MALAWI

November 14, 2022

REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY AND REQUEST FOR A STAFF MONITORED PROGRAM WITH EXECUTIVE BOARD INVOLVEMENT—DEBT SUSTAINABILITY ANALYSIS

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Prepared by the International Monetary Fund and the International Development Association.[1]

Malawi: Joint Bank-Fund Debt Sustainability Analysis[2]	
Risk of external debt distress	*In Debt Distress*
Overall risk of debt distress	*In Debt Distress*
Granularity in the risk rating	*Unsustainable*
Application of judgment	*No*

Malawi's external and overall public debt is assessed as "in distress"—a downgrade from the previous Debt Sustainability Analysis (DSA) (December 2021) in light of ongoing debt restructuring negotiations. This DSA presents an analysis of Malawi's debt situation prior to the implementation of the authorities' debt restructuring strategy. Under the baseline scenario, the PV of PPG external debt-to-GDP ratio remains below the threshold throughout the horizon. A breach, however, is observed in the PV of debt-to-exports, debt service-to-exports, and debt service-to-revenue ratios over the medium term—the heaviest burden weighing in the near term with the external debt-to-exports ratio at 55.6 percent in 2022. The PV of the debt-to-exports ratio remains above the threshold of 140 percent especially if the residual financing gap were to be financed externally. The solvency indicator, the PV of public debt-to-GDP ratio, remains above the threshold throughout the medium term and beyond.

[1]The current DSA follows the revised Debt Sustainability Framework (DSF) for LICs and Guidance Note (2017) in effect as of July 1, 2018.

[2] Malawi's CI based on the current vintage (2022 CPIA) remains 'weak' with a CI score of 2.34.

PUBLIC DEBT COVERAGE

1. **The DSA covers central government debt, central government guaranteed debt, and central bank debt contracted on behalf of the government** (Text Table 1).[3] Public debt used for this DSA is public and publicly guaranteed (PPG) external and public domestic debt, covering debt contracted and guaranteed by the central government and the Reserve Bank of Malawi (RBM). Due to data limitations, it does not include debt held by state and local governments, other elements in the general government (such as the social security fund and extra budgetary funds), or nonguaranteed state-owned enterprise (SOE) debt.[4]

Text Table 1. Malawi: Coverage of Public Sector Debt, 2021

	Subsectors of the public sector	Check box
1	Central government	X
2	State and local government	
3	Other elements in the general government	
4	o/w: Social security fund	
5	o/w: Extra budgetary funds (EBFs)	
6	Guarantees (to other entities in the public and private sector, including to SOEs)	X
7	Central bank (borrowed on behalf of the government)	X
8	Non-guaranteed SOE debt	

Public debt coverage and the magnitude of the contingent liability tailored stress test

		Default		Used for the analysis	Reasons for deviations from the default settings
1	The country's coverage of public debt	The central government, central bank, government-guaranteed debt			
2	Other elements of the general government not captured in 1.	0	percent of GDP	3	Limited coverage, 1 percent for contingent liabilities due to swaps
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2	percent of GDP	2	
4	PPP	35	percent of PPP stock	0.00	
5	Financial market (the default value of 5 percent of GDP is the minimum value	5	percent of GDP	5	
	Total (2+3+4+5) (in percent of GDP)			10.0	

1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

BACKGROUND

2. **This DSA is being conducted in the context of the authorities' request for disbursement under the Rapid Credit Facility (RCF) and Staff Monitored Program with Executive Board Involvement (PMB)**. The last Low-Income Country (LIC) DSA using LIC-Debt Sustainability Framework (DSF) was considered by the Executive Board in November 2021 as part of the 2021 Article IV Consultation.[5] Malawi is subject to the IDA Sustainable Development Finance Policy (SDFP) which includes as Zero Nonconcessional Debt Ceiling.[6]

[3] The definition of external and domestic debt uses a residency criterion.

[4] The contingent liabilities shock from the SOE debt is kept at the default value of 2 percent to reflect risks associated with nonguaranteed SOE debt, currently excluded from the analysis due to data availability constraints. There are no current PPPs reported that subject the authorities to contingent liabilities.

[5] This DSA is prepared jointly by the staff of the IMF and World Bank, in collaboration with the authorities of Malawi. The last joint DSA can be found in IMF Country Report No. 21/269, November 2021.

[6] The International Development Association (IDA)'s Sustainable Development Finance Policy approved in 2020 builds on lessons learned from the Nonconcessional Borrowing Policy (NCBP) to further strengthen the focus on debt sustainability and debt transparency. Malawi has implemented Performance and Policy Actions (PPAs) related to Debt Transparency, Debt Management, and Fiscal Sustainability. These included PPAs on a zero nonconcessional borrowing ceiling in FY21 and FY22. Malawi satisfactorily implemented its FY21 and FY22 PPAs and is now three PPAs for FY23. Under the SDFP, a zero ceiling on nonconcessional borrowing applies to countries under LIC DSF at high risk of debt distress or that are in debt distress.

3. A sequence of external shocks has exacerbated Malawi's fragility—including worsening food insecurity. Malawi's economy recovered in 2021, but real GDP growth in 2022 is projected to decline to 0.8 percent—due to a series of exogenous shocks that have exacerbated macroeconomic imbalances. During the first quarter of the year, Malawi faced two tropical cyclones, rising commodity prices, and forex shortages—all contributing to an imminent BOP crisis. The economy remains fragile in the face of vulnerabilities to natural disasters and spillovers from the war in Ukraine. The ongoing energy crisis—chronic fuel shortages and extended electricity blackouts—has further dampened economic activity. Foreign exchange scarcity remains despite a 25 percent currency devaluation at end-May, contributing to inflation pressures and a de facto rationing of foreign exchange by commercial banks for the country's import needs. Substantial fiscal and external imbalances will further strain the economy in the near future. As a result of the multiple shocks, about 20 percent of the population are projected to be acutely food insecure at the "Crisis" level (IPC Phase 3 or higher) during the 2022/23 lean season (October 2022-March 2023). The population living at the crisis level more than doubled since last year.[7]

4. Continued fiscal and current account deficits resulted in a sharp rise in PPG debt. The government has relied on costly domestic bond issuances, increasing PPG debt as a share of GDP by more than 3-fold in 15 years (Text Figure 1) to support persistent fiscal deficits. Fiscal policy was only modestly adjusted in the face of decreased budget support and on-budget project grants after the Cashgate [8] scandal in 2013. Budget support and on-budget project grants that averaged 5.8 percent of GDP during 2005-13 were significantly reduced to about 1.8 percent of GDP since 2013. Since mid-2018, regional banks began to enter the domestic bond market, increasing Malawi's nonconcessional external borrowing. This supported the widening of current account deficits. The RBM and the Government of Malawi together had nonconcessional external commercial debt outstanding of 9.2 percent of GDP in 2021.

5. The trade deficit widened further in 2021. After a large decline in 2020, goods exports recovered in 2021, though not to the level of 2019. Meanwhile, imports continued to increase in 2021 amidst rising global prices. The volume of fertilizer and fuel imports are higher compared to pre-pandemic levels. Additionally, commodity-price hikes in 2021 pushed up the import value further and resulted in a further deterioration in the trade deficit.

6. Fiscal management and budget execution continue to be a challenge. FY2021/22 (April/March) marked a large deficit of 9.7 percent of GDP. Revenues held up, while expenditure exceeded previous years' average due to COVID-19 related fiscal support primarily to the private sector, fuel and fertilizers price hikes, higher interest expenses and wage increases. The latter represents the highest level of spending for employee compensation in over a decade.

[7] World Food Programme, Floods assessment Fact Sheet (10 June 2022) and Famine Early Warning System Network, Malawi Food Security Outlook Update (August 2022).

[8] "Cashgate" is a major corruption case that led to arrests, trials and convictions of a number of civil servants.

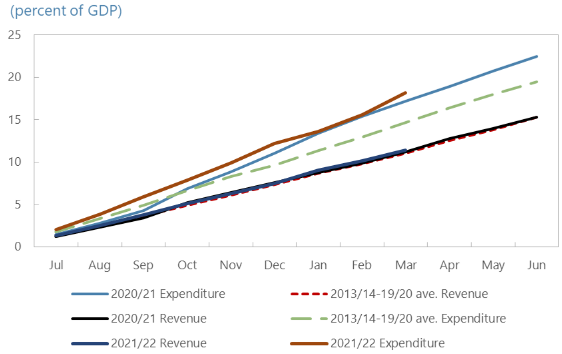
Overly optimistic budget revenue projections and weak commitment control also contributed to the fiscal deterioration. Delays in the fiscal consolidation thus made stabilizing debt more difficult.

7. Public and external debt increased to unsustainable levels as a result. Total public debt increased from 45.3 percent of GDP in 2019 to 64.0 percent in 2021 to finance a large fiscal deficit in FY2021/22. External debt also reached 32.8 percent of GDP in 2021 compared to 27.8 percent in 2019.

Text Figure 1. Malawi: Fiscal Challenges Confronting a Fragile Economy, 2006–22

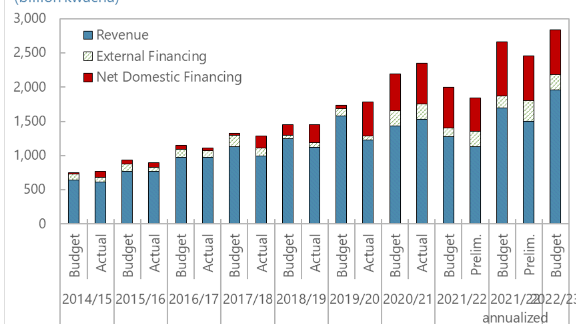
Revenues are holding up, while expenditure is exceeding previous years' average due to COVID-19 emergency response measures, fuel and fertilizers price hikes, and slippages relative to the planned budget.

Revenue and Expenditure, 2013-22
(percent of GDP)



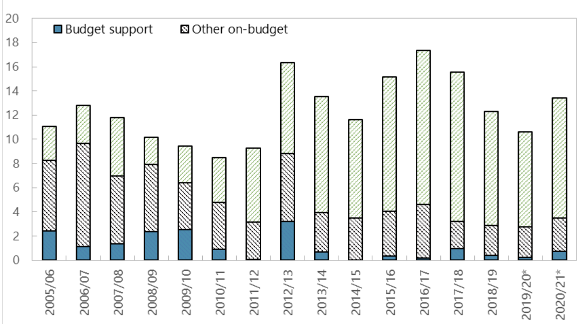
Overly optimistic budget revenue projections and weak commitment control have led to increased domestic financing.

Malawi: Budget versus Outturn, 2014-22
(billion kwacha)



Budget support declined significantly after the Cashgate scandal in 2013 but fiscal policy was only modestly adjusted.

