

INTERNATIONAL MONETARY FUND



# Staff Country Reports

## **Malawi: Selected Issues and Statistical Appendix**

This Statistical Appendix on Malawi was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with the member country. It is based on the information available at the time it was completed on **December 14, 2000**. The views expressed in this document are those of the staff team and do not necessarily reflect the views of the government of Malawi or the Executive Board of the IMF.

The policy of publication of staff reports and other documents by the IMF allows for the deletion of market-sensitive information.

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to [Publicationpolicy@imf.org](mailto:Publicationpolicy@imf.org).

Copies of this report are available to the public from  
International Monetary Fund • Publication Services  
700 19th Street, N.W. • Washington, D.C. 20431  
Telephone: (202) 623 7430 • Telefax: (202) 623 7201  
E-mail: [publications@imf.org](mailto:publications@imf.org) • Internet: <http://www.imf.org>

Price: \$15.00 a copy

**International Monetary Fund**  
**Washington, D.C.**

INTERNATIONAL MONETARY FUND

MALAWI

**Selected Issues and Statistical Appendix**

Prepared by a staff team consisting of Jon Shields (head-AFR),  
Alfred Kammer (AFR), Domenico Fanizza (AFR),  
Matthew Odedokun (AFR), Paul Atang (AFR),  
Helaway Tadesse (PDR), Inutu Lukonga (PDR), and Jerome Fournel (FAD)

Approved by the African Department

December 14, 2000

Contents	Page
I. Growth and Macroeconomic Policies .....	4
A. Introduction .....	4
B. Financial Stability .....	5
C. Exchange Rate Policy .....	7
D. Savings and Investment .....	7
E. Structural Impediments to Growth .....	8
F. The Task Ahead .....	9
II. Foreign Aid, Macroeconomic Stabilization, and Growth in Malawi .....	11
A. Introduction .....	11
B. Stylized Facts About Foreign Aid to Malawi .....	12
C. Aid and the government budget constraint .....	14
D. How Was Aid Spent in Malawi? .....	19
E. Economic Reforms and Aid .....	21
F. Conclusions .....	21
Appendix: A Neoclassical Model of Aid and Growth .....	28
III. Experience with Trade Liberalization .....	31
A. Introduction .....	31
B. The Trade Regime during the 1980s .....	31
C. The Trade Reform Program .....	32
D. Market Access Initiatives .....	35
Bilateral trade agreements .....	35
Regional arrangements .....	36
Multilateral initiatives .....	37

E. Complementary Reforms: Exchange System, Fiscal Measures and Other Issues ..	38
F. Changes in the Pattern of Trade .....	39
G. Summary and Conclusions .....	41
IV. The Impact of HIV/AIDS .....	43
A. Prevalence of HIV/AIDS .....	43
B. Impact on Family Circumstances.....	44
C. Effects on Economic Growth.....	45
D. Fiscal Impact of HIV/AIDS .....	46
E. Sectoral Impact.....	47
Additional References.....	49
Text Tables	
1. Malawi: Official Development Assistance (ODA), 1975-98 .....	24
2. Sub-Saharan Africa: Official Development Assistance (ODA), 1975-98.....	25
3. Ratio of Multilateral Aid to Total Official Assistance for Selected sub-Saharan Countries, 1975-1998.....	27
4. Chronology of Trade Liberalization Measures, 1988-98.....	33
5. Aggregate Trade Restrictiveness Rating, 1999.....	35
6. Composition and Direction of Trade, 1990-99 .....	40
7. HIV/AIDS Incidence in Malawi and Selected Other Countries and Regions .....	44
8. Selected Projected HIV/AIDS Indicators for 2010.....	46
Figures	
1. Nominal and Real ODA, 1975-98 .....	12
2. Malawi and Sub-Saharan Africa: Per Capita ODA .....	13
3. Malawi and Sub-Saharan Africa: Aid Dependence, 1975-98.....	13
4. Total Aid Composition, 1990-98 .....	14
5. Aid and Financial Flows, 1990-1998.....	18
6. Aid Flows and Consumption, 1990-98 .....	20
7. Aid Flows and Policy Index, 1990-1998 .....	22
Statistical Appendix Tables	
9. GDP by Economic Activity at Constant 1994 Factor Cost, 1994-99 .....	50
10. GDP by Expenditure at Constant 1994 Market Prices, 1994-99 .....	51
11. GDP by Expenditure at Current Market Prices, 1994-99 .....	52
12. Agricultural Production by Principal Crops, 1993-99 .....	53
13. Average Auction Prices for Tobacco and Tea, 1993-99.....	54
14. National Composite Consumer Price Index, 1993-2000 .....	55
15. Central Government Operations, 1994/95-1999/2000.....	56
16. Central Government Revenue, 1994/95-1999/2000 .....	57

