Press Release No. 16/295
FOR IMMEDIATE RELEASE
June 20, 2016

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Completes Seventh and Eighth Reviews under Malawi's ECF Arrangement and Approves US$ 76.8 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the seventh and eighth reviews of Malawi's economic performance under the program supported by an Extended Credit Facility (ECF) arrangement[1]. The Board's decision enables the immediate disbursement of the equivalent of SDR 54.22 million (about US$ 76.8 million), bringing total disbursements under the arrangement to the equivalent of SDR 119.3 million (about US$ 169.1 million).

In completing the reviews, the Board also approved the authorities' request for an extension of the current ECF arrangement to end December 2016[2] and an augmentation of access by the equivalent of SDR 34.7 million (about US$ 49.2 million or 25 percent of quota). The requested extension would give the authorities more time to achieve the original objectives of the program while the additional financing will help to strengthen the country's response to the El Niño induced drought which has caused a humanitarian crisis. The Board also approved the authorities' request for waivers of non-observance of performance criteria related to net domestic borrowing by the government and net international reserves.

The three-year ECF arrangement for Malawi in the total amount of SDR 104.1 million (about US$ 144.4 million) was approved on July 23, 2012 (see Press Release No. 12/273).

At the conclusion of the Executive Board's discussion, Mr. Min Zhu, Acting Chair and Deputy Managing Director, issued the following statement:

"The authorities have strengthened macroeconomic policies and stepped up the implementation of structural reforms over the last year to bring the program back on track. Nevertheless, Malawi's macroeconomic situation remains difficult, reflecting weather-related shocks and past

---

[1] The ECF is a lending arrangement that provides sustained program engagement over the medium to long term in case of protracted balance of payments problems.

[2] A short extension of the arrangement from May 22, 2016 to June 30, 2016 was approved by the Board on May 13, 2016 to give to the authorities time to implement two prior actions for completing the seventh and eighth reviews. See Press Release No. 16/222.

©International Monetary Fund. Not for Redistribution

policy slippages, which contributed to persistently high inflation. Real GDP growth declined sharply due to floods and drought in 2015 and is expected to drop further this year owing to the region-wide El Niño-induced drought. A poor maize harvest for a second consecutive year has placed half of the population at risk of food insecurity. Short-term risks that could arise from adverse weather conditions, lower global demand for Malawi's exports, and policy slippages continue to weigh on the outlook.

"The near-term policy mix should center on reducing inflation by combining tight monetary and fiscal policies. To this end, expenditures will have to be limited to available resources and monetary policy should aim at maintaining positive short-term real money market interest rates.

"Accelerating the implementation of public financial management reforms is indispensable to building trust and confidence in the budget process and ensuring control over fiscal operations. Strong commitment controls, routine bank reconciliations, and regular fiscal reporting remain critical to preventing potential misappropriation of public funds and reviving donor re-engagement.

"The pursuit of prudent fiscal policy is critical to safeguarding medium-term fiscal and debt sustainability. Improved revenue mobilization and expenditure efficiency will reduce aid dependency and create fiscal space for social spending in pursuit of Malawi's sustainable development goals.

"Important steps have been taken over the last two years to safeguard and strengthen financial sector stability. Given recent weather-related shocks and the prevalence of credit concentration risks, the authorities are encouraged to consider additional measures, including higher capital requirements, improved credit assessments, higher provisioning, and bank mergers to mitigate risks."

©International Monetary Fund. Not for Redistribution