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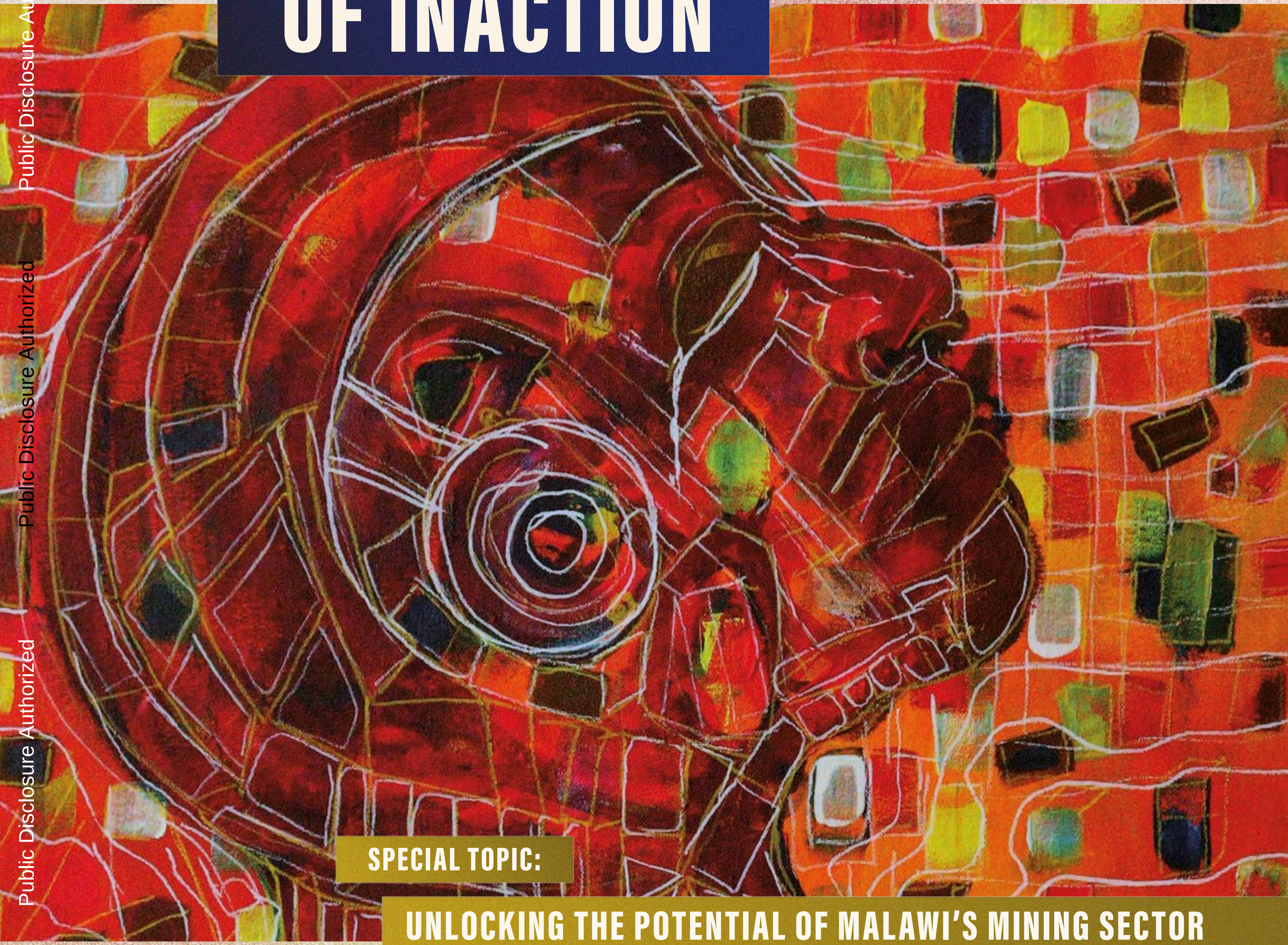
Malawi Economic Monitor

JANUARY 2025

THE RISING COST OF INACTION



SPECIAL TOPIC:

UNLOCKING THE POTENTIAL OF MALAWI'S MINING SECTOR

THE WORLD BANK
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The World Bank
1818 H Street NW
Washington DC 20433
Telephone: 202-473-1000
Internet: www.worldbank.org

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ABBREVIATIONS

AIP	Affordable Inputs Programme
ATM	Agriculture, Tourism and Mining
BADEA	Arab Bank for Economic Development
BoP	Balance of Payments
DRM	Disaster Risk Management
DSA	Debt Sustainability Analysis
ECF	Extended Credit Facility
EMDE	Emerging Market and Developing Economy
ETM	Energy Transition Minerals
FDI	Foreign Direct Investment
FY	Fiscal Year
G2G	Government-to-Government
GDP	Gross Domestic Product
GIS	Geographic Information System
GSD	Geological Survey Department
IDA	International Development Association
IFC	International Finance Corporation
IFMIS	Integrated Financial Management and Information System
ILO	International Labour Organisation
IMF	International Monetary Fund
IPC	Integrated Food Security Phase Classification
MDA	Mining Development Agreement
MEM	Malawi Economic Monitor
MEPA	Malawi Environmental Protection Agency
MERA	Malawi Energy Regulatory Authority
MFMod	World Bank Macroeconomic and Fiscal Model
MHSP	Mpatamanga Hydropower Storage Project
MITASS	Malawi Interbank Transfer and Settlement System
MMRA	Mining and Minerals Regulatory Authority
MoFEA	Ministry of Finance and Economic Affairs
MT	Metric Ton
MW	Megawatt
MWK	Malawian Kwacha
NOCMA	National Oil Company of Malawi
NPL	Non-Performing Loan
NSO	National Statistical Office
OECD	Organization for Economic Co-operation and Development
OHS	Occupational Health and Safety
PFM	Public Financial Management
PPDA	Public Procurement and Disposal of Public Assets Authority
PPP	Purchasing Power Parity
RBM	Reserve Bank of Malawi
REER	Real Effective Exchange Rate
ROA	Return on Assets
ROE	Return on Equity
SADC	Southern African Development Community
SOE	State-Owned Enterprise
TDB	Trade and Development Bank
UN	United Nations
US$	United States Dollar
WEO	World Economic Outlook

OVERVIEW

Low growth and high inflation underscore Malawi's economic vulnerability

Malawi's economic recovery remains fragile due to the slow implementation of macroeconomic adjustment reforms and a series of recent shocks. Gross domestic product (GDP) is expected to have grown by only 1.8 percent in 2024, a downward revision from 2.0 percent growth projected in April 2024. With the population growth rate at 2.6 percent, this marks the third straight year of declining GDP per capita. The El Niño-induced drought in early 2024 has adversely affected agricultural output, which is expected to have contracted by 2.0 percent in 2024.

Food insecurity remains a major concern due to weak harvests from 2022 to 2024 and the likelihood of a challenging 2024-25 season. The 2023-24 drought contributed to a 21 percent drop relative to the previous season in the production of cereal grains, which fell to 3.8 million metric tons (MT). Maize output reached 2.7 million MT, falling short of the 3.3-3.5 million MT required for domestic consumption. As a result, approximately 5.7 million people—or 28 percent of the population—are expected to face crisis-level food insecurity between October 2024 and March 2025. In 2023, 4.4 million people experienced acute food insecurity, due in part to continued challenges around access to inputs, as well as the impact of Cyclone Freddy, which disrupted agricultural production in the southern region. Limited fertilizer availability, including for beneficiaries of the Affordable Input Program (AIP), may negatively impact the 2024-25 agricultural season. By the start of the planting season in December 2024, only 23.8 percent of the required 105,000 MT of fertilizer had been accessed.

Inflation is gradually easing but remains high due to rising food, housing, and utility prices, as well as the rapid growth of the money supply. After reaching a peak of 35 percent in January 2024, headline inflation fell to 27.0 percent in November 2024. Rising prices for food, housing, and utilities continue to drive inflation, and underlying price pressures remain elevated. This situation has been exacerbated by a significant increase in the money supply, which grew by 51 percent year-on-year in October 2024, driven in part by monetary financing of the fiscal deficit.

Malawi's banking sector remains highly profitable, as it benefits from government borrowing and high interest rates, but vulnerabilities are emerging. In October 2024, banks reported a 5.9 percent return on assets (ROA), up from 5.0 percent a year earlier, and a 52.1 percent return on equity (ROE), both well above the global average. However, the banking sector's preference for safer investments, especially government borrowing, along with high levels of exposure to relatively few large clients and the concentration of lending in specific sectors, could pose risks. Despite high profits and apparent stability, stress tests reveal vulnerabilities. While the Reserve Bank of Malawi (RBM) has determined that Malawi's banking sector could weather individual shocks, multiple simultaneous shocks could present a threat. Continued vigilance, risk management, and diversification will be crucial to reinforce resilience.

Reform momentum has stalled, while fiscal and external imbalances continue to increase, and the cost of inaction is rising

One year since the start of the government's new macroeconomic reform program, supported by an IMF Extended Credit Facility (ECF) and development partner budget support, efforts to address rising fiscal and external imbalances have faltered. Existing structural challenges are compounded by continued overspending and debt accumulation, which impede the country's long-term development prospects. Quasi-fiscal activities conducted outside the budget—including RBM sales of foreign exchange at the official rate, especially to purchase fuel and fertilizer—represent implicit subsidies, while the mounting arrears of loss-making state-owned enterprises (SOEs) represent a significant fiscal risk, as the government may ultimately be required to assume these liabilities.

Foreign-exchange reserves are declining, as inflows from official exports, foreign investment, remittances and grants have failed to keep pace with import demand. Foreign exchange is tightly rationed, and there is a growing spread between the official exchange rate, which has remained largely static throughout 2024, and the rising parallel market rate. Recent measures to further strengthen foreign exchange controls may help temporarily bolster official reserves, but could also have the unintended consequence of further increasing capital outflows, reducing liquidity in the formal foreign exchange market and discouraging private sector investment. As a result, the cost of inaction on the macroeconomic reform agenda is mounting.

The implementation of the budget for the 2024/25 fiscal year (FY) reveals significant slippages, with revenue outturns in particular falling short of expectations. The mid-year budget amendment included some limited revenue measures that are unlikely to alter the overall trajectory of the budget balance, while further wage increases are likely to exacerbate fiscal challenges. Meanwhile, debt vulnerabilities will likely persist amid slow external debt restructuring and rising domestic debt levels, while interest payments and other statutory expenditures will continue crowding out the scope for productive investment. Moreover, the implementation of key public financial management (PFM) reforms, including the addition of human resource management to the Integrated Financial Management and Information System (IFMIS), is progressing slowly. To maintain fiscal stability, the government will need to contain expenditures in the second half of the fiscal year and prepare a budget for FY2025/26 that returns Malawi to the fiscal consolidation path set out in the ECF-supported reform program.

The current account deficit is projected to widen again in 2024. Revised balance-of-payments (BoP) data show that after expanding consistently for over four years the current account deficit narrowed in 2023. Higher net exports and development partner inflows drove the improvement in the deficit. The November 2023 devaluation of the Malawian kwacha (MWK) aligned it more closely with the parallel-market rate and caused the real effective exchange rate (REER)[1] to fall sharply, temporarily enhancing export competitiveness. However, amid high inflation, elevated government spending and continued exchange-rate rigidity, the REER has since resumed its upward trend, growing by 12 percent from November 2023 to November 2024. Driven by distortionary policies, the appreciation of the REER is contributing to the erosion of external competitiveness. Preliminary 2024 estimates point to a widening merchandise trade deficit caused by rising imports coupled with the underperformance of most exports except tobacco.

Responsible fiscal and monetary policies are crucial to maintain macroeconomic stability and enable long-term growth

Malawi's economy is in a highly vulnerable position. While GDP growth for 2025 is currently projected to exceed 4 percent, supported by a stronger agricultural season and robust manufacturing output, persistent foreign-exchange shortages continue to pose serious challenges for the economy's recovery. Ongoing investments in commercialized agriculture, energy and the mining sector are expected to boost economic activity and increase exports, but their benefits will take years to materialize and

1 The REER measures a currency's value relative to a weighted average of several foreign currencies.

will require sustained macroeconomic stabilization. The medium-term outlook is subject to significant risks, especially climate-related shocks and the continued slow pace of macroeconomic adjustment and reform.

Prudent macroeconomic management will be especially critical in the run up to the 2025 elections. Over the past 30 years and five electoral cycles, fiscal deficits during election years were on average 74 percent higher than in the four preceding years. Given Malawi's existing economic vulnerabilities, a similar lapse in budget discipline would severely compromise macroeconomic stability. Depleted buffers and persistent fiscal and current account deficits leave Malawi susceptible to external shocks and other crises. Moreover, election-year spending pressures could heighten the risk of unsustainable borrowing. High-interest commercial debt contracted in the run up to the 2019 election, which was used primarily to stabilize the exchange rate and ensure a steady fuel supply, is a major factor in Malawi's current external debt crisis and the subject of ongoing restructuring negotiations with commercial creditors. To avoid deepening Malawi's debt distress, any new borrowing must be consistent with the PFM Act and the Public Procurement and Disposal of Public Assets (PPDA) Act, Malawi's Medium-Term Debt Management Strategy, and IMF and World Bank programs.

This 20th edition of the Malawi Economic Monitor (MEM) finds that the cost of inaction is rising, as continued delays in addressing widening fiscal and current account deficits increase the scale of the eventual adjustment and heighten the risk of further deterioration. Conversely, implementing announced stabilization and adjustment reforms could enable the Malawian economy to achieve significantly higher growth rates over the next five years, as planned large-scale investments materialize. These investments would create numerous jobs, boost exports and revenues, and catalyze further foreign direct investment (FDI). Realizing Malawi's significant medium-term growth potential and avoiding a further weakening of the economy will require urgent reforms in three areas (Table O.1):

i) ***Restoring macroeconomic stability:*** Planned macro-fiscal reforms must be fully implemented and sustained over time, with a focus on returning to fiscal consolidation targets both in the current year and FY2025/26, finalizing external debt restructuring and containing the growth of domestic borrowing, supporting the accumulation of reserves by implementing announced exchange-rate reforms, and controlling inflation by limiting the growth of the money supply and halting the monetary financing of the fiscal deficit.

ii) ***Creating the conditions for increased private investment and exports:*** Increasing investment is critical for the sustainable growth of the economy. In a context of limited fiscal resources, the success of the Agriculture Tourism and Mining (ATM) Strategy will be determined by whether the private sector is willing to invest and whether more is done to ensure that the limited public funds are used well. Key measures include eliminating implicit fuel and energy subsidies to reduce the risk of shortages, developing an effective management system for mining revenues, and phasing out foreign-exchange surrender requirements.

iii) ***Building resilience and protecting poor households:*** With domestic food production continuing to fall far short of consumption, it will be important to advance the process of reforming the AIP and repurposing agriculture expenditure towards more activities that increase productivity and resilience. Fully implementing the Disaster Risk Management (DRM) Act, including the DRM Fund, and finalizing and implementing the Energy Compact will be vital to strengthen disaster preparedness and enable investments in affordable energy access.

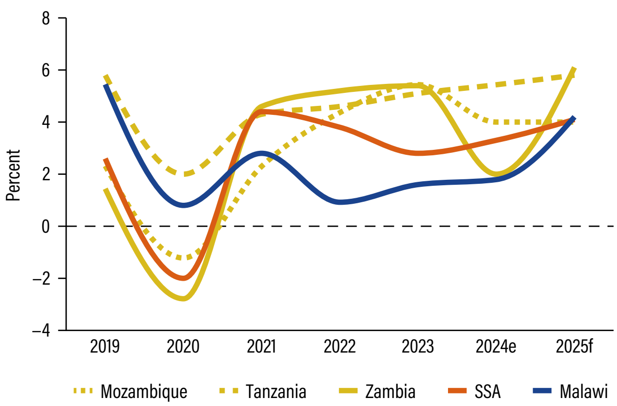
TABLE O.1 Priority Policy Areas and Key Actions

1. Restoring macroeconomic stability			
Resume fiscal consolidation	Tighten expenditure controls and implement substantive tax policy and administration reforms to resume fiscal consolidation.	Short	
Finalize debt restructuring	Conclude external debt restructuring to sustainably deliver debt relief and contain domestic borrowing.	Medium	
Bolster foreign-exchange reserves	Fully implement the exchange-rate reforms announced in the November 2023 RBM circular and continue reducing foreign-exchange sales to the market.	Short	
Control inflation	Limit the growth of the money supply and halt monetary financing of the deficit.	Medium	
2. Creating conditions for increased investment and exports			
Eliminate implicit fuel and energy subsidies	Implement the existing formula to ensure cost-reflective fuel and energy prices and reduce MERA, NOCMA and ESCOM arrears.	Short	
Develop transparent mining revenue management systems	Develop suitable mining revenue management arrangements to (i) ensure high savings and investment and (ii) manage pressures for consumption spending.	Medium	
Phase out foreign-exchange surrender and conversion requirements	Set credible targets to phase out surrender and conversion requirements, starting with the 30 percent foreign-exchange surrender requirement on exports earnings and holdings, especially in priority sectors.	Short	
3. Building resilience and protecting the poor			
Reform AIP subsidies to support more resilient and productive agriculture	Continue reforming the AIP fertilizer subsidy to reduce fiscal burden, improve targeting and rebalance agricultural spending towards sustainable farming practices and irrigation.	Medium	
Prepare for the next disaster	Implement policies to build resilience, including the Disaster Risk Management Act, and establish a disaster fund.	Medium	
Expand energy access	Finalize and implement Energy Compact to enable investments that would significantly increase energy access by 2030.	Medium	

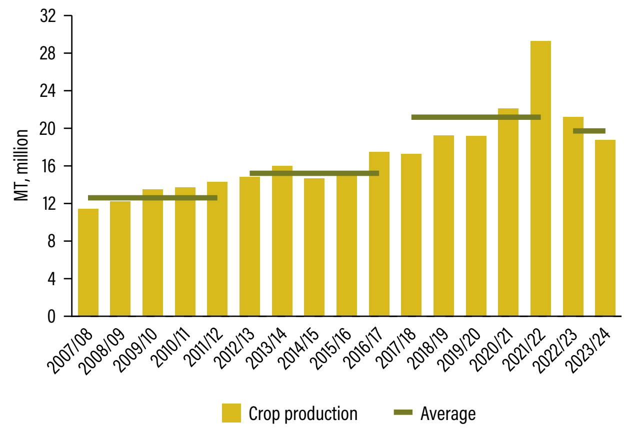
Initiate Strengthen Sustain

FIGURE O.1 A snapshot of Malawi's recent economic developments

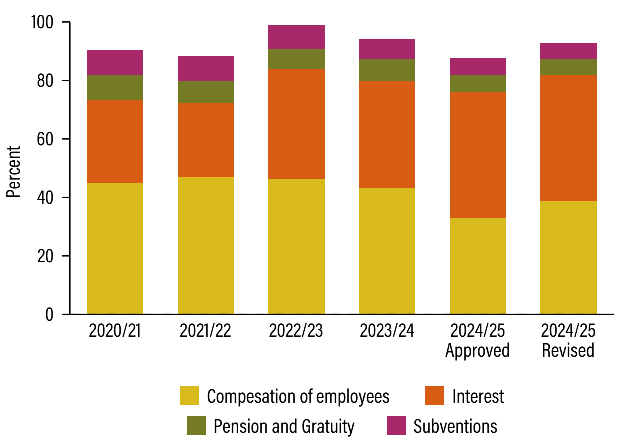
a. Malawi's economy continues to underperform relative to its neighbors and the average for Sub-Saharan Africa
Real GDP growth rates



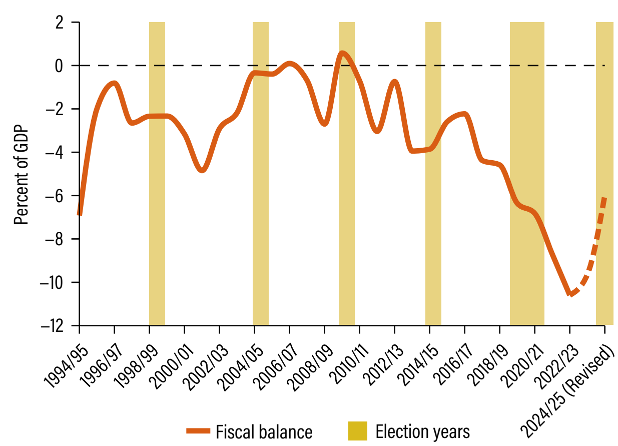
b. Crop production hit its lowest level in five years following a severe drought and delays in input distribution



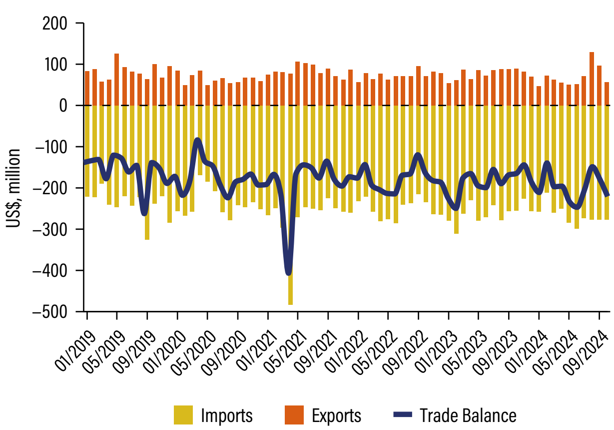
c. A large share of rigid expenditures, especially for interest payments, constrains the fiscal space for public investment
Expenditure items (domestic revenue)



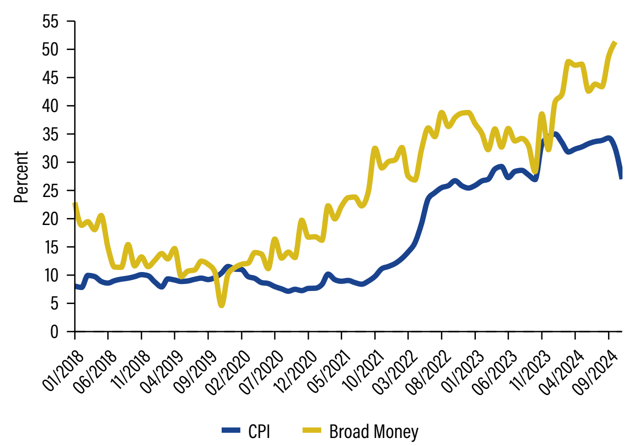
d. With deficits 74 percent higher in election years than in the preceding four years, pre-election spending poses substantial fiscal risks
Fiscal balance



e. The trade deficit is likely to widen further in 2024 amid high imports and underperforming exports
Merchandise trade



f. Inflation remains elevated as the money supply continues to grow
Inflation and broad money (change year-on-year)



Sources: World Bank staff based on MoFEA, RBM, NSO and MoA data.
Notes: SSA=Sub-Saharan Africa, CPI=Consumer Price Index.

