

**REPUBLIC OF MALAWI**  
**JANUARY 2008**

**CREDIT GUARANTEE COUNTRY PROFILE:**

IES/02: ATTACHMENT N

Country Rating	S/T Business Cycle Indicator	S/T Political Indicator	Debt Recovery
3C	→	→	The use of a collection agent is advised.

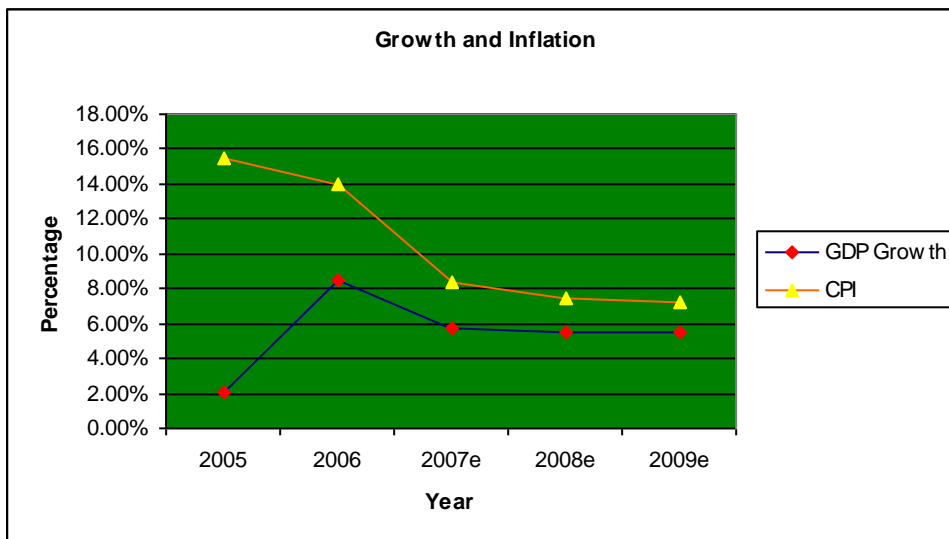
Credit Guarantee Experience

We are open for cover in this market with no restrictions. We have a reasonable exposure to this market, which has yielded significant claims to exporters of late. This clearly indicates that when exporters conduct open accounts in this market, it is essential that they manage their risk prudently and take measures to protect themselves against any non-payments that may arise. This market is also known to suffer delays occasionally.

Political Highlights

- ❑ Prior to democracy, Malawi was locked under the rule of its totalitarian president-for-life Kamuzu Banda for three decades. He eventually gave into pressure to hold elections in the mid-1990s, introducing the population to multi-party democracy. Bakili Muluzi came into power thereafter and although recognised for removing many of the repressions forced onto the country, he was not free of corruption allegations. The result is a country drowning in social problems that include widespread poverty and a high rate of HIV/Aids infection.
- ❑ Chief of state since May 2004 has been President Bingu wa Mutharika. The president is elected by popular vote for a five-year term and is eligible for a second term. The following elections are scheduled for May 2009.

Recent Economic Highlights

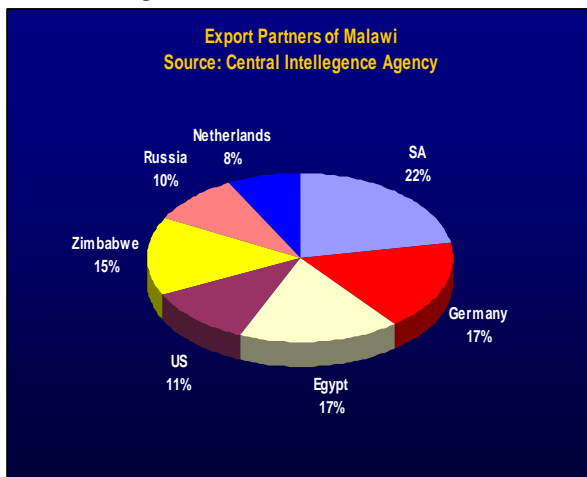


- ❑ Malawi has a population of 13.6m that is said to grow at a rate of 2.4% in 2007. Over half the population is said to be living below the poverty line, while the majority of the population rely on subsistence farming to generate a living.
- ❑ The country relies on substantial inflows from the IMF, World Bank and individual donor nations. The US made Malawi eligible to receive financial support within the Millennium Challenge Corporation (MCC) initiative in December 2007. The country's challenges include developing a market economy, improving educational facilities, environmental problems, the rapidly growing problem of HIV/Aids and fiscal discipline.
- ❑ The Malawi Confederation of Chamber of Commerce and Industry (MCCCI) has expressed fear that the overall economic performance in 2008 is likely to be moderate due to risks associated with the elections planned for 2009. Government is also likely to allocate fewer resources to development in the 2008/09 national budget activities in favour of expenditure for political matters. Structural problems facing the private sector such as electricity and water problems may not receive immediate attention. The added political spending this year will reduce the chance of interest rate discounts and will thus hamper private sector contribution to economic growth. The economy is expected to grow 5%. Exports are expected to be boosted by the growth in tobacco production.
- ❑ In the Finance Minister's letter of intent to the IMF, he stated that GDP growth will be 7.1% this year. He expects to make repayments on domestic debt of about K6bn, reducing the debt burden by 2% during the fiscal year to about 10% of GDP by end-June 2008. The IMF predicted GDP growth of 5.5% in 2007 and 5.2% in 2008.
- ❑ An acute fuel crisis is looming in Malawi as many filling stations across the country have no petroleum products. The bulk of the filling stations in the northern region, especially those of BP Malawi have run out of diesel while many others sold their last drop at the beginning of the month. It has been speculated that some dealers were hoarding the product in anticipation of a fuel price increase.
- ❑ The Ministry of Irrigation and Water Development has warned of the high likelihood of floods in some parts of the country, especially those that are prone to flooding. Flooding was imminent in areas along rivers as above normal rainfall was forecast for 2007/08 rainy season. Over 1m Malawians are threatened by food shortages over the next three months as a result of the flooding. The UN Country

