about 64 cents for each dollar earned by men. Moreover, of currently married women, only 30 percent are paid in cash, compared to 61 percent of men (National Statistical Office of Malawi and ICF 2017). The gender gap in hourly wage inequality in Malawi, at 50.8 percent, is higher than the average of 36 percent worldwide, and higher than it is for several low-income countries (ILO 2018).[8]

63. **Moreover, women entrepreneurs' firm sales are 45 percent less than those of male entrepreneurs.** Drivers of the gender gap in firm sales include women's lower use of agricultural savings as start-up capital, potentially highlighting a knock-on impact of women's lower agricultural productivity and other areas of the economy; and firms led by male entrepreneurs are more likely to hire workers from outside the household and pay them higher wages (World Bank, Forthcoming).

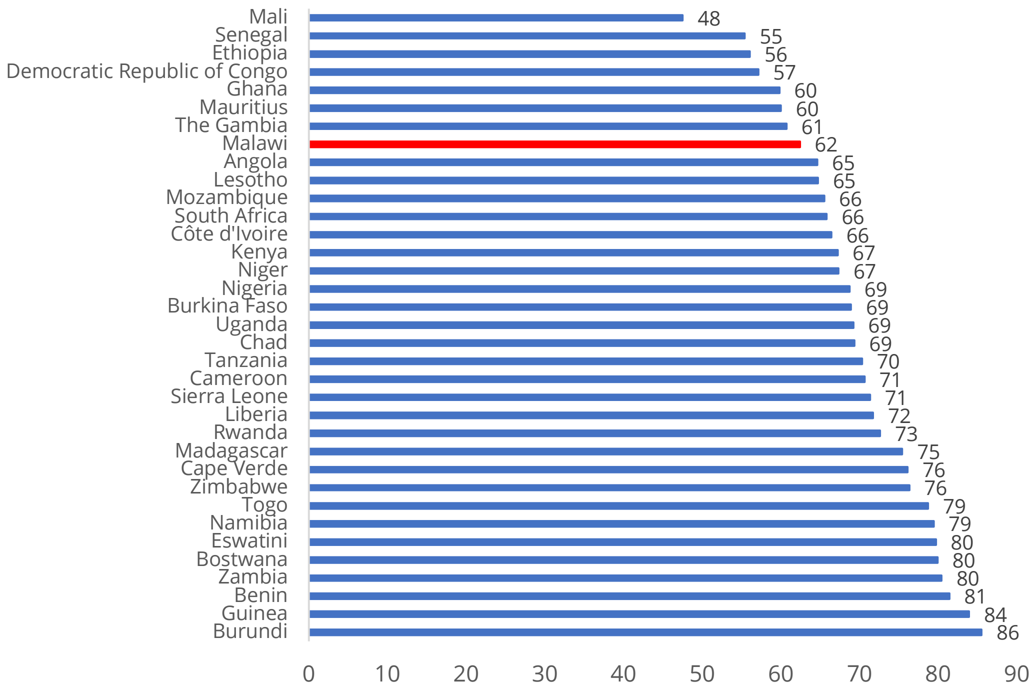
64. **Furthermore, women entrepreneurs continue to face gender-related operational barriers in running their businesses.** Women entrepreneurs are usually restricted from working in non-traditional locations, like their house, market, roadside, industrial or commercial sites, because of domestic responsibilities and concerns regarding personal safety. Male entrepreneurs enjoy greater flexibility and mobility in work locations, which gives them the capacity to grow their business network and tap into broader market opportunities (ibid).

65. **In aggregate, Malawi is significantly lagging other countries in several indicators related to women's economic participation.** According to the 2021 World Economic Forum Gender Gap Report, in the Economic Participation and Opportunity Index, which aggregates gender gaps across several core indicators, Malawi ranks 111 out of 151 countries (World Economic Forum, 2021). The composite indicator includes labor force participation, wage inequality, estimated earned income,

[8] The report draws survey data on wages from 64 countries which, together, reflect the wage distribution from some 75 percent of the world's wage employees. The gender wage gap in hourly wage is calculated using the Gini coefficient, which summarizes the relative distribution of wages in the population, with lower values (closer to zero) indicating lower levels of inequality and higher values (closer to 100) indicating higher levels of wage inequality.

percent women legislators, percent senior officials and managers, and percent women who are professional and technical workers. The country is lagging significantly behind other countries in the region and is below the average for SSA. (Figure 28).