Unlocking the Potential of Malawi's Mining Sector amid the Global Energy Transition: Grow, Protect, and Benefit

Malawi possesses a wealth of energy-transition minerals (ETM) that could provide vast development opportunities, but only if key constraints are addressed. Improving the environment for mining investment would significantly alleviate fiscal pressures, stimulate economic growth, create high-quality jobs, and potentially kickstart a broader virtuous cycle of investment and growth. The Special Topic section of this edition of the MEM explores how the government can create an enabling environment for mining investment and how leveraging ETM resources could impact the Malawian economy. Key reforms are prioritized according to the "grow, protect, and benefit" approach, which is designed both to attract greater investment and to increase the sector's impact on the country's development.

Malawi's ETM endowment presents transformative opportunities

The global shift towards renewable energy and electrification has led to a surge in demand for minerals such as graphite, titanium, uranium, and rare earth elements, all of which are found in abundance in Malawi. Developing the mining sector can significantly boost Malawi's GDP, generate foreign exchange, and create high-paying jobs. Mining projects can also anchor transformative investments in infrastructure, especially in energy and transportation. For example, the development of new renewable power generation has enormous potential to boost the broader economy and especially the mining sector. Mining development in rural areas can support the growth of local communities by creating jobs and offering opportunities for small businesses.

Despite its vast potential, major challenges hinder the development of Malawi's mining sector. The government has limited experience administering large mining projects, and concerns around weak governance, lengthy permitting processes, and uncertain regulatory frameworks deter investors. There is also a need for increased capacity to design, implement, and operate large-scale public investment projects necessary for the sector's growth. Inadequate energy and transportation infrastructure, such as poor road networks, limited rail connections, and an unreliable power supply, increase operational costs and hinder project development.

Outsized expectations for immediate socioeconomic benefits from mining often clash with the realities of complex operations, leading to frustration and disillusionment. Fluctuations in global metal prices create unpredictable revenue streams, complicating the planning and budgeting process. The opaque and thinly trade nature of many of the minerals Malawi is endowed with, together with the dominant position of some countries in their production creates risks for financiers of these mines, and complexity for the operators who need to advance technical studies while simultaneously aligning sales agreements in parallel to their financing. Finally, a lack of specialized educational programs and experienced professionals in mining-related fields hampers the sector's development. The following measures are crucial to address these challenges and support the development of Malawi's mining sector.

Pillar 1: Enabling the Mining Sector's Growth

First, it is essential to expedite the development of projects in the pipeline by accelerating the negotiation of mining development agreements (MDAs) and streamlining permitting processes. Staff training and the engagement of specialized transaction advisors will be crucial to enhance the government's capacity to negotiate MDAs. Developing comprehensive investment-promotion plans, de-risking the sector through robust, publicly available geoscientific research, establishing transparent data-sharing arrangements, and creating efficient permitting processes will attract more investors. Effectively monitoring large-scale operations and managing MDAs will also require improved government capacity in sectoral institutions. Investments in road networks, rail connections, and renewable energy systems will reduce operational costs and facilitate the sector's growth. Finally, the updated mining policy and the legislative and regulatory framework will foster a more stable and predictable business environment.

Pillar 2: Social and Environmental Protection

The Malawi Environmental Protection Agency (MEPA) and Ministry of Mining require adequate resources to effectively monitor mining activities and enforce environmental regulations. Making all documents related to mine development publicly available will increase transparency and support community-based monitoring. Occupational health and safety (OHS) standards relevant to the mining sector and updated regulations should be reviewed in order to align these with international best practices. Promoting stakeholder engagement by establishing a functional platform for multi-stakeholder dialogue will improve communication and build trust. Strengthening environmental policies, laws, and regulations will help protect people and ecosystems.

Pillar 3: Benefit Realization and Management

The largest and most immediate benefit of mining development will be in the form of government revenues from taxes and equity dividends. Substantial gains will also be generated through capital investments, spillover effects on other sectors, and increased human capital. Strengthening customs and tax administration by providing targeted training for customs officers, modernizing digital systems, investing in infrastructure, and fostering cross-sectoral coordination are critical to maximize revenue collection. Analyzing skills gaps, establishing specialized educational programs, and encouraging apprenticeships and internships will help build a skilled workforce. Implementing policies that incentivize local hiring, procurement, and partnerships will ensure a broader distribution of economic benefits. Over time, encouraging greater domestic value addition will expand job creation and diversify exports. Finally, introducing measures to insulate the budget from the cyclicality of mineral revenues and ensure the maintenance of adequate foreign-exchange reserves will mitigate the impacts of price volatility.

Conclusion

Malawi has a unique opportunity to leverage its mineral wealth to drive sustainable economic development. By addressing the challenges and prioritizing the actions outlined in the MEM's Special Topic section, the government can create a modern and fit-for-purpose framework for the mining sector that attracts greater investment, boosts domestic revenue, and ensures a broad and equitable distribution of benefits.

1

RECENT ECONOMIC DEVELOPMENTS

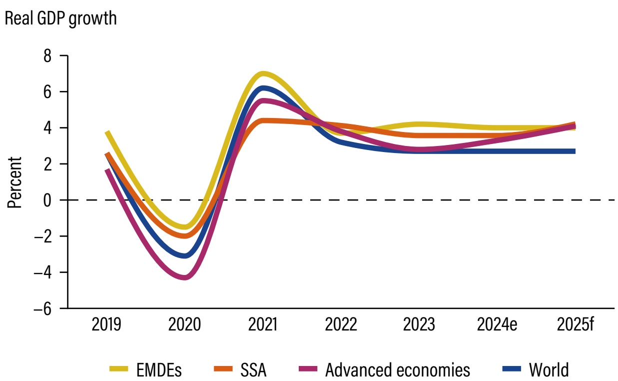
1.1

GLOBAL AND REGIONAL CONTEXT

Global growth has been stable, but the regional economic outlook remains uncertain

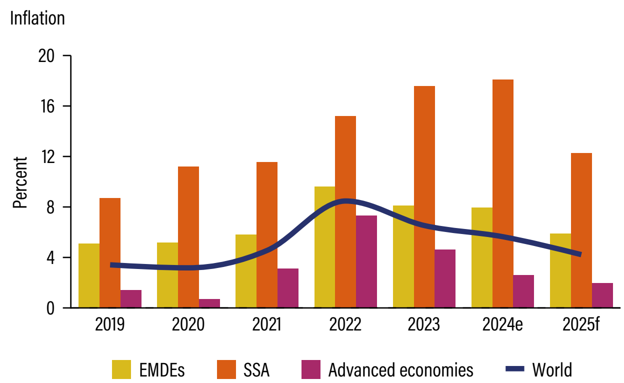
The global economic recovery has remained broadly resilient amid sustained disinflation. Despite sharp and synchronized monetary tightening across major economies, fears of a renewed downturn have eased. Global GDP growth stabilized at 2.7 percent in 2023 and is expected to remain at that level through 2025 (World Bank 2025a, forthcoming), albeit still below the pre-pandemic average of nearly 3.0 percent during 2010–19 (Figure 1.1). Due in part to falling commodity prices and the effects of monetary tightening, global inflation is projected to decline from a peak of 9.4 percent in 2022 to 3.5 percent by end-2025 (Figure 1.2), in line with the pre-pandemic average of 3.6 percent (IMF 2024). With inflation falling, major central banks have started lowering interest rates, which has eased financing conditions and further supported the global recovery. However, risks remain tilted to the downside due to policy uncertainty, escalating trade disputes, resurgent inflation in some areas, and slower-than-expected economic activity in major economies (World Bank 2025a, forthcoming).

FIGURE 1.1 Global growth remains steady...



Source: World Bank 01/2025 Global Economic Prospects.
Notes: e= estimate, f=forecast, EMDEs= Emerging Markets and Developing Economies.

FIGURE 1.2 ...amid sustained disinflation



Source: IMF 11/ 2024 World Economic Outlook.
Notes: e= estimate, f=forecast, EMDEs= Emerging Markets and Developing Economies.

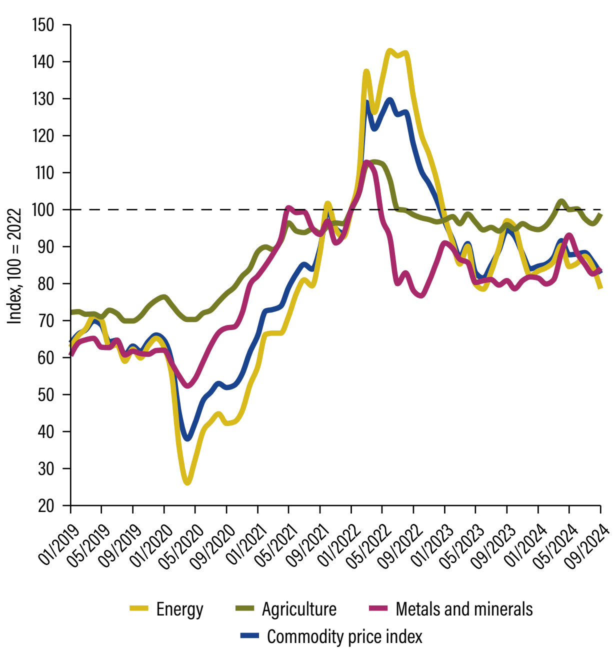
Emerging markets and developing economies (EMDEs) continue to face an uncertain economic outlook. Growth in India and Vietnam remained resilient, driven by strong demand in technology and semi-conductor sectors, as well as robust investment in artificial intelligence and digital infrastructure (IMF 2024). However, China's growth estimate for 2024 has been revised downward to 4.8 percent, falling short of its target of 5.0 percent amid weak consumer confidence and a sharp downturn in the property market. Growth estimates for some Latin American and African countries have also been revised downward due to political instability, climate-related disasters, and rising debt levels. In contrast to trends in many advanced economies, inflationary pressures fueled by higher food and energy prices persist in many EMDEs, particularly in Africa and parts of Latin America, are prompting central banks in these regions to raise interest rates.

Escalating geopolitical tensions have not adversely impacted commodity prices thus far. Following three years of volatility, the World Bank's commodity price index forecasts a decline in prices in the near term (Figure 1.3). Average commodity prices are projected to fall steadily during 2024–26 to reach their lowest level since 2020, though they will remain above the 2015–19 average. Energy prices, including oil, are expected to drop in 2025 owing to oversupply (World Bank 2024a). Metal prices are projected to decline modestly over the next two years, while agricultural prices should decrease due to bumper crops in certain regions. Falling energy and food prices are likely to ease inflationary pressures, particularly in EMDEs, which could enable central banks to loosen their monetary stance. However, adverse weather conditions, major ongoing conflicts, and rising trade tensions could spark renewed inflation and slow economic activity.

At the regional level, the 2023–24 El Niño phenomenon caused significant weather disruptions across Southern Africa, adversely impacting agriculture, water availability, and overall economic stability. Extreme drought conditions (Figure 1.4) led to the declaration of states of emergency in Botswana, Lesotho, Malawi, Namibia, Zambia, and Zimbabwe (OCHA 2024). According to the Southern African Development Community (SADC), over 61 million people are at risk of severe hunger due to disruptions in the agricultural cycle and decreased yields for staple crops like maize, which have put significant upward pressure on food prices.[2] The World Bank's October 2024 Macro-Poverty Outlook revised GDP growth rates in affected countries downwards relative to the previous edition in April 2024 (Figure 1.5). Malawi's growth rate for 2024 is expected to be the lowest among its neighbors, and the national poverty rate is set to increase (Figure 1.6).

FIGURE 1.3 After rising sharply over 2020–22, commodity prices have stabilized

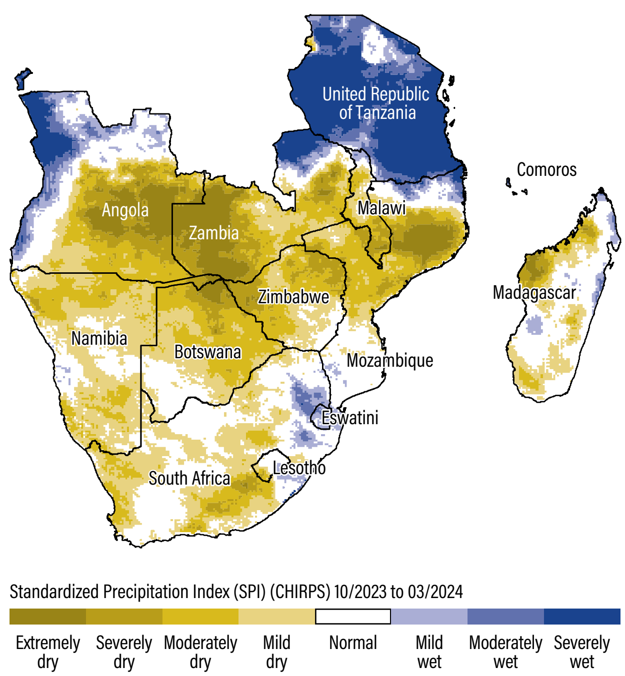
Commodity prices



Source: World Bank 11/2024 commodity markets outlook.
Note: Monthly in U.S. dollar terms. Last observation is September 2024.

FIGURE 1.4 During 2023–24, an El-Nino-induced drought battered Southern Africa

Seasonal rainfall, 10/2023–03/2024

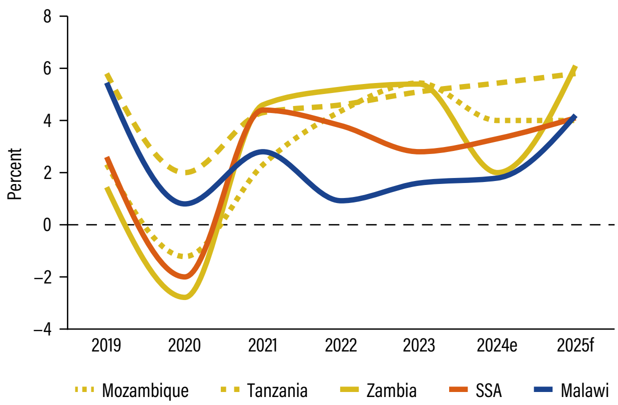


Source: United Nations Office for the Coordination of Humanitarian Affairs (OCHA).

2 The likelihood of a significant decline in agricultural production had been forecast by many experts at the start of the growing season (see, for example, Anderson et al. 2023).

FIGURE 1.5 Malawi's economy continues to underperform its comparators...

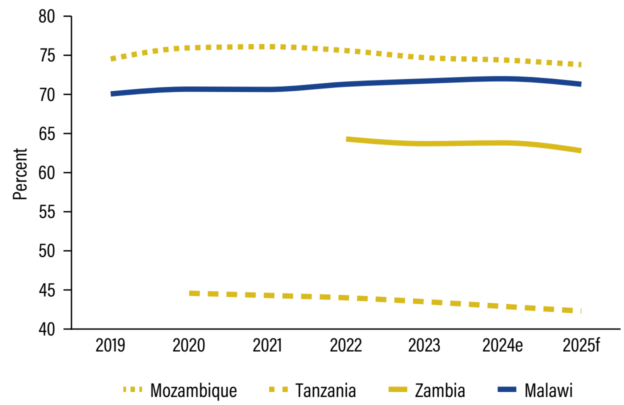
Real GDP growth rates



Source: IMF 11/ 2024 WEO.
Notes: e= estimate, f=forecast.

FIGURE 1.6 ...and poverty levels are stubbornly high and rising

Share of people living on less than US$2.15 per day



Source: World Bank 11/2024 Macro-Poverty Outlook.
Notes: e=estimate, f=forecast.

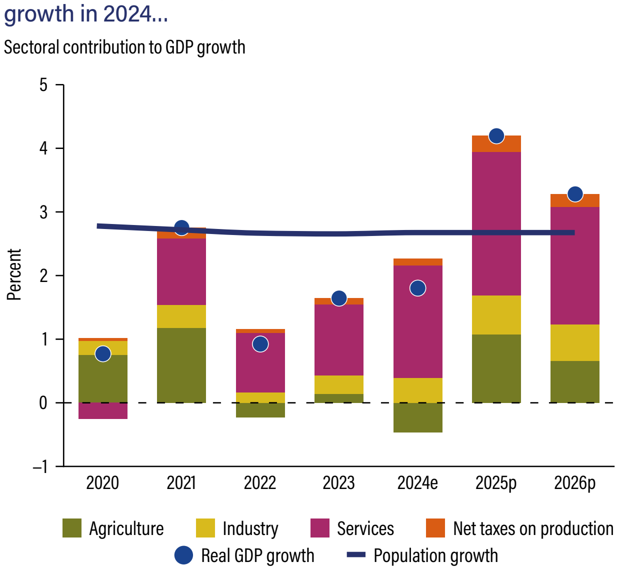
1.2

RECENT ECONOMIC DEVELOPMENTS

Per capita growth remained negative in 2024 amid a severe drought and continued foreign-exchange shortages

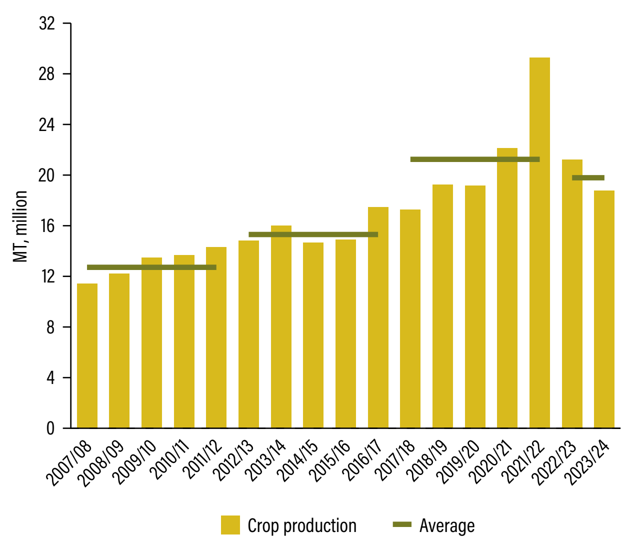
Malawi's economic growth rate ticked up slightly in 2024 but remains low due to shocks and the slow pace of macroeconomic reforms. Malawi's economy is expected to grow by 1.8 percent in 2024, below the 2.0 percent projected in April 2024. With the population growing at about 2.6 percent, this marks the third consecutive year of declining per capita income (Figure 1.7). The El Niño-induced drought negatively impacted agricultural output. Crop production fell from 29 million metric tons (MT) in the 2021/22 season to 21 million in the 2022/23 season and 19 million in the 2023/24 season (Figure 1.8).

FIGURE 1. 7 Weak agricultural output slowed economic growth in 2024...



Source: World Bank MFMod.

FIGURE 1.8 ...as crop production hit its lowest level in five years

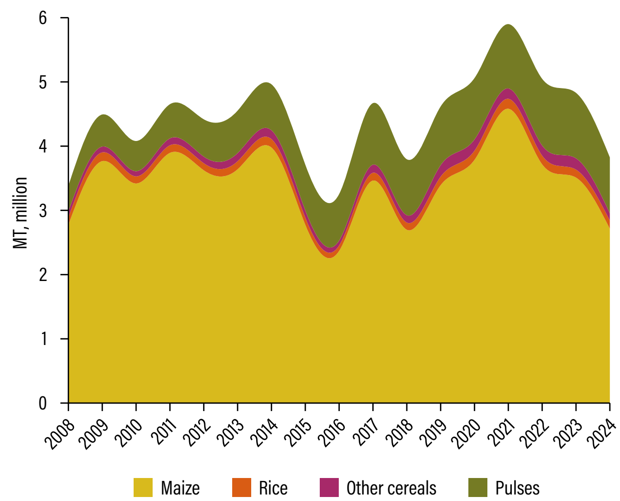


Source: World Bank staff based on Ministry of Agriculture (MoA) APES data.

Food insecurity worsened in 2024 as food production fell short of domestic demand. The production of staple grains, including maize, rice, pulses, and other cereals, dropped to 3.8 million MT in the 2023–24 season, down 21 percent from the previous year. Maize output amounted to just 2.7 million MT, far below the estimated 3.3–3.5 million MT required for domestic consumption (Figure 1.9). In addition to the drought, delays in fertilizer availability, including for AIP beneficiaries, also contributed to the weak agricultural season. These challenges persist, and only 23.8 percent of the 105,000 MT of AIP-procured fertilizer had been accessed at the start of the planting season in December 2024.

Limited access to foreign exchange continues to impede activity in the industrial and services sectors. The services sector expanded by an estimated 3.3 percent in 2024, driven by improved performance in electricity, construction, information and communication, financial and insurance activities, and education. The industrial sector grew by 2.1 percent. Continued shortages of foreign exchange and a rising exchange-rate premium on the parallel market continue to constrain imports of raw materials and other production inputs.

FIGURE 1.9 Output of staple grains declined sharply in 2024



Source: World Bank staff based on MoA APES data.

An insufficient supply of foreign exchange, rising arrears due to implicit subsidies through delayed price adjustments, and logistical challenges have contributed to multiple protracted fuel shortages. Regulated pump prices[3] are too low to cover escalating import and transportation costs, exacerbating cash constraints and straining the supply chain. Although suppliers have exported fuel to Malawi on open credit, mounting arrears have led to the withdrawal of credit lines and recurrent fuel shortages. The state-run National Oil Company of Malawi (NOCMA), which supplies over 50 percent of the country's fuel, and private oil-marketing companies continue to incur losses, and NOCMA's arrears exceed US$70 million. Underpricing results in excessive domestic consumption, incentivizes smuggling, and drains foreign-exchange reserves. These implicit subsidies are a key driver of Malawi's deepening fiscal challenges (Box 1.1).