17. Economic Classification of Government Expenditure, 1994/95-1999/2000.....	58
18. Functional Classification of Central Government Current Expenditure, 1993/94-1999/2000 .....	59
19. Accounts of Main Public Enterprises, 1993/94-1998/99 .....	60
20. Interest Rates, 1994-99 .....	62
21. Monetary Survey, March 1997 – September 2000 .....	63
22. Summary Accounts of Monetary Authorities, March 1997 – September 2000 .....	64
23. Summary Accounts of Commercial Banks, March 1997 – September 2000 .....	65
24. Commercial Banks' Advances by Sector, 1994-99 .....	66
25. Summary Accounts of Nonbank Financial Institutions, March 1993 – December 1999 ..	67
26. Balance of Payments, 1993-99 .....	68
27. Composition of Exports, 1993-99 .....	69
28. Tobacco Exports, 1993-99 .....	70
29. Direction of Trade, 1994-99 .....	71
30. Public Sector External Debt and Debt Service, 1993-99.....	72
31. Summary of Tax System as of End-December 1999.....	73

## I. GROWTH AND MACROECONOMIC POLICIES<sup>1</sup>

### A. Introduction

1. Malawi's growth performance in the 1990s was modest. Real per capita GDP grew on average by less than ½ percent per annum from 1989 to 1999. This was, however, better than the rest of sub-Saharan Africa where, taking a cross-country average, a fall was recorded in per capita GDP. It was also an improvement on Malawi's performance in the 1980s, when per capita GDP declined. However, experience in the decade before that suggests that Malawi could move to a higher growth path.<sup>2</sup> This will be necessary if reductions are to be achieved in the number of people living below the poverty line or improvements are to be realized in living conditions.<sup>3</sup>

2. Malawi's record needs to be seen in the context of a number of factors that should have promoted growth during the last ten years. These included the following:

- **a peaceful transition to democracy and a stable political system**, in contrast with the conflicts and unstable political and diverse ethnic environments that characterized many sub-Saharan countries;
- **relatively well-developed institutions;**
- **low labor costs;**
- **substantial financial assistance from donors;**<sup>4</sup>
- **extensive structural policy reforms**, including the successful liberalization of agricultural production and external trade; and

---

<sup>1</sup> Prepared by Domenico Fanizza.

<sup>2</sup> Per capita GDP grew by an average of 2.2 percent per annum between 1969 and 1979.

<sup>3</sup> Malawi has a low growth elasticity of poverty. It has been estimated that, with unchanged income distribution, a 5.3 percent annual growth in real national income would be needed just to prevent the number of poor in the country from increasing. See World Bank (1997).

<sup>4</sup> On this issue see Section II, "Foreign Aid, Macroeconomic Stabilization, and Growth in Malawi", below.

- **episodes of sharp macroeconomic adjustment.**

3. However, Malawi was also hit by adverse developments that hampered growth and complicated the process of policy reforms. These included the following:

- **The terms of trade fluctuated widely and were on an underlying downward trend.**<sup>5</sup> Losses in income from declining terms of trade reduced savings and contributed to lower investment.
- Two major **droughts** hit agricultural production and created expenditure pressures.
- The **HIV/AIDS** pandemic lowered productivity, reduced private savings rates and increased public spending.<sup>6</sup>
- **National elections** placed strong pressure on government spending.
- **Wars in neighboring countries** raised transportation costs.