Figure 28: Economic participation and opportunity index among select countries in SSA
Index



Source: 2021 World Economic Forum Gender Gap Report.

Women's economic opportunities are directly hampered by constraints to their human capital accumulation

66. Child marriage remains high across the country, which constrains women's ability to participate in the workforce. The country has one of the highest rates of child marriage in the world, with half of girls married before their 18th birthday (MoGCDSW 2014). Women in urban areas marry later than those in rural areas, and women in the Central region marry at a slightly later age than those in the Northern and Southern regions (World Bank, Forthcoming). Child-marriage affects human capital accumulation because it hampers the school-to-work transition: women who marry young in Malawi have lower levels of education (National Statistical Office of Malawi and ICF 2017). Likewise, the evidence suggests that child-marriage is associated with higher rates of childbirth, increased dropout rates, and decreased likelihoods of enrolling in secondary school (Wodon et al. 2017).

Box 6: Importance of fertility empowerment for human capital accumulation and the demographic transition

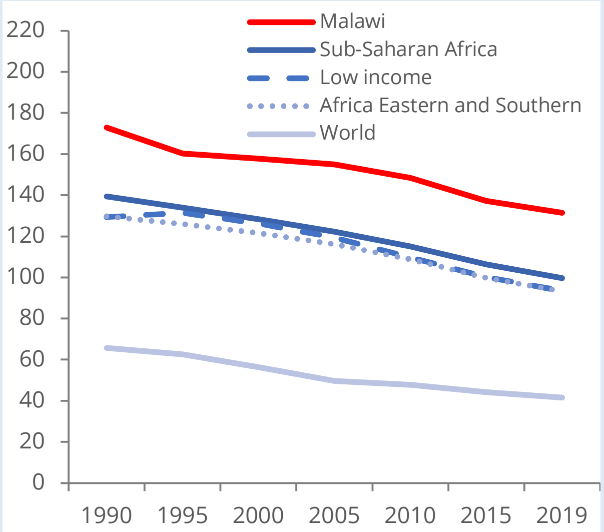
Malawi has made considerable progress in empowering women by reducing total fertility rates (TFR). In 1990, the country had a higher TFR than the average for SSA. However, in recent years Malawi has made rapid progress, and TFR has dropped from 5.9 to 4.1 births per woman between 2005 and 2019 and is now lower than the SSA average of 4.6. However, TFR remains high, especially among adolescents (Figure 29), and the total population is expected to double by 2038. Moreover, the dependency ratio, which measures the number of people outside of the working population (children under 15 as well as adults over 65) to the working population, is 1.2 (Malawi LSMS 2019-2020). In other words, the proportion of economically inactive population is higher than the working population.

Moreover, high adolescent fertility is associated with increased levels of school desertion and child marriage. This, in turn, leads to a growing population, which is not participating in the labour market, and puts pressure on the Government's ability to offer adequate provision of services. Early childbearing is also associated with increased complications during pregnancy and childbirth, which remains one of the leading causes of death among girls aged 15-19 in Malawi (World Bank, Forthcoming).

To address the high levels of population growth, and control high levels of fertility, national interventions must continue to focus on increasing the access to reproductive health/family planning services. They should also involve men in birth-spacing interventions and implement behavioural change campaigns aimed at increasing child spacing.

Figure 29: Adolescent fertility rate trends

Births per 1,000 women



Source: Gender Assessment of Malawi, 2021

67. There are deep gender gaps in literacy and secondary enrollment, which are tied to lower levels of employment and FLFP. Only 55 percent of women 15 years or older are literate, compared to 70 percent of men (Gross, Muller, 2021). Moreover, the Gender Parity Index (GPI) for secondary-school enrollment is 0.84 (World Bank, Forthcoming).[9] An analysis of the relationship between educational attainment and labor force participation across several countries in SSA found that educational attainment is positively associated with FLFP (Backhaus and Loichinger 2021). Moreover, a study in Ghana found that, among women, finishing four years of high school is associated with increases in the probability of having access to formal employment (Abekah-Nkrumah et al. 2019).