BOX 1.1 Fuel shortages underscore the high cost of Malawi's quasi-fiscal subsidies

Malawi's fuel shortages result in part from the government's decision to set fuel prices below cost recovery. These policies have resulted in MWK 785 billion in losses for petroleum importers. While the Malawi Energy Regulatory Authority (MERA) is covering these losses, importers are withholding MWK 330 billion in levies that are supposed to be remitted to beneficiary institutions to finance road maintenance and rural electrification projects. Import losses depleted the Price Stabilisation Fund in 2022, preventing it from fully compensating importers. Administrative pump prices are insufficient to cover escalating import and transportation costs,[a] and although suppliers have exported fuel to Malawi on open credit, the increase in arrears has resulted in the severing of credit lines.

Below-cost fuel prices are part of a wider trend of providing implicit subsidies across sectors and products through quasi-fiscal activities conducted outside the budget. The foreign-exchange market is a major example, as the RBM sells foreign-exchange reserves at the official rate, which is significantly below the rate at which most market participants can access foreign exchange. Between 2019 and 2024, the RBM sold over US$1.1 billion in foreign exchange to banks and other entities at the official exchange rate (World Bank 2024a). While details on the use of RBM foreign-exchange sales are not made public, a large share went to finance purchases of fuel and fertilizer.

Other sectors also benefit from implicit subsidies. Following the suspension of the November 2023 energy price increase for non-commercial customers, ESCOM has been unable to cover its costs, generating arrears of more than US$50 million. The fertilizer sector likewise benefits from quasi-fiscal activities through: (i) preferential access to foreign exchange, (ii) a budget allocation from the AIP, and (iii) the government covering arrears and losses from SOEs and parastatals in the sector.

a. Since January 2021, gasoline prices have been adjusted only five times, with the last adjustment in September 2023, while diesel prices have remained frozen for nine months.

The supply of fuel has been temporarily reestablished through a new credit line, and efforts to broker a bilateral fuel-supply arrangement are advancing, but deeper structural problems persist, as do the risk of renewed shortages. After repaying an initial loan of US$50 million, NOCMA has secured an additional US$50 million in financing through a revolving trade-financing facility with the Arab Bank

3 Since January 2021, petrol prices have been adjusted only five times, with the last change in September 2023, while diesel prices have remained frozen for nine months.

for Economic Development (BADEA) originally established in November 2022. New legislation passed in early December indicate a policy shift from open tendering to government-to-government (G2G) agreements that include longer repayment periods. In January 2025, the authorities announced the procurement of 40,000 MT of diesel and petroleum from Abu Dhabi via an agreement with Kenya, and Malawi is developing its own G2G arrangements with Gulf nations.

However, the international experience has shown that G2G arrangements can lock the government into paying fixed prices significantly above the global price. Such agreements could also leave NOCMA as the sole importer and increase pressure on the RBM to provide foreign exchange from its limited reserves. Moreover, Malawian legislation exempts these transactions from the PPDA Act, thereby evading important oversight mechanisms. While the longer repayment periods under the new arrangement may provide some temporary relief from acute fuel shortages, the underlying structural problems will persist unless the government implements the necessary reforms to address price distortions and foreign-exchange constraints.

Three recently signed MDAs have accelerated the development of the mining sector. The government signed MDAs with Mkango Resources to develop the Songwe Hill rare earths project, with Lotus Resources to restart the Kayelekera uranium mine, and with Globe Metal & Mining for the Kanyika niobium project. These projects have considerable potential to boost exports and generate foreign exchange while creating local employment and procurement opportunities. However, their large energy requirements could push total energy demand as much as 30 percent above current installed capacity. Continued progress in developing the 350 MW Mpatamanga hydropower plant could help ensure that these mines have sufficient energy to conclude the construction phase and initiate production (Box 1.2). The mining sector also faces challenges around negotiating a fair tax and royalty regime, funding the necessary supportive infrastructure, and developing environmental and social protections and safeguards. These issues are detailed in the MEM's Special Topic section, "Unlocking the Potential of the Mining Sector."

BOX 1.2 The Mpatamanga Hydropower Storage Project could have a transformative economic impact

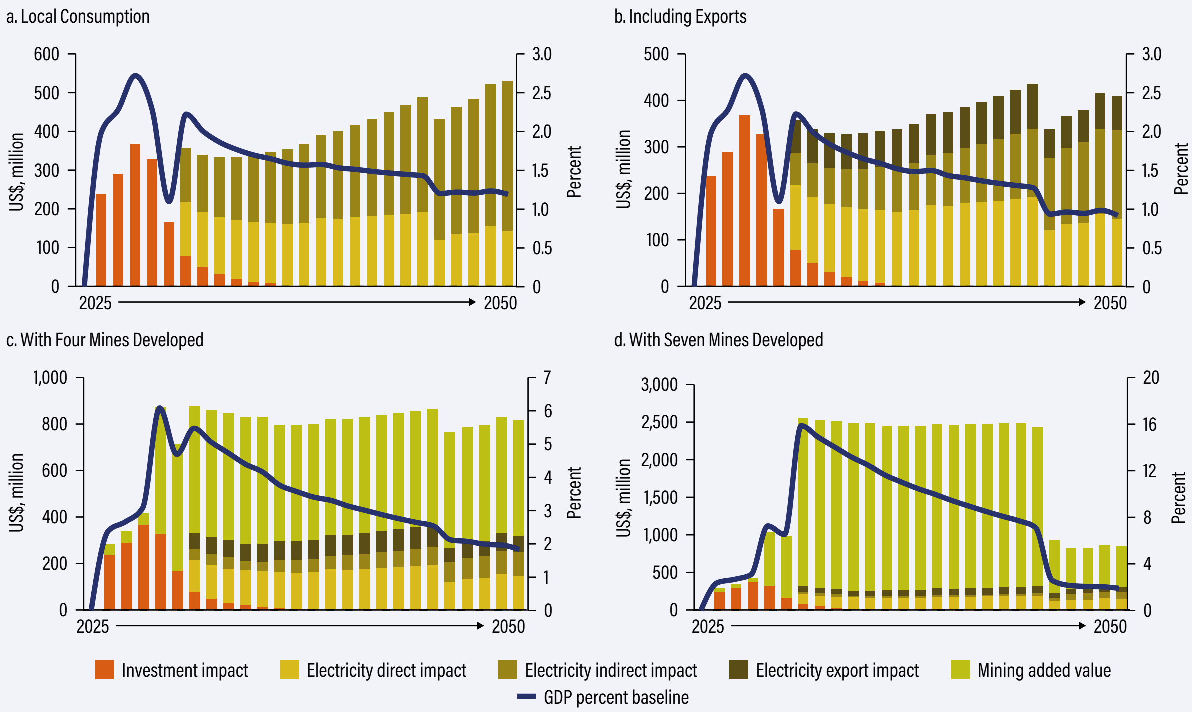
Investment in power generation is crucial for Malawi to increase electricity access, build resilience to climate shocks, and accelerate economic growth. At 26 percent, Malawi currently has one of the lowest rates of electricity access among comparable countries, and boosting it will require substantially increasing generation capacity. In the past, power demand often outstripped supply, and over the medium term the country may face a significant power deficit that would hamper its economic development. Moreover, Malawi's lack of a reserve margin for power generation makes it highly vulnerable to climate shocks. In 2022, Cyclone Ana caused major damage to the country's largest power plant, Kapichira (129.6 MW), resulting in 6 – 8 hours of daily loadshedding for over a year. At the start of 2025, power rationing resumed after technical challenges at the Kapichira and Nkula B hydropower stations cut 84.8 MW (19.2 percent of total installed capacity) from the national grid.

The Mpatamanga Hydropower Storage Project (MHSP) is a strategic investment and would be one of the largest projects in Malawi's history. The project is set to generate over 1,500 gigawatt-hours annually, equivalent to 60 percent of Malawi's current electricity production. This project will boost the supply of clean, affordable energy, improving electricity access and foster private sector growth. The MHSP's ability to supply and store power will greatly increase the reliability of the country's power systems and create opportunities to trade surplus power through the Southern Africa Power Pool. Developed through a public-private partnership, constructing the MHSP will require a large investment of about US$1.6 billion, or roughly 12 percent of Malawi's 2023 nominal GDP, to complete construction (planned from 2025 – 2030). The partnership arrangement, along with pledged support from Malawi's development partners, will enable the project's feasibility despite the country's macro-fiscal challenges.

The MHSP is expected to significantly impact Malawi's economy in several ways. During the construction phase, the project will generate substantial investment, with multiplier effects on GDP and job creation. Once the MHSP is operational, it will have a transformative impact on multiple sectors, including transportation, finance, agriculture, processed food and real estate. The project will strengthen the trade balance, as a share of the increased energy output will be exported, and a share will boost domestic production, facilitating non-energy exports. The MHSP will also generate significant economic spillovers by boosting regional energy resilience and enhancing the Southern Africa Power Pool's efficiency, fostering economic integration and growth across member countries.

Between 2025 and 2050, the construction of the MHSP is projected to boost nominal GDP by US$1.6 billion, or about 13 percent of Malawi's projected 2026 GDP. After construction, the direct benefits from increased electricity production, combined with the indirect impact on other sectors (excluding mining), could add US$7.2 to US$8.0 billion to total economic output (60 – 68 percent of 2026 expected GDP). Finally, the indirect benefits from supporting the development of the mining sector could range from an additional US$11.4 billion to US$38 billion.

FIGURE B1.2.1 The MHSP will have significant positive impacts across the Malawian economy



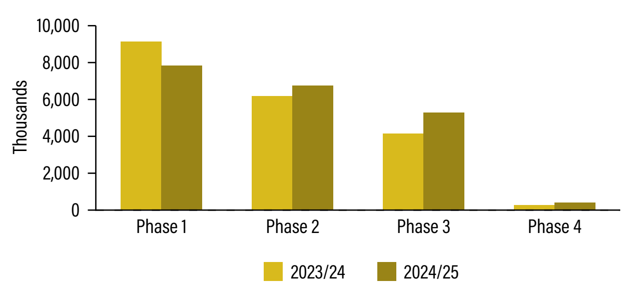
Source: World Bank staff calculations based on MHSP impact study.
Notes: a: Assumes 100 percent of the electricity produced by the MHSP is consumed domestically, with no additional impact from the development of mining activities. b: Assumes 50 percent of the produced electricity is exported, with no additional impact from the development of mining activities. c: Assumes 50 percent of the produced electricity is exported and includes the impact of mining activity from the Kayelekera, Kanyika, Songwe Hill, and Kasiya projects. d: Assumptions are the same as c but also include the Malingunde, Makanjira, and Kangankunde mining projects.

The weak 2023/24 harvest has contributed to record levels of food insecurity

A poor harvest following a protracted drought, high rates of food-price inflation, and diminished income opportunities have further strained access to staple foods, especially among poorer households. Between October 2024 and March 2025, an estimated 5.7 million people, or 28 percent of the population, will face crisis-level food insecurity (Figure 1.10). Food insecurity remains chronic in Malawi, particularly during the October-March lean season, and has been particularly severe over the past two years. In 2023, an estimated 4.4 million people (22 percent of the population) faced acute food insecurity, due in part to continued challenges around access to affordable inputs, as well as the impact of Cyclone Freddy, which disrupted agricultural production, particularly in the southern region.

FIGURE 1.10 28 percent of the population faces crisis-level food insecurity

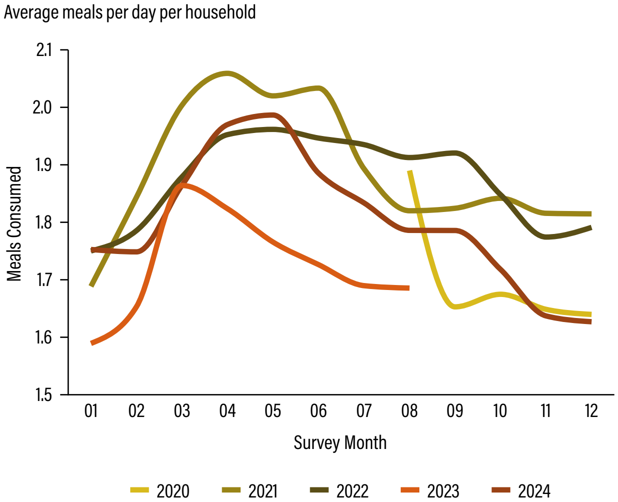
IPC 3 and above (number of people)



Source: World Bank staff based on IPC data.

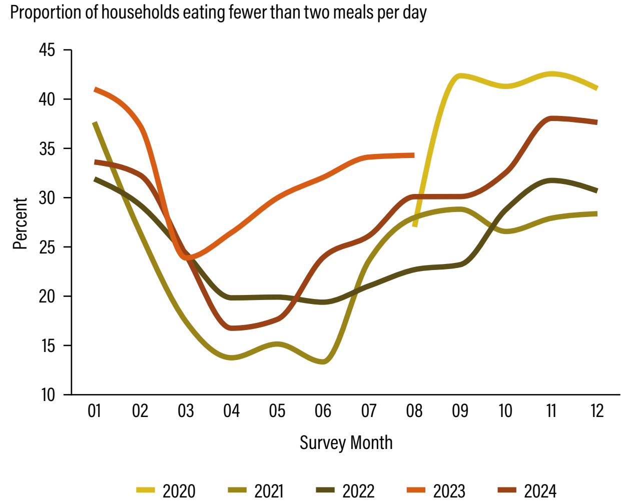
Results from the Rapid Feedback Monitoring System show a severe deterioration in household welfare across southern Malawi. In August 2024, four in 10 families reported eating fewer than two meals per day, while three in 10 reported eating fewer than two meals during the same period in the previous year. Assistance to households is largely seasonal and primarily comes from family members. In March 2024, shortly after the peak period for food insecurity, around 70 percent of households reported not receiving any form of support, while 16 percent received cash, 10 percent received food, and 4 percent received both. For 70 percent of households, this assistance came from family members.

FIGURE 1.11 The average household in Southern Malawi has reduced the number of daily meals compared to previous years



Source: World Bank based on Rapid Feedback Monitoring Survey 2024.

FIGURE 1.12 The share of households in Southern Malawi eating fewer than two meals per day in the post-harvest months has reached its highest level since 2020



Source: World Bank based on Rapid Feedback Monitoring Survey 2024.

Progress towards fiscal consolidation stalled in 2024

Lower-than-expected revenue collection and expenditure slippages during the first half of FY2024/25 widened the fiscal deficit, further undermining the fiscal consolidation envisaged under the ECF-supported reform program. During the first half of the fiscal year, from April–September 2024, the fiscal deficit reached MWK 950.9 billion (4 percent of GDP), 6 percent higher than the midyear target of MWK 897.2 billion (3.8 percent of GDP). The domestic primary deficit, which excludes interest payments, expanded by 66.7 percent to MWK 234.8 billion (1 percent of GDP). By contrast, the ECF target for September 2024 was a surplus of MWK 57 billion (0.2 percent of GDP).

TABLE 1.1 FY2024/25 Midyear Budget Performance

Billions, MWK

	Mid-Year Projection	Mid-Year Outturn	Variance (percent)
Total Revenue and Grants	**2,222.5**	**1,726.9**	**-22.3**
Domestic Revenue	1,638.3	1,503.5	-8.2
Tax Revenue	1,559.0	1,438.5	-7.7
Taxes on income, profits and capital gains	761.3	739.7	-2.8
Taxes on goods and services	643.5	563.4	-12.4
Taxes on international trade and transaction	153.2	135.0	-11.9
Other Revenue	79.3	65.0	-18.0
Grants	584.2	223.4	-61.8

	Mid-Year Projection	Mid-Year Outturn	Variance (percent)
Expenditure	**3,119.7**	**2,677.8**	**-14.2**
Recurrent Expenses	2,234.3	2,239.0	0.2
Public Debt Interest	647.0	644.3	-0.4
Use of Goods and Services	629.7	544.1	-13.6
Grants	218.2	193.8	-11.2
Social Benefits	185.8	172.6	-7.1
Other expenses	31.2	31.6	1.0
Deficit	**-897.2**	**-950.9**	**6.0**
Domestic Primary Balance	**-140.9**	**-234.8**	**66.7**
Total Financing	897.2	950.9	6.0
Foreign Financing (net)	75.0	42.8	-43.0
Domestic Borrowing (Net)	822.2	908.2	10.5

Source: World Bank staff calculations based on mid-year budget.
Note: Domestic primary balance is calculated by subtracting recurrent expenditures (except interest payment) and domestically financed development expenditures from tax and non-tax revenues.

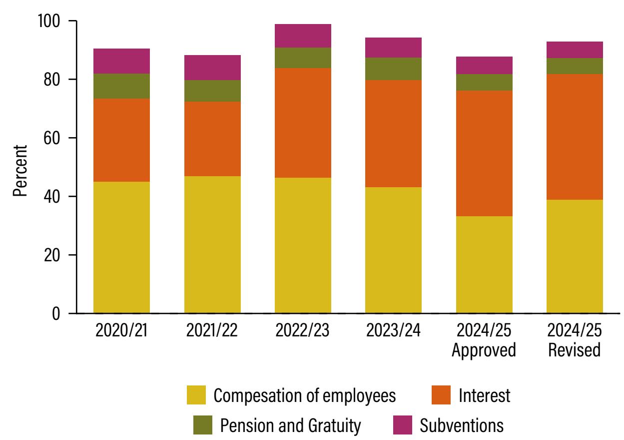
Revenue collection fell far short of the government's FY2024/25 target, more than offsetting the reduction in expenditures. As highlighted in the previous edition of the MEM (World Bank 2024b), the approved budget for FY2024/25 was based on very optimistic revenue assumptions. Specifically, the Treasury assumed revenues would be 32 percent higher than in the previous fiscal year due to large anticipated grant disbursements and improved tax collection. By midyear, however, revenues were underperforming across all major categories. At MWK 1,726.9 billion (7.3 percent of GDP), revenue was well below the approved target of MWK 2,222.5 billion (9.4 percent of GDP). The shortfall was largely due to a reduction in grant funding, which reached just MWK 360.8 billion (1.5 percent of GDP) versus a midyear target of MWK 584.2 billion (2.5 percent of GDP). Domestic revenue amounted to MWK1,438.5 billion (6.1 percent of GDP), 8.2 percent below the target of MWK 1,559.0 billion (6.4 percent of GDP).

During the first half of FY2024/25, expenditures fell below targets across major categories except recurrent spending, and especially wages. At MWK 2,677.8 billion, overall spending was 14.2 percent below the midyear target of MWK 3,229.7 billion, due in part to the backloading of expenditures. For example, fertilizer payments were shifted from the first half to the second half of the fiscal year. However, recurrent expenditures, in particular spending on wages and salaries, surpassed the midyear target by 26.1 percent and a further increase in public sector wages was announced in the mid-year budget. To accommodate the surge in the wage bill, the government reduced expenditures on domestically financed projects and social grants, as liquidity constraints in the domestic securities market hindered efforts to bridge the revenue shortfall through domestic borrowing (Box 1.3).

Despite failing to reach its revenue targets during the first half of FY2024/25, the government has raised its revenue projections for the full fiscal year. The revenue projection has been revised upward from MWK4,552.2 billion (19.3 percent of GDP) to MWK 4,626.2 billion (19.6 percent of GDP). Meanwhile, the authorities modestly increased the expenditure target from MWK 5,988.8 billion (25.4 percent of GDP) to MWK 6,040.4 billion (25.6 percent of GDP). Reaching these targets would narrow the fiscal deficit from 6.1 percent to 6.0 percent of GDP. The tax revenue target remains broadly unchanged at 13.8 percent of GDP, but it is unclear how the higher overall revenue target will be achieved given the underperformance of revenues during the first half of the year, slowing economic activity, and the absence of significant new revenue measures. For context, tax revenue performance has averaged 12.2 percent of GDP over the past four years. Overly optimistic targets create risk of significant further slippages, and Malawi is likely to again post one of the largest budget deficits in Sub-Saharan Africa, which could lead to the continued accumulation of arrears and further monetary financing of the fiscal deficit.

Rigid expenditures, including interest on the public debt, have significantly curtailed the government's fiscal space. Over the past four fiscal years, rigid budgetary expenditures have consumed an average of 93 percent of domestic revenue (Figure 1.13). These spending items entail institutional, legal, or contractual requirements or other constraints that limit the ability of policymakers to alter the size and composition of the budget, at least in the short term. Debt-service obligations have increased rapidly, rising from 28 percent of domestic revenue in FY2020/21 to an estimated 43 percent in FY2024/25. As a result, rigid expenditures will continue to limit the allocation of resources to social spending and productive investment.

FIGURE 1.13 Rigid expenditures continue to limit the available fiscal space



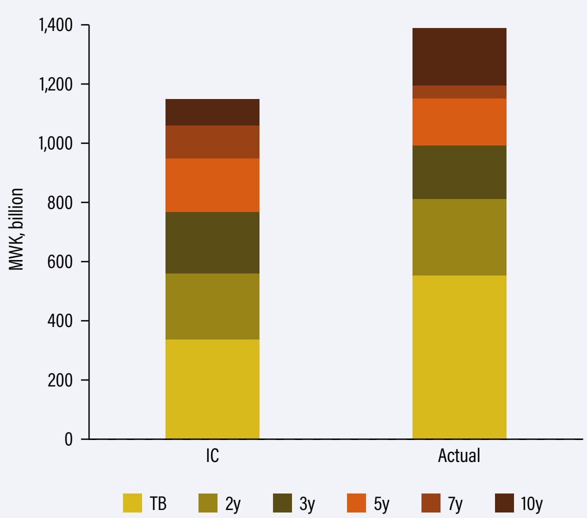
Source: World Bank staff calculations based on MoFEA data.