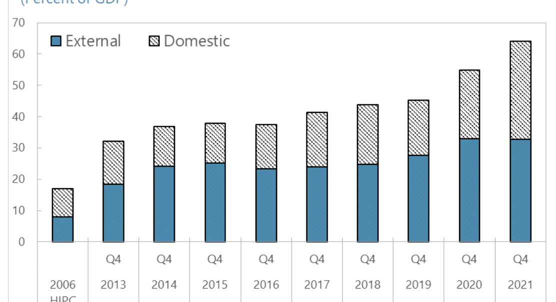
Official Development Assistance, 2005-21
(percent of GDP)



Source: OECD data on ODA; MOF; and IMF staff estimates.

As a result, at end-2021, public debt rose to 64 percent of GDP and external debt rose to 32.8 percent of GDP (a quarter of which is at nonconcessional terms).

Public Debt, 2006-21
(Percent of GDP)



Sources: Ministry of FInance, Reserve Bank of Malawi; and IMF staff calculations.

Source: Malawian authorities; IMF staff estimates.

8. Public external debt (51.2 percent of total debt) is held mainly by official creditors (72 percent of total public external debt) (Text Table 2). Of this, official multilateral creditors hold 60.3 percent of Malawi's outstanding public external debt in 2021, including the International Development Association (IDA) (30.6 percent), the African Development Bank (AfDB) (11.1 percent), the IMF (10.2 percent), and other multilaterals (8.4 percent). Official bilateral debt is 11.7 percent.

Debt outstanding with nonofficial commercial banks is 28.0 percent of total external debt, of which AFREXIM bank (16.1 percent) is the largest private creditor to Malawi. Among debt outstanding held by nonofficial commercial banks, 5.8 percent is from foreign exchange swaps with nonresidents, with an amount equivalent to US$221.7 million.

9. Near term external debt service falls more heavily on commercial creditors. Terms of borrowing from commercial creditors are highly nonconcessional, with no grace period, and a typical maturity of 4-6 years. As a result, near-term debt service is highly concentrated among commercial creditors. Debt service to AFREXIM is $284 million in 2022 and $201 million in 2023, while that to TDB is $184 million in 2022 and $5.8 million in 2023. Debt service to AFREXIM and TDB is equivalent to 65 percent of external debt service in 2022.

10. Domestic debt comprises of government securities holdings by residents and foreign exchange swaps with residents. Residents hold MWK2.5 trillion T-Notes, of which 56 percent are held by commercial banks and the nonbanking sector, and MWK341.1 billion T-Bills. Combined, these government securities are equivalent to US$3,466 million presented in Text Table 2. Foreign exchange swaps with resident banks undertaken by the RBM amount to $202.2 million.

11. A credible process for restructuring debt to AFREXIM Bank is underway and Malawi is negotiating in good faith with TBD, to which it has arrears. Malawi has arrears vis-à-vis Trade Development Bank (TBD) while it is current on its obligations towards AFREXIM Bank.[9] With respect to TBD's claims, staff assesses that the requirements of the IMF's Lending Into Arrears (LIA) Policy are met, given that (i) prompt Fund support is considered essential for the successful implementation of Malawi's adjustment program, and (ii) Malawi is pursuing appropriate policies and it is making a good faith effort to reach a collaborative agreement with its private creditors. With respect to AFREXIM Bank's contribution to restore debt sustainability, assurances are derived from IMF staff's judgment that a credible process for debt restructuring is underway and such restructuring will likely deliver an outcome that restores debt sustainability to moderate risk in the medium term. With respect to both these creditors, Malawi has hired debt advisors, engaged in early discussions with its creditors on a restructuring strategy that is consistent with restoration of debt sustainability, has shared relevant information on its financial situation and its debt situation, and has given creditors an early opportunity to give input into the restructuring.

12. The authorities' debt restructuring strategy, if implemented, would bring Malawi's risk of debt distress to moderate in the medium term (Box 1). Compared to the November 2021 DSA, where near-term debt service to external nonofficial creditors was projected to be US$468 million in 2022 and US$207 million in 2023, the debt operations envisaged in the debt restructuring strategy would reduce debt service for nonconcessional loans substantially in 2022. From 2023, the possible commencement of a grace period would provide substantial relief.

[9] Malawi has also not incurred any arrears on bilateral official claims.

Text Table 2. Malawi. Decomposition of Public Debt and Debt Service by Creditor, 2021–2023[1]

	Debt Stock (end of period)			Debt Service			
	2021			2022	2023	2022	2023
	(In Million US$)	*(Percent total debt)*	*(Percent GDP)*	*(In US$)*		*(Percent GDP)*	
Total	7,521	100.0	64.0	2253	2012	19.2	17.4
External	3,853	51.2	32.8	719	377	6.1	3.3
Multilateral creditors[2]	2,324	30.9	19.8	93	92	0.8	0.8
IMF	394	5.2	3.4				
World Bank	1,178	15.7	10.0				
AfDB	427	5.7	3.6				
Other Multilaterals	325	4.3	2.8				
o/w: IFAD	94	1.2	0.8				
OFID	75	1.0	0.6				
Bilateral Creditors	450	6.0	3.8	47	45	0.4	0.4
Paris Club	7	0.1	0.1	3	3	0.0	0.0
o/w: Spain	5	0.1	0.0				
Belgium	1	0.0	0.0				
Non-Paris Club	443	5.9	3.8	44	42	0.4	0.4
o/w: EXIM China	239	3.2	2.0				
EXIM India	125	1.7	1.1				
Bonds	0	0.0	0.0	0	0	0.0	0.0
Commercial creditors	857	11.4	7.3	468	207	4.0	1.8
o/w: AFREXIM	619	8.2	5.3				
TDB	238	3.2	2.0				
FX Swaps with non-residents	222	2.9	1.9	111	33	0.9	0.3
o/w: Bank One	110	1.5	0.9				
ICBC London	67	0.9	0.6				
Domestic	3,668	48.8	31.2	1534	1636	13.0	14.2
Held by residents, total							
Held by non-residents, total							
T-Bills	3,466	46.1	29.5				
Bonds							
Loans							
FX Swaps with resident	202						
Memo items:							
Collateralized debt[3]	619	8.2	5.3				
o/w: Related							
o/w: Unrelated	619	8.2	5.3				
Contingent liabilities	192	2.6	1.6				
o/w: Public guarantees	192	2.6	1.6				
o/w: Other explicit contingent liabilities[4]							
Nominal GDP	12,004						

1/As reported by Country authorities according to their classification of creditors, including by official and commercial. Debt coverage is the same
2/Multilateral creditors" are simply institutions with more than one official shareholder and may not necessarily align with creditor classification under other IMF policies (e.g. Lending Into Arrears)
3/Debt is collateralized when the creditor has rights over an asset or revenue stream that would allow it, if the borrower defaults on its payment obligations, to rely on the asset or revenue stream to secure repayment of the debt. Collateralization entails a borrower granting liens over specific existing assets or future receivables to a lender as security against repayment of the loan. Collateral is "unrelated" when it has no relationship to a project financed by the loan. An example would be borrowing to finance the budget deficit, collateralized by oil revenue receipts. See the joint IMF-World Bank note for the G20 "Collateralized Transactions: Key Considerations for Public Lenders and Borrowers" for a
4/Includes other-one off guarantees not included in publicly guaranteed debt (e.g. credit lines) and other explicit contingent liabilities not elsewhere classified (e.g. potential legal claims, payments resulting from PPP arrangements).

Box 1. Malawi: Debt Restructuring Strategy, October 2022

The authorities have developed a debt restructuring strategy which will serve as the cornerstone for restoring debt sustainability. They hired legal and financial advisors in May 2022 to support a credible process for restructuring based on adequate creditor engagement to ensure the approach taken delivers the necessary contributions in a sustainable manner. The Malawian authorities approached all creditors early in the process.

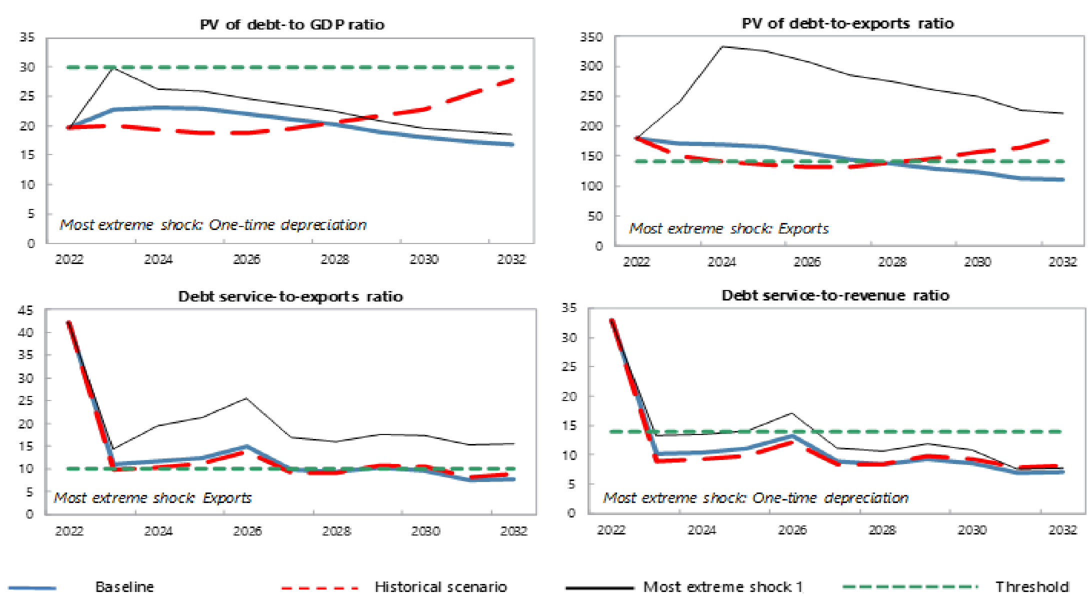
The debt restructuring strategy is designed to achieve debt sustainability and to close the financing gaps. The strategy relies on the following pillars to overcome current external debt challenges, including solvency and liquidity concerns:

- Bringing external public debt back to a moderate risk of debt distress in the medium term through a combination of policy adjustment and the necessary debt treatment. The debt strategy targets all external DSA solvency and liquidity ratios to move below their respective thresholds under the baseline over the medium term. This means the baseline of the present value of debt-to-GDP ratio to reach below 30 percent, the present value of debt-to-exports ratio below 140 percent, the external debt service-to-exports ratio below 10 percent and the external debt-to-revenue ratio below 14 percent in the medium term (see the panel chart below).

- Mobilization of nondebt-creating flows to ensure that external and fiscal financing gaps are closed over the program period, including through the debt treatment and the mobilization of external grant support from development partners.

- The corresponding net present value (NPV) debt reduction sought is US$579 million.

