Country Perspectives on the Financial Crisis: Malawi

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Some features relevant to the financial crisis

- **Small & highly concentrated banking industry**
  - 9 commercial banks, 2 accounting for 75% of market share
  - 5 foreign owned, mostly by other banks in Africa
  - Not heavily exposed to sophisticated foreign financial instruments
  - Holding considerable volumes of Letters of Credit (LCs)
- **Low levels of foreign direct & portfolio investment**
  - FDI: On average less than 2% of GDP, up to 5% in 2008 due to investment in uranium mining
  - Foreign share of treasury bill market is less than 1%

Some features relevant to the financial crisis (Cont'd)

- Highly concentrated export basket
  - Tobacco, sugar, & tea; accounting for 75% of total exports; uranium to come on stream in 2009
  - Mostly exported to EU, SA, & USA
- Significant levels of remittances
  - 4-6% of GDP
  - Mostly from SA, UK, & USA
- Very low international reserves
  - Just about 1.1 months of prospective imports
  - Mainly because of a fixed exchange rate regime

What has been the impact so far?

- **No signs of significant impact so far**
- **Trade finance is becoming scarce & expensive**
  - **Borrowing from foreign banks is becoming more difficult and expensive**
  - **Some of the LCs already issued may not be honoured when due for payment**
- **Value losses in some donor inflows due to recent exchange rate changes**
  - **DFID funds are transferred into a dollar A/C first, & the dollar has appreciated against the pound**
  - **As a result, value of DFID flows has fallen in Malawi Kwacha terms, by almost 25%**

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Likely negative impact from second round effects

- **Reduced demand for Malawi's exports**
- **Reduced levels of remittances**

Measures being taken to cushion the poor from negative impacts

- **None at the moment, but dialogue with the authorities underway:**
  - To understand Malawi's vulnerabilities
  - To try and forecast likely impact
  - To design mitigating measures

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