BOX 1.3 Debt issuance is above target levels, yet financing gaps persist

In the first half of FY2024/25 (April – September 2024), the Treasury exceeded its debt-issuance targets, yet it may still fail to cover the government's financing needs. During this period, the Treasury issued two quarterly calendars aiming to raise about MWK 1.1 trillion, but it ultimately secured nearly MWK 1.4 trillion (Figure B1.3.1 and B1.3.2). Monthly results varied, with performance lagging early in the fiscal year before surging in August, when it exceeded the monthly target by nearly 80 percent. Most resources were raised from auction re-openings rather than from initial auctions. Short-term securities were the main instrument, reflecting investors' caution about longer-term prospects, and the high exposure of the financial market to government debt increased the refinancing risks of government securities. The increasing RBM holdings of government securities, particularly treasury notes, raise concerns about the government's capacity to generate adequate funding directly from the primary market.

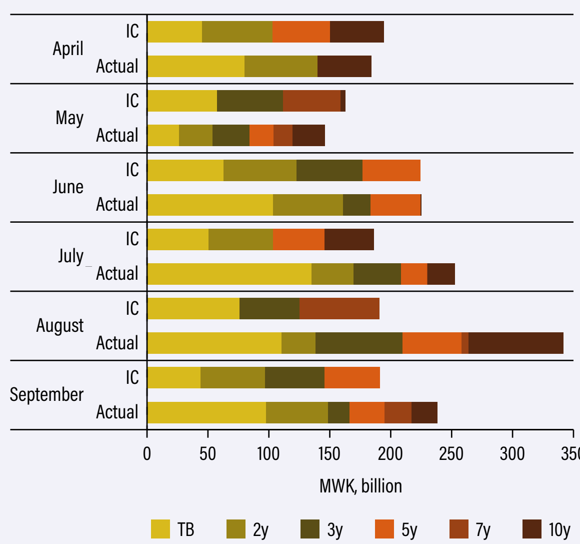
Unlike in FY2023/24, the Treasury did not publish an annual borrowing plan in FY2024/25 as required by Section 72 of the 2022 PFM Act. This plan would have outlined the government's gross financing needs — i.e., new borrowing requirements plus debt maturities — along with financing sources and instruments. The World Bank estimates that Malawi's gross financing needs exceed MWK 3.5 trillion, suggesting that although borrowing is above target levels, it still falls short of covering the government's overall financing requirements. This disparity partly explains adverse fiscal outcomes such as the midyear budget deficit.

FIGURE B1.3.1 Actual debt issuance significantly exceeded target levels...



Source: World Bank staff calculations based on MoFEA data.

FIGURE B1.3.2 ...with a sharp surge in July and August



Source: World Bank staff calculations based on MoFEA data.

TABLE 1.2 Fiscal Accounts

Percent of GDP

	2020/21	2021/22	2022/23	2023/24	2024/25 Approved	2024/25 Revised
Revenue	**14.7**	**14.8**	**15.6**	**19.4**	**19.3**	**19.6**
Domestic revenue	**12.8**	**13.0**	**12.4**	**13.4**	**14.3**	**14.3**
Taxes	**12.1**	**12.2**	**11.9**	**12.4**	**13.8**	**13.8**
On income, profits, and capital gains	5.6	5.5	5.6	6.1	6.7	6.7
On goods and services	5.5	5.7	5.1	5.1	5.5	5.5
On international trade and transactions	1.0	1.1	1.2	1.2	1.6	1.6
Other taxes	0.0	0.0	0.0	0.0	0.0	0.0
Grants	**1.9**	**1.8**	**3.2**	**6.1**	**4.9**	**5.2**
Bilateral	0.0	0.0	0.2	0.0	0.3	0.3
Multilateral	1.9	1.8	3.0	4.1	4.6	4.9
Other revenue	**0.7**	**0.7**	**0.6**	**0.9**	**0.5**	**0.5**
Property income	0.4	0.1	0.1	0.6	0.1	0.1
Sales of goods and services	0.3	0.6	0.4	0.3	0.3	0.3
Fines, penalties, and forfeitures	0.1	0.0	0.0	0.0	0.0	0.0
Expenditure	**21.5**	**23.5**	**26.2**	**29.1**	**25.4**	**25.6**
Expense	**17.8**	**18.7**	**19.0**	**22.0**	**17.9**	**18.9**
Compensation of employees	5.8	6.1	5.7	5.8	4.7	5.6
Use of goods and services	3.6	3.8	3.2	3.2	3.6	3.9
Generic goods and services	2.2	2.2	1.9	2.1	2.1	2.0
Interest	3.6	3.3	4.7	4.9	6.2	6.2
To nonresidents	0.2	0.2	0.3	0.3	0.3	0.3
To residents other than the general government	3.4	3.2	4.4	4.6	5.8	5.8
Grants	1.9	2.1	3.4	6.0	1.7	1.7
Social benefits	2.6	3.0	2.0	1.7	1.5	1.3
Fertilizer payments	1.3	1.9	1.1	0.6	0.6	0.5
Other expenses	0.3	0.4	0.1	0.5	0.1	0.1
Acquisition of Non-Financial Assets	**3.7**	**4.8**	**7.2**	**7.1**	**7.5**	**6.7**
Foreign financed	2.7	3.0	5.5	5.4	5.9	5.5
Domestically financed	1.0	1.8	1.7	1.7	1.6	1.2
Overall balance (accrual basis)	**-6.8**	**-8.7**	**-10.6**	**-9.6**	**-6.1**	**-6.0**
Overall balance (cash basis)	**-7.7**	**-11.0**	**-8.3**	**-8.9**	**-6.1**	**-6.0**
Discrepancy between cash and commitment balance	**-0.8**	**-2.3**	**2.3**	**0.7**	**0.0**	**0.0**
Primary balance	**-3.2**	**-5.4**	**-5.9**	**-4.8**	**0.0**	**0.2**
Net Incurrence of Liabilities	**7.7**	**11.0**	**8.3**	**8.9**	**6.1**	**6.0**
To foreign creditors (net)	1.0	2.6	1.9	1.1	0.6	0.8
To domestic creditors (net)	6.7	8.4	6.4	7.8	5.5	5.2

Sources: World Bank staff calculations based on MoFEA Fiscal data and MFMod GDP data.

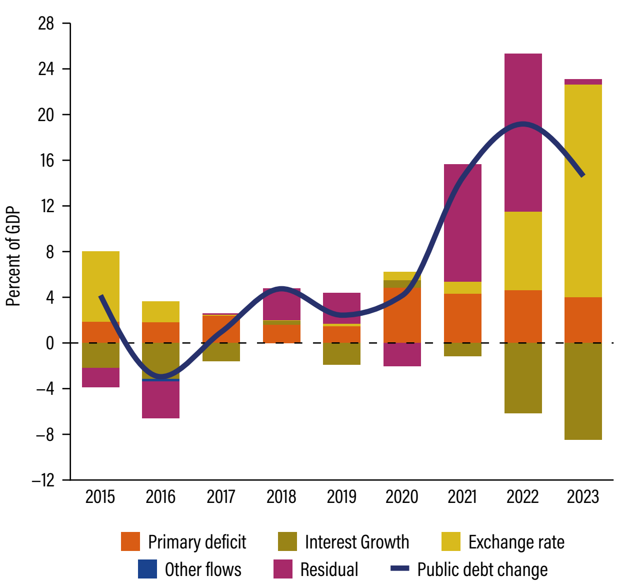
Rising debt remains a concern amid protracted restructuring negotiations

The public debt stock continues to grow, driven by large primary deficits, exchange-rate pressure, and unrecorded obligations. The rising debt stock reflects years of expansionary fiscal policy (Box 1.4), compounded by pressure on the exchange rate and the realization of contingent liabilities, fiscal risks, and arrears, due in part to SOE bailouts and weak commitment controls (Figure 1.14). These contingent liabilities continue to pose a significant risk to fiscal sustainability. Recent transactions to settle the debts of SOEs have increased Malawi's debt stock and are a key driver of the gap between actual and projected debt levels. High-value legal settlements by the Attorney General's office, particularly related to pharmaceutical and fertilizer contracts, have been securitized, directly adding to the debt stock.

High-cost Treasury notes continue to dominate deficit financing. These notes are raised both from the banking and non-banking sectors (Figure 1.15). Their total value surged from MWK 154.9 billion (29.6 percent of total domestic debt) in early 2015 to over MWK 7,272.0 billion (79.1 percent) in October 2024, an increase of 49.5 percentage points. Treasury notes are traded at a significant discount due to the wide margin between their coupon rates and yields across tenors, which enhances their attractiveness to investors but comes at a steep cost to the government. By contrast, the issuance of Treasury bills has increased only modestly, constrained by the PFM Act's limit on the outstanding stock to 25 percent of annual budgetary revenue.

FIGURE 1.14 Exchange-rate pressures and contingent liabilities have boosted the debt

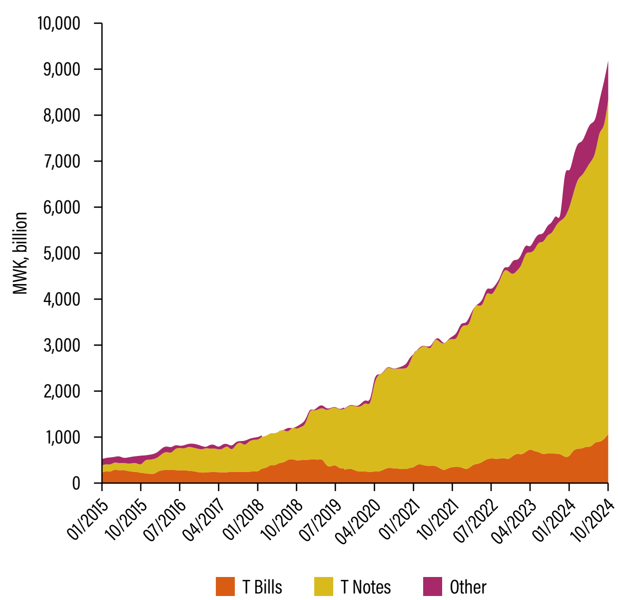
Contributions to changes in public debt (% of GDP)



Source: Staff calculations based on the 2024 World Bank-IMF Debt Sustainability Analysis (forthcoming).

FIGURE 1.15 High-cost Treasury notes have primarily financed the fiscal deficit

(MWK billions)

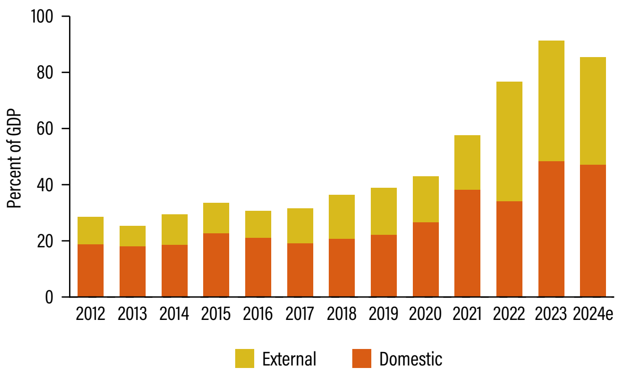


Source: Staff calculations based on RBM data.

After peaking at 91.3 percent of GDP in 2023, the public debt is projected to decline in 2024. According to the latest IMF-World Bank Debt Sustainability Analysis (IMF/World Bank 2025, forthcoming), the public debt is expected to moderate to 85.4 percent of GDP in 2024 (Figure 1.16). However, this estimate hinges on the successful implementation of fiscal consolidation measures and the resolution of risks associated with contingent liabilities. Historically, debt projections have been overly optimistic and have often deviated from actual outcomes (Figure 1.17). Unidentified debt, including contingent liabilities and other fiscal risks, remains a significant source of uncertainty and can undermine the accuracy of debt forecasts.

FIGURE 1.16 The public debt stock is expected to decline in 2024...

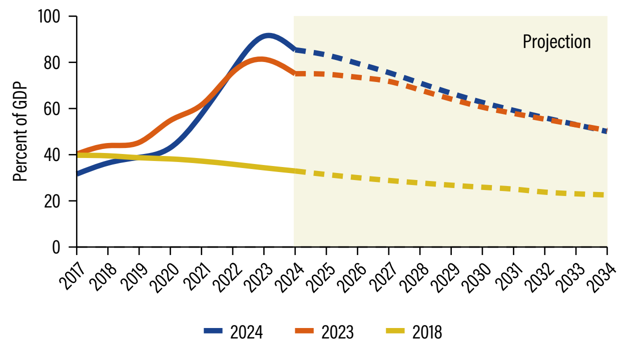
Public debt



Source: Joint Bank-Fund LIC DSA (forthcoming) 2025.

FIGURE 1.17 ...but previous projections have been overly optimistic

Public debt



Source: Joint Bank-Fund LIC DSA (forthcoming) 2025.
Note: DSA vintages are based on rebased GDP.

Public and publicly guaranteed debt remains in distress and is currently unsustainable, but the government is attempting to reach an agreement on debt restructuring with its creditors. Achieving medium-term debt sustainability will hinge on the success of debt-restructuring negotiations with commercial and official bilateral creditors. The government has successfully restructured US$206 million (1.6 percent of GDP) with its largest official bilateral creditor, China, through a supplementary loan agreement. In addition, the Kuwait Fund for Arab Economic Development and the Saudi Fund for Development have agreed in principle to finalize restructuring negotiations, and India recently announced plans to conclude restructuring negotiations. However, negotiations with two main commercial creditors, Trade and Development Bank (TDB) and Afreximbank, have been underway since June 2022 and are advancing slowly. Achieving a mutually acceptable restructuring agreement with these creditors is crucial to restore debt sustainability in the medium term.

Imports continue to exceed exports, and the current account deficit is expected to widen in 2024

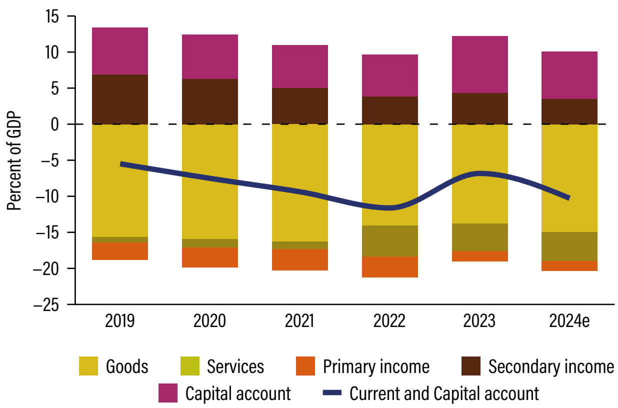
The current account deficit narrowed in 2023 but is projected to widen again and reach 19 percent of GDP in 2024 amid worsening foreign-exchange shortages. Rising net exports and secondary income inflows bolstered the current account in 2023 (Figure 1.18),[4] but Malawi's imports are 2.5 times its exports. Persistently high fiscal expenditures amplify the demand for foreign goods and services, deepening the trade imbalance. This has led to substantial external liabilities, which are financed through official reserves, exacerbating the country's acute foreign-exchange shortage.

Large net errors and omissions in the BoP indicate a lack of transparency around the financing of the current account. Given insufficient export earnings to fund imports, Malawi has increasingly relied on foreign assets, external borrowing, and grants. Net errors and omissions in the BoP act as a balancing item to ensure that the sum of the current, capital, and financial accounts equals zero. They capture unrecorded transactions, including informal or illegal activities, and may also reflect inaccuracies in data collection and reporting. While some degree of errors and omissions is common, large values indicate that the official data do not offer full clarity on the financing sources for imports (Figure 1.19). Errors and omissions are gradually decreasing from their 2021–22 peak, largely due to increased statistical capacity through greater collaboration between the National Statistical Office and the RBM.

4 Secondary income includes official development assistance and multilateral grants.

FIGURE 1.18 The current account deficit narrowed in 2023...

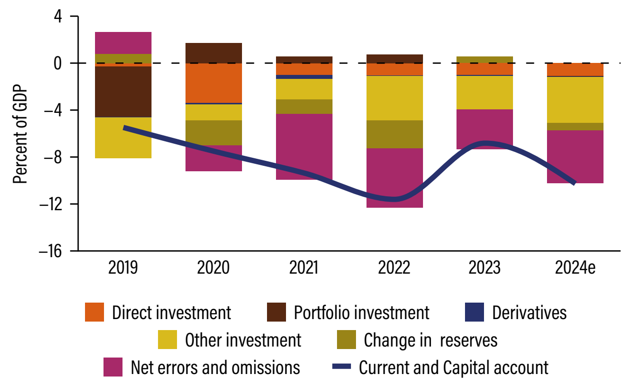
Current and capital accounts (% of GDP)



Source: Staff estimates based on National Statistical Office data.
Note: e= estimates.

FIGURE 1.19 ...but its financing sources are not fully explained

Financial account components (% of GDP)

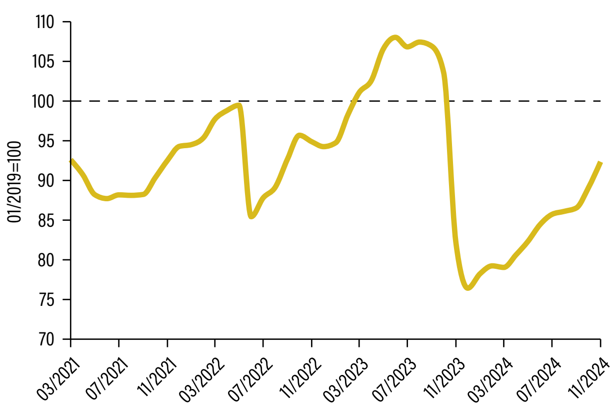


Source: Staff estimates based on National Statistical Office data.
Note: e= estimates.

Despite an improvement in the trade balance in 2023, Malawi's external competitiveness is deteriorating. The November 2023 devaluation of the kwacha, which aligned it more closely with the parallel market rate, caused the REER to fall sharply. The devaluation temporarily enhanced the competitiveness of exporters and likely contributed to the narrowing of the current-account deficit in 2023. However, amid broader distortionary policies the REER has since resumed an upward trend, growing by 12.4 percent between December 2023 and October 2024 (Figure 1.20), partly reversing recent gains in external competitiveness. Preliminary estimates for 2024 point to a widening trade deficit driven by rising imports and underperforming exports (Figure 1.21).

FIGURE 1.20 Export competitiveness is weakening as the REER appreciates...

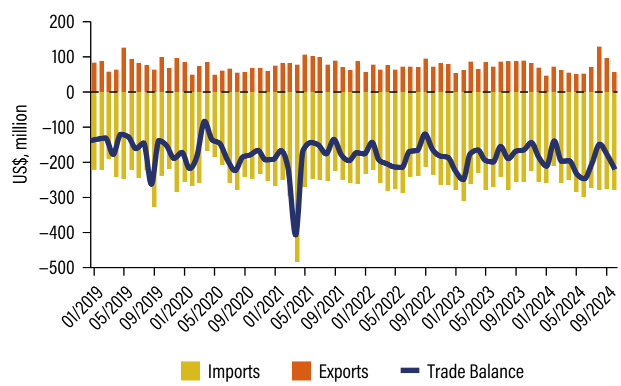
REER index



Source: IMF International Financial Statistics 2024.

FIGURE 1.21 ... and the trade balance on course to widen further

Merchandise trade

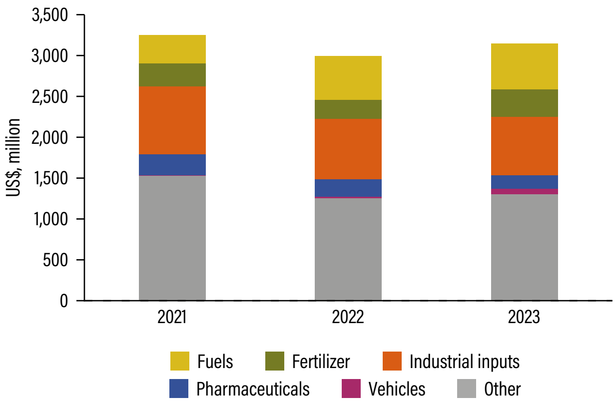


Source: World Bank staff calculations on NSO data.
Note: Seasonally adjusted imports, exports, and trade balance.

Fuel and other strategic goods continue to drive imports. In recent years, the most significant drivers of imports have been fuels, industrial inputs, fertilizers, and pharmaceuticals. Nevertheless, vehicle imports have increased dramatically since 2022, driving further demand for fuel (Figure 1.22).

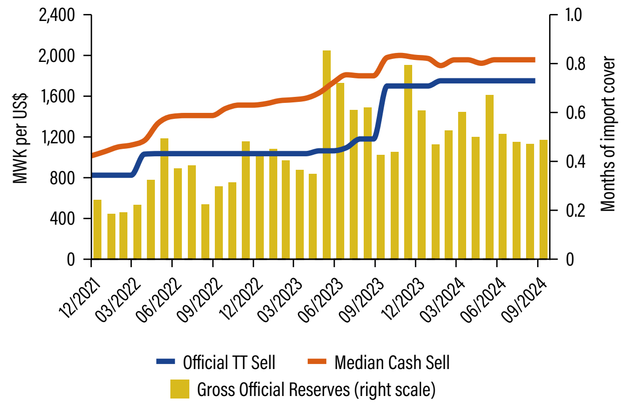
Reserve accumulation remains weak due to persistent foreign-exchange distortions and incomplete reforms. Despite the exchange rate reforms announced in the context of the November 2023 devaluation, the RBM has kept the official exchange rate fixed while key liberalization measures remain unimplemented (Figure 1.23). The RBM has struggled to build buffers, with official reserve assets continuing to decline to less than one month of import cover, while total reserves in the economy (i.e. including those held by authorized dealer banks) represent slightly more than 2 months of import cover. The spread between official and parallel market rates has widened to over 50 percent, creating substantial opportunities for foreign exchange traders to make significant profits, while diverting foreign exchange from official markets. This is significantly higher than the median bureau rate, which has stabilized at a spread of around 11 percent against the official rate, raising concerns that the bureau rate is no longer a reasonable proxy for the parallel-market rate.

FIGURE 1.22 Fuel and fertilizer make up a growing share of total imports



Source: World Bank staff calculations on NSO data.