Indicators of Public and Publicly Guaranteed External Debt Under Post-Debt Restructuring Scenario, 2022–32



UNDERLYING ASSUMPTIONS

13. Financing assumptions rest on the implementation of a strict reform program by the authorities while debt restructuring negotiations are underway. The implementation of the reform program has already started in early 2022 with the passage of FY2022/23 budget with a sizeable fiscal consolidation in March, an increase in the monetary policy rate in April (and again in October), and the 25 percent devaluation in May. Decisive actions to secure financing and debt sustainability assurances are envisaged in the authorities' debt restructuring strategy (Box 1), which includes the replacement of nonconcessional external financing (assumed in the 2021 Article IV staff report) by nondebt-creating flows (grants[10] and debt relief). It is assumed that the authorities are current on existing obligations--except for TDB to which negotiations in good faith are ongoing.

14. The key macroeconomic assumptions have been updated from the DSA that accompanied the 2021 Article IV Staff Report (the November 2021 DSA hereafter). While the baseline scenario of the November 2021 DSA assumes the absence of policy reforms to restore debt sustainability, the current DSA assumes bold policy actions consistent with the reform program undertaken by the authorities to emerge from the BOP crisis. Financing gaps, however, remain as securing nondebt-creating flows to restore debt to a medium risk of debt distress is still underway. Changes to the underlying assumptions from the November 2021 DSA are as follows (Text Table 3):

- ***Economic growth*** has been revised downward. The real GDP growth projection for 2022 has been revised from 3.5 percent to 0.8 percent; reflecting the effect of Tropical cyclones Ana and Gombe, the impact of the war in Ukraine, import contraction due to FX shortages experienced since the first half of 2022, and the energy crisis in the second half of the year. Growth is projected to improve to 2.4 percent in 2023, reaching 4.5 percent in **the medium term**, incorporating gains from the reforms and investments underway. Meanwhile, the real GDP growth path in **the long term** has been revised downwards from 5.5 percent to 4.6 percent to capture recurrent weather shocks given Malawi's vulnerability to climate change.

  Key **structural reforms** and related investments include improvements to fiscal governance; implementation of the PFM Act 2022; policy reforms and investments to advance agricultural commercialization and productivity; as well as investments in transport, digital and energy infrastructure. These are expected to strengthen the resilience of the economy to climate change.

  Fiscal adjustment is achieved by increased revenue through taxes (see below), restraining recurrent spending as a share of GDP, including on the wage bill and the Affordable Input Programme (AIP). Development spending to support growth continues to be mainly financed by grants and highly concessional debt, and is expected to moderate in the medium to long term. Expenditures to cushion the impacts on the poor from the ongoing crisis and strengthen

[10] Consistent with the LIC DSF, grants were only included if they were committed and highly likely.

food security will be maintained or increased through grant financing. Over the long term, a stronger fiscal position is expected to contribute to increased confidence in the authorities' policies, improved macroeconomic stability and in turn increased private investment.

- ***CPI inflation*** is projected at 26.0 percent at end-2022 and about 6.5 percent in the long term, provided that the monetary and fiscal policy stance are well anchored in line with expected reforms. The projection captures rising fuel, food, and fertilizer prices in 2022. It also takes into consideration the depreciation of the currency and passthrough to inflation as the RBM builds up foreign reserves by purchasing foreign exchange in the market and winds down currency swap operations. It is assumed that reserve money growth will be kept in line with projected nominal GDP growth and the policy rate is assumed to be adjusted to achieve this goal. In this context, real interest rates are assumed to return to positive figures with the monetary tightening which targets inflation to approach the 6 percent target (Text Table 3). Moreover, it is also assumed that the RBM will conduct open market operations to sterilize the monetary impact of RBM's foreign exchange purchases; it is also assumed that the RBM may need to issue the central bank bills if the RBM does not have enough holdings of government securities to cover the magnitude of sterilization needed. It is also assumed that the government will contain fiscal deficits as envisaged under the program. The projected level and persistence of inflation in the medium term incorporates vulnerabilities to climate change and natural disasters.

- The ***fiscal primary deficit*** has been revised downward to reflect the envisaged fiscal consolidation. The projected fiscal primary deficit in FY2022/23 was revised down to 3.3 percent of GDP from the 4.8 percent projected during the 2021 Article IV Consultation. As the authorities implement policy reforms, the current fiscal primary deficit is projected to turn into a surplus of 0.7 percent of GDP by FY2025/26. Projections during the Article IV Consultation show that Malawi was able to reach the debt-stabilizing primary surplus at the end of the medium-term, but the current DSA shows that Malawi can reach it by 2025 thanks to the authorities' ambitious fiscal adjustment to restore debt sustainability. This fiscal consolidation reflects a comprehensive strategy that places equal weights on expenditure containment and revenue improvement. The revised FY2022/23 budget will reduce the domestic primary balance by 3½ percentage points of GDP relative to FY2021/22 by restraining the growth of the wage bill, and reductions in goods and services expenditures, the AIP, and domestically-financed development spending. The DSA assumes a balanced fiscal primary balance over the period 2025-42. The fiscal adjustment path takes into account the additional measures taken by the government to address high commodity prices.[11]

[11] In the 2022/23 lean season response, the government estimates total costs at MWK76 billion (approximately US$73 million). This sum will be covered in part under the current budget and with development partner support. The authorities have not announced any plans for further fuel price support.

Text Table 3. Malawi: Underlying DSA Assumptions, 2018–27

	Real GDP growth		Primary balance*		Total public debt*		Current account deficit		FDI	
	(Percent)		(Percent of GDP)		(Percent of GDP)		(Percent of GDP)		(Percent of GDP)	
Year	Previous	Current	Previous	Current	Previous	Current	Previous	Current	Previous	Current
2018	4.4	4.4	-2.7	-2.7	43.9	43.9	12.0	12.0	1.1	1.1
2019	5.4	5.4	-1.9	-1.9	45.3	45.3	12.6	12.6	1.0	1.0
2020	0.9	0.9	-2.7	-2.7	54.8	54.8	13.6	13.6	0.8	0.8
2021	2.2	2.2	-3.7	-3.7	58.3	64.0	15.0	14.6	0.8	0.8
2022	3.5	0.8	-6.5	-5.4	62.7	76.6	14.3	14.8	1.3	0.8
2023	4.5	2.4	-4.8	-3.3	66.9	74.6	12.6	13.6	1.3	1.0
2024	4.0	3.2	-4.2	-1.7	72.0	74.5	10.8	14.3	1.3	1.2
2025	4.0	3.8	-4.0	-0.2	78.0	73.8	10.7	13.1	1.4	1.3
2026	4.1	4.3	-4.2	0.7	83.6	72.6	10.4	11.2	1.4	1.4
2027	5.8	4.5	...	0.8	...	71.0	...	9.6	...	1.5
Avg 2027-2042	5.5	4.6	...	1.4	...	55.7	...	7.0	...	1.9

Sources: Malawian authorities and IMF staff calculations and projections.
* Fiscal data refers to fiscal year; e.g. 2021=FY2020/21

- Measures enhancing ***domestic revenue*** collection by about 3 percentage points of GDP are assumed during 2022-27. These would fall short of the 5 percent revenue enhancement target set forth in the government's Domestic Revenue Mobilization Strategy. Judgement was used to determine that such a path would not be realistic and a more careful, albeit still ambitious revenue trajectory entered the DSA. Additional income tax brackets and advance income tax were already introduced in 2022. To further boost revenue (which is at just 13.4 percent of GDP in FY2021/22), the authorities are committed to: introduce the presumptive tax for small businesses, rationalize the list of items subject to preferential General Sales Tax (GST) treatment, review tax incentive regimes to revamp the Taxation Act and Customs and Excise Act, strengthen the withholding tax regime, introduce measures to address Base Erosion and Profit Shifting (BEPS), reform excise tax rates; and continue efforts to improve tax administration such as the online rollout of the Integrated Tax Administration System (ITAS), also called Msokho. Additional measures are contemplated to improve nontax revenues. These include reviewing fees and charges to move them towards full cost recovery and ensuring that Ministries, Departments, and Agencies (MDAs) account for their revenue collections in IFMIS and remit nontax revenue collections to Malawi Government consolidated (MG1) account, the main source of funding of all its operations.

- ***Primary expenditure*** will decrease by about 3 percentage points of GDP during 2022-27 given adjustments in the wage bill, the AIP, and general goods and services. Spending within

allocation and revenue performance would contain expenditure and discretionary spending to fall within the legislated budget. An increase in social protection spending of 0.2 percent of GDP, as a better targeted measure to support low-income households, will offset some of the expenditure reductions. An IDA operation is also scaling up support on social protection (Box 2). The combined cumulative adjustment is about 7.2 percentage points of GDP in the medium term or about 1½ percentage points of GDP per year.

- The ***current account deficit*** has been revised to 14.8 percent of GDP in 2022 and is projected to decline to 9.6 percent by end-2027. Staff projects a gradual recovery in service receipts (especially in hotel and transportation services), reaching pre-pandemic levels in 2024. Exports are expected to increase by 2024 considering the resumption of tobacco exports to the United States, the recent lifting of the export ban on maize, and other agricultural export diversification efforts. The impact of the exchange rate alignments (e.g., formalization of informal exports) is also assumed. Exports of goods and services are thus projected to increase from 11.0 percent of GDP in 2022 to 14.7 percent of GDP by end-2027, driven in part by the change in real effective exchange rate. The strategy is erring on the side of caution by excluding mining projects that could potentially commence during the medium term and generate exports.

- ***Gross official reserves*** were projected to increase from US$394.0 million (1.4 months of imports) in 2021 to US$401.8 million (1.5 months of next year's imports) in 2022 in the November 2021 DSA. In this DSA, it is revised to US$72 million (0.3 months of imports) in 2021 and US$172 million (0.6 months of next year's imports) in 2022, respectively. The gross official reserves were revised downwards compared to the 2021 Article IV Consultation because of the exclusion of encumbered deposits in line with the definition of reserve assets in the Monetary and Financial Statistics Manual. The **reserve accumulation path** assumes gross official reserves will recover to 3.7 months of imports by 2027. The external financing gap is assumed to be filled with nondebt creating flows, either debt relief or grants.

- **These adjustments in the external sector will be supported by a REER adjustment of about 39 percent** (the gap identified in External Sector Assessment), with a frontloaded adjustment in 2022 of 34 percent, and other efforts to improve exports. The REER adjustment will be achieved by allowing greater flexibility in the nominal exchange rate, supported by a tight monetary policy stance, fiscal consolidation, and a reduction of RBM external borrowing. RBM will purchase foreign exchange to build reserves, which it would subsequently sterilize to stem money growth and hence, depreciation.

15. The assumption for the financing mix and borrowing terms are in line with the Malawi's Medium-Term Debt Management Strategy (MTDS) which aims to gradually reduce short-term debt. The financing mix assumptions are as follows:

- ***External borrowing***. The baseline assumes no nonconcessional external borrowing. Concessional borrowing is assumed to remain elevated in the near term (about 2½ percent

of GDP) but will decline to about 1½ percent of GDP by the end of the medium term. The envisaged concessional borrowing path assumes that sizeable grants would be mobilized through contributions to the Multi-Donor Trust Fund (MDTF) and IDA operations including prospective Development Policy Operations (Box 2 and Text Table 4). New financing in 2022 is assumed from the IMF conditional on the approval of the RCF.