4. The rest of this section focuses on the role of macroeconomic management and structural reform in Malawi's overall growth performance in the 1990s. It seeks to identify developments in policy that could enhance the situation in the 2000s and that could thus lay the basis for sustained growth. It looks particularly at actions that are being taken to address the difficulties that have been encountered in (i) ensuring sustained financial stability; (ii) avoiding an excessive real appreciation of the kwacha; (iii) reducing government deficits to generate sufficient domestic savings; and (iv) removing the remaining structural impediments to growth and private investment.

## **B. Financial Stability**

5. Malawi's adjustment programs during the 1990s included some periods of substantial reductions in fiscal imbalances. These reductions, however, proved difficult to sustain. As a consequence, a stable macroeconomic environment was not firmly established.<sup>7</sup> External shocks played an important role in derailing the adjustment efforts, but their impact on

---

<sup>5</sup> Prices of tobacco ended the decade 30 percent in U.S. dollar terms below the levels of 1989.

<sup>6</sup> See Section IV "The Impact of HIV/AIDS," below.

<sup>7</sup> For instance, the fiscal deficit (including grants) was reduced from 15 percent to 3 percent of GDP between 1994/95 and 1996/97 but increased again to 8 percent of GDP in 1997/98.

financial policies was sometimes amplified by incomplete progress in structural reforms. More importantly, slippages in financial policies occurred in response to **fiscal pressures**, which arose from the following:

- **Government intervention in maize marketing.** The government purchased maize in the international market on behalf of the Agricultural Development and Marketing Corporation (ADMARC) in response to a series of droughts, which hurt the local production of maize. It also intervened in response to surpluses in domestic maize production, with the intent of supporting domestic prices. Both types of operation produced large losses. **The government has now made clear its intention not to intervene any more in maize marketing (except for emergency operations), although ADMARC is not yet privatized.**
- **Delays in adjusting consumption prices of petroleum products.** These delays brought about significant losses for the operations of the Petroleum Control Commission, which were then covered by the government. **Since May 2000, however, the importation of oil products has been left to the private sector.** This should eliminate an important source of strain on the financial position of the central government.
- **Political developments disrupting budgetary discipline.** These developments generated large expenditure overruns and an accumulation of unidentified spending arrears, particularly in 1997. Pressure was strong, for instance, to increase education spending while weaknesses in management mechanisms prevented adequate monitoring or reprioritization of resources. **New arrangements for restricting extra-budgetary outlays and for monitoring and controlling commitment should considerably reduce the risk of a repetition of these developments.**
- **Poor governance.** Together with a lack of accountability in the management of public resources, poor governance allowed large and questionable spending outside the budgetary framework and distorted spending priorities. **Measures are now being taken to prevent abuse, identify wrongdoers, and seek redress.**

6. Expenditure pressures broadened the financial requirements of the central government, which were eventually met through **credits from the central bank**. The central bank attempted to limit the inflationary consequences of monetary financing of the fiscal imbalances through open market operations, which at times were substantial. However, in the event, the costs and burden for monetary policy became too large, and monetary policy accommodated the fiscal pressures. The result was high and volatile domestic inflation rates, which, in turn, constrained real growth.



7. Moreover, high inflation rates undermined the credibility of monetary policy, and hardened inflationary expectations, which substantially complicated the task of macroeconomic stabilization.<sup>8</sup> Thus, despite significant adjustment efforts, financial stability remained elusive. To ensure that monetary policy is firmly directed towards the achievement of inflation objectives in the future, a **Monetary Policy Committee of the Reserve Bank of Malawi** has been established to determine and maintain a monetary anchor. Policy is set by the need to attain quarterly targets for reserve money.

### C. Exchange Rate Policy

8. After the large depreciation of 1994, the kwacha remained broadly stable in nominal effective terms until July 1998. Given Malawi's relatively high inflation rate, this implied a substantial real appreciation, creating problems for the balance of payments despite a temporary rise in tobacco prices (see figure below). Then, in August 1998, the kwacha started to depreciate. By December 1998 it had fallen by nearly 40 percent in nominal effective terms, offsetting the previous rise in the real exchange rate. The kwacha then experienced a period of relative stability in U.S. dollar terms, which led to a substantial rise in the real effective exchange rate until April 2000. Once again, this was followed by a nominal depreciation of nearly 40 percent, through end-October 2000.