FIGURE 1.23 The exchange rate has remained stable, but reserves have declined

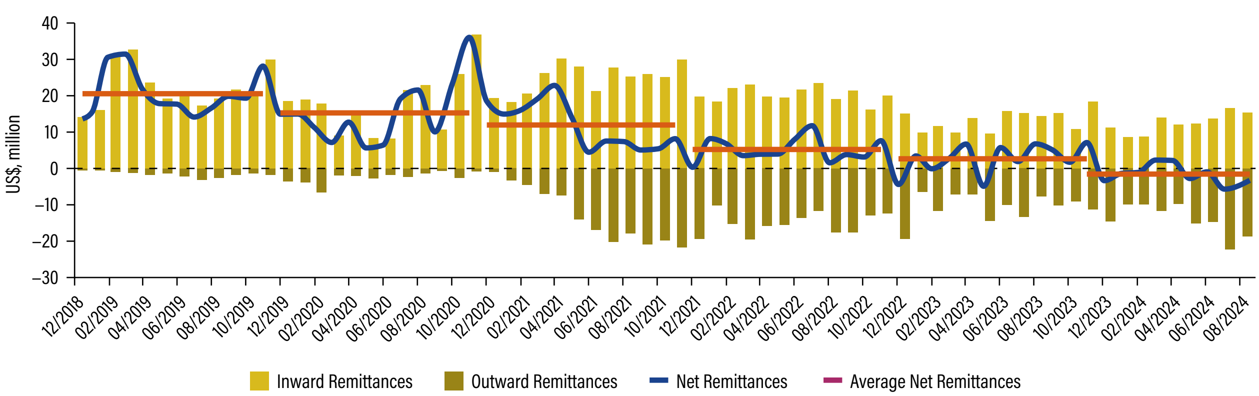


Source: Reserve Bank of Malawi.

A sharp decline in official remittances has deepened Malawi's foreign-exchange challenges. In 2021, remittance inflows reached a record high of nearly US$300 million, but by late 2024 inflows had plummeted to US$112.5 million. Meanwhile, outflows reached US$126.4 million, turning net remittances negative for the first time, which exacerbated foreign-exchange shortages (Figure 1.22). High transaction fees for inbound remittances and a large premium between the official and parallel exchange rates discouraged inflows through official channels and intensified the foreign-exchange crisis. Recent regulations have been introduced to further strengthen foreign exchange controls beyond existing export proceed surrender requirements to encompass the mandatory conversion of foreign currency receipts. While these are intended to bolster official reserves, they could also have the unintended consequence of further increasing capital outflows, reducing liquidity in the formal foreign exchange market, and discouraging private sector investment.

FIGURE 1.24 Remittances, once a key source of foreign exchange, have turned negative

Inbound, outbound, and net remittances in Malawi



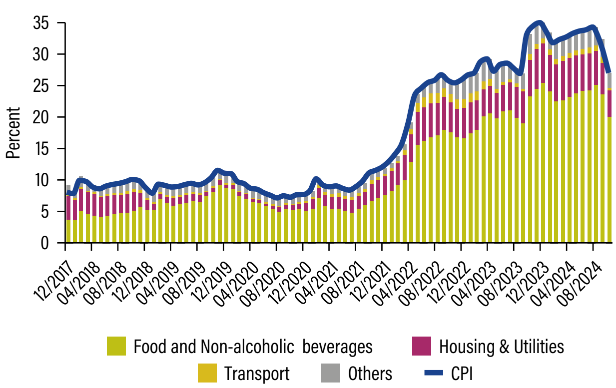
Source: World Bank staff calculations based on RBM data.

Inflation is moderating but still high, as interest rates have remained stable

Inflation began to moderate toward the end of 2024 but remained elevated, primarily driven by rising food and utility prices. Inflation exceeded 30 percent for much of 2024 but began to ease in September, and by November it had fallen to 27 percent. However, month-on-month price increases continue, with drought-related spikes in food prices and escalating utility costs boosting inflation by 3 percentage points in November 2024 compared to the previous month (Figure 1.25). Meanwhile, non-food inflation remained relatively stable throughout 2024 at about 22 percent. Inflationary pressures were exacerbated by the growth of the money supply, which was driven in part by the monetary financing of the fiscal deficit (Figure 1.26). Inflation has further eroded the purchasing power of households, worsening the decline in per capita income levels.

FIGURE 1.25 Food, housing, and utility prices are driving inflation...

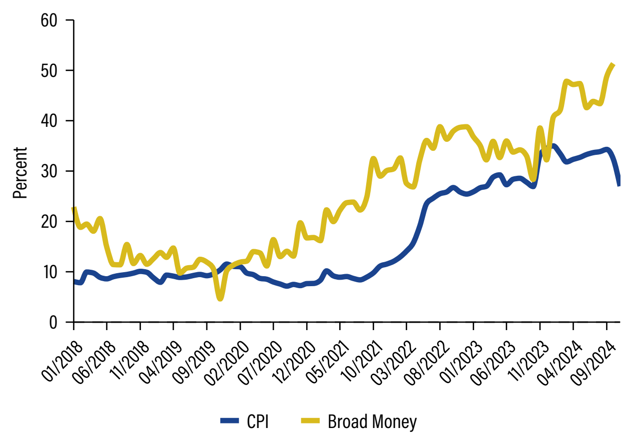
Inflation and its components



Source: World Bank staff calculations based on NSO data.
Note: Contributions are based on the Statistics Netherlands (CBS) methodology.

FIGURE 1.26 ...and the money supply is rapidly increasing

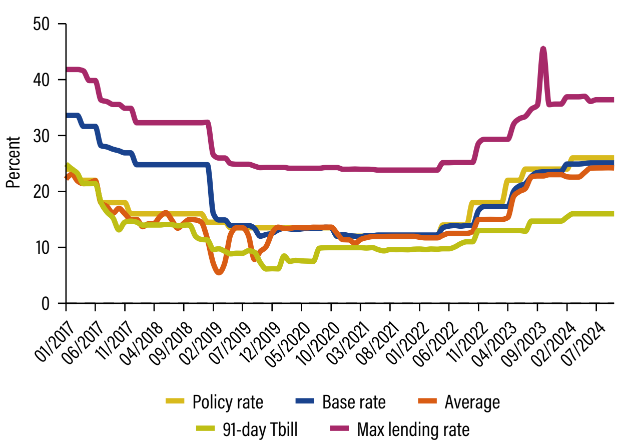
Inflation and broad money (percent change year-on-year)



Source: World Bank staff calculations based on RBM and NSO data.

The policy rate remained stable throughout the past 9 months and the RBM expects inflationary pressures to ease further in 2025. After hiking the policy rate by a cumulative 12 percentage points, from 14 percent in May 2022 to 26 percent in March 2024, the RBM held the rate stable through the rest of 2024 (Figure 1.27). The liquidity reserve ratio increased by 1.25 percent to 10 percent, and the real policy rate measured against headline inflation remained negative, though an alternative measure of the real policy rate, using non-food inflation as a benchmark, has been positive over the last year (Figure 1.28). Lending rates rose in line with

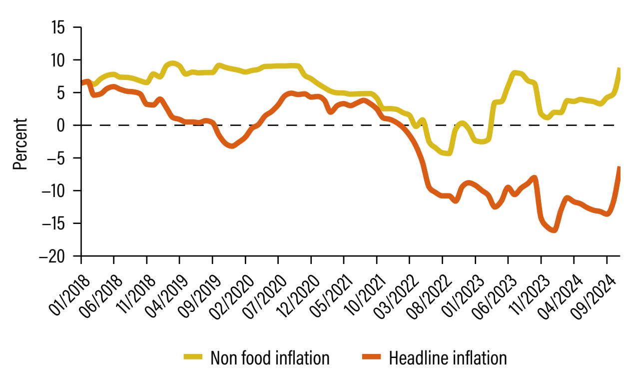
FIGURE 1.27 The monetary policy rate has remained unchanged since March 2024...



Source: World Bank staff calculations based on NSO data.

FIGURE 1.28 ...while the real policy rate measured against headline inflation has remained negative

Real policy rate (using headline and non-food inflation)



Source: World Bank staff calculations based on NSO data.
Note: Two measures of the real policy rate are presented: relative to headline inflation and to non-food inflation).

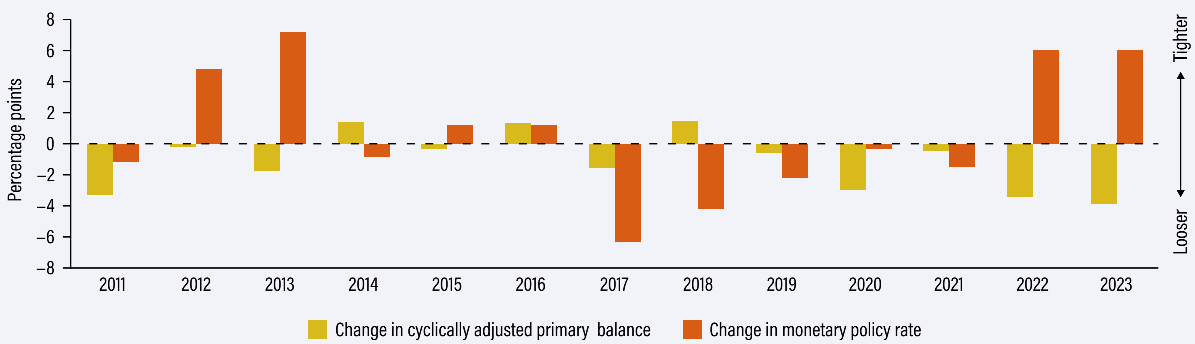
earlier policy-rate adjustments. At its November 2024 meeting, the Monetary Policy Committee kept the policy rate unchanged at 26 percent, citing a near-term outlook of decelerating inflation, though it also identified the growth of the money supply as a key downside risk. However, monetary and fiscal policy have diverged sharply in recent years, with monetary tightening coinciding with widening fiscal deficits (Box 1.4).

BOX 1.4 Malawi's recent fiscal and monetary policies have frequently diverged

Coordinating monetary and fiscal policies is critical to macroeconomic stability, but in Malawi these policies often sharply diverge. Since 2011, fiscal policy has generally been expansive, albeit with exceptions in 2014 and 2016. Meanwhile, monetary policy has largely been tight, though it loosened between 2017 and 2021. In recent years, the ongoing economic crisis and its inflationary effects have led to tighter monetary policy, while fiscal policy remains loose. This policy mix creates challenges, as recent interest-rate hikes have driven up yields on Treasury securities, increasing debt-service costs that should have been offset by higher primary fiscal balances. In addition, when overly loose fiscal policy threatens debt sustainability, excessively high interest rates can undermine the stability of the financial sector.

FIGURE B1.4.1 Malawi's fiscal and monetary policies are uncoordinated

Changes in fiscal and monetary policy stance

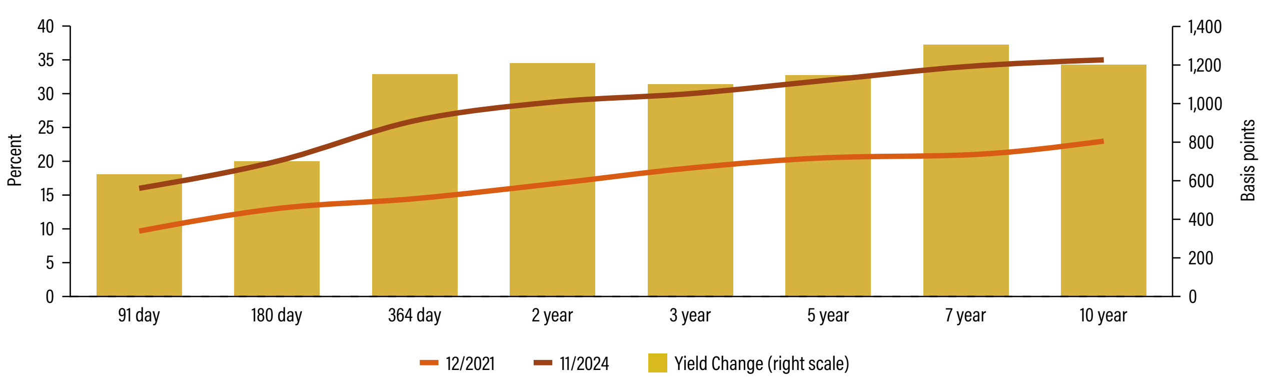


Sources: World Bank staff calculations based on MFMod, MoFEA and RBM data.

Notes: In Malawi, the headline fiscal balance alone may not accurately reflect changes in fiscal policy. Therefore, this analysis uses the cyclically adjusted primary balance to infer the historical stance of fiscal policy. The cyclically adjusted primary balance, computed as the difference between cyclically adjusted revenues and cyclically adjusted expenditures, removes cyclical factors from the headline budget balance. Fiscal policy is tightening (loosening) if the annual change in the cyclically adjusted primary balance is positive (negative or zero).

Interest rates on domestic securities have continued to rise in line with changes in the monetary policy rate. Rising inflation and significant demand for deficit financing led to a steepening of the domestic securities yield curve, as investors sought higher returns on longer-term securities to compensate for the erosion of purchasing power and higher risk. Since December 2021, yields on all types of Treasury securities have increased by over 10 percent. Treasury bills have also risen, though at a slower pace than Treasury notes.

FIGURE 1.29 Domestic yields continued to edge upwards



Source: World Bank staff calculations based on RBM data.

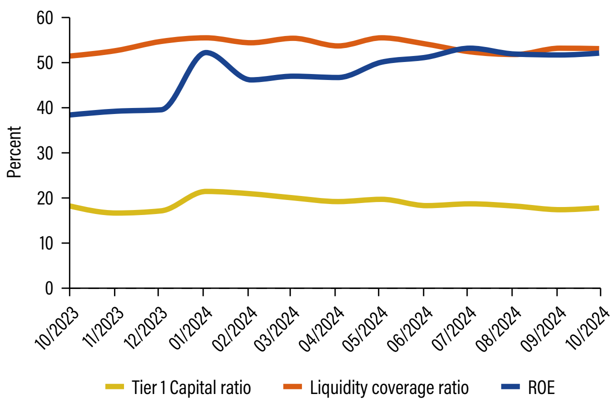
The banking sector remains profitable, but vulnerabilities are emerging

Malawi's banking sector has been highly profitable during the ongoing economic downturn. The average ROA for banks in Malawi rose from 5.0 percent in October 2023 to 5.9 percent in October 2024, far above the global average (0.5–1.5 percent) but in line with the December 2023 average for regional comparators such as Tanzania (4.5 percent) and Mozambique (4.7 percent). Malawian banks reported a 52.1 percent average ROE in October 2024, significantly higher than the global standard of 8–15 percent, the 10 percent average for South African banks recorded in June 2024, and the averages of 21.0 and 19.11 percent for banks in Tanzania and Mozambique, respectively, in December 2023.

Banks in Malawi have been prioritizing safe investments, especially government securities, which has limited credit availability for the private sector. Between September 2023 and September 2024, the ratio of loans and advances to total assets fell by more than 17 percentage points to 24.4 percent, while the ratio of government debt to total assets stood at 51.4 percent. As a result, capital and liquidity positions have increased despite the country's ongoing economic challenges, with banks adhering to stricter credit allocations. As of October 2024, the banking sector's total capital ratio and Tier 1 capital ratio stood at 20.0 percent and 17.8 percent, respectively, well above the regulatory minimums of 15.0 percent and 10.0 percent (Figure 1.30). Meanwhile, the liquidity coverage ratio strengthened from 51.5 percent in October 2023 to 53.1 percent in October 2024.

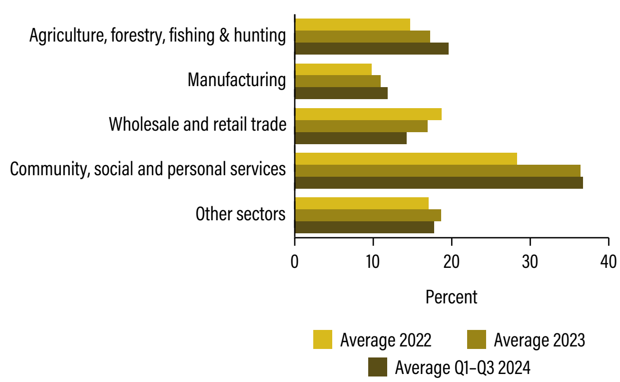
Banks have increased their lending to the private sector, with only a small but rising share going to agriculture and manufacturing. From October 2023 to October 2024, credit to the private sector increased 20.0 percent. Nearly half of this lending is allocated to "Community, Social, and Personal Services" and "Wholesale and Retail Trade" (Figure 1.31) uses. Increasing demand in some segments is mainly attributable to the structure of the economy, the funding preferences of firms and individuals, the increasing use of digital offerings mainly targeting civil servants, the funding of vehicle fleets by the corporate sector, and the growth of the health sector and private educational institutions (Figure 1.31). The rising cost of goods and services may also have contributed significantly to the growth of credit to the private sector (Box 1.5). Amid this challenging environment, lending to these segments has been higher in Malawi than in neighboring Zambia.

FIGURE 1.30 Banks in Malawi are highly profitable



Source: World Bank staff calculations based on RBM data.

FIGURE 1.31 Personal loans and trade credit dominate private-sector lending



Source: World Bank staff calculation based on RBM data.

Despite its high profits and apparent stability, RBM stress tests reveal that the banking sector is vulnerable to major shocks, particularly due to credit concentration. While Malawi's financial sector would be resilient to individual shocks, multiple simultaneous shocks could present a systemic threat. Additional risks stem from the banking sector's concentrated borrowing patterns and high levels of individual client exposure, underscoring the importance of continued vigilance, risk management, and diversification.

BOX 1.5 Bank lending is on the rise, but credit standards are tightening

The Malawian banking sector has experienced significant shifts in lending trends. According to the RBM's 2024 Bank Lending Survey, in the first half of 2024 demand for loans increased among households and among firms of all sizes. This surge in demand was driven by the improved quality of borrowers and by worsening economic and market conditions, as firms required more credit to finance the same level of operations while households sought credit to mitigate the impact of rising costs. Banks have started to expand their consumer lending portfolios, targeting civil servants in particular, as they are considered low-risk due to job security and direct salary deductions.

Despite the increased demand for loans, banks maintained stringent credit standards and conditions, citing increased default rates, regulatory requirements, and concerns over asset quality. The tightening of credit standards was observed across all economic agents, with banks indicating that they would further stiffen credit standards and conditions for loan approval in the next six months.

Looking ahead, banks expect demand for loans to continue rising, driven by inflationary pressures and ongoing foreign-exchange shortages. However, stronger demand is likely to be met by a further tightening of credit standards, leading to a potential increase in NPLs. Most banks expect NPLs to rise across all economic agents, primarily due to the anticipated continued adverse macroeconomic conditions.

Source: Reserve Bank of Malawi, Financial Stability Report.

The share of non-performing loans (NPLs) in total loans continues to rise, highlighting the need to strengthen credit risk management in a difficult economic environment. The NPL ratio for the banking sector rose from 6.7 percent in October 2023 to 9.0 percent in October 2024, exceeding the regulatory threshold of 5.0 percent for over 12 months. Banks will need to enhance their credit risk management frameworks amid an unconducive business environment marked by high interest rates.

Improved governance has supported the continued growth of savings and credit cooperatives and microfinance institutions. Driven by rising interest income, the subsector's profits rose from MWK 4.7 billion in 2023 to MWK 7.3 billion in June 2024, an increase of 55.3 percent. As of June 2024, the capital adequacy ratio was 30.5 percent, far above the 10.0 percent regulatory minimum. Savings and credit cooperatives demonstrated satisfactory asset quality, with an NPL ratio of 3.8 percent, below the 5.0 percent regulatory benchmark. Deposit-taking microfinance institutions recorded core capital and total capital ratios of 20.8 percent and 24.9 percent, respectively, in June 2024. Although down from 23.6 percent and 28.1 percent in December 2023, the ratios exceeded the regulatory benchmarks of 10.0 percent and 15.0 percent. Asset quality improved, with the NPL ratio dropping from 4.5 percent in December 2023 to 4.0 percent in December 2024.

Despite showing resilience in the first half of 2024, Malawi's pension sector has faced significant decline in investment income. Investment income for the sector fell from MWK 589.0 billion in 2023 to MWK 246.0 billion in 2024, mainly due to a decline in unrealized gains amid a stock market downturn. Key risks include rising payouts following the implementation of the 2023 Pension Act, heightened credit risk due to increasing pension arrears, and asset concentration in a small group of listed companies (53.8 percent) and government securities (26.3 percent).

Digital payment systems are expanding and becoming more efficient

Individuals and firms are increasingly able to access financial services and conduct transactions through an evolving array of digital payment systems. Over 14 million people in Malawi use mobile-money services, the most widely used digital payment channel. The country's major payment systems infrastructure, MITASS, has remained stable and reliable, processing 3.7 million transactions worth MWK 57.1 trillion in 2024 alone. Retail digital payment services have seen significant growth, with a 9.9 percent increase in transaction volume and a 21.6 percent increase in transaction value. Malawi's National Electronic Payments Gateway System, which aims to improve the efficiency and security of electronic payments while promoting financial inclusion, is expected to launch in the first half of 2025. The RBM has also implemented new measures to mitigate risks associated with digital payments, including robust fraud-mitigation solutions and public awareness campaigns.

The ongoing development of Malawi's payment systems is part of a broader regional trend, with similar efforts underway in Zambia, Mozambique, and Tanzania. Tanzania, for example, has introduced the Tanzania Instant Payment System, an interoperable digital payment platform that handled over 235 million transactions in 2023. Tanzania has also further strengthened its payment systems infrastructure with the establishment of the Tanzania Interbank Settlement System and the Tanzania Automated Clearing House.

1.3

MEDIUM-TERM ECONOMIC OUTLOOK

Malawi's economy is in a highly vulnerable position. While GDP growth for 2025 is currently projected to exceed 4 percent, supported by a stronger agricultural season and robust manufacturing output, persistent foreign-exchange shortages continue to pose serious challenges for the private sector. Ongoing investments in commercialized agriculture, energy and the mining sector are expected to boost economic activity and increase exports, but their benefits will take years to materialize and will require sustained macroeconomic stabilization. The medium-term outlook is subject to significant downside risks, including increasingly frequent climate-related disasters, expected investments not materializing, and the continued slow pace of macroeconomic adjustment and reform, especially in a pre-election context.