- ***Domestic borrowing***. The baseline assumes the remaining financing gap will be picked up by domestic bank and nonbank institutions. Outstanding domestic debt is projected to increase from 37.7 percent of GDP in 2022 to 42.2 percent of GDP in 2027, and will decrease henceforth. The composition of government securities issuances is assumed to be as follows: 15 percent in Treasury bills and the rest in Treasury notes, ranging in tenor from 2 years to 6 years. The interest rates of the different tenors of government securities are assumed to move along with the policy rate. They are projected to range from 19 percent for Treasury bills to 22.5 percent for 6-year Treasury Notes in 2022.

  Given the size of projected fiscal deficits, net domestic borrowing averages about 4 percent of GDP each year during the medium term. The interest rate for the 3-year bond and the 10-year bond are assumed at 17½ percent and 22½ percent respectively. New bond issuance will move gradually towards longer maturities. The share of bonds with a maturity greater than 7 years is expected to increase from 5 percent of new issuances to 15 percent by 2042.

Box 2. Malawi: IDA Operations, 2022 and Beyond

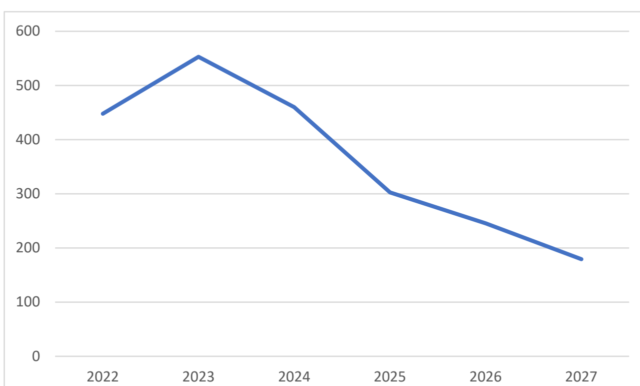
IDA is the major financier of on-budget development assistance in Malawi, aligned with the ambitious goals of Malawi Vision 2063. Total net flows during 2022-27 are anticipated to be more than $2 billion (Box Figure 1). IDA20, covering FY23-25, (which will be on grant terms) will include fast-disbursing operations that protect the poorest and support an inclusive and sustainable recovery.

Protecting the vulnerable and essential services. First, to strengthen Malawi's social protection during an acute 2022/23 lean-season the *Social Support for Resilient Livelihoods Project (SSRLP)* is already expanding a climate-smart public works program nationally to build resilience and livelihoods while facilitating the downscaling of the costly fertilizer subsidy program. IDA will also scale up the operation's shock-response instrument through an additional financing of $160 million. Second, IDA is preparing a $100 million *Emergency Operation to Protect Essential Health Services* which will bolster frontline services and essential medicines in the face of a rapidly escalating national cholera outbreak.

Promoting inclusive growth. IDA's Country Partnership Framework FY21-25 has a strong focus on commercial agriculture and energy access. Tapping into the new Food Systems Resilience Multi Phased Approach, IDA will provide a $250 million to scale up Malawi's successful *Agricultural Commercialization and Resilience Enhancement (AGCOM) program* providing financial and technical support directly to productive farmer groups with off-taker agreements. On energy, IDA's is financing the emergency rehabilitation of the Kapichira Hydropower Station while the World Bank Group is the key financier in the planned Mpatamanga Public Private Partnership which will enable Malawi to sell power into the Southern Africa Power Pool and restore critical baseload to catalyze more independent power producers to invest in solar. Complementing IDA investments, the prospective World Bank DPOs would aim to support Malawi to address longstanding weaknesses in public financial management, strengthen its fiscal position, promote agricultural growth, and improve resilience against shocks. The first DPO ($80 million) in a series of two prospective operations is expected in 2023.

IDA Net Inflows to Malawi, 2022–27

(Millions of U.S. dollars)



16. The projected external financing gap for the next 12 months is US$841 million (about 7 percent of GDP). The envisaged burden sharing/financing mix is spread across different sources. It includes debt treatment, concessional loans and grants. Debt relief is projected to close 47 percent of the financing gap (Text Table 4).

Text Table 4. Malawi: Financing Gap, 2022Q4–2023Q4[1]

(Millions of U.S. Dollars)

	Next 12 months	
	mil US$	% of total
Financing Gap	841	100
Prospective Debt relief	396	47
Prospective RCF	88	10
Prospective Grants	318	38
IDA	238	
MDTF and Other Support	80	
Residual Gap	39	5

[1]Grants figures are preliminary and further discussions are ongoing. Tentative donors for the Multi-Donor Trust Fund are EU, US, UK, AfDB, Ireland, and Germany.

Sources: Malawian authorities; and IMF staff estimates.

REALISM OF THE BASELINE ASSUMPTIONS

17. The realism tools suggest that the baseline scenario is credible compared to Malawi's historical experience and cross-country experiences (Figures 3 and 4).

- The left-hand side panels of Figure 3 show the ***evolution*** of projections of external and public debt to GDP ratios for the current DSA, the previous DSA (the November 2021 DSA), and the DSA from 5 years ago. The current DSA reflects the reform program of the authorities before the implementation of the debt restructuring strategy that brings debt to a sustainable path. Both external debt (as percent of GDP) and public debt (as percent of GDP) will peak and descend on a downward trajectory in the medium term. The difference between the current DSA and the previous DSA is large for the reasons discussed above (¶6).

- ***Debt-creating flows*** charts (middle panel) show that increased contribution of the nominal interest rate over the 5-year projected change, reflecting the compositional changes in external debt (¶4). In the past five years, the primary deficit was the largest contributor to public debt accumulation. During the program, the contribution of the primary deficit has been largely reduced due to the fiscal adjustments incorporated in the baseline. Meanwhile, the contribution of real exchange rate depreciation has risen because of the impact of the exchange rate devaluation on the local currency value of foreign currency denominated debt.

- The ***unexpected*** increases in PPG external debt and public debt (right-hand side panels of Figure 3) are about 13.1 and 36.5 percent of GDP, respectively, which are both above the median of the countries producing LIC DSF. The driver of the unexpected external debt accumulation is the unexpected increase in the current account deficit. Unexpected increase in the primary deficit and real interest rate drives unexpected public debt accumulation.

18. Ambitious improvement in the primary balance in the next three years is in the top quartile of historical data on LIC adjustment programs (Figure 4). The second DSF realism tool assesses the realism of the fiscal projection. The top-left panel of Figure 4 highlights the anticipated adjustment in the primary balance of 4.9 percentage points of GDP in the next three years. The top-right panel of Figure 4 shows that growth projection for 2022 is in line with what is suggested by the fiscal multiplier realism tool. The projection in 2023 is optimistic and assumes the authorities' reform policies yield good results. The bottom two panels reflect the authorities' plan to ramp up public investment to generate growth. The bottom right panel shows the downward revision in Malawi's medium term real economic growth projection, taking into consideration Malawi's vulnerability to recurrent natural disasters amid climate change.

COUNTRY CLASSIFICATION AND MODEL SIGNAL

19. Malawi's debt-carrying capacity based on the Composite Indicator (CI) is assessed as weak (Text Table 5).[7] The CI is determined by the World Bank's CPIA and other variables informed by the macroeconomic framework, such as real GDP growth, import coverage of reserves, remittances as percent of GDP, and growth of the world economy. Malawi's CI based on the current vintage (2021 CPIA) remains 'weak' with a CI score of 2.34. In addition, Malawi is classified as having "weak quality of debt monitoring"

Text Table 5. Malawi: Composite Index

Debt Carrying Capacity	Weak

Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintage
Weak	Weak 2.34	Weak 2.56	Weak 2.57

Calculation of the CI Index

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	3.196	1.23	53%
Real growth rate (in percent)	2.719	4.107	0.11	5%
Import coverage of reserves (in percent)	4.052	16.332	0.66	28%
Import coverage of reserves^2 (in percent)	-3.990	2.667	-0.11	-5%
Remittances (in percent)	2.022	1.564	0.03	1%
World economic growth (in percent)	13.520	3.050	0.41	18%
CI Score			2.34	100%
CI rating			Weak	

[7] The CI captures the impact of the different factors through a weighted average of the World Bank's 2020 Country Policy and Institutional Assessment (CPIA) score, the country's real GDP growth, remittances, international reserves, and world growth. A country's debt-carrying capacity would be assessed as weak if its CI value is below 2.69, medium if it lies between 2.69 and 3.05, and strong if it is above 3.05.

in line with the country's debt-recording capacity. The four external debt burden thresholds and the total public debt benchmark are determined by this classification of the debt carrying capacity (Text Figure 6).

Text Table 6. Malawi: Debt Carrying Capacity and Thresholds

EXTERNAL debt burden thresholds	Weak	Medium	Strong
PV of debt in % of			
Exports	140	180	240
GDP	30	40	55
Debt service in % of			
Exports	10	15	21
Revenue	14	18	23

APPLICABLE	
EXTERNAL debt burden thresholds	
PV of debt in % of	
Exports	140
GDP	30
Debt service in % of	
Exports	10
Revenue	14

APPLICABLE	
TOTAL public debt benchmark	
PV of total public debt in percent of GDP	35

SCENARIO STRESS TESTS

20. Standard scenarios stress test and a contingent liability stress test are conducted (Text Table 1, and Tables 3 and 4). A stress test combined contingent liabilities of a one-time debt shock (equivalent to 10 percent of GDP) in 2021, to capture the potential impact of limited public debt coverage (2 percent of GDP, instead of the default level of zero), contingent liabilities due to foreign exchange swaps, and contingent liabilities from SOEs[12] (equivalent to 2 percent of GDP) and the need to for bank recapitalization.[13]

21. A second tailored scenario presented is a commodity price shock (Tables 3 and 4). Given the high share of Malawi's tobacco exports in total exports (goods and services) of more than 50 percent over the previous three-year period, the DSA also conducts a stress test where commodity exports are shocked by a commodity price gap in the second year of projection, which converges to the baseline in 6 years.[14] A decline in exports to a level equivalent to one standard

[12] The SOE external liability is identified based on a Fund staff survey conducted in 2016.

[13] The need for bank recapitalization is equivalent to the default level of 5 percent of GDP to the average cost to the government of a financial crisis in a low-income country since 1980.

[14] The price gap is defined as the difference between the baseline commodity price in the second year of projection and the lower end of the 68 percent confidence interval from the IMF's commodity price forecast distribution for fuel and nonfuel commodities which may be found at IMF Primary Commodity Prices. The size and duration of these responses were informed by the analysis of episodes of commodity price busts in a sample of 34 commodity-intensive LICs during 1990-2015. The elasticities are within the range of estimates found in the literature (e.g., Spatafora and Samake, 2012. "Commodity Price Shocks and Fiscal Outcomes," IMF Working Paper No. 12/112; and Cespedes and Velasco, 2013. "Was This Time Different? Fiscal Policy in Commodity Republics," NBER Working Paper No. 19748).

