

**COUNTRY PROFILE:****REPUBLIC OF MALAWI****DATED:****JANUARY 2009****CREDIT GUARANTEE:**

IES/02: ATTACHMENT A

	<i>Country Rating</i>	<i>U/W Method</i>
<i>Short-term</i>	3C	No restriction

*Recent Political Highlights*

- ❑ In May 2009, Malawi will hold its fourth presidential and parliamentary multiparty elections. Current President Bingu wa Mutharika will represent the Democratic Progressive Party (DPP), established in 2005. The DPP has a minority one-third in Parliament. The majority of DPP MP's defected to the United Democratic Front (UDF) and Malawi Congress Party (MCP), the main parties that form the opposition.
- ❑ Bingu wa Mutharika says he is confident he will secure a second presidential term. Mutharika has received praise from both the World Bank and IMF for holding down public expenditure.

*Recent Economic Highlights*

- ❑ Malawi's economic boom over the past three years allowed interest rates to fall from 35% to 15% and brought down inflation to single digits from highs of 30%. It has managed to reduce its domestic debt from 25% of GDP to 11.5%. The Finance Ministry expects the country to struggle to reach its economic growth projections due to lower demand for its commodity exports. The economy is expected to expand by only 7% in 2008/09 from 8% the previous year due to high food and fuel costs in 2008. The IMF revised its growth forecast for 2008 to 8.7% from 7.4%, attributing the rise to increased production in tobacco and manufacturing as well as financial services. The IMF projects growth at 6.9% in 2009/10 and inflation at 6.6% over the same period while the EIU forecasts growth at 8.3% in 2009.
- ❑ The IMF approved a loan of \$77.1 million under its Exogenous Shocks Facility to help Malawi reduce the impact of high fuel and fertilizer costs to help it meet a revised economic growth target of 8.7% this year. The facility is designed to offer aid to countries hit by unforeseen circumstances such as natural disasters, conflicts or dramatic commodity price fluctuations. The IMF estimates that higher global prices of oil, fertilizers and other imported goods in 2008 will cut Malawi's trade balance by about \$156 million. Donors contribute about 40% to Malawi's annual budget.
- ❑ The grain subsidy programme introduced in 2005 has seen the government increasing the provision of maize seed and fertilizer to smallholder farmers by more than 75%. As a result Malawi has trebled maize production from 1.2 million tons to 3.4 million tons in the 2007/08 agricultural season. In the 2007/08 agricultural season, the subsidy programme cost the government US\$62 million or 6.5% of its total budget. In the 2008/09 Malawi plans to spend US\$186 million in the subsidy programme for 1.7 million farmers.
- ❑ The Malawi Confederation of Chambers of Commerce and Industry (MCCI) has tipped President Bingu wa Mutharika on how to best improve the country's economy after the May 19 general elections. They advised him to look into investing in Small and Medium Enterprises who are a backbone of major economies, as well as improving the infrastructure and utilities. The key to trade is transport infrastructure; at 53% of export value in 2007, transport costs remain high compared to other countries in the region.
- ❑ Paladin, the Australian company producing uranium in Africa, said it signed a second contract for the sale of material from a \$200 million mine under construction in Malawi. Paladin is due to begin the process to start up the Kayelekera mine in southern Malawi in Q1'09 and is scheduled to deliver uranium to an Asian utility this year under the first sales accord for the project.

*Latest Trade Developments*

- ❑ Major exports: tobacco, tea, sugar, cotton, coffee, peanuts, wood products and apparel.
- ❑ Major imports: food, petroleum products, semi manufactures, consumer goods and transport equipment.
- ❑ Main trading partners: South Africa, Germany, Egypt, Zimbabwe, US, Russia, Netherlands, Tanzania and China.
- ❑ SA's exports to Malawi totaled R1.7bn in 2006 and R2.2bn in 2007.