One year after the start of the government's ECF-supported macroeconomic reform program, efforts to address the rising fiscal and external imbalances have stalled. The implementation of the FY2024/25 budget is showing significant slippages, with revenue in particular performing far below expectations. The midyear budget amendment includes some limited revenue measures, but these are unlikely to have a large impact on the fiscal balance while new wage increases will put further pressure on expenditures. Meanwhile, debt vulnerabilities are likely to persist amid the slow momentum of debt restructuring, as interest payments and other statutory expenditures will continue to crowd out productive investment. Moreover, the implementation of key PFM reforms, including the integration of human resource management into IFMIS, is progressing slowly. Containing expenditures and ensuring that the FY2025/26 budget returns to the fiscal consolidation path agreed to in 2023 under the government's economic reform program supported by the ECF will be vital to shore up macro-fiscal stability.

Acute foreign exchange shortages are likely to persist into 2025, though the tobacco harvest should ease pressures temporarily. The official exchange rate, a key policy lever to enable to accumulation of reserves and increase the external competitiveness of the economy, has remained effectively fixed since early 2024, while the gap with the parallel-market rate has steadily increased. In the absence of new sources of foreign exchange, shortages of critical imports will likely persist, and most current account transactions will continue to use the parallel-market rate. Sustainably addressing this will require increased exchange rate flexibility and moving towards cost-reflective pricing of fuel and energy.

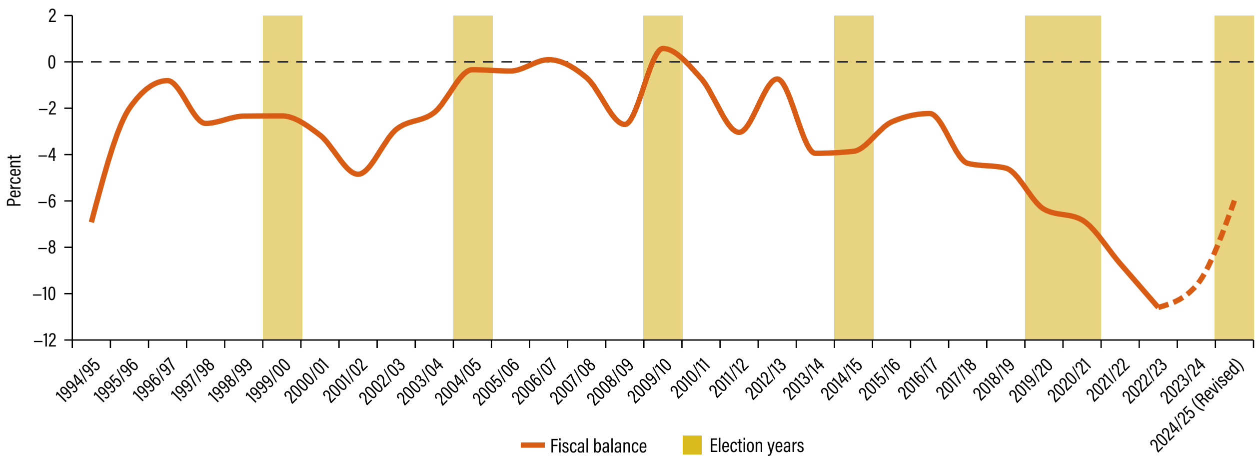
The country faces a challenging lean season, entering the new year with few buffers and record levels of food insecurity. Food stocks have been largely depleted following last year's El Niño-induced drought, and prices for maize and other food staples are significantly higher than in recent years. A La Niña phenomenon is projected for the current year, which may entail greater rainfall and contribute to a strong harvest though it could also result in an increased liklihood of tropic cyclones. At the start of the planting season, fertilizer remains in short supply, including AIP-supported fertilizer, as the fuel sector has been prioritized for foreign-exchange allocation. Limited fertilizer access is likely to adversely affect agricultural output in the coming year.

Rising food prices due to weak domestic production, coupled with the continued growth of the money supply, will likely keep inflation at or above 25 percent in 2025. Further increases in energy and other utility prices could exacerbate inflation. Depending on inflation developments, interest rates may also remain elevated further pressuring the interest rate bill. Additional monetary financing of the fiscal deficit poses an especially serious risk.

Fiscal pressures will likely intensify in the run up to the 2025 elections. Over the past three decades, fiscal deficits have increased dramatically in election years (Figure 1.32). Given Malawi's existing vulnerabilities, a loss of budget discipline could lead to a fiscal crisis and/or drive a renewed surge in inflation. High-interest commercial debt contracted during the 2020 election cycles is a major contributor to Malawi's unsustainable debt burden, and any new borrowing must be consistent with the PFM and PPDA Acts, active IMF- and World Bank-supported programs, and Malawi's Debt Management Strategy.

FIGURE 1.32 Since the 1990s, deficits during election years have been 74 percent higher than during the preceding four years

Fiscal balance

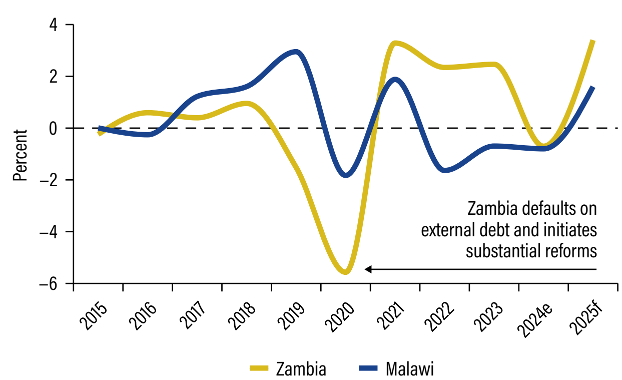


Source: World Bank staff calculation based on MoFEA data.

In prioritizing the reforms needed to stabilize and grow the economy, Malawi can draw on lessons from neighboring Zambia, which is successfully recovering after a severe macroeconomic crisis. Zambia defaulted on its external debt in 2020 (Figure 1.33). While it still faces many challenges, the economy is stable and growing, even in the face of a severe El Niño-induced drought in early 2024. The adjustment process was difficult and required a sustained commitment to ambitious reforms across all levels of government. Fiscal measures focused on deficit reduction, improved debt management, increased revenue mobilization, and enhanced service delivery. Reforms designed to bring the energy sector closer to cost recovery addressed longstanding fiscal risks. To mitigate the impact of fiscal consolidation on poor households, social transfers were scaled up with substantial support from development partners. The authorities also implemented significant governance reforms in the extractive industries, enabling Zambia to benefit from the current boom in ETM demand. Finally, the government pursued far-reaching reforms to the business environment to attract FDI and boost exports.

FIGURE 1.33 Zambia's recovery holds lessons for Malawi

GDP growth per capita



Source: World Bank staff calculation based on World Development Indicators data.
Notes: e= estimate, f=forecast.

Key policy priorities include macroeconomic stability, foreign investment, and resilience to shocks

This 20th edition of the Malawi Economic Monitor finds that the cost of sustained inaction on macroeconomic imbalances is rising. Depleted buffers and persistent fiscal and current account deficits leave Malawi susceptible to external shocks and other crises. Continued delays increase the risks of further deterioration, while implementing announced stabilization and adjustment reforms could enable the economy to accelerate significantly over the next five years as planned investments in the energy, mining, and agriculture sectors materialize. These investments would lead to the direct and indirect creation of numerous jobs, boost exports and revenues, and catalyze further FDI.

Realizing Malawi's significant medium-term growth potential, including the opportunities presented by its mineral wealth, will require urgent reforms in three areas:

i) ***Restoring macroeconomic stability:*** Planned macro-fiscal reforms must be sustained and fully implemented, with a focus renewed on fiscal consolidation, finalizing the external debt restructuring process, containing the growth of domestic borrowing, boosting reserve accumulation by implementing announced exchange-rate reforms, and controlling inflation by limiting the growth of the money supply and ending monetary financing of the fiscal deficit.

ii) ***Creating conditions for increased private sector investment and exports:*** Increasing investment is critical for the sustainable growth of the economy. In a context of limited fiscal resources, the success of the ATM Strategy will be determined by whether the private sector is willing to invest and whether more is done to ensure that the limited public funds are used well. Key measures include encouraging much-needed private investment by eliminating implicit fuel and energy subsidies to reduce the risk of shortages, developing a transparent mining revenue management system that supports long-term prosperity, and phasing out foreign-exchange surrender requirements.

iii) ***Building resilience and protecting the poor:*** With domestic food production continuing to fall far short of consumption, it will be important to advance the process of reforming the AIP and repurposing agriculture expenditure towards activities that increase productivity and resilience. These measures will also be critical to strengthen disaster preparedness and should be augmented by the implementation of the DRM Act, including the establishment of a DRM Fund, and the finalization and implementation of the Energy Compact.

TABLE 1.3 Priority Policy Areas and Key Actions

1. Restoring macroeconomic stability			
Resume fiscal consolidation	Tighten expenditure controls and implement substantive tax policy and administration reforms to resume fiscal consolidation.	Short	
Finalize debt restructuring	Conclude external debt restructuring to sustainably deliver debt relief and contain domestic borrowing.	Medium	
Bolster foreign-exchange reserves	Fully implement the exchange-rate reforms announced in the November 2023 RBM circular and continue reducing foreign-exchange sales to the market.	Short	
Control inflation	Limit the growth of the money supply and halt monetary financing of the deficit.	Medium	
2. Creating conditions for increased investment and exports			
Eliminate implicit fuel and energy subsidies	Implement the existing formula to ensure cost-reflective fuel and energy prices and reduce MERA, NOCMA and ESCOM arrears.	Short	
Develop transparent mining revenue management systems	Develop suitable mining revenue management arrangements to (i) ensure high savings and investment and (ii) manage pressures for consumption spending.	Medium	
Phase out foreign-exchange surrender and conversion requirements	Set credible targets to phase out surrender and conversion requirements, starting with the 30 percent foreign-exchange surrender requirement on exports earnings and holdings, especially in priority sectors.	Short	
3. Building resilience and protecting the poor			
Reform AIP subsidies to support more resilient and productive agriculture	Continue reforming the AIP fertilizer subsidy to reduce fiscal burden, improve targeting and rebalance agricultural spending towards sustainable farming practices and irrigation.	Medium	
Prepare for the next disaster	Implement policies to build resilience, including the Disaster Risk Management Act, and establish a disaster fund.	Medium	
Expand energy access	Finalize and implement Energy Compact to enable investments that would significantly increase energy access by 2030.	Medium	

Initiate Strengthen Sustain

TABLE 1.4 Key Macroeconomic and Financial Indicators

	2020	2021	2022	2023	2024 est.	2025 proj.
National Accounts and Prices						
GDP at constant market prices (% change)	0.8	2.8	0.9	1.6	1.8	4.2
Agriculture	3.4	5.2	-1.0	0.6	-2.0	5.0
Industry	1.2	1.9	0.9	1.6	2.1	3.3
Services	-0.5	2	1.8	2.1	3.3	4.2
Consumer prices (annual average)	8.6	9.3	20.9	28.7	33.6	27.3
Central Government (% of GDP)						
Revenue and grants	14.6	15.1	16.2	16.8	16.6	16.7
Tax revenue	12	12.4	12.2	12.1	12.2	12.2
Grants	2	1.8	3.4	3.7	3.5	3.5
Expenditure	22.2	23.4	26.5	27.1	24.4	26.6
Overall balance (excl. grants)	-9.5	-10.2	-13.6	-13.9	-11.3	-13.4
Overall balance (incl. grants)	-7.5	-8.4	-10.3	-10.2	-7.7	-9.9
Foreign financing	0.9	1	1.4	0.2	0.6	0.7
Domestic financing	6.6	7.4	8.8	7.7	7.1	9.2
Money and Credit (average)						
Broad money (% change)	13.9	23.6	34.3	34.0	45.5	45.5
Credit to the private sector (% change)	16.2	15.3	15.1	14.8	14.9	14.9
External Sector (US$ millions)						
Exports (goods and services)	1,314.0	1,591.1	1,490.1	1,562.9	1,418.5	1,792.1
Imports (goods and services)	3,376.4	3,770.4	3,707.1	3,944.9	3,584.5	4,090.3
Gross official reserves	565	79	120	201	133.1	--
(months of imports)	2.7	0.3	0.5	0.7	0.5	--
Current account (% of GDP)	-13.6	-15.2	-17.3	-16.1	-18.7	-16.5
Exchange rate (MWK/US$ average)	749.5	805.9	949.039	1161.094	1738.34	--
Debt Stock						
External debt (public sector, % of GDP)	26.7.	38.2	34.1	48.5	47.2	46.7
Domestic public debt (percentage of GDP)	16.3	19.3	42.6	42.8	38.2	36.5
Total public debt (percentage of GDP)	43	57.5	76.7	91.3	85.4	83.2
Poverty						
Poverty rate (US$2.15 per person per day)	70.6	70.6	71.3	71.7	72	71.3
Poverty rate (US$3.65 per person per day)	89.4	89.4	89.5	89.7	89.8	89.5
Poverty rate (US$6.85 per person per day)	97.4	97.4	97.5	97.5	97.5	97.5

Sources: World Bank staff calculations based on 2024 DSA, MFMod, MoFEA, RBM and IMF data.

Notes: Fiscal data are presented on a calendar-year basis. Poverty rates are calculated in 2017 purchasing-power-parity terms. Forecast for 2025 from October 2024 World Bank Malawi Macro-Poverty Outlook.

2

UNLOCKING THE POTENTIAL OF MALAWI'S MINING SECTOR AMID THE GLOBAL ENERGY TRANSITION: GROW, PROTECT, AND BENEFIT

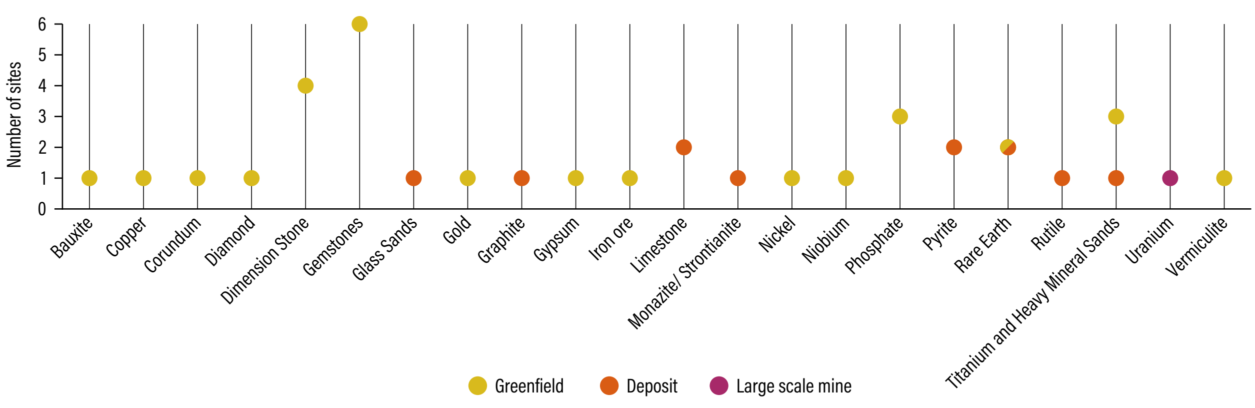
The global shift toward renewable energy and electrification is increasingly mineral-intensive. By developing its mining sector, Malawi can attract foreign investment, create jobs, and stimulate economic growth, while also positioning itself as a crucial player in the green energy supply chain. Drawing on the World Bank's forthcoming "Mining Sector Diagnostic", this Special Topic section explores how mining projects already in the pipeline could impact and significantly improve Malawi's medium-term economic trajectory. It also identifies the main challenges that hinder sectoral growth and presents prioritized recommendations for the short and medium term.

Malawi's Mineral Endowment

Southern Africa holds a diverse range of valuable mineral deposits, including many resources critical for the global energy transition. For example, the region has deposits of chrome (35.1 percent of world reserves and 38.6 percent of annual production), manganese (74 percent of global resources, 32.1 percent of reserves, and 29 percent of production), and platinum (91 percent of world reserves and 72 percent of production). It also produces 34 percent of the world's gem-quality diamonds, valued at US$30.6 billion (Guj et al. 2025, forthcoming).

With demand for ETMs continuing to rise, Malawi's mining sector has attracted increased interest both from researchers and international investors. Since 2010, regional geological programs, supported by the government and development partners, have studied Malawi's key rock formations, including Precambrian basement rocks, remnants of the Paleozoic Karoo system, Mesozoic igneous intrusions, and Cenozoic fluvial complexes. These studies have revealed several economically viable mineral deposits, along with new exploration targets and areas with high potential for mining development. As a result, Malawi is increasingly recognized as a mineral-rich country with a unique mix of resources. Notable minerals include graphite, titanium, uranium, niobium, tantalum, and heavy sands. The country also has significant industrial minerals like rock aggregates and limestone, along with undeveloped deposits of gold, and copper (Figure 2.1). Malawi holds an estimated 2 percent of the world's rare earth elements, and a major rutile deposit at Kasiya is currently under advanced exploration. Moreover, its average uranium concentration per square kilometer is three times the global average.

FIGURE 2.1 Most mineral deposits in Malawi are still at the greenfield stage



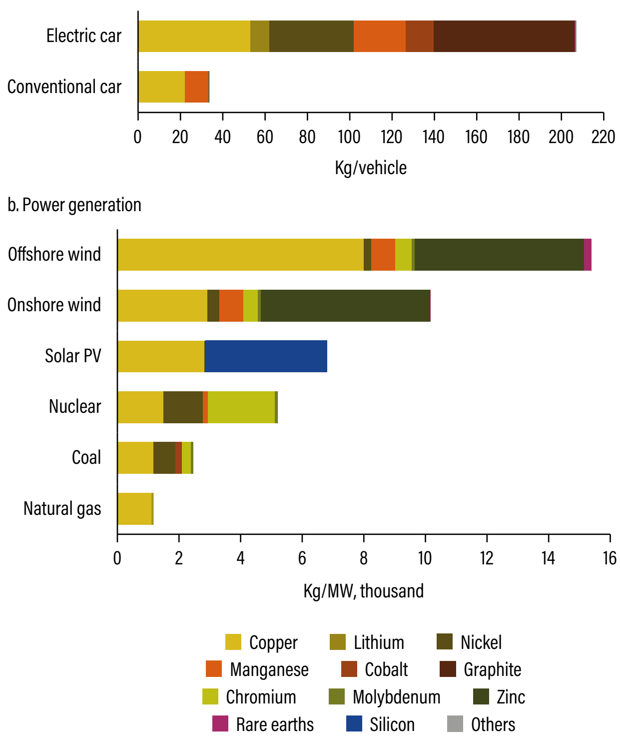
Source: International Trade Administration database 2024.

The Mineral Intensity of the Global Energy Transition

The global shift towards net-zero emissions will be highly mineral-intensive, and Malawi possesses abundant mineral resources crucial for this transition. As governments around the world move to decarbonize their energy systems, the demand for key minerals used in renewable energy technologies and electric vehicles is expected to rise sharply (Figure 2.2). Minerals like lithium, cobalt, nickel, graphite, copper, rare earth elements, and manganese are essential for technologies such as solar panels, wind turbines, and batteries, while terbium and dysprosium are necessary to make high-temperature magnets for electric vehicles and aerospace applications, and copper is critical for electrical wiring in renewable energy infrastructure (Figure 2.3).

FIGURE 2.2 Metals intensity of clean energy technologies and conventional fossil fuel technologies

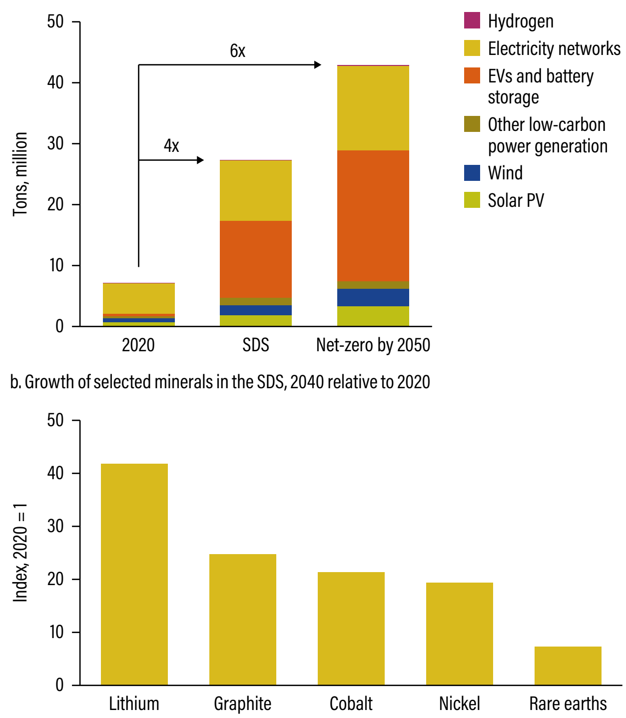
a. Transport



Source: International Energy Agency 2021.
Notes: Steel and aluminum not included.

FIGURE 2.3 Mineral demand for clean energy technologies is expected to grow rapidly

a. Growth to 2040 by sector



Source: International Energy Agency 2021.
Notes: SDS=Sustainable Development Scenario, indicating what would be required in a trajectory consistent with meeting the Paris Agreement goals.

Current Status of Malawi's Mining Sector

Despite the government's continued efforts, the mining and quarrying sector is still nascent, representing just 0.7 percent of GDP in 2023. In recent years, the sector has seen some growth in small scale mining, with its annual contribution to government revenue increasing from 2.6 percent in 2022 to 3.5 percent in 2023.[5] The government expects the sector to continue expanding and reach 10 percent of GDP by 2063, in line with its historical performance in 2013, when the country's only large-scale mining project in Kayelekera was active.