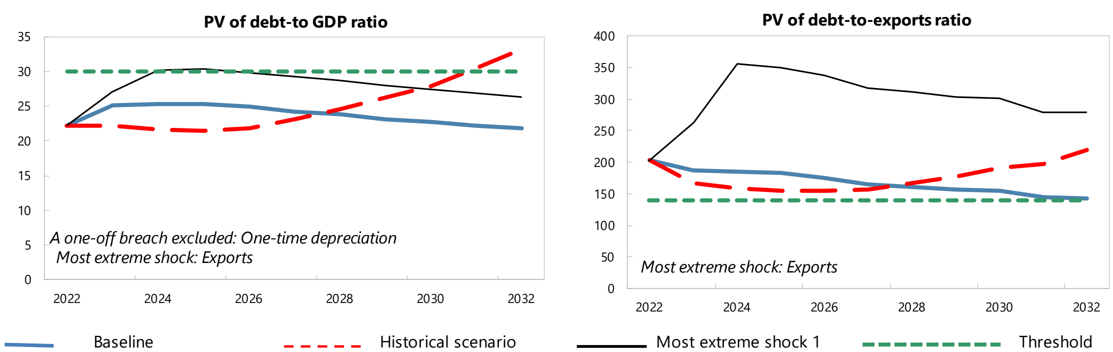
deviation below their historical average in the second and third years of the projection period would cause the debt-service-to-exports ratio and PV of debt-to-GDP to remain elevated exceeding the baseline projections over the medium term.

EXTERNAL DSA

22. Malawi's overall and external public debt are assessed to be in debt distress, as this DSA presents to a pre-restructuring scenario. Malawi's sustained threshold breaches on a number of debt stock and debt service indicators will continue in the medium term, highlighting the severity of external debt distress. The baseline scenario incorporates the authorities' reforms; but without the debt restructuring strategy described in Box 1, public debt would increase further from 64 percent of GDP in 2021 to 76.6 percent of GDP in 2022, and external debt would reach 38.9 percent of GDP in 2022. The stock indicators, the PV of PPG external debt to GDP ratio and the PV of external debt to export ratio, stay below or reach the threshold during the medium term. However, the PV of PPG external debt to export ratio would remain substantially above the threshold if the residual financing gap were to be financed externally (Box 3). Moreover, the flow indicators, the external debt service to revenue ratio and the external debt service to export ratio, notably indicate that without debt restructuring, Malawi would face an enormous debt service burden in the near term—the external debt service to exports ratio is 56 percent in 2022 and 27 percent in 2023, and the debt service-to-revenue ratio is 43 percent in 2022 and 25 percent in 2023.

Box 3. Malawi: Illustrative Scenario Without Debt Restructuring

In the absence of a debt restructuring, the authorities have to meet large debt services need. Repayment of contracted external debt under the original terms would imply declining external debt stocks but with a large financing gap. The pre-restructuring scenario assumes domestic financing of that residual. If that residual were to be financed externally (including through arrears), it would lead to a sustained breach of the debt-to-export ratio indicator over the medium term.



23. The stress scenarios highlight Malawi's debt is vulnerable to any shocks in exports and the exchange rate. The historical scenario, which assumes that real GDP growth, the primary

balance-to-GDP ratio, the GDP deflator, the noninterest current account, and net FDI flows permanently remain at their historical averages, indicates that the baseline adopts policies that brings debt ratios on a descending path. Various stress test scenarios presented in Figure 1 show that Malawi's debt is vulnerable to shocks in exports (see the PV debt to export ratio and the debt service to export ratio), those in the exchange rate (see the debt service to revenue ratio and the PV debt to GDP ratio).

PUBLIC DSA

24. **Malawi's overall public debt is assessed to be in distress—the PV of public debt-to-GDP ratio remains above the threshold over time** (Figure 2). Total public debt in the medium term is projected to take a downward path but remains above the threshold in the medium and long term in the baseline scenario. While the historical scenarios also do not decline to reach threshold in the medium term, fiscal reforms enable public debt ratios go down earlier compared to the baseline scenario. The PV public debt-to-GDP ratio peaks at 66 percent in 2022, the PV of public debt-to-revenue and grants ratio reaches 405 percent in 2022 and the debt service-to-revenue and grants ratio reaches 118 percent in 2022. These numbers point to the severity of the debt burden on the economy. There are many factors contributing to the situation: Malawi's inability to sustain growth, partly due to frequent weather-related shocks; high cost of sovereign borrowing; weak macroeconomic management/governance; and the high level of existing debt with a large fraction being on nonconcessional term.

RISK RATING AND VULNERABILITIES

25. **Malawi's external and public debt is in debt distress and granularity in risk rating assesses that public debt under current policies is unsustainable**. The assessment reflects the significant debt vulnerabilities emanating from the large and sustained breaches on the PV public debt to GDP, PV external debt to export, external debt service to export, and external debt service to revenue ratios during the entire medium term.

26. **Risks to the ratings assessment remain significant on several fronts.** Reducing Malawi's macroeconomic vulnerabilities requires a sizeable debt operation, which is risky, including due to potential delays in obtaining financing assurances especially from bilateral official creditors and comprehensive collateralization of the borrowing from AFREXIM bank. Additional risks stem from possible delays in cash management and commitment controls that are envisaged under the program could derail fiscal consolidation effort and add to the deep-rooted governance vulnerabilities. The RBM's program to scale up foreign exchange purchases and reducing swap arrangements and or costly short-term trade credits could face delays, jeopardizing the reserve accumulation path. Climate shocks represent an additional risk. Lack of monetary tightening could prolong the period of price instability and excessive exchange rate volatility. Loss of market confidence could result in drawdown on foreign exchange deposits, capital flight, resulting in a worsening of foreign exchange liquidity. Mitigating factors include: significant fiscal tightening, the

RBM's strong commitment for further efforts for greater flexibility in the foreign exchange market, and the authorities' implementing recommendations from the special audit, and the 2021 safeguards assessment along with undertaking a proposed governance diagnostic exercise. Staff also see that further restraining nominal wage growth while fully utilizing an increase in revenue (inflation tax) could be a fiscal contingency measure.

27. The authorities' commitment to macroeconomic adjustment, in conjunction with debt restructuring, is the only channel for Malawi to return to moderate risk of debt distress in the medium term. A strong commitment to fiscal discipline to contain fiscal deficits and public debt would require reforming the AIP and realism in budget forecasts and public financial management (PFM) reforms. This needs to be supported by strengthening public sector governance and institutions to help safeguard scarce resources and strengthen policy effectiveness, as envisaged in MEFPs. The RBM's financing of the government and external nonconcessional borrowing should not be undertaken. In this regard, given that Malawi's external position is assessed to be substantially weaker than the level implied by economic fundamentals and desirable policies, allowing for greater flexibility in the exchange rate along with a well-functioning and transparent foreign exchange interbank market development and a foreign exchange reserve management strategy are crucial. To help guide policy directions, the authorities need to improve further fiscal, monetary, and external sector data compilation and reporting.

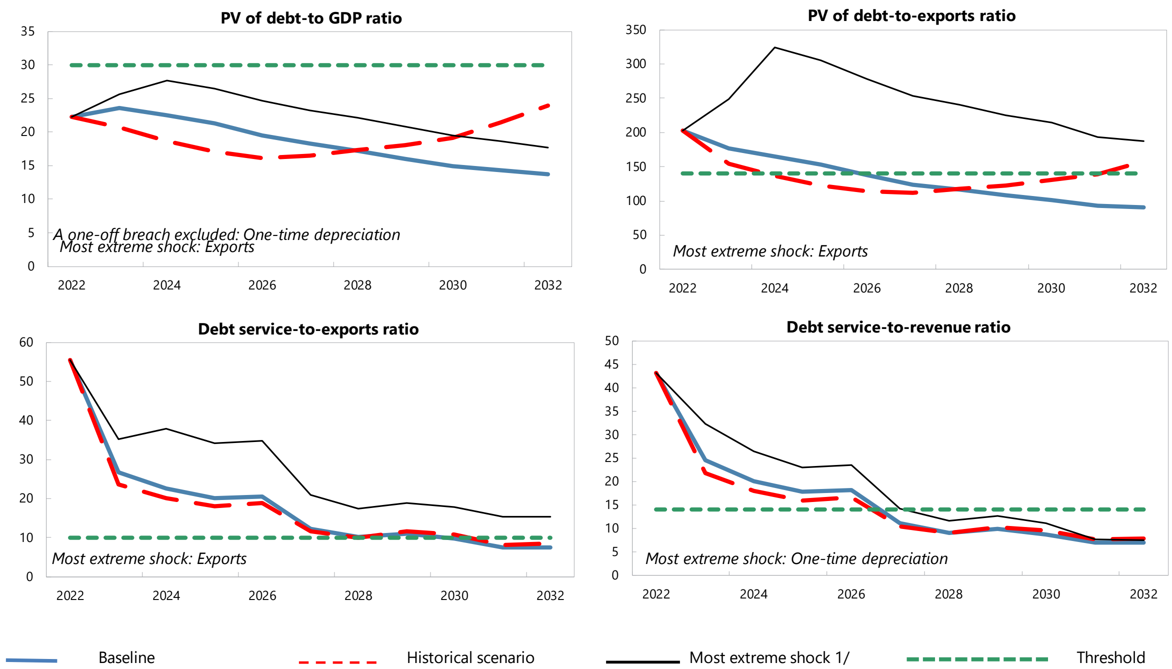
28. The authorities are committed to significant structural reforms and policies to support inclusive growth and increase diversification outside of agriculture. Enhancement in productivity, value addition, and job creation should lead to stronger growth, larger fiscal buffers and resilience to external shocks. Addressing a narrow production base through structural reforms is critical, especially given the absence of fiscal space and tight monetary conditions. Well targeted and more cost-efficient subsidy programs for the agriculture sector, along with well-tailored reforesting and climate adaptation plans, should reduce fiscal risks, safeguard food security, and help weather external and climate shocks. This also requires expanding reliable access to electricity, including sustainable energy investment projects. All these call for addressing informality, boosting the business environment and raising competitiveness through measures such as tax reforms and stronger governance in key sectors. The World is supporting Malawi in addressing longstanding weaknesses in public financial management, strengthening its fiscal position, promoting agricultural commercialization, and improving resilience against shocks.