68. Women continue to struggle with limited voice and agency, which affects their economic activity and ability to participate in the workforce. The proportion of women experiencing physical violence was 34 percent in 2015-16 (National Statistical Office of Malawi and ICF 2017); 53 percent of ever-married women report their current husbands as perpetrators. Only 47 percent of women participate in decisions about visiting family, their own healthcare, and major household purchases. Furthermore, as of 2019, only 23 percent of members of parliament were female (World Bank, Forthcoming). Women's representation in Governments, at only 14.5 percent, remains even lower. GBV

[9] The Gender Parity Index (GPI) is a ratio of either the gross or net enrollment for male and female students. Gender parity is indicated by the GPI with a score of 1. A GPI below 1 indicates enrollment rates and environments which favor male students, while a GPI higher than 1 indicates enrollment rates and environments which favor girl students.

and IPV is associated with uneven intra-household gendered dynamics (ibid), which constraints women's ability to exert agency and hampers their capacity to seek out economic opportunities. The costs of tackling GBV also exerts a heavy financial drain on the economy, as evidenced by studies from Rwanda (Spence, 2020) and Mozambique (Tchamo et al. 2020).

Box 7: Women's Voice, Agency, and Social Norms in Malawi

The 2021 Poverty and Gender in Malawi background paper report, conducted as part of the Poverty Assessment for Malawi, offers a comprehensive overview of poverty and gender equality in the country across three, interrelated dimensions – endowments, economic opportunities, and agency. The report includes a section covering several indicators relating to women's agency, and its influence in helping end poverty gaps and boosting shared prosperity.

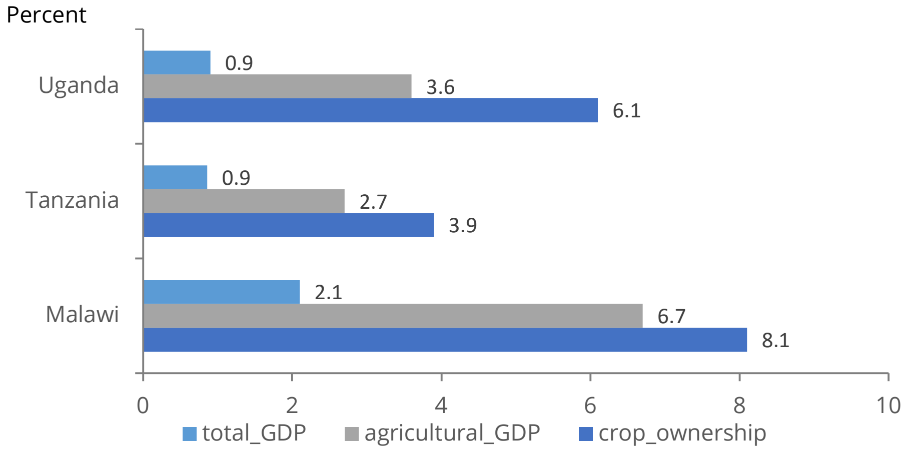
The findings show how Malawi continues to adopt cultural practices which reinforce gendered structures, put women at risk, and deprive females of their voice and agency. Some of the gendered practices covered in the report include polygamy, property grabbing (relatives deprive widows of their property once the husband dies), and ceremonies in which females are forced to undergo sexual activities against their will, especially as part of tribal rituals. This raises the need to increase Government interventions, with a strong component of behavioural change, to begin to disrupt some of the cultural norms that have contributed to weaving gender inequalities into the country's social fabric.

Source: Gross et al. 2021.

Increasing women's economic opportunities is key to strengthening the economy

69. Bridging the gender gap on agricultural productivity in Malawi can boost the country's GDP; and the foreseen impact in the country is higher than it is for other countries in SSA. According to the report entitled "The cost of the gender gap in agricultural productivity in Malawi, Tanzania, and Uganda" (UN Women, UNDP, UNEP, and World Bank 2015), it is estimated that closing the conditional gender gap in agricultural productivity could lift more than 238,000 people out of poverty in Malawi and increase agricultural GDP by 6.7 percent, and the country's GDP by 2.1 percent. This is higher than the rates for Tanzania and Uganda (Figure 30) (ibid and Kilic et al, 2015; Goldstein et al. 2015).

