Economic Perspectives of the Global Financial Crisis on Malawi

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Structure of the Malawian Economy

- Agricultural economy, in which nearly 35% of GDP originates from agricultural.
- Growth of the economy has been erratic, except in the past 5 years which has witnessed consistent positive growth rate.
- It is a highly import dependent country for both raw materials and final manufactured goods.
- Exports are dominated by three key crops tobacco, tea and coffee (accounting for more than 90%), with other crops emerging such as groundnuts and cotton.
- About 52% of the population lives below the poverty line.

Global Financial Crisis (GFC): Transmission

- Financial contagion – spillover effects to emerging markets
- Commercial lending
- Trade
- Remittances
- Foreign direct investments
- Foreign aid

What have been the effects in Malawi?

Limitations

- Generally, there is a problem of attribution particularly when the fuel and fertilizer price shocks of 2007 have had significant influence on the domestic economy.
- Lack of recent data on key variables that can be linked to the various transmission channels.
- The short time span since the Global Financial Crisis (GFC) occurred may not reveal the full extent of the financial crisis.
- What is the counterfactual?
GFC and Financial Contagion

- The Malawi Stock Exchange was not immediately affected by the GFC, but it appears second round effects are being felt in 2009 through reduced volume of shares traded and a fall in the price index leading to reduced returns.

- Financial institutions have been more cautious with lending to the private sector, requiring various forms of guarantee – collateral even for overdraft facilities, centralization of loan decisions etc.

- In 2008, there is more lending to the public sector that to the private sector. Banks have always been conservative lenders in Malawi.
GFC and Foreign Capital Inflows

- Domestic investment has continued to grow even in times of the financial crisis.
- However, from a perspective of investment financing, there has been a decline in financing of domestic investment through net foreign capital inflows (NFCI) since the on-set of the GFC.
- It is also evident that investment through net transfers from abroad (NTRA) has increased.

GFC and Remittances

- Official outflows and inflows of remittances in Malawi have been estimated at US$1 million since 2000.
- However, the official figures do not capture the informal flow, and it is believed that such flows are more than the official estimates.

GFC and Trade Performance

- Malawi has generally registered trade deficits, but the trade deficits seem to have grown since 2006.
- The economy has experienced increased trends in both exports and imports, but imports increased faster than exports.
- There is evidence of increased trade deficit since 2006, however, other factors such as high fuel and fertilizer prices might have played a major role in the expansion of imports.
- The share of Malawi exports to countries most affected by the GFC fell in 2006. While to the OECD there has been some improvements, the share continued to decline for the USA and UK.
GFC and Foreign Aid

- Generally there has been an increase in foreign aid inflows to support government operations, particularly since 2004.
- The GFC does not seem to have affected foreign aid flows to Malawi as much, although we notice a slight reduction in 2008.
- The good macroeconomic management in the period 2004 – 2008, increased donor confidence in the management of public resources and donor flows have been critical in supporting the economic growth momentum.
In the past 5 years the growth rates of the economy have been impressive.

The onset of the global recession has led to the revision of the forecast of the growth rate to 6.7% from 7.9 in 2009.

The forecast growth rate, however, remains above the 6% rate necessary for poverty reduction.

Table 1: Poverty Changes

<table>
<thead>
<tr>
<th>Self Assessed Poverty</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very Poor</td>
<td>28.1</td>
<td>20.8</td>
</tr>
<tr>
<td>Poor</td>
<td>37.0</td>
<td>33.5</td>
</tr>
<tr>
<td>Marginally Poor</td>
<td>23.0</td>
<td>28.6</td>
</tr>
<tr>
<td>Average</td>
<td>10.3</td>
<td>15.1</td>
</tr>
<tr>
<td>Better-off</td>
<td>1.6</td>
<td>1.8</td>
</tr>
<tr>
<td>Rich</td>
<td>0.1</td>
<td>0.1</td>
</tr>
</tbody>
</table>

Source: WFP Jatropha Baseline Report 2009
Conclusions

- The simple evidence presented here points to the fact that Malawi did not immediately start feeling the full impact of the financial crisis. The GFC has had some delayed effects.
- Most macroeconomic indicators remain favorable although the global economic downturn seem to have dampened expectations about future growth.
- The major effects of the GFC are on commercial bank behavior due changes in risk assessment and net foreign capital inflows.
- The grip on the foreign exchange market somehow has meant limited globalization through international trade (closed economy?).
- Good macroeconomic management and some level of control of the economy have helped as well.

THANK YOU