AUTHORITIES' VIEWS

29. The authorities are in broad agreement with the WB's and IMF's staff assessments. The authorities are determined to take bold policy action and have recently reiterated their request for an ECF arrangement. The proposed PMB would aim to: (i) restore macroeconomic stability, including debt sustainability; (ii) address weaknesses in governance; and (iii) build the foundation for sustainable and inclusive growth. Restoring macroeconomic stability will require political commitment to strong fiscal and external adjustment accompanied by a debt treatment. The Fund

program would catalyze support from the international community, which would be essential given Malawi's immediate financing needs which are best met through grants and nondebt creating flows. Addressing weaknesses in governance will focus on enhancing transparency and accountability of public financial management and foreign exchange management of the Reserve Bank of Malawi. This reform agenda will reflect inputs from the Safeguards Assessment Report completed in December 2021.

Figure 1. Malawi: Indicators of Public and Publicly Guaranteed External Debt Under Baseline (Pre-debt restructuring) Scenarios, 2022–32



Customization of Default Settings

	Size	Interactions
Tailored Stress		
Combined CL	Yes	
Natural disaster	n.a.	n.a.
Commodity price	No	No
Market financing	n.a.	n.a.

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing assumptions on additional financing needs resulting from the stress tests*

	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	0.8%	0.8%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	34	34
Avg. grace period	6	6

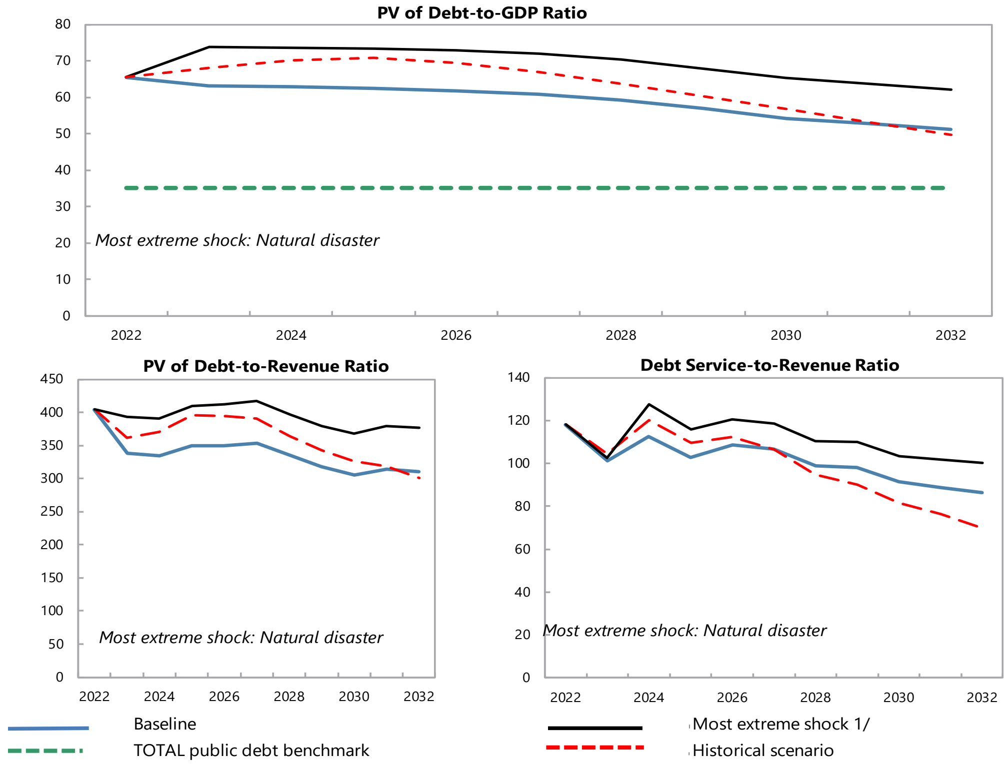
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2032. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

Figure 2. Malawi: Indicators of Public Debt Under Alternative Scenarios, FY2022–32



Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	10%	10%
Domestic medium and long-term	76%	76%
Domestic short-term	13%	13%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	0.8%	0.8%
Avg. maturity (incl. grace period)	34	34
Avg. grace period	6	6
Domestic MLT debt		
Avg. real interest rate on new borrowing	5.1%	3.0%
Avg. maturity (incl. grace period)	4	10
Avg. grace period	1	1
Domestic short-term debt		
Avg. real interest rate	1.7%	1.7%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

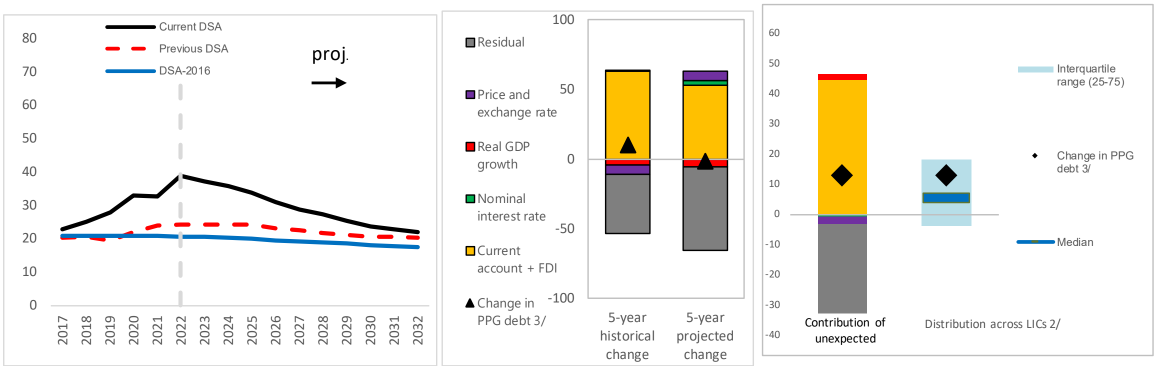
Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2032. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 3. Malawi: Indicators of Public Debt Under Alternative Scenarios, FY2021–32

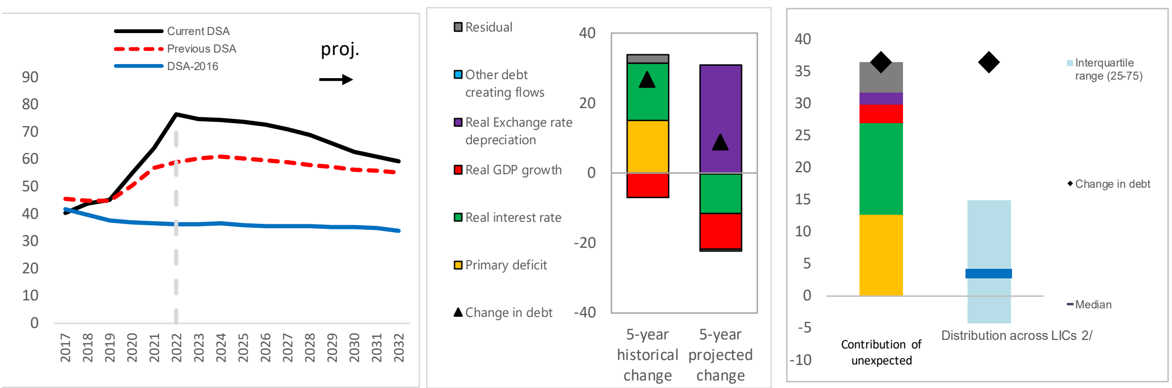
External debt

Gross Nominal PPG External Debt (in percent of GDP; DSA vintages) | Debt-creating flows (percent of GDP) | Unexpected Changes in Debt 1/ (past 5 years, percent of GDP)



Public debt

Gross Nominal Public Debt (in percent of GDP; DSA vintages) | Debt-creating flows (percent of GDP) | Unexpected Changes in Debt 1/ (past 5 years, percent of GDP)



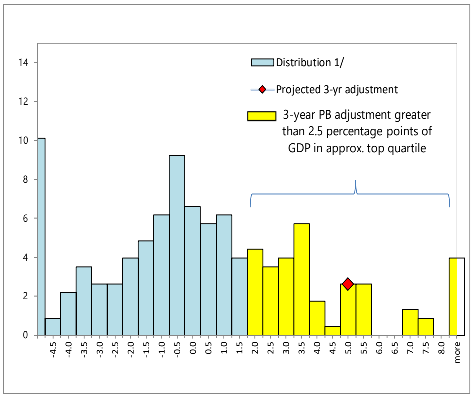
1/ Difference between anticipated and actual contributions on debt ratios.

2/ Distribution across LICs for which LIC DSAs were produced.

3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

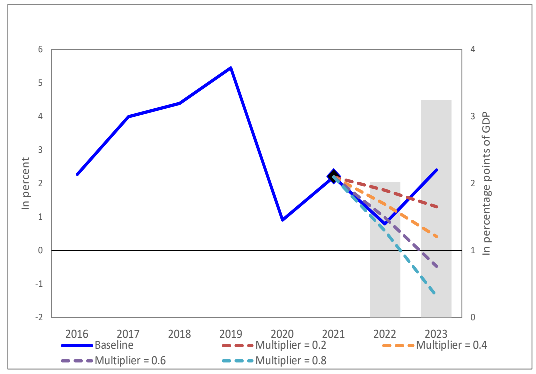
Figure 4. Malawi: Realism Tools

3-Year Adjustment in Primary Balance
(Percentage points of GDP)



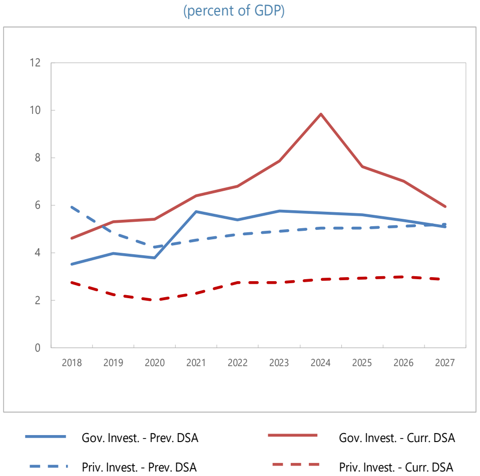
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(percent of GDP)



Contribution to Real GDP growth
(percent, 5-year average)

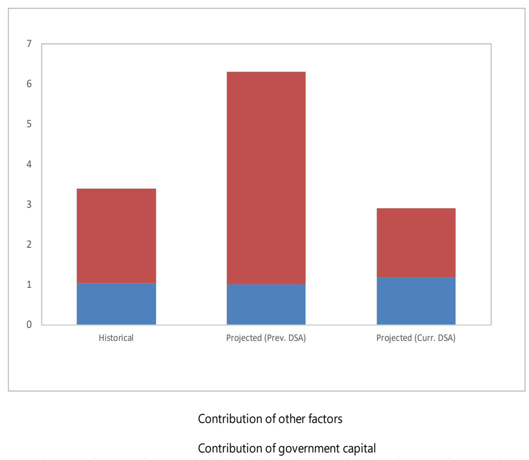
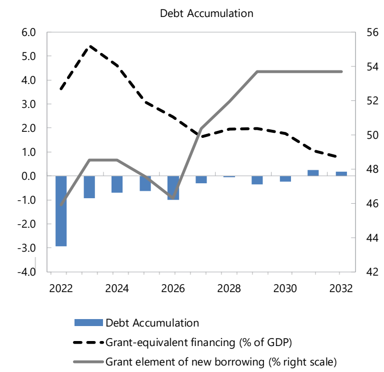