Team has requested \$5.5m in emergency UN relief aid and UNICEF is seeking an additional \$2.5m to meet the immediate and medium-term needs of children and women throughout affected areas. The main commercial corridor from central Mozambique to landlocked Malawi has been cut, causing delays in the transportation of food and fuel and leading to the shortage of petrol.

- ❑ The production of groundnuts, one of the country's commercial crops is declining compared to global trends. In 2005, Malawi exported 20 metric tonnes of groundnuts to the DRC at \$1.700 per tonne after Cameroon had exported 109 metric tonnes. Malawi's groundnuts exports are erratic as indicated by the drop in exports during the period 2001-2005 which was attributable to poor weather conditions. Malawi is the second-largest supplier of groundnuts to SA after China. Poor infrastructure and proximity to its markets are also hindering factors.
- ❑ The IMF released a new report on Malawi indicating that its export base will enjoy a 25% increase when the country begins its uranium mining in 2009. Malawi granted Australian Paladin Energy Limited a licence to mine uranium at Kayelekera in the northern region of Karongo, which borders Tanzania. Paladin will commission the mine in the fourth quarter of 2008 with full production projected for early 2009. The mine is also expected to add about 10% to Malawi's overall GDP. It could generate \$1.6bn during its peak. Strong export performance will partially reverse once production from the mines peak, decline and cease in 2020. Due to the increasing anti-smoking campaigns, Malawi is looking at mining to earn forex to replace tobacco as the chief forex earner.
- ❑ Tobacco production is expected to rise to 150m kg this season on the back of higher prices and good rains. More farmers have signed up to grow tobacco due to higher prices. Tobacco accounts for 70% of Malawi's exports and 15% of its GDP, but low prices during the last two years saw production plummet. About 2m people depend on tobacco and related industries for their livelihood.

### Trade Developments



- ❑ Main exports: tobacco, tea, sugar, cotton, coffee, peanuts, wood products and apparel.
- ❑ Main agricultural products: tobacco, sugarcane, cotton, tea, potatoes, cassava, sorghum, pulses, groundnuts, cattle and goats.
- ❑ Main industries: tobacco, tea, sugar, sawmill products, cement and consumer goods.
- ❑ Malawi is close to losing billions worth of export market as Government has not yet signed an interim agreement to allow it continue exporting to the EU under the EPAs. The EU accounts for 35.9% of Malawi's \$680m export earnings. Malawi's market access offer to the European Commission entails liberalising 80% of its total trade with the EU with respect to: raw materials and capital goods (26.3%), intermediate goods (29.4%) and final products (24.3%). Sensitive products comprising 20% of total trade with the EU will be excluded from the trade liberalisation. The sensitive products comprise imports from the EU on which Government collects customs revenue, imports that threaten or cause injury to domestic industry and imports that are harmful to the environment. Government was not keen to sign the interim agreement that encourages the exports of raw materials as it wants the products processed locally.
- ❑ Cross border traders are unhappy about the delays by Government to facilitate easy travel between Malawi and Mozambique. The two countries signed bilateral trade agreements in December 2006 to ease trade between them but the agreements have yet to materialise due to delays in Mozambique. The local tea sector urged that more be done in terms of improving transport infrastructure to the coastal ports of Mozambique once the agreement is formalised.
- ❑ Malawi has decided to switch its diplomatic recognition from Taiwan to China. The two countries have decided to develop friendly relationships and cooperation and the People's Republic of China (PRC) will support Malawi in its efforts to safeguard its sovereignty and develop its nation. Malawi recognises that there is but one China in the world, the Government of the PRC is the sole legal Government representing the whole of China and that Taiwan is an inalienable part of China's territory. Taiwan has subsequently withdrawn 19 medical staff and equipment from a 300-bed hospital it built in HIV/Aids-rife northern Malawi after the country severed diplomatic ties. Taiwan also withdrew technical assistance from a college in the capital Lilongwe, forcing the Education Ministry to suspend some courses.
- ❑ The DRC and Malawi have put measures in place to formalise cross border trade. Once complete, traders will not be required to pay customs duties for COMESA-originating goods of both an agricultural and industrial nature which will be defined in the Common List under the simplified regime.
- ❑ SA's exports to Malawi totaled R1.63bn in 2005, R1.69bn in 2006 and R1.75bn in the year-to-October 2007. Imports from Malawi to SA totaled R531m in 2006 and R549m in the-year-to-October 2007.