9. The rapid depreciation during 2000 coincided, however, with a change in approach by the central bank. Starting in May 2000, the central bank stopped quoting an exchange rate and reduced substantially its exchange rate intervention to the amount needed to cope with the large seasonal swings in foreign currency demand.<sup>9</sup> **It thus established a fully flexible and market-determined exchange rate.** This was a significant departure from the previous practices of formal or informal management that had led to distorted economic incentives, and to occasional sizable depreciation episodes, such as the ones described above.

### D. Savings and Investment

10. **Malawi's saving and investment rates have been among the lowest in the region.**<sup>10</sup> The bulk of domestic investment has been financed by foreign savings, which averaged about 10 percent of GDP during the 1990s. **Large budget deficits** have diverted

---

<sup>8</sup> Targets for inflation were missed by large amounts during Fund-supported programs in the 1990s.

<sup>9</sup> Apart from the highly seasonal pattern of tobacco exports, the foreign exchange market is subject to large fluctuations in aid flows.

<sup>10</sup> Malawi's domestic savings averaged around 6 percent of GDP during the 1990s. This compares with an average of over 15 percent of GDP for sub-Saharan Africa. Malawi's private investment rate averaged around 7 percent of GDP during the 1990s compared with an average of over 12 percent of GDP for sub-Saharan Africa.

private savings from investment, thereby hindering growth and contributing to large deficits in the external current account and to a significant buildup in external debt. The lack of sustained fiscal adjustment has worsened competitiveness, by raising interest rates in a period in which a boost to competitiveness was instead required to offset underlying movements in the terms of trade.

11. **Private saving rates** actually decreased during the 1990s from the 1980s, despite some progress in structural reforms. Private savings need to increase since the current level of foreign savings cannot be sustained indefinitely. The current low rate of private savings reflects in part an overall economic environment that was not in the past conducive to private economic activity. Structural reforms have now started to liberalize the economy and reduce the dominance of state-owned enterprises and private oligopolies. However, economic prospects and returns from savings would be greatly enhanced through the sustained achievement of stable macroeconomic conditions. This is particularly important in the light of the effect of the HIV/AIDS pandemic on savings, since it has hit hardest working-age and well-educated people, who save more than other population cohorts.

#### **E. Structural Impediments to Growth**

12. While achieving and sustaining macroeconomic stability is necessary for improving Malawi's growth performance, it may not be sufficient since various structural obstacles persist, which have contributed to the low rate of savings and investment. In particular the experience of the last decade points to the following factors:

- **Malawi's financial sector** has provided limited support for private sector development. The two largest commercial banks hold nearly 90 percent of deposits but lend to a relatively restricted number of companies, several of which own a significant portion of the banks' capital. This interlocking ownership, involving both private sector borrowers and public enterprises, has constituted a barrier to access to markets, since new entrants have found difficulties in securing financing. **Privatization of the banking sector, and enforcement of strong regulation of connected and insider lending, together with the further encouragement of micro-credit, present useful ways forward.**
- **Smallholder agriculture** has been the main source of growth during the last decade, in response to the liberalization of agricultural production.<sup>11</sup> Meanwhile, traditional, large estate agriculture has performed poorly. However, large-estate farms still cover much of the fertile agricultural land. Thus, changes in the **structure of land ownership** in favor of smallholders, as well as a clarification of land entitlement, would result in a more intensive use of land

---

<sup>11</sup> Particularly of burley tobacco.

and ultimately in faster growth. Land redistribution would also have important poverty reduction effects.

- The precarious condition of the **infrastructure of services and utilities** (especially electrical power and telecommunications) has deterred private investment. **Commercialization and privatization** are now under way.
- There have been fears that **high transportation** costs will continue to limit Malawi's exposure to international competition. Possible remedies include further improvements to the physical infrastructure and measures to ensure that the truck transportation industry is not subject to oligopolistic pressures or significant barriers to entry, and that there is freedom for third countries in the region to operate between all destinations.