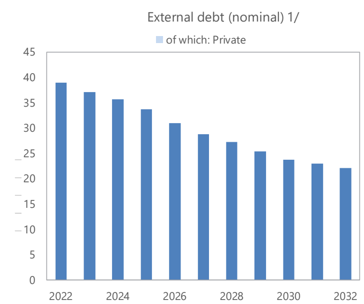
Table 1. Malawi: External Debt Sustainability Framework, Baseline Scenario, FY 2019–42*

(Percent of GDP, Unless Otherwise Indicated)

	Actual			Projections								Average 8/	
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2032	2042	Historical	Projections
External debt (nominal) 1/	27.8	32.9	32.8	38.9	37.1	35.6	33.6	30.9	28.8	22.1	15.0	24.8	29.7
of which: public and publicly guaranteed (PPG)	27.8	32.9	32.8	38.9	37.1	35.6	33.6	30.9	28.8	22.1	15.0	24.8	29.7
Change in external debt	2.9	5.1	-0.1	6.1	-1.8	-1.5	-2.0	-2.7	-2.1	-0.8	-0.7		
Identified net debt-creating flows	9.0	10.9	12.9	13.1	9.1	11.3	10.0	7.7	6.8	4.3	3.0	9.1	7.7
Non-interest current account deficit	12.6	13.6	14.3	13.2	10.5	13.1	12.2	10.2	9.3	7.0	5.6	11.2	9.9
Deficit in balance of goods and services	16.7	17.6	16.6	17.9	16.5	16.8	15.5	13.7	12.1	9.9	8.9	14.3	13.3
Exports	10.8	8.2	10.5	11.0	13.4	13.7	13.9	14.2	14.7	15.2	11.5		
Imports	27.6	25.8	27.1	28.9	29.9	30.5	29.4	27.8	26.8	25.1	20.5		
Net current transfers (negative = inflow)	-5.8	-5.6	-5.3	-6.2	-7.7	-5.6	-5.2	-5.4	-4.7	-4.7	-5.0	-4.9	-5.3
of which: official	-0.4	-0.4	0.0	-0.6	-2.4	-0.7	-0.5	-0.7	0.0	0.0	0.0		
Other current account flows (negative = net inflow)	1.7	1.5	2.9	1.5	1.8	1.8	1.9	1.9	1.9	1.8	1.7	1.8	1.8
Net FDI (negative = inflow)	-1.0	-0.8	-0.8	-0.8	-1.0	-1.2	-1.3	-1.4	-1.5	-1.9	-2.1	-1.5	-1.5
Endogenous debt dynamics 2/	-2.7	-1.9	-0.6	0.7	-0.4	-0.6	-0.9	-1.1	-1.1	-0.8	-0.6		
Contribution from nominal interest rate	0.0	0.0	0.3	1.0	0.6	0.5	0.4	0.3	0.2	0.2	0.1		
Contribution from real GDP growth	-1.2	-0.2	-0.7	-0.3	-1.0	-1.2	-1.3	-1.4	-1.3	-1.0	-0.7		
Contribution from price and exchange rate changes	-1.4	-1.7	-0.2	...	...	...	...	...	...	...	...		
Residual 3/	-6.1	-5.8	-13.0	-7.0	-10.9	-12.7	-12.0	-10.4	-8.9	-5.1	-3.7	-6.7	-8.7
of which: exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	...	...	24.8	22.2	23.6	22.5	21.3	19.5	18.2	13.7	9.1		
PV of PPG external debt-to-exports ratio	...	...	235.5	202.3	176.6	164.9	153.3	137.7	124.0	90.2	79.1		
PPG debt service-to-exports ratio	0.0	0.0	6.4	55.6	26.7	22.7	20.2	20.6	12.2	7.6	6.1		
PPG debt service-to-revenue ratio	0.0	0.0	4.9	43.2	24.6	20.2	17.8	18.3	11.1	6.9	7.1		
Gross external financing need (Billion of U.S. dollars)	1.3	1.5	1.8	2.2	1.4	1.6	1.5	1.4	1.2	1.0	1.2		
Key macroeconomic assumptions													
Real GDP growth (in percent)	5.4	0.9	2.2	0.8	2.4	3.2	3.8	4.3	4.5	4.6	4.6	3.5	3.8
GDP deflator in US dollar terms (change in percent)	5.9	6.4	-0.9	-2.6	-12.0	-1.4	-0.9	-0.3	0.9	1.2	1.3	-2.0	-1.0
Effective interest rate (percent) 4/	0.0	0.0	1.0	3.0	1.5	1.4	1.2	1.0	0.8	0.8	0.8	0.1	1.2
Growth of exports of G&S (US dollar terms, in percent)	7.6	-19.2	30.6	2.6	9.8	3.9	4.5	6.1	9.4	4.0	3.8	0.3	6.2
Growth of imports of G&S (US dollar terms, in percent)	12.8	0.3	6.7	4.6	-6.8	3.7	-0.8	-1.5	1.4	4.1	3.5	4.0	2.0
Grant element of new public sector borrowing (in percent)	...	...	...	45.9	48.5	48.5	47.6	46.3	50.4	...	...	...	...
Government revenues (excluding grants, in percent of GDP)	13.1	12.8	13.7	14.1	14.5	15.4	15.8	16.0	16.2	16.5	10.0	13.1	15.9
Aid flows (in Billion of US dollars) 5/	0.3	0.4	0.4	0.5	0.6	0.5	0.4	0.3	0.2	0.2	0.2		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	3.6	5.4	4.6	3.1	2.5	1.6	0.7	0.4	...	2.6
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	66.3	80.6	78.6	73.8	72.3	73.4	53.7	53.7	...	72.3
Nominal GDP (Billion of US dollars)	11	12	12	12	11	11	11	12	12	16	29		
Nominal dollar GDP growth	11.6	7.4	1.3	-1.9	-9.9	1.8	2.8	3.9	5.4	5.9	5.9	1.5	2.8
Memorandum items:													
PV of external debt 7/	...	...	24.8	22.2	23.6	22.5	21.3	19.5	18.2	13.7	9.1		
In percent of exports	...	...	235.5	202.3	176.6	164.9	153.3	137.7	124.0	90.2	79.1		
Total external debt service-to-exports ratio	0.0	0.0	14.4	55.6	26.7	22.7	20.2	20.6	12.2	7.6	6.1		
PV of PPG external debt (in Billion of US dollars)			3.0	2.6	2.5	2.4	2.4	2.3	2.2	2.2	2.6		
(PVt-PVt-1)/GDPt-1 (in percent)				-2.9	-0.9	-0.7	-0.6	-1.0	-0.3	0.2	0.1		
Non-interest current account deficit that stabilizes debt ratio	9.7	8.5	14.4	7.0	12.3	14.5	14.2	12.9	11.5	7.9	6.3		

Definition of external/domestic debt	**Residency-based**
Is there a material difference between the two criteria?	**Yes**





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g) + Ɛα (1+r)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, ρ = growth rate of GDP deflator in U.S. dollar terms, Ɛ=nominal appreciation of the local currency, and α= share of local currency-denominated external debt in total external debt.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Current-year interest payments divided by previous period debt stock.

5/ Defined as grants, concessional loans, and debt relief.

6/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

7/ Assumes that PV of private sector debt is equivalent to its face value.

8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

* Residual calculation does take into account another large nondebt creating inflow factor, net official transfers for "capital" spending (capital account balance). Once it is taken into account, residual goes down to 6.9 percent of GDP over 6 years.

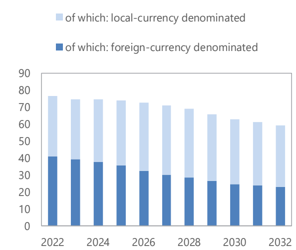
Table 2. Malawi: Public Sector Debt Sustainability Framework, Baseline Scenario, FY2019–42

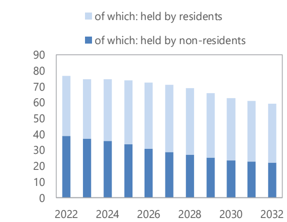
(Percent of GDP, Unless Otherwise Indicated)

	Actual			Projections								Average 6/	
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2032	2042	Historical	Projections
Public sector debt 1/	**45.3**	**54.8**	**64.0**	**76.6**	**74.6**	**74.5**	**73.8**	**72.6**	**71.0**	**59.3**	**44.6**	**41.8**	**69.2**
of which: external debt	**27.8**	**32.9**	**32.8**	**38.9**	**37.1**	**35.6**	**33.6**	**30.9**	**28.8**	**22.1**	**15.0**	**24.8**	**29.7**
Change in public sector debt	1.4	9.5	9.2	12.6	-2.0	-0.1	-0.7	-1.2	-1.6	-1.7	-1.2		
Identified debt-creating flows	**1.4**	**8.8**	**7.2**	**-1.8**	**-8.4**	**-5.0**	**-3.9**	**-2.8**	**-2.7**	**-2.6**	**-2.1**	**2.8**	**-3.7**
Primary deficit	**1.5**	**5.0**	**4.8**	**2.7**	**-0.5**	**-0.2**	**-0.9**	**-1.5**	**-1.7**	**-0.8**	**-0.6**	**2.1**	**-1.0**
Revenue and grants	14.8	14.5	15.6	16.2	18.7	18.8	17.8	17.7	17.2	16.5	10.0	**15.6**	**17.6**
of which: grants	1.7	1.8	1.9	2.1	4.2	3.4	2.1	1.6	1.0	0.0	0.0		
Primary (noninterest) expenditure	16.3	19.5	20.4	18.9	18.2	18.6	17.0	16.2	15.5	15.7	9.4	**17.6**	**16.5**
Automatic debt dynamics	**-0.1**	**3.9**	**2.4**	**-4.5**	**-7.9**	**-4.9**	**-3.0**	**-1.3**	**-1.0**	**-1.8**	**-1.5**		
Contribution from interest rate/growth differential	-0.1	3.9	2.4	-4.5	-7.9	-4.9	-3.0	-1.3	-1.0	-1.8	-1.5		
of which: contribution from average real interest rate	2.2	4.3	3.6	-4.0	-6.1	-2.5	-0.3	1.8	2.2	0.9	0.6		
of which: contribution from real GDP growth	-2.3	-0.4	-1.2	-0.5	-1.8	-2.3	-2.7	-3.0	-3.1	-2.7	-2.1		
Contribution from real exchange rate depreciation	0.0	0.0	0.0	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	**0.0**	**0.6**	**2.0**	**14.4**	**6.4**	**5.0**	**3.2**	**1.6**	**1.1**	**0.9**	**0.8**	**1.6**	**3.3**
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	**...**	**...**	**56.5**	**65.5**	**63.2**	**63.0**	**62.5**	**61.8**	**60.9**	**51.2**	**38.9**		
PV of public debt-to-revenue and grants ratio	**...**	**...**	**361.2**	**404.5**	**337.8**	**334.8**	**350.1**	**350.0**	**353.4**	**310.5**	**390.6**		
Debt service-to-revenue and grants ratio 3/	**18.4**	**18.5**	**21.6**	**118.0**	**101.4**	**112.7**	**102.8**	**108.6**	**106.6**	**86.5**	**99.7**		
Gross financing need 4/	4.2	7.7	8.1	21.9	18.5	21.0	17.4	17.7	16.7	13.5	9.3		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	5.4	0.9	2.2	0.8	2.4	3.2	3.8	4.3	4.5	4.6	4.6	**3.5**	**3.8**
Average nominal interest rate on external debt (in percent)	0.0	0.0	0.6	3.1	1.9	1.6	1.3	1.1	0.9	0.8	0.8	**0.1**	**1.3**
Average real interest rate on domestic debt (in percent)	5.2	9.5	6.8	0.4	0.3	5.8	8.5	10.5	9.8	5.4	4.8	**4.7**	**6.4**
Real exchange rate depreciation (in percent, + indicates depreciation)	1.0	4.0	5.9	...	...	...	...	...	...	...	...	**20.4**	**...**
Inflation rate (GDP deflator, in percent)	7.7	6.3	6.5	17.3	20.6	15.3	11.3	7.6	6.3	5.8	5.8	**14.7**	**9.8**
Growth of real primary spending (deflated by GDP deflator, in percent)	3.1	21.2	6.7	-6.4	-1.6	5.5	-5.5	-0.6	0.4	4.1	-3.2	**6.9**	**1.5**
Primary deficit that stabilizes the debt-to-GDP ratio 5/	0.1	-4.5	-4.4	-9.9	1.5	-0.1	-0.2	-0.3	-0.1	0.9	0.67	**-2.9**	**-0.6**
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Definition of external/domestic debt	**Residency-based**
Is there a material difference between the two criteria?	**Yes**