Currently, Malawi's mines produce small quantities of coal, limestone for cement manufacturing, iron ore, rock aggregates, dimension stone, precious metals, gemstones, and semi-precious stones. The minerals that typically justify large-scale industrial operations are presently mined at a small scale. In 2023/24, total coal production was 64,251 tons, limestone for cement manufacturing totaled 216,397 tons, gemstones

5 This increase was in response to an increase in demand for rock aggregates, limestone, iron ore, and gemstones. The government's commitment to continue implementing ongoing construction projects in the country during the 2023/24 fiscal year increased the demand for the construction industry's products.

and semi-precious stones reached 793 tons, and rock aggregate production was 318,729 tons—a 37 percent decline from 2022. Dimension stone exports totaled 2,241 tons, up almost 10 percent from the previous year, but exports of calcitic lime products fell by 53.4 percent, from 1,025 tons to 478 tons, or just US$87,000 in nominal terms. Due to the closure of the Kayerekera mine, uranium production and exports have been suspended since 2012. Overall, Malawi generates very little foreign exchange from its mineral exports.

Despite the country's substantial ETM resources, the growth of Malawi's industrial mining sector has been slow. Globally, the average lead time from discovery to production for mining projects is 18 years (S&P Global Market Intelligence 2023). This timeline includes geoscientific works, detailed exploration, feasibility assessments, environmental and social impact assessments, and the negotiation of MDAs to extract and export mining products. However, Malawi's lead time currently averages 27 years. The longest delay occurs during the MDA negotiation and signing stage, which one project took 12 years to complete. While the government and project sponsors must agree on the terms of the investment and return, prolonged negotiations risk delaying exports and missing the current market cycle. For example, current legislation provides for the government to elect an undetermined level of free state participation, which ultimately creates a need for negotiation where this is elected.

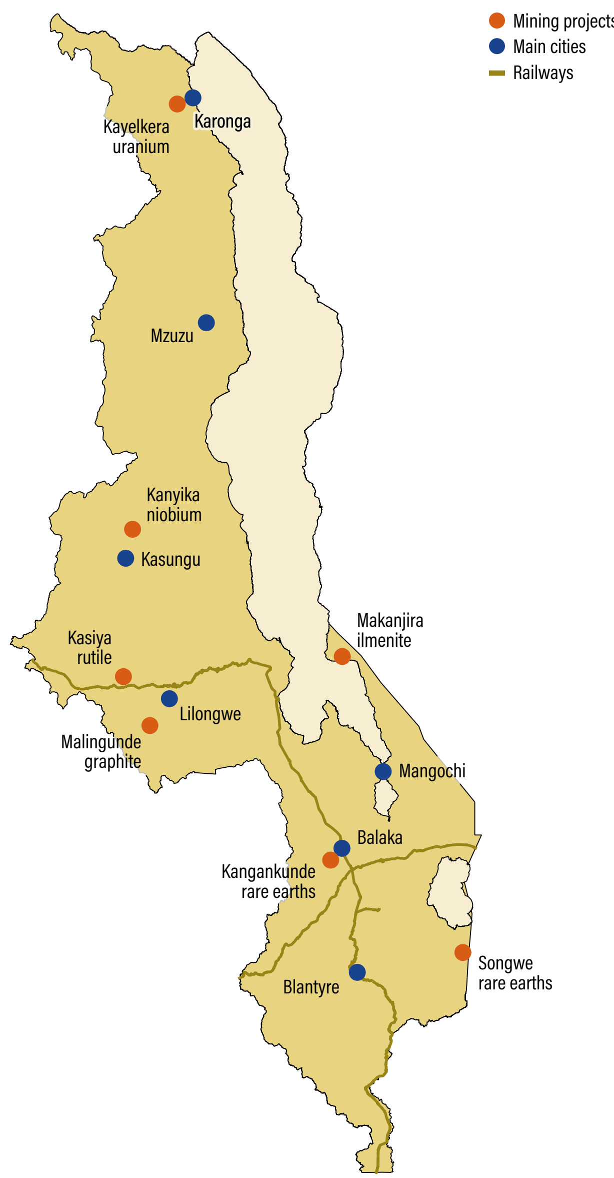
Malawi's legal, regulatory, and institutional framework and their capacity must be upgraded and modernized to effectively manage and monitor large-scale mining operations. The Mines and Minerals Act and related regulations have been amended six times since 1981 to strengthen legal oversight of the extractive industry, while laws such as the 2017 Environment Management Act and the 2022 Land Act aim to protect people and the environment. However, there were no large-scale mining operations in the country when most of these laws were drafted. While the government has recently established the Mining and Minerals Regulatory Authority (MMRA) to oversee the sector, both new and existing government entities are underfunded, and their capabilities are limited.

If managed effectively, the expansion of Malawi's mining sector could catalyze economic and social development. Eight ETM projects in the pipeline have been evaluated as potentially economically viable: Kayelekera Uranium, Kasiya Rutile, Kankangunde Rare Earth Elements, Kanyika Niobium, Songwe Hills Rare Earth Elements, Makanjira Heavy Sands, and Malingunde Graphite (Figure 2.4). In addition to diversifying exports and generating much-needed fiscal revenue, these projects could represent important "anchor investments" to attract additional foreign investment in mining and spur the development of infrastructure that would benefit local communities and bolster the productivity of other economic sectors (World Bank 2023).

None of these projects are currently operational. The Kayelekera mine started operating in 2009 but was shuttered in 2014. However, the project has signed an MDA and is in the process of applying for permits to reopen. The Kanyika

FIGURE 2.4 Mineral deposits are distributed across Malawi's territory

The geographical location of Malawi's pipeline projects.

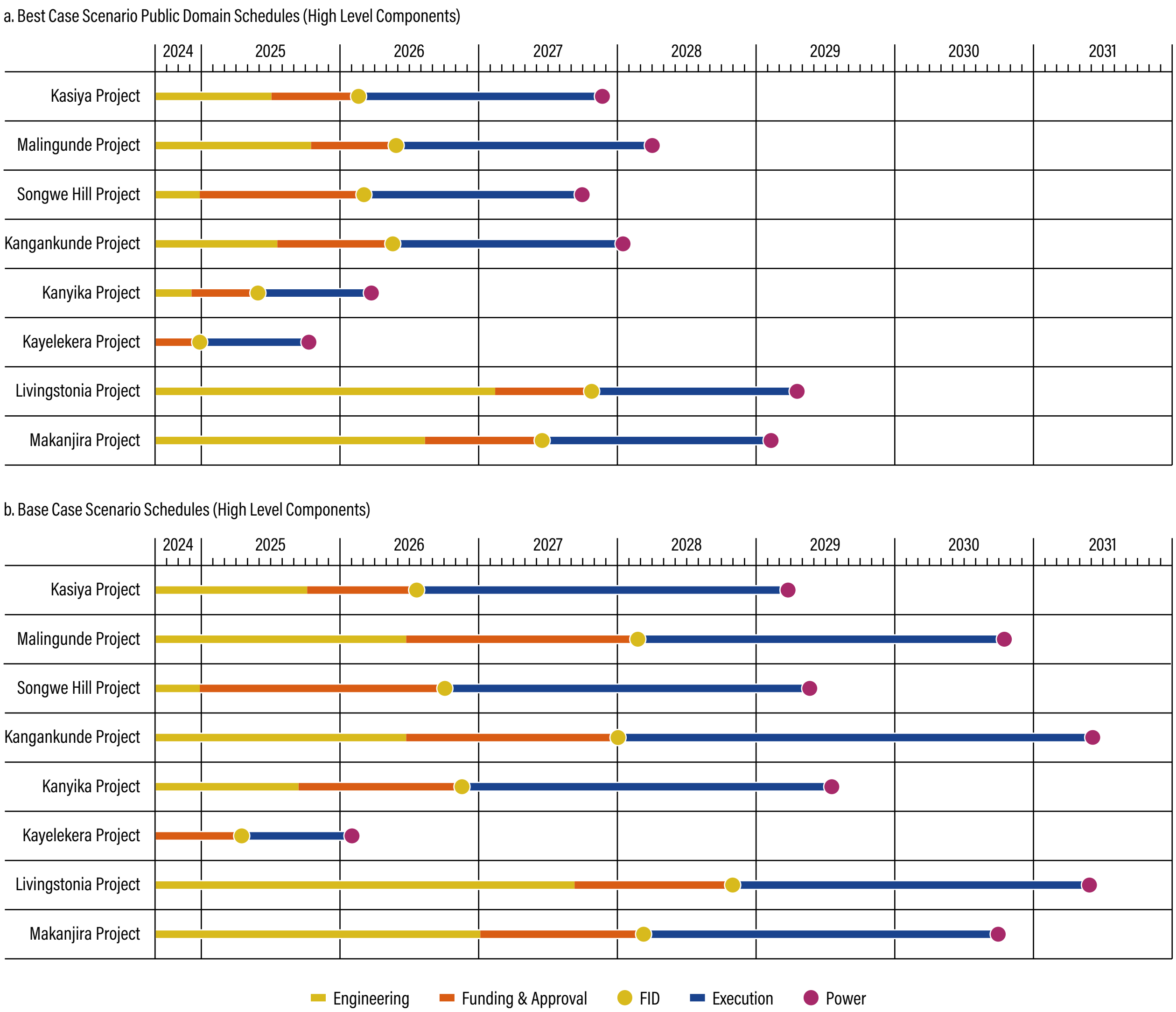


Source: World Bank 2023.

Niobium and Songwe Hills Rare Earths projects have also recently signed MDAs and are advancing to the permitting stage. The project sponsors of Makanjira and Kankangunde have indicated that they plan to pursue mining operations without the MDAs. All remaining projects are at advanced exploration stage and are finalizing their feasibility studies. Given adequate financing, most of these deposits could be developed into mechanized, large-scale operations. Financial backers often require mining companies to have offtakers in place, and offtakers in turn frequently require, as a pre-condition, MDAs with stabilization clauses.

The production timelines for all eight projects are subject to uncertainty. According to the latest World Bank projections, all eight sites could be in production by 2031 both in the best-case and baseline scenarios (Figure 2.5 and Table 2.1). In the baseline scenario, production could begin in 2026, most likely from the resumption of Kayelekera. In the best-case scenario, production could start as early as 2025, and all eight sights could be operational by 2029. These projections assume no further delays beyond the active exploration, engineering, and construction phases. Other risks include price volatility, technical complexity, and infrastructure-related challenges (Table 2.1).

FIGURE 2.5 Lead times for major pipeline projects, baseline and best-case scenarios



Source: World Bank staff projections based on publicly available data and interview with officials.
Notes: The status and anticipated schedules of major mining projects until production. FID=Final Investment Decision.

TABLE 2.1 Risks heavily influence the pace of project operationalization

Project	Ownership	Stage	Product	Current Project Production Start Date (Best Case)	Price Volatility (30%)	Technical Complexity (10%)	Government Relations (10%)	Financial Securing of Funds (25%)	Power and Transport (25%)	Overall Schedule Impact	Proposed Production Start Date (Base Case)
Kasiya	Sovereign Metals Ltd.	Pre-Feasibility Study (PFS) Complete, PFS Optimization ongoing.	Rutile, Graphite	24/11/2027	3	2	3	3	3	2.9	14/03/2029
Malingunde	Sovereign Metals Ltd.	Environmental and social studies complete, moving towards PFS	Graphite	30/03/2028	3	3	3	4	2	3	09/10/2030
Songwe Hill	Mkango Resources Ltd.	DFS Complete, Awaiting final permits	Rare Earth Elements	02/09/2027	5	3	3	5	4	4.35	24/05/2029
Kangankunde	Mkango Resources Ltd.	Pre-Feasibility Study (PFS) Complete, Awaiting DFS	Rare Earth Elements	19/01/2028	5	2	2	3	4	3.65	18/06/2031
Kanyika	Globe Metals & Mining	DFS Complete, awaiting MDA and final permits	Niobium, Tantalum	05/02/2026	3	3	3	4	3	3.25	18/07/2029
Kayelekera	Lotus Resources Ltd.	Definitive Feasibility Study (DFS) Complete	Uranium	11/09/2025	4	3	3	4	4	3.8	05/03/2026
Livingstonia	Globe Metals & Mining	Early Exploration Stage	Uranium	28/03/2029	4	3	3	4	5	4.05	21/05/2031
Makanjira	MAWEI Mining	Initial Exploration Stage	Mineral Sands	04/01/2029	2	3	3	4	5	3.45	25/09/2030

Source: World Bank staff projections based on publicly available information 2024.
Notes: The status and anticipated schedules of major mining projects and their major controlling factors until production. High score= high risk; low score= low risk

TABLE 2.2 World Bank Projections for Pipeline Mining Projects

Project	Operationalization year		2025–2040 export earnings (US$ billions)	
	Baseline	Best case	Baseline	Best case
Kasiya	2029	2027	5.63	6.73
Kanyika	2029	2026	2.26	3.02
Kayelekera	2026	2025	1.69	1.75
Malingunde	2030	2028	0.55	0.69
Kagankunde	2031	2028	16.15	26.65
Songwe hill	2029	2027	2.60	3.09
Makanjira	2030	2029	0.87	1.00
		Total export earnings	**29.76**	**42.92**

Source: World Bank staff projections based on publicly available information 2024.
Note: The estimates in this table were derived using publicly available production forecasts from project studies, combined with key physical parameters such as recovery rates and average grades. A most likely development schedule for each project was constructed, incorporating expert input on typical project development timelines and considering infrastructure constraints in Malawi. Commodity prices were sourced from the "Malawi Mining Sector Pipeline Rapid Assessment" report. The Livingstonia project has been omitted given its early stage of development and the high level of uncertainty about production potential.

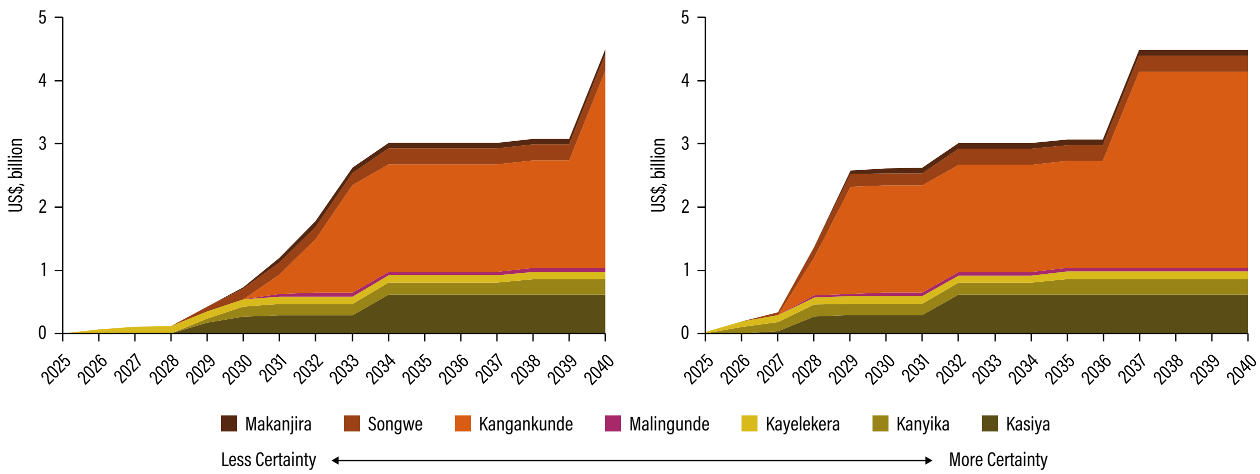
During the production phase, mining exports could increase the available fiscal space, generate significant foreign exchange, and ease debt challenges, but this process will take 5–10 years. Under the World Bank's baseline scenario, the mining sector grows gradually from 2026 to 2033 and then rapidly starting in 2034, as all seven projects come online and move toward their full capacity (Figure 2.6).

Between 2026 to 2040, the mining sector could generate a total of US$30 billion in exports, with annual exports reaching US$3 billion by 2034 and remaining broadly stable over the life of mines. Under the best-case scenario, mining exports would total US$43 billion over 2025–2040, 43 percent above the baseline. Decisions made now will determine whether Malawi's mining sector achieves its full potential. All mining export revenues are subject to various taxes, and the sector is obliged to finance certain public services. These projections are preliminary and further work is ongoing as part of an ETM Roadmap developed jointly between the government and the World Bank Group to evaluate the country's infrastructure and identify industrial diversification opportunities that could be supported domestically or through coordinated investments with Malawi's neighbors.[6]

FIGURE 2.6 If it materializes, the Kangankunde project is expected to have the greatest impact on exports

Projected Export Earnings

a. Base Case Scenario b. Best Case Scenario



Source: World Bank staff projections based on publicly available information 2024.
Notes: The pipeline projects ranked by more certainty to less certainty for export.

Several factors could prevent Malawi from fully leveraging the potential of the mining sector to drive long-term growth and poverty reduction. Across the region, many countries have had limited success in converting subsoil wealth into sustainable prosperity (Cust and Zeufack 2023). In Malawi, limited institutional capacity, weak sectoral governance, and inadequate infrastructure pose especially serious risks. The authorities have limited experience managing the environmental and social impacts of mining, and the legal and regulatory framework was not designed to accommodate a large mining sector. In addition, managing resource revenues presents serious fiscal and macroeconomic challenges that are separate from the governance of the mining sector itself.

The government is striving to develop the policy and institutional arrangements necessary for a successful and responsible mining sector. In partnership with the World Bank, the government has launched the Mining Sector Diagnostic Study and is formulating an ETM Roadmap. The ETM Roadmap is aligned with key regional and continental strategies, including the African Mining Vision,[7] the African Union's Continental

6 The ETM Roadmap will focus on several key areas to support the sustainable development of Malawi's mining sector. These include improving geological data to support exploration, strengthening sector governance for better transparency and accountability, and reducing barriers to attract private investment in ETMs. It will also prioritize developing a competitive fiscal regime, ensuring affordable and reliable low-carbon electricity for mining, and enhancing transportation and logistics infrastructure to facilitate exports. The roadmap aims to promote local employment and skills development, ensure durable community partnerships, strengthen environmental management practices, and attract investment in ETM processing to drive local industrial growth.

7 The Africa Mining Vision (2009) was drafted to define a vision for the transparent, equitable and optimal exploitation of mineral resources to underpin broad-based sustainable growth and socio-economic development across Africa. See: https://au.int/en/ti/amv/about

Commodities Strategy,[8] and the Malawi 2063 national vision to ensure consistency with the country's long-term development goals and the broader regional integration agenda. Once the ETM Roadmap is completed, the government will be better equipped to define and articulate a clear vision and "whole-of-government approach" for leveraging the mining sector to drive sustainable development and deliver positive socioeconomic benefits. Updating the 2013 Mining Policy will provide a comprehensive, forward-looking framework for the mining sector that supports long-term economic growth and community welfare.

Challenges Facing the Mining Sector

The new Mining Sector Diagnostic (World Bank 2025b, forthcoming) highlights the limited progress made thus far in developing Malawi's industrial mining sector. Key challenges identified include: (i) the perception of Malawi as an inexperienced and therefore high-risk jurisdiction; (ii) limited institutional capacity to manage the mining sector; (iii) insufficient energy and transportation infrastructure; (iv) unrealistic stakeholder expectations regarding the sector's ability to deliver immediate socioeconomic benefits; (v) the volatility of international commodity markets; (vi) and a lack of workforce skills to support an emerging mining sector.

Challenge #1: The perception of Malawi as an inexperienced mining jurisdiction

Additional foreign investment in mineral exploration and mining operations will be necessary to support the continued development of the mining sector. Without new foreign investment, new mineral deposits will remain undiscovered, and the development and production of the mines will be delayed. The discovery of further mineral resources will ensure continued investment in mining and may help diversify mineral exports.

Governments in developing economies like Malawi must compete to attract investment, and geological potential alone is not enough. Investors are increasingly cautious about undertaking large, complex projects in countries with weak public institutions and unpredictable or opaque regulatory environments. Successful resource-rich countries attract investment by providing clarity, consistency, and stability in their legal and regulatory frameworks. Their laws and policies clearly define the roles and responsibilities of the government and investors and are supported by transparent decision-making processes.

In recent years, the government has made strides in attracting investment by sponsoring geodata acquisition programs. The country now has regional geological data, including airborne geophysics and 1:100,000 scale geological maps. Malawi has also developed a GIS-based cadaster system, is actively converting to a digital geological data system, and has joined the Extractive Industries Transparency Initiative, all of which are positive steps.

However, the lengthy and complex process for obtaining mining licenses and approving MDAs has created considerable uncertainty for investors. Delays in these processes can discourage investors and reduce the profitability of projects. Prolonged delays in signing MDAs have increased perceptions of risk among international investors, which are compounded by a lack of clarity in the legal framework and fiscal regime. Under the current legislation, the government has unlimited free carried interest in mining companies, which creates uncertainty around the government's participation in the sector. Going forward, Malawi's laws, policies, and regulations need to balance the goal of attracting investment with the need to ensure sustainable, long-term socioeconomic benefits for the country and its citizens.

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8 The African Union's Commodities Strategy (2019) focuses on transforming Africa from a raw materials supplier by enabling countries to add value, extract higher rents from commodities, integrate into global value chains promote diversification anchored in value addition and local content development. Refer to: https://au.int/en/flagships/african-commodities-strategy

Challenge #2: Limited institutional capacity to manage the mining sector

The government must build its capacity to initiate, monitor, tax, regulate, and close large-scale mining projects. The budgets, equipment, staffing, and resources of the Ministry of Mining, Geological Survey Department (GSD), the MMRA, and MEPA are inadequate to fulfill their mandates. The government departments indirectly linked to the mining sector, such as the Ministry of Finance and Economic Affairs, the Ministry of Justice, the Malawi Revenue Authority, and local governments at the district level have limited the capacity to negotiate and manage MDAs and other contracts, monitor environmental quality and enforce relevant laws, collect taxes and fees, manage mining revenue, and ensure responsible mine closure and post- closure monitoring. The international experience has shown that building institutional capacity in the mining sector is very difficult in the absence of operating mines.

The Malawi Revenue Authority faces significant capacity constraints due to insufficient staff training, outdated systems, and limited technological resources. A lack of adequate storage spaces, warehouses, depots, weighbridges, and gates inhibits the handling and clearance of mined minerals for export. Without efficient customs procedures and sufficient storage facilities, customs operations are delayed, creating bottlenecks at border posts. Addressing these capacity issues is essential to improve trade efficiency, boost mineral exports, and realize the full economic benefits of Malawi's mining sector.