#### **F. The Task Ahead**

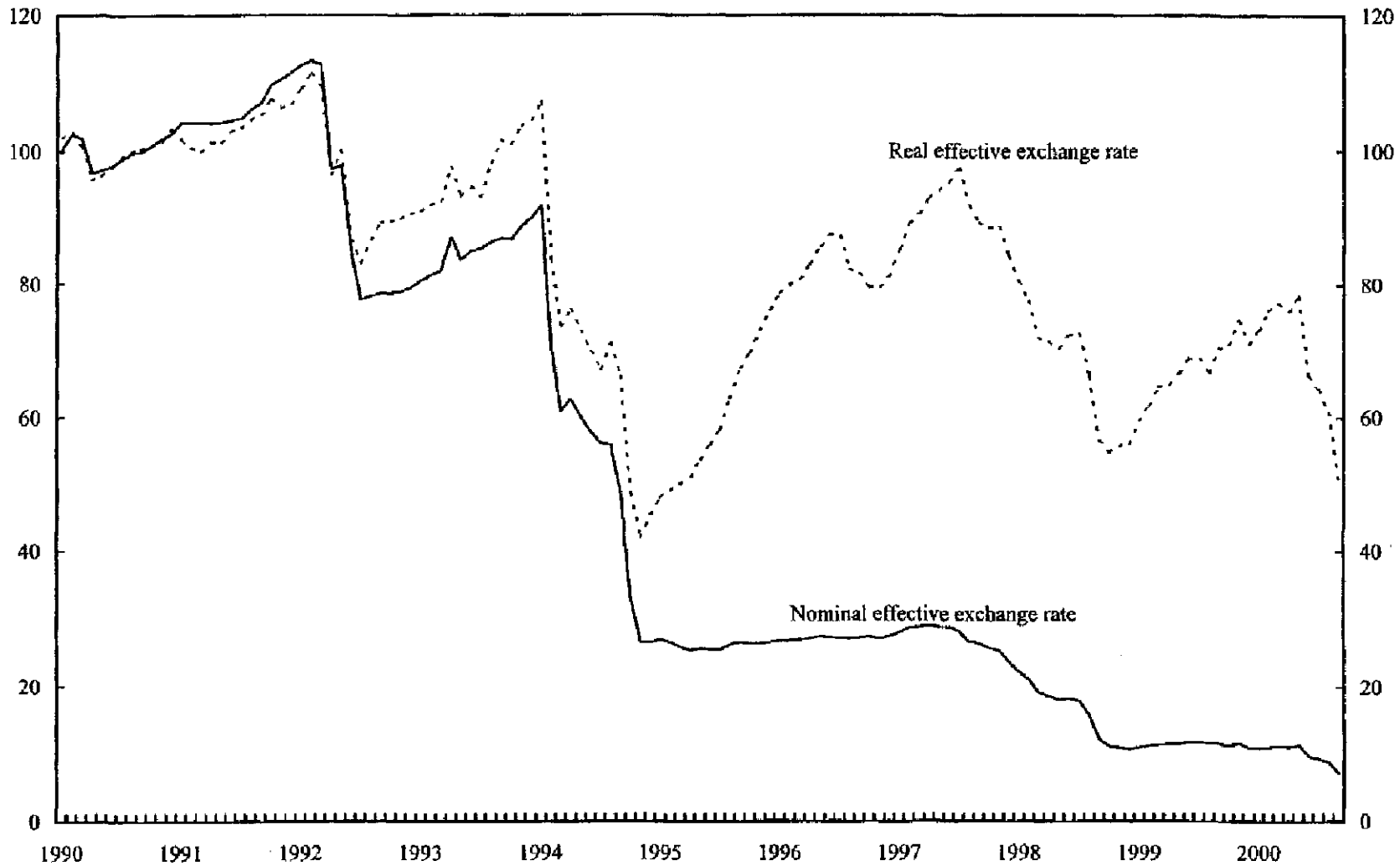
13. Despite the difficulties encountered, substantial progress was made in the second half of the 1990s in addressing some fundamental issues. For instance, in the process of establishing the Malawi Revenue Authority (which formally commenced operations in February 2000), important gains were made in the administration of tax collection, permitting a rise in and a broadening of the revenue base. Trade liberalization proceeded at a faster pace than in most neighboring countries,<sup>12</sup> and Malawi made every effort to meet commitments under regional integration agreements. The liberalization of agricultural production and marketing permitted a rapid expansion in smallholder output of maize and tobacco.

