Statement by Mr. Dumisani Mahlinza, Executive Director for Malawi, and Mr. Ted Sitima-wina, Senior Advisor to the Executive Director
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I. Introduction

1. On behalf of our Malawian authorities, we thank management and staff for their timely response to this second request for emergency financial assistance under the Rapid Credit Facility (RCF). Our authorities believe the RCF disbursement would help catalyze additional support from development partners.

2. The economic impact of the COVID-19 pandemic has deepened since the approval of the first RCF request in May 2020. A rapid increase in the number of infections put pressure on the health system with additional demands on healthcare expenditure. As a result, fiscal pressures have intensified, creating additional external financing needs, estimated at 2.9 percent of GDP. To help bridge the external financing gap, now estimated at 5.0 percent of GDP in 2020, the authorities request emergency financing under the Rapid Credit Facility (RCF) in the amount of SDR 73.31 million, equivalent to 52.1 percent of quota. In addition, the authorities are engaging bilateral creditors for debt servicing relief under the G20 Debt Service Suspension Initiative (DSSI).

3. The authorities remain committed to ensuring that all COVID-related resources are used for their intended purpose. Accordingly, they are regularly publishing procurement information on the Public Procurement and Disposal of Assets (PPDA) website including, names of companies and their beneficial owners. They are also publishing results of ex-post validation of delivery on each contract. Going forward, the National Audit Office will submit quarterly audits of COVID-19 related spending to Cabinet and a comprehensive audit report to Parliament, in line with their commitments under the first RCF.

II. Impact of the COVID-19 Pandemic

4. The number of confirmed COVID-19 infections has continued to rise from 36 cases and 3 fatalities reported at end April 2020 to 5772 cases and 179 deaths as of September 29, 2020. Meanwhile, the authorities have continued to implement their response plan developed with support from the World Health Organization (WHO) and other development partners.

5. The continued increase in COVID-19 infections and accompanying measures to mitigate the impact have disrupted economic activity, with consequent impacts on exports, trade transit costs, and tourism. At the same time, the economic outlook of the main trading partners has further deteriorated, and oil prices have risen. While the domestic economy has benefited from a bumper harvest, GDP growth is now expected to sharply decline to 0.6 percent in 2020, compared to a projection of 1 percent in May 2020. Consistent with the contraction in economic activity, the overall balance of payments is expected to weaken further and is projected to record a deficit of 4.5 percent of GDP, against the previous estimate of 2.0 percent. This large balance of payments deficit is expected to persist into 2021, with the total external financing gap during 2020-21 totaling 7.7 percent of GDP or $655 million. The net effect of these external factors

combined with the slowdown in domestic activity related to the lockdown will continue to weigh on growth prospects.

6. The deterioration in the economic outlook is expected to have a significant fiscal impact. Revenue shortfalls emanating from low economic activity, significant increases in critical spending, including in health care and social assistance, are anticipated to worsen the domestic primary deficit by over 3 percent of GDP in FY2020/21.

III. Policy Responses to the Pandemic

7. Since the activation of the response plan and institution of a lockdown to curb the spread of the pandemic, the authorities have continued to ramp up health care and social assistance spending, including developing testing capabilities, equipping treatment centers, hiring additional medical staff, and intensifying public awareness campaigns. Since September 1, 2020, initial steps have been taken to re-open the economy, including lifting restrictions on commercial air travel and the phased reopening of schools.

8. To accommodate the response to the pandemic, the authorities have temporarily relaxed the fiscal stance in FY 2020/21. Accordingly, the budget allocation to the education sector and transfers to universities have been increased to facilitate safe re-opening and e-learning. At the same time, measures to mitigate the impact of the pandemic on vulnerable households and businesses have been implemented including the expansion of the social cash transfer program (SCTP) and the introduction of tax waivers on imports of medical equipment, medicine and other supplies. In addition, a new Affordable Input Program (AIP), replacing the Farm Input Subsidy Program (FISP), has been introduced to provide additional support to smallholder farmers and ensure food security. The authorities will evaluate the AIP after its first year of implementation with a view to enhance efficiency and over time, reduce the fiscal outlay without compromising the objectives of the scheme.

9. To limit pressures on the budget and manage domestic debt, the authorities have reduced the number of development projects to be funded in the FY 2020/21 budget and are reviewing those that have remained incomplete over a long time. The commitment control system has also been strengthened and all Ministries Departments and Agencies (MDAs) are required to strictly operate within their budget provisions. Further, progress is being made in rationalizing the wage bill by reviewing the existing payroll to eliminate ghost workers and other fraudulent claims. The savings realized from this exercise will mitigate the revenue loss from the doubling of the personal income tax (PIT) threshold. The authorities are also continuing technical discussions with the Fund on possible adjustments to the PIT rate schedule and credit drawback to further recoup the revenue loss.

10. The monetary accommodation provided by the Reserve Bank of Malawi (RBM) through lowering the policy rate, the Liquidity Reserve Requirement (LRR) and the Lombard Rate remains in place. In addition, the RBM activated the Emergency Liquidity Assistance (ELA) framework to support small banks in the event of worsening liquidity conditions. To preserve financial sector stability, the RBM stands ready to provide additional liquidity to the economy should conditions warrant. Further, they have also enhanced the monitoring of financial sector risks to smoothen the functioning of the system. In this context, banking supervision efforts have been intensified with daily liquidity risk monitoring and enhanced offsite monitoring.

IV. Post-crisis Measures

11. The authorities are committed to preserving macroeconomic stability and ensuring higher, more inclusive and resilient growth. In this respect, they will focus on strengthening resilience to climate change and promoting broad-based private sector development and export diversification as well as raising access to finance. To strengthen medium-term public debt sustainability and ensure fiscal space for critical resilience building and social and development spending, the authorities plan to implement a comprehensive revenue mobilization strategy beginning in FY 2021/22. In this context, they will continue with reforms in tax administration including the rolling-out the Integrated Tax Administration System (ITAS).

12. The authorities are also committed to improving governance, fighting corruption and increasing transparency and accountability. In this regard, they will continue with efforts to improve public financial management (PFM) including through implementation of a new IFMIS, further procurement reforms, public investment management, strengthening debt management and enhancing oversight of state-owned enterprises. Collections of fees and charges will also be automated to limit corruption vulnerabilities and prevent fragmentation of the budget.

13. In the monetary sector, the RBM remains committed to implementing greater exchange rate flexibility to absorb shocks. At the same time, they plan to gradually transition towards an inflation targeting framework by 2025 and to address obstacles to FX market development.

V. Conclusion

14. Our authorities remain committed to implementing prudent macroeconomic policies that would further entrench macroeconomic stability and achieve higher, more inclusive and resilient growth. They look forward to Executive Directors' support for a disbursement under the Rapid Credit Facility to sustain their efforts to contain the spread of the pandemic and to dampen the impact on the economy. They also look forward to further engagement with the Fund through a multi-year Extended Credit Facility (ECF) arrangement aligned to their new long-term vision and medium-term development strategy, once the pandemic-related uncertainty abates.