Figure 30: Increased percentage crop output, agricultural and total GDP, associated with closing the gender gap in agricultural productivity



Sources: Kilic, T. et al. 2015; UN Women, UNDP, WB, UNEP 2015.

70. Evidence suggests that reducing gender gaps in labor force participation can significantly increase the country's GDP. The ILO (2017) found that a 25 percent reduction in gender gaps in the labor market by 2025 is estimated to boost annual global employment by 189 million, increasing GDP by 3.9 percent (ILO 2017). In SSA, a 25 percent reduction in gender gaps in the labor market is expected to lead to 2.1 percent GDP growth by 2025 (Table 2) (ibid).

Table 2: Effects of reducing gender gaps by 25 percent across the world and specific regions by 2025

Country/region	Labor force		Employment		GDP
	Millions	Percent	Millions	Percent	Percent
World	203.9	5.4	188.6	5.3	3.9
Developing countries	7.8	7.8	2.1	7.1	2.0
Emerging countries	175.5	175.5	6.3	162.4	6.2
Developed countries	20.6	20.6	3.3	19.0	3.3
Northern Africa	11.4	11.4	13.0	9.1	11.8
Sub-Saharan Africa	11.1	11.1	2.2	10.1	2.1
Latin America & the Caribbean	17.4	17.4	5.0	15.8	4.9
Northern America	4.8	4.8	2.5	4.5	2.5
Arab States	7.8	11.8	6.0	10.2	7.1
Eastern Asia	27.3	3.0	26.2	3.0	2.5
South-Eastern Asia & the Pacific	15.9	15.9	4.1	15.0	4.0
Southern Asia	92.7	11.1	87.7	11.0	*9.2*
Northern, Southern & Western Europe	5.7	5.7	2.6	5.1	2.6
Eastern Europe	4.5	4.5	3.3	4.2	3.3
Central & Western Asia	5.3	5.3	6.6	4.8	6.5

Source: ILO 2017

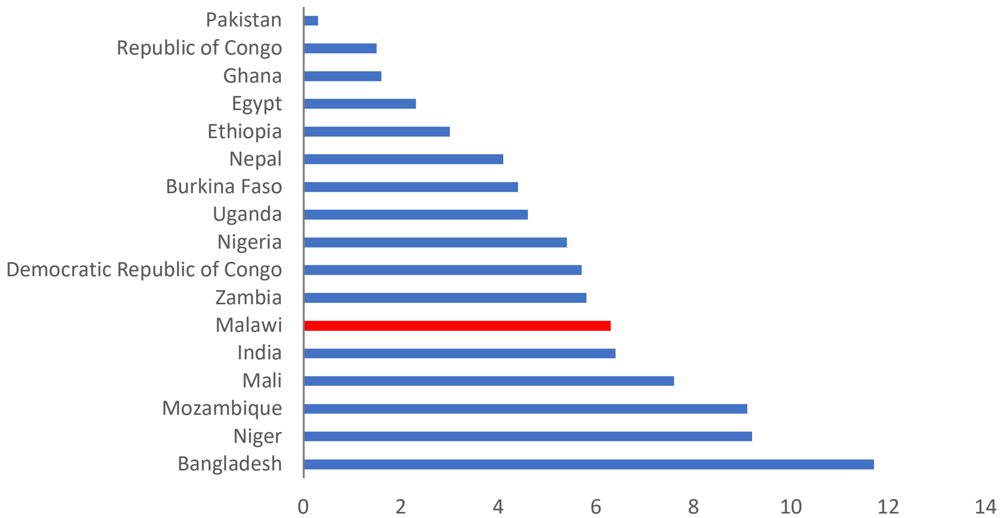
71. Likewise, diminishing gender wage gaps can have a sizable impact on a country's GDP. A 2019 study estimate from Ethiopia calculated the annual costs of ending the gender gaps in agricultural productivity, business sales, and hourly wages would amount to US$ 1.1 billion (1.4 percent of total GDP), US$ 1.1 billion (1.4 percent of total GDP), and US$ 1.5 billion (1.9 percent of total GDP), respectively (Buehren, Gonzales, Copley, 2019). Moreover, ending gender wage gaps is also linked with decreases in levels of domestic violence (Azier, 2010).