A dearth of accredited laboratories limits the government's ability to accurately assay samples to ensure the quality of mineral exports. The Malawi Bureau of Standards lacks a national accreditation program for minerals. The existing laboratory at the GSD is underfunded, unaccredited, and underequipped. Accredited laboratories are essential to ensure the integrity, competitiveness, and long-term sustainability of the mining sector. They use internationally recognized standards for mineral analysis to determine the quality, grade, and value of extracted minerals and mineral exports, fostering trust with global buyers and investors while also enabling the country to secure fair prices for its resources on the global market. Accredited laboratories are also vital to ensure compliance with environmental regulations, trade agreements, and safety protocols.

Governments may have difficulty ascertaining the value of exported mineral products, particularly intermediate products or concentrates, when markets offer limited information on pricing. For example, the pricing of rare earth concentrates is not necessarily straightforward, and the market for metals traded on long-term contracts can be opaque without a spot market that has sufficient liquidity to allow for price discovery. The government needs to strengthen the capacity of the GSD and MMRA to accurately value mineral exports by obtaining real-time information on prices for bulk minerals and feedstock, intermediate mineral products, and refined products. The government should also ensure it has sufficient capacity to accurately monitor production volumes at mining sites and verify that it has received the correct amount of tax and royalty payments based on that output.

Challenge #3: Inadequate energy and transport infrastructure

Malawi is a landlocked country and its access to global markets hinges on foreign seaports, primarily Beira and Nacala in Mozambique and Dar es Salaam in Tanzania. Each of these ports is subject to delays, congestion, and high transport costs. The long distances between mining operations and the nearest ports, combined with limited port capacity, increase costs and turnaround times for shipping minerals abroad and importing equipment and consumables. The lack of sufficient warehousing and logistics facilities at these ports also means that exporters face additional challenges in efficiently managing the flow of goods. Mining projects depend heavily on reliable logistics to import essential equipment and export products to global markets.

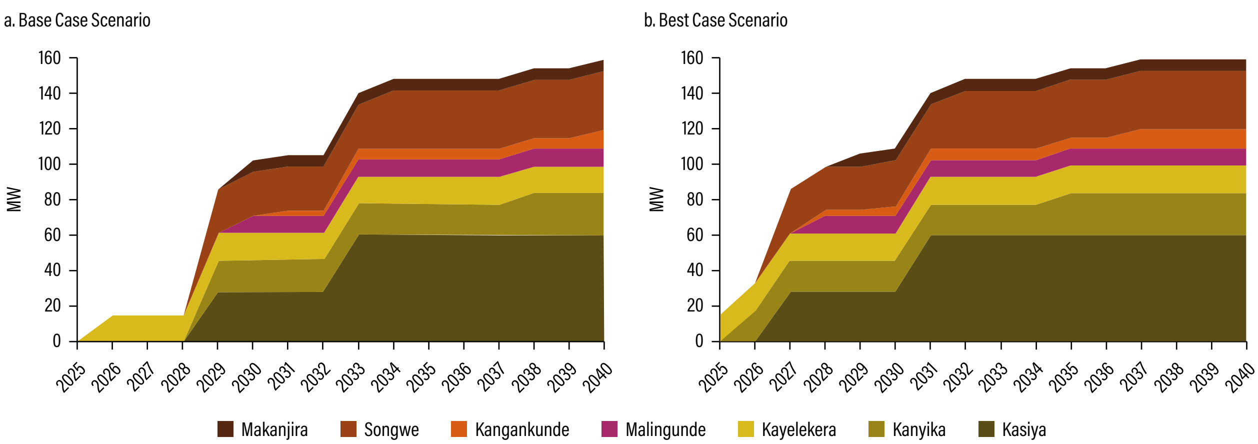
The state of Malawi's road network is a significant barrier to the mining sector's growth. Many of the country's roads are in poor condition or otherwise inadequate for heavy mining equipment and mineral shipments, especially in rural and remote areas where mining activities are concentrated. This infrastructure deficit increases transportation costs, delays the movement of essential capital goods and commodities, and increased wear and tear on vehicles and machinery. Poor roads also limit access to prospective mining areas, which can delay exploration and development projects. The lack of efficient road transportation infrastructure increases the cost of doing business for mining companies, as they must invest in maintaining their own roads or hire specialized transportation services.

Malawi's rail infrastructure is similarly underdeveloped and poorly integrated with the broader regional transport network, presenting another obstacle for the mining industry.[9] While rail transport is typically more cost-effective for bulk minerals, the country's limited rail network is largely outdated, with some lines in disrepair and others inadequately connected to key mining regions. The main rail route, linking Malawi with neighboring countries, is underutilized, and there are few efficient rail connections to major mineral-producing areas or export hubs. This lack of reliable rail infrastructure forces mining companies to rely heavily on road transport, which is both costly and inefficient. Inefficient transport services also contribute to congestion at ports and border crossings, creating bottlenecks in the export supply chain.

Malawi's mining industry needs roughly 60–100MW of power in the medium term and up to 160MW power in the long term. To reduce costs and risks, this power should be supplied by the country's own renewable energy resources. Malawi heavily relies on hydroelectric power, which is vulnerable to drought. To enhance the national power supply, the government (with support from development partners and investors) is preparing the Mpatamanga Hydropower Storage Project (Figure 2.7). The timely, well-coordinated development of the mines, the power plant, and the necessary transmission systems will be crucial to the financial stability of the mining and energy sectors. Offering mines priority access to power from the national grid could address a major source of uncertainty for international investors.

FIGURE 2.7 The mining projects in the pipeline will greatly increase energy demand

Projected Installed Capacity



Source: World Bank staff projections based on publicly available information 2024.

Challenge # 4: Unrealistic stakeholder expectations

Unrealistically high stakeholder expectations regarding the mining sector's impact on job creation, infrastructure improvements, and fiscal revenue pose challenges for policymakers. The complexities of mining operations—including lengthy permitting processes, technical hurdles, and volatile

9 Ministry of Transport and Public Works 2024.

global commodity prices—can result in large gaps between expectations and reality. In turn, frustration and disillusionment among stakeholders can complicate efforts to build a productive and collaborative mining environment.

The experience of Kayelekera's initial operation highlights both the potential benefits and risks involved in mining. Originally estimated at nine years, the life of the Kayelekera mine was cut to just four years after the Fukushima nuclear plant accident depressed global uranium prices (Box 2.1). Despite generating significant export earnings during its short period of operation, the Kayelekera project has also required prolonged care and maintenance, and the loss of jobs after the mine's closure cemented its failure to meet community expectations. Although the opening and closing of mines due to commodity price shocks is common in the industry, it is important to manage public expectations and ensure awareness of the economic risks of mining operations to avoid overly optimistic assessments of resource-driven wealth.

BOX 2.1 Lessons from Kayelekera's brief initial operation

In August 2009, the first shipment of uranium mined from Kayelekera was sent via Zambia to Walvis Bay, Namibia.[a] As the deposit's grade is below that of Tier 1 deposits, commodity prices must exceed a higher threshold for the mine to be economically viable. Following the discovery of the deposit in 1980, several attempts were made to test its economic viability, but only after 2009, when the price of uranium was around US$46 per pound, did the project attract foreign investment. The life of the mine was initially calculated to be nine years, and this period could have been extended by exploration and/or higher uranium prices.

The Kayelekera project faced major challenges during its operation that delayed investment returns. Technical issues with the processing methodology required significant modifications to the newly constructed plant, and a landslide in the mine in 2010 necessitated remediation work as well as the relocation of certain parts of the plant and machinery. After the Fukushima reactor accident caused a drop in global uranium prices, Kayelekera ceased to be viable and was put under care and maintenance in 2014.

During its brief operation, the Kayelekera project generated high public expectations that were not met. The mine's long idle period greatly diminished its financial performance, and the promise of long-term jobs was unfulfilled. At its peak in 2012, the mine employed 759 workers, all of whom were laid off between 2014 and 2024. In addition, the initial project sponsor's approach to community stakeholder engagement was not effective, and environmental disclosures related to radiation, tailings, and water-mitigation measures were not transparent. Many international news outlets also reported on the vague resettlement plans and unclear compensation offered to local households. However, recent water and soil tests conducted by international scientists found radiation levels below the World Health Organization's recommended limit, and a health assessment showed a low cancer risk to the community.[b] Based on this analysis, the Kayelekera area does not appear to be radiologically compromised.

With uranium prices rising once again, Kayelekera could resume operation within the next year, but this will require strong cooperation between industry and government. Many community concerns related to land, radiation, and water pollution can be mitigated through a strong legal framework and close government monitoring. The authorities and project sponsor should establish a common framework to ensure a stable, high-performing operation that provides good job opportunities. The project sponsors should be fully transparent in their approaches to stakeholder engagement and corporate social responsibility, which should conform to international best practices. The government should support the project by fully enforcing environmental regulations and social policies while applying international standards and procedures as needed. Additionally, the government must be in a position to manage, monitor, and inspect the operation to assure safety and protect the public welfare. It will also be important to manage expectations by raising awareness of the economic risks entailed by the operation and the remaining life of mine.

a. Nuclear Energy Agency and International Atomic Energy Agency 2022.
b. Majawa et al. 2024.

Challenge #5: Price volatility in the global metal markets

Managing the fiscal volatility generated by the mining sector can be challenging, as mineral prices are highly sensitive to global market fluctuations. Supply-demand imbalances, geopolitical events, technological advancements, and economic cycles all influence commodity prices, which can lead to unpredictable revenue streams that make it difficult to achieve long-term budget objectives. Sudden price drops can result in budget deficits, leading to cuts in public services, delays in infrastructure projects, or an increased reliance on borrowing, while price booms can create unsustainable fiscal expansions or inflationary pressures. Sharp fluctuations in resource revenues can also destabilize the exchange rate.

Price volatility driven by geopolitical or technical factors could pose significant risks for Malawi. For example, China dominates the midstream and downstream processing and extraction of rare earth elements, and limited competition in these segments can adversely affect project financing, operational resilience, and sustainability. Moving quickly to enter the market and brand the mineral product while forming relationships with key players can help build confidence in Malawi as a stable supplier.

Well-designed fiscal policies can mitigate the risks posed by price volatility. Stabilization funds can help smooth the budgetary impact of unpredictable revenues. Forward contracts and hedging can lock in prices for future exports, providing greater certainty around revenue inflows. On the monetary side, central banks can work to stabilize the currency through foreign-exchange operations and interest-rate adjustments. Fiscal policies should also be flexible enough to adjust to revenue changes without destabilizing the economy. Effectively managing mineral revenues requires a comprehensive approach that combines long-term savings, fiscal discipline, and strategic planning to ensure stable growth and minimize the negative fiscal and economic impacts of price fluctuations.

Challenge #6: Human capital deficit for an emerging mining sector

Malawi's mining sector faces a significant human capital deficit, due largely to the lack of operational industrial mines and specialized education programs. The country offers few university-level mining courses, resulting in a shortage of skilled professionals in key areas such as geology, engineering, mineral processing, and environmental management. Project sponsors typically prefer local workers over expatriates due to the high costs of travel and accommodation, but this skills gap limits the ability of companies to find experienced staff and hampers the sector's development. As new mines are developed over the next decade, opportunities for apprenticeships, industry placements, and internships will be essential to build a skilled workforce.

High turnover rates among experienced staff pose a further challenge, as professionals from the Ministry of Mines and universities often leave for higher-paying jobs in the private sector. Staff turnover weakens the government's institutional capacity and risks depleting the knowledge base at key educational institutions. Collaboration between the government, universities, and the private sector will be crucial to retain talent and build a sustainable cadre of experienced professionals.

Priorities for Mining Sector Development

Pillar 1: Enabling the mining sector's growth

In the immediate term, the government should prioritize operationalizing projects that are in the pipeline by expediting MDA negotiations and finalizing the issuance of mining permits. Engaging independent, impartial legal experts and transaction advisors during these negotiations would help the government secure a fair and equitable agreement. The international experience shows that negotiating MDAs can be a complex and time-consuming process, and managing them can be challenging. Disputes between governments and mining companies over contract terms are common and often lead to arbitration.

It will be important for the government to continue building its capacity to effectively negotiate MDAs. Successful negotiations require a wide range of expertise, including knowledge of geology, resource terminology, mineral processing, metallurgy, mine engineering, financial modeling, law, tax policy, and international metal markets. According to findings from the Mining Sector Diagnostic, government officials have a generally negative view of their ability to negotiate favorable terms with mining companies. The authorities will need to develop the knowledge and skills to handle MDA contract negotiations effectively, and engaging transaction advisors can provide on-the-job training for government officials. This approach has proven successful elsewhere in strengthening contract-negotiation skills within a multidisciplinary team.

The government should continue to actively promote investment in mineral exploration and mining. Developing at least one medium-to-large-scale mining project would send a strong signal to international investors that mining in Malawi is viable. The experience generated by this initial project would enable foreign investors to better understand the risks of operating in Malawi and would likely generate renewed interest in the sector. Launching a large-scale project would also provide an opportunity to stress-test and strengthen the government's regulatory, commercial, and fiscal systems, offering valuable lessons for future efforts to build capacity through "learning-by-doing." De-risking the mining sector requires robust geoscientific research, transparent sharing of geological data, and an efficiently managed permitting process. Formulating comprehensive investment-promotion plans would help ensure that the roles and responsibilities of all relevant agencies are clearly defined. In addition, training will be necessary to enhance the government's ability to promote investment in the sector, and government officials must be made aware of the criteria investors use when making investment decisions.

Building the capacity of sectoral institutions to effectively monitor large-scale mining operations and manage MDAs will require fully operationalizing the MMRA and strengthening district-level offices. Enhanced coordination and collaboration between government agencies will help streamline processes related to land tenure, construction permitting, and oversight. The responsible use of water and other natural resources should be integrated into the permitting process with the involvement of the relevant government agencies.

Developing an ETM Roadmap would enable the authorities to systematically evaluate the country's infrastructure and identify industrial diversification opportunities relevant to the mining sector. This roadmap should also explore opportunities for regional collaboration and the development of value chains through coordinated investments with neighboring countries. The first step will be to assess gaps in logistics infrastructure, including regional ports, cross-border transport links, and renewable energy systems. Improving road infrastructure and increasing energy access are especially critical to attracting more investment in mining and related industries. The government should also assess relevant skills gaps and formulate a plan to develop the human capital necessary to support the growth of the mining sector.

In the short-to medium term, an updated mining regulatory framework and capacitation of the MMRA can help ensure predictability and stability. The ETM Roadmap will help the government articulate a long-term vision for how the mining sector can enable broad-based development and economic transformation. The Mines and Minerals Act was amended in 2023 to establish the MMRA, and several regulations related to medium- and large-scale mining operations, as well as community development agreements, are currently under review. Well-designed regulations, developed through comprehensive consultation, are less likely to require frequent revisions, fostering the stable and predictable regulatory environment essential for building long-term confidence in the mining sector.

The Mines and Minerals Act must be aligned with other relevant regulations and laws across all levels of government. Conflicting clauses or ambiguities can create confusion and complicate the administration of the mining sector. A thorough review and reconciliation of all laws applicable to medium- and large-scale mining operations is crucial to enhance accountability, clarify liability, and create a more efficient and transparent regulatory environment for the sector.

In the short-to-medium term, establishing accredited laboratories will be crucial to support the mining sector. National laboratory services, accreditation programs, and standardized practices are essential at every stage of mining, from exploration and investment to quality control and tax collection. The lack of accredited laboratories in Malawi limits the government's ability to verify the quality of mineral exports and administer taxes accordingly. The Malawi Bureau of Standards does not have a national accreditation program, and the existing laboratory at the GSD is underfunded, poorly equipped, and unaccredited. Addressing the lack of accredited laboratories is critical to ensure the integrity of mineral exports, improve sector competitiveness, and support the long-term sustainability of the mining industry.

Pillar 2: Social and environmental protection

In the immediate term, it will be important to ensure that MEPA has adequate resources to carry out its mandate. Environmental monitoring is essential to the responsible development of large-scale mining operations. However, MEPA lacks sufficient budgetary resources, equipment, and staff, and its responsibilities in agriculture and other sectors are straining its limited capacity. The added burden of overseeing mining-related activities, including monitoring compliance with environmental laws, MDAs, environmental and social impact assessments, resettlement action plans, community development agreements, and mine closure and rehabilitation plans, represents a significant challenge for the agency. MEPA requires adequate resources to effectively monitor mining sites. In addition, making all documents related to mining development publicly available would help to increase transparency and support community-based environmental monitoring.

A review of the OHS and Welfare Act and its accompanying regulations is essential to ensure they align with international mining standards and best practices for safe operations. While mines in Malawi generally comply with national laws, these laws often fall short of global safety standards. OHS regulations in countries with limited experience in mining often lack clear lines of accountability, which can pose significant reputational risks to the mining industry and its products in international markets. To foster a safe work environment and minimize risks, mining operations must prioritize human rights and OHS over short-term profits. Ensuring that OHS regulations and public welfare standards meet or exceed international best practices would help safeguard the welfare of workers and the public while mitigating the reputational risks associate with the mining sector.

The government's local-content policies should clarify how local communities living in mining areas will be made aware of their rights. The mining industry is complex and unfamiliar to many communities in Malawi, leading to information gaps that could cause social tension. The government and mining companies should engage in regular outreach to communities and civil society organizations to bridge the gap and avoid delays or operational disruptions. To foster openness and trust among stakeholders in the mining sector, the authorities could establish formal public-private dialogue campaigns led by the Ministry of Mining, the Malawi Chamber of Mines, and the Council for Non-Governmental Organizations.

In the short term, setting up a credible and effective platform for multi-stakeholder engagement would help foster an inclusive dialogue around the development of the mining sector. Malawi has joined the Extractive Industries Transparency Initiative, a global coalition of government entities, extractive companies and civil society organizations working together to improve openness and accountability in management of revenues from natural resources. At its core is the multistakeholder working group, which the government can leverage as a key platform for improving sectoral dialogue and building trust.

Pillar 3: Benefit realization and management

It will be important for government to accurately value mineral exports by obtaining real-time information on commodity-market pricing for bulk minerals and feedstock, as well as intermediate and refined mineral products. The mining sector generates fiscal revenue and other benefits via taxes, equity dividends, capital investments, local supply opportunities, and human capital development. Over the coming years, mining exports are expected to become an important source of public revenue and foreign exchange. Building sufficient capacity to monitor mineral reserves and production volumes will be crucial to ensure that the government receives the correct amount of tax and royalty payments from mining companies.

The government can enhance its capacity for customs and tax administration by providing targeted training to customs officers on international best practices for mining exports and by implementing automated customs management platforms and electronic tracking systems. Investments in expanding and upgrading customs infrastructure, such as storage facilities, weighbridges, and border posts and gates, reduce delays in export processing. Fostering coordination between customs officials, mining regulators, and other agencies is crucial to ensure efficient revenue administration, and enhanced regional cooperation can address cross-border trade bottlenecks. Reviewing and streamlining export regulations, incentivizing compliance, and conducting regular audits can further enhance efficiency. Finally, public-private partnerships with mining companies can support capacity development and infrastructure investments. These measures will help optimize customs operations, improve trade efficiency, and boost the economic potential of Malawi's mining sector.

To attract investment in the mining sector while also ensuring that it generates sustainable, long-term socioeconomic benefits, the government will need to both elaborate and refine its policy framework. A fiscal-competitiveness assessment and a tradeoff analysis of state participation could inform more efficient policies, laws, and regulations. For example, the government's unlimited free carried interest in mining companies creates significant uncertainty for foreign investors, and potential reform measures should be identified and assessed.

A comprehensive skills-gap analysis that identifies key areas where specialized expertise is lacking can support the building of human capital for the mining sector. This analysis would involve close collaboration between the Ministry of Mines, universities, and private sector stakeholders to assess current workforce needs and anticipate future skill requirements as new mines are developed. Prioritizing the establishment of specialized educational programs, including university-level mining courses and accredited training centers, would help ensure that both new and existing professionals are able to obtain the necessary skills.[10] Promoting the creation of apprenticeships, internships, and industry placements could help build practical experience for young professionals and address the high turnover among experienced staff. A long-term strategy focused on education, industry collaboration, and worker retention will be critical to develop a skilled workforce capable of supporting a growing mining industry.

Local-content policies can increase the domestic economic benefits generated by the mining sector. Incentivizing mining companies to hire locally, procure goods and services from Malawian suppliers, and establish partnerships with local businesses can boost spillover effects, foster the growth of local firms, and create sustainable employment opportunities. These policies can also foster local value addition and reduce reliance on exports of raw minerals. By supporting the development of processing plants and providing incentives for businesses involved in value addition, Malawi can increase its participation in global markets and build a more diversified economy.

Requiring firms in the mining industry to adopt international standards for safeguarding human rights will be vital to promote the long-term development of a responsible and sustainable mining sector. These standards include the Voluntary Principles on Security and Human Rights, the UN Guiding Principles on Business and Human Rights, and the Human Rights Due Diligence Guidance of the International Council on Mining and Metals, as well as International Labour Organisation best practices, IFC Social and Environmental Performance Standards, and the UN Principles on Business and Human Rights. The government should also consider requiring all mining companies to adhere to the

10 Several of the country's universities have recently established degree programs in mining, metallurgy, geology, and other relevant fields.

OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas, which requires that they treat child labor as a serious human rights abuse that they will not tolerate, profit from, or facilitate in any way.

Over the medium term, insulating the national budget process from cyclical fluctuations in mineral revenues will reinforce macroeconomic stability. Mineral prices are inherently volatile. Creating a stabilization mechanism with clear and transparent budget rules could help smooth the revenue impact of the mining sector and ensure that a share of current mineral revenues is available for future spending. Clear rules should define the amounts to be deposited into the fund and the conditions for withdrawals. As mineral exports rise, it will be important to continue stabilizing the exchange rate by accumulating foreign-exchange reserves.

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The World Bank Malawi Office
Plot 13/59 Off Presidential Way
Mulanje House, City Centre
P.O. Box 30557
Lilongwe
Malawi

Tel: 265 1 770 611
Fax: 265 1 770 158

Email: infomalawi@worldbank.org
www.worldbank.org/malawi

The World Bank
1818 H Street, NW
Wahington, D.C. 20433
USA
Tel: +1 202 473 1000
Fax: +1 202 477 6391
www.worldbank.org

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