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central government, central bank, government-guaranteed debt . Definition of external debt is Residency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.

5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.

6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Table 3. Malawi: Sensitivity Analysis for Key Indicators of PPG External Debt, FY2022–32
(Percent)

					Projections 1/						
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
PV of debt-to GDP ratio											
Baseline	22	24	23	21	20	18	17	16	15	14	14
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	22	21	19	17	16	16	17	18	19	21	24
B. Bound Tests											
B1. Real GDP growth	22	24	24	22	21	19	18	17	16	15	14
B2. Primary balance	22	24	23	22	20	19	18	17	16	15	15
B3. Exports	22	26	28	26	25	23	22	21	20	19	18
B4. Other flows 3/	22	26	26	25	23	22	21	20	18	17	17
B5. Depreciation	22	**31**	25	24	21	20	18	17	15	15	14
B6. Combination of B1-B5	22	26	25	24	22	21	20	19	17	17	16
C. Tailored Tests											
C1. Combined contingent liabilities	22	24	23	22	20	19	18	17	16	15	15
C2. Natural disaster	22	25	24	22	21	20	19	17	16	16	15
C3. Commodity price	22	24	23	21	20	18	17	16	15	14	14
Threshold	30	30	30	30	30	30	30	30	30	30	30
PV of debt-to-exports ratio											
Baseline	**202**	**177**	**165**	**153**	138	124	117	108	102	93	90
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	**202**	**155**	136	123	114	112	117	122	131	139	**158**
B. Bound Tests											
B1. Real GDP growth	**202**	**177**	**165**	**153**	138	124	117	108	102	93	90
B2. Primary balance	**202**	**178**	**168**	**157**	**142**	129	122	113	108	98	96
B3. Exports	**202**	**249**	**325**	**306**	**279**	**254**	**241**	**225**	**214**	**194**	**188**
B4. Other flows 3/	**202**	**194**	**192**	**180**	**164**	**149**	**141**	132	125	113	110
B5. Depreciation	**202**	**177**	**142**	130	115	102	95	87	81	74	73
B6. Combination of B1-B5	**202**	**238**	**187**	**238**	**216**	**196**	**185**	**173**	**163**	**148**	**144**
C. Tailored Tests											
C1. Combined contingent liabilities	**202**	**181**	**170**	**159**	**144**	130	123	115	109	100	98
C2. Natural disaster	**202**	**187**	**175**	**164**	**149**	135	128	119	114	105	103
C3. Commodity price	**202**	**177**	**165**	**153**	138	124	117	108	102	93	90
Threshold	140	140	140	140	140	140	140	140	140	140	140
Debt service-to-exports ratio											
Baseline	**56**	**27**	**23**	**20**	**21**	**12**	**10**	**11**	10	8	8
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	**56**	**24**	**20**	**18**	**19**	**12**	**10**	**12**	**11**	8	9
B. Bound Tests											
B1. Real GDP growth	**56**	**27**	**23**	**20**	**21**	**12**	**10**	**11**	10	8	8
B2. Primary balance	**56**	**27**	**23**	**20**	**21**	**12**	**10**	**11**	**10**	8	8
B3. Exports	**56**	**35**	**38**	**34**	**35**	**21**	**17**	**19**	**18**	**15**	**15**
B4. Other flows 3/	**56**	**27**	**23**	**21**	**21**	**13**	**11**	**11**	**11**	9	9
B5. Depreciation	**56**	**27**	**23**	**20**	**20**	**12**	10	**11**	10	6	6
B6. Combination of B1-B5	**56**	**32**	**31**	**28**	**28**	**17**	**14**	**15**	**15**	**12**	**12**
C. Tailored Tests											
C1. Combined contingent liabilities	**56**	**27**	**23**	**20**	**21**	**12**	**10**	**11**	10	8	8
C2. Natural disaster	**56**	**28**	**24**	**21**	**21**	**13**	**11**	**12**	**10**	8	8
C3. Commodity price	**56**	**27**	**23**	**20**	**21**	**12**	**10**	**11**	10	8	8
Threshold	10	10	10	10	10	10	10	10	10	10	10
Debt service-to-revenue ratio											
Baseline	**43**	**25**	**20**	**18**	**18**	11	9	10	9	7	7
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	**43**	**22**	**18**	**16**	**17**	10	9	10	10	8	8
B. Bound Tests											
B1. Real GDP growth	**43**	**25**	**21**	**19**	**19**	12	10	10	9	7	7
B2. Primary balance	**43**	**25**	**20**	**18**	**18**	11	9	10	9	7	7
B3. Exports	**43**	**25**	**21**	**19**	**19**	12	10	11	10	9	9
B4. Other flows 3/	**43**	**25**	**20**	**18**	**19**	11	9	10	10	8	8
B5. Depreciation	**43**	**32**	**26**	**23**	**24**	**14**	12	13	11	8	8
B6. Combination of B1-B5	**43**	**24**	**20**	**18**	**18**	11	9	10	10	8	8
C. Tailored Tests											
C1. Combined contingent liabilities	**43**	**25**	**20**	**18**	**18**	11	9	10	9	7	7
C2. Natural disaster	**43**	**25**	**20**	**18**	**18**	11	9	10	9	7	7
C3. Commodity price	**43**	**25**	**20**	**18**	**18**	11	9	10	9	7	7
Threshold	14	14	14	14	14	14	14	14	14	14	14

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
3/ Includes official and private transfers and FDI.

Table 4. Malawi: Sensitivity Analysis for Key Indicators of Public Debt, FY2022–32

(Percent)

	Projections 1/										
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
PV of Debt-to-GDP Ratio											
Baseline	66	63	63	62	62	61	59	57	54	53	51
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	66	68	70	71	69	67	64	60	57	53	50
A2. Alternative Scenario :[Customize, enter title]	68	70	74	78	80	81	82	82	82	81	80
B. Bound Tests											
B1. Real GDP growth	66	65	67	68	68	68	67	65	63	62	61
B2. Primary balance	66	67	71	70	70	69	67	64	62	60	58
B3. Exports	66	65	68	67	66	65	64	61	58	57	55
B4. Other flows 3/	66	66	67	66	66	65	63	60	58	56	54
B5. Depreciation	66	63	62	61	59	58	56	53	50	48	46
B6. Combination of B1-B5	66	65	65	64	63	62	60	57	54	53	51
C. Tailored Tests											
C1. Combined contingent liabilities	66	73	72	72	71	70	68	66	63	61	59
C2. Natural disaster	66	74	74	73	73	72	70	68	65	64	62
C3. Commodity price	66	64	62	61	60	59	57	56	54	53	52
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
TOTAL public debt benchmark	35	35	35	35	35	35	35	35	35	35	35
PV of Debt-to-Revenue Ratio											
Baseline	405	338	335	350	350	353	335	318	306	314	310
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	405	361	371	396	395	391	364	343	327	319	301
A2. Alternative Scenario :[Customize, enter title]	118	94	109	94	99	94	92	95	90	82	80
B. Bound Tests											
B1. Real GDP growth	405	346	355	378	383	393	377	362	354	370	371
B2. Primary balance	405	359	376	393	394	398	378	359	347	357	353
B3. Exports	405	347	360	376	376	379	360	342	329	338	332
B4. Other flows 3/	405	351	356	372	372	375	356	338	325	333	329
B5. Depreciation	405	343	333	343	339	339	318	298	284	287	279
B6. Combination of B1-B5	405	349	345	357	356	358	338	319	307	317	312
C. Tailored Tests											
C1. Combined contingent liabilities	405	388	384	402	402	406	386	367	354	364	360
C2. Natural disaster	405	393	391	410	412	417	398	379	367	380	377
C3. Commodity price	405	340	333	344	341	342	327	314	306	317	317
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Debt Service-to-Revenue Ratio											
Baseline	118	101	113	103	109	107	99	98	91	89	87
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	118	105	120	110	112	106	95	90	82	76	70
A2. Alternative Scenario :[Customize, enter title]	118	94	109	94	99	94	92	95	90	82	80
B. Bound Tests											
B1. Real GDP growth	118	103	118	109	116	115	107	107	101	99	98
B2. Primary balance	118	101	118	113	117	115	107	106	99	97	95
B3. Exports	118	101	113	103	109	107	99	98	92	90	88
B4. Other flows 3/	118	101	113	103	109	107	99	98	92	90	88
B5. Depreciation	118	98	109	99	104	101	94	93	86	83	81
B6. Combination of B1-B5	118	99	111	105	109	107	99	98	92	91	88
C. Tailored Tests											
C1. Combined contingent liabilities	118	101	126	114	118	116	108	107	101	99	97
C2. Natural disaster	118	103	128	116	121	119	110	110	104	102	100
C3. Commodity price	118	101	110	99	102	99	92	92	87	85	84
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the benchmark.

2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

3/ Includes official and private transfers and FDI.