Boosting women's human capital is key to increasing their agency and economic participation

72. Eliminating child-marriage and reducing fertility and early childbirth can significantly increase women's performance in the workforce. Eliminating child-marriage helps remove the barriers behind the school-to-work transition, allowing women to integrate more seamlessly into the workforce. Child-marriage is associated with increased dropout rates, decreased likelihood of enrolling in secondary school, and higher rates of childbirth (Wodon, et al, 2017). In Malawi, projections suggest that the assumed gains in earnings from women marrying later – as mediated through increases in education and decreases in fertility rates – are at 10 percent (ibid).

73. Ending child marriage can also lead to substantial potential savings on the education budget. The potential education budget savings from ending child-marriage in Malawi are estimated at 6.3 percent by 2030. The model accounts for the impact of child marriage on population growth, the budget expenditure needed to cover universal secondary education, and the unit costs for each child of being in school (ibid). This is above the pooled average (5.4 percent) across countries included in the analysis, and above the percentage for several countries in SSA, including Ethiopia, Ghana, Uganda, and Zambia (Figure 31).

Figure 31: Potential education budget savings from the elimination of child marriage
Percent Share Saved by 2030



Note: Indonesia not shown because value not available.
Source: Wodon, et al. 2017

74. For women, getting married and having children is associated with lower levels of female labor force participation. A report by the International Labor Organization (ILO) and United Nations (UN) Women, looking at 84 countries, found that having children is associated with lower rates of FLFP (Gammarano 2020). In SSA, 92 percent of women living alone are in the labor force, compared to 80 percent of those living with a partner and children (Gammarano 2020). Men's participation in the labor force in SSA, on the other hand, does not vary based on family situation (ibid). This suggests that women are more likely to have to interrupt their work due to marriage and the increased caregiving responsibilities associated with having children.

75. Increasing women's secondary enrollment can have a significant effect on the country's GDP. An analysis covering pooled data from 35 countries in SSA from 1980 to 2008, found that a 10 percent increase in secondary enrollment across countries in SSA would result in a .46 percent increase in per capita GDP growth (Awokuse, Ogundari 2018). Moreover, in SSA, a 10 percent increase in a population's average years of schooling can lead to a .17 percent increase in per capita GDP growth (ibid).

76. Ending GBV also makes sense from a financial standpoint, as GBV initiatives are costly to the healthcare system, and to the economy. A study in Rwanda found that the Government costs of tackling GBV were at around $13 million (Spence 2020). Similarly, a study in Mozambique also found several economic costs associated with GBV (Tchamo et al. 2020). In Malawi, it is estimated that the judicial and healthcare expanses from domestic violence had a direct economic cost of around US$ 2.7 million in 2013 alone (MoGCDSW 2014).

Boosting women's economic opportunities requires a holistic approach

77. Expand interventions based on apprenticeship programs, which have shown positive effects on increasing employment and delaying child marriage. Although Malawi has elevated levels of FLFP among the youth (Figure 25), there is still a sharp gender divide, and women continue to face a series of issues across several economic dimensions. The Gender Innovation Lab (GIL) found that the Economic Empowerment of Adolescent Girls and Young Women (EPAG) program, which offered technical and life-skills training to young girls in Liberia, led to a 50 percent increase in employment among trainees (Adoho, Chakravarty et al. 2014). Similarly, a program which offered vocational training in Uganda – coupled with information on sex, reproduction, and marriage – found that treated communities were more likely to engage in income-generating activities and have lower levels of child-marriage and teen pregnancy (Bandeira, Buehren et al. 2018).[10]

78. Encourage policies to promote women's increased use of savings and better administration of personal finances. The evidence presented here suggests that the gender gap in firms owned by male vs. female entrepreneurs is, in part, explained by the fact that men are more likely than women to use saved earnings from agriculture for their start-up capital. This points to the need to expand interventions directed at increasing savings and improving women's management of personal finances. Evidence-based interventions to help achieve this include: a) introducing direct-deposit commitments – one such intervention in Cote d'Ivoire led to a 10 percent increase in productivity among participants (Carranza et al. 2018); b) supporting in-kind contributions to increase better use of money.[11] In the Democratic Republic of Congo (DRC), a hybrid microcredit and livestock asset transfer program resulted in 24.7 percent fewer loans, and subjective improvements in physical and mental health (Glass et al. 2017).

79. Provide females with socio-emotional and professional training to improve their business-and life skills. Evidence from the BRAC graduation program, which includes a strong component of skills training and capacity building, looks at interventions across six programs – including Ethiopia and Ghana – and found that the program resulted in increased consumption spending – 16.9 percent in Ethiopia and 6.9 percent in Ghana. Moreover, pooled estimates of per capita consumption across the six studies showed that the program increased consumption by 5.8 percent (IPA 2015). Likewise, in Togo, an impact evaluation on a standard business training program and personalized training on micro-entrepreneurs, found that women who received the personalized training increased profits by 40 percent, while those who received the business training increased earnings by 5 percent (Campos, Michael et al. 2017). Forthcoming results from a similar training program in Mozambique suggest that a business training program was also effective in increasing the agricultural productivity of women farmers. (Boxho et al. Forthcoming.).

80. Malawi must continue to push the ending-child-marriage agenda forward, as well as enact specific, pinpointed, strategies and interventions to empower girls. The Government has already started peddling this forward. In 2018, the Government launched the National Strategy to End Child Marriage, which calls for a multi-sectoral approach to reduce the prevalence of child marriage by 20 percent before 2020. Several of the additional strategies for tackling child marriage are outlined in the 2020 Gender Assessment of Malawi, and they include providing life skills and reproductive health knowledge, empowering girls, offering livelihood opportunities, and keeping girls in school or encouraging those who dropped out to return (World Bank, Forthcoming).

81. A multi-pronged approach to increase women's security and decrease GBV and IPV, is needed. One strategy is to directly engage men regarding gender roles and acceptability of IPV. In Rwanda, a gender-transformative couples impact evaluation found that participating in an intervention

[10] To ensure that the policy recommendations introduced here are informed by the most rigorous evidence, the gender work presented throughout this report often draws from experimental research and, to a lesser degree, from qualitative studies. To the extent possible, the report relies on evidence from Malawi. However, when such country-specific research is not available, and to minimize problems of lack of comparability across countries, the report also draws from evidence of programs administered throughout the region. Nevertheless, there are contextual nuances which may affect the cross-country comparability of these studies. When aiming to replicate the proposals suggested here in Malawi, it's important to wrestle with the external validity of these studies and to contextualize the findings so that they account for circumstantial differences throughout the region and are properly tailored to fit the country's context.

[11] One important aspect of this program to convey is the importance of keeping the accounts private – the impacts of the program on productivity disappeared once the accounts were public. This suggests that women face pressure from relatives and acquaintances on how to manage and direct their finances, which may hamper their ability to channel their money into productive uses.

aimed at shifting perceived gender norms and lowering IPV resulted in women experiencing less physical and sexual IPV over the last year than their counterparts in the control group (Doyle et al. 2018). Another strategy, as documented in a recent qualitative piece on GBV conducted by the World Bank in Malawi, is to increase investments in the development or capacity strengthening of systems, structures, and mechanisms for GBV response/service delivery (World Bank, Forthcoming).

82. Bridge the gap in agricultural productivity by ensuring women have equal access to key productive agricultural inputs, farm labor, and expanding access to digital technology. To reduce gender inequalities in agricultural production, women must have access to the same quality inputs, such as pesticides and fertilizer, as men do. Moreover, the agricultural extension services should be expanded to women crop owners, and better tailored to fit their needs. Likewise, the Government must address the financial limitations and restrictive gender norms which prevent female farmers from hiring more productive labor. Lastly, as shown by impact evaluations from SSA, the use of digital services has proven highly efficient to increase women's knowledge about cultivation inputs, production, and sales (Aker and Ksoll 2016).

83. Boost women's productivity and ability to participate and perform well in the labor force by decreasing high fertility rates, expanding access to childcare, and supporting programs aimed at tackling school desertion. National interventions must continue to focus on increasing use of access to reproductive health/family planning services, involving men in birth-spacing interventions, and implementing behavioral change campaigns aimed at increasing child spacing. Expanding access to affordable childcare services is also essential to give women the flexibility and agency to participate in the labor force. One avenue is to increase access to low-cost early-childhood programs. An impact evaluation of a low-cost preschool intervention administered in rural Mozambique found that the program increased the caregiver's probability of working by 26 percent compared to those families who did not receive the intervention (Martinez et al. 2012). Another popular strategy to address school desertion is through conditional cash transfer (CCTs) programs. An impact evaluation of a CCT in Malawi, which offered the cash transfer contingent on a girl attending school, found that it increased enrollment rates and improved English scores (Baird et al. 2011).

Table 3: Macroeconomic Indicators

	2016	2017	2018	2019	2020	2021 Proj.	2022 Proj.	2023 Proj.
National Accounts and Prices								
GDP at constant market prices (% change)	2.5	4.0	4.4	5.4	0.8	2.4	3.0	4.4
Agriculture	-2.3	5.2	0.3	5.9	3.4	4.9	1.8	3.2
Industry	2.4	2.2	7.2	7.7	1.2	1.6	2.4	4.3
Services	4.7	4.2	4.5	5.5	-0.5	1.7	3.7	5.0
Consumer prices (annual average)	21.7	11.5	9.2	9.4	8.6	8.8	8.1	7.9
Central Government (FY % of GDP)								
Revenue and grants	14.8	16.4	14.6	14.7	14.6	14.2	16.0	14.3
Domestic revenue (tax and non-tax)	12.3	13.9	13.6	13.2	13.1	12.7	13.9	13.2
Grants	2.5	2.4	1.0	1.4	1.5	1.5	2.1	1.1
Expenditure and net lending	17.4	18.7	19.0	19.1	20.9	21.3	25.1	22.9
Overall balance (excluding grants)	-5.1	-4.7	-5.4	-5.9	-7.8	-8.6	-11.2	-9.7
Overall balance (including grants)	-2.6	-2.3	-4.4	-4.5	-6.3	-7.1	-9.1	-8.6
Foreign financing	1.3	1.7	1.8	0.8	0.8	1.0	1.7	1.0
Domestic financing	1.2	0.6	3.0	3.8	4.9	5.7	7.4	7.6
Amortization (zero coupon bonds)	-0.2	-1.2	-1.4	-1.0	-0.1	0.0	0.0	0.0
Privatization Proceeds	-	0.3	-	-	-	-	-	-
Money and Credit								
Money and quasi-money (% change)	15.2	19.7	11.4	8.1	9.5	10.9	13.7	11.8
Credit to the private sector (% change)	4.6	0.4	11.5	21.3	15.0	11.7	14.0	13.4
External Sector (US$ millions)								
Exports (goods and services)	1,503	1,494	1,636	2,048	2,152	2,169	2,492	2,552
Imports (goods and services)	2,509	3,071	3,341	3,584	3,623	3,592	3,865	3,800
Gross official reserves	605	757.4	750.1	815	574			
(months of imports)	2.9	3.6	3.6	3.9	2.8			
Current account (percent of GDP)	-12.7	-17.6	-17.3	-13.9	-12.6	-12.0	-11.2	-9.8
Exchange rate (MWK per US$ average)	718	730.3	732.3	745.5	749.5	824.5	-	-
Debt Stock								
External debt (public sector, % of GDP)	24.4	25.9	26.2	29.6	33.4	33.2	32.9	31.3
Domestic public debt (percentage of GDP)	15.7	18.5	19.9	18.6	22.2	27.1	33.0	37.5
Total public debt (percentage of GDP)	40.0	44.4	46.2	48.2	55.6	60.2	65.9	68.9
Poverty								
Poverty rate (US$ 1.9 in 2011 PPP terms)	69.2	68.8	68.1	67.3	67.9	68.1	68.1	67.6
Poverty rate (US$ 3.2 in 2011 PPP terms)	89.0	88.8	88.5	87.9	88.5	88.5	88.5	88.2

Sources: World Bank staff calculations based on MFMod, MoF, RBM and IMF data

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