14. The task ahead is to build on these achievements by ensuring steadfast application of policies for macroeconomic stabilization and structural reform. This will entail strict and sustained adherence to macroeconomic targets, determined application of the new system for monitoring and controlling public spending, effective use of foreign aid and debt relief, improved governance, and resistance to vested interests.

---

<sup>12</sup> Malawi's trade reforms are described below in Section III, "Experience with Trade Liberalization."

Malawi: Effective Exchange Rates, January 1990-September 2000  
(Index: 1990=100)



Sources: Malawi authorities and Fund staff estimates.

## II. FOREIGN AID, MACROECONOMIC STABILIZATION, AND GROWTH IN MALAWI<sup>13</sup>

### A. Introduction

15. Much attention has recently been devoted in the literature to the impact of aid on growth in the recipient country and on the interaction between aid flows and macroeconomic stabilization policy.<sup>14</sup> The main conclusion is that aid has had a favorable effect only in countries that have established an environment conducive to growth; countries that have lagged in policy reforms have failed to grow. Since the literature also found that foreign aid flows have not been positively correlated with policy reforms, there is no systematic relationship between aid and growth.<sup>15</sup>

16. The empirical evidence in support of these conclusions comes from traditional cross-country growth regressions. These have, however, often been criticized for endogeneity problems.<sup>16</sup> The analysis below follows a different approach. It looks specifically at the experience of Malawi during the last 25 years. Malawi benefited from large aid flows in this period but did not achieve sustained growth or poverty reduction. Thus, Malawi's experience could shed some light on the relationship between aid, policies, stabilization, and growth.

17. The analysis attempts, in particular, to assess the reasons why aid did not appear to have a favorable impact on growth performance, using a neoclassical growth model. Three factors are identified:

- Foreign aid flows at times complicated the task of macroeconomic stabilization by financing increased domestic government spending. This resulted in additional inflation and upward pressure on the real exchange rate.
- The bulk of the aid resources have been used to finance government consumption rather than adding to the economy's productive capacity.

---

<sup>13</sup> Prepared by Domenico Fanizza.

<sup>14</sup> For a survey of the literature, see Tsikata (1999).

<sup>15</sup> The seminal paper by Burnside and Dollar (1997) provides ample evidence in support of the idea that there is no relationship between aid and growth and that aid has been accompanied by growth only in countries that have accomplished substantial policy reforms.

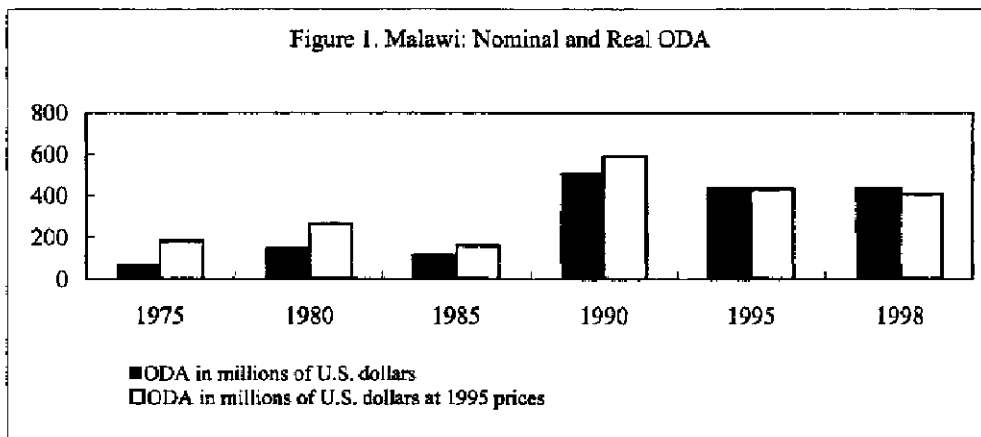
<sup>16</sup> Xavier Sala-i-Martin in "I Just Ran Two Million Regressions," *American Economic Review*, Vol.87 (May 1998), pp. 178-83, provides both a summary and a criticism of the main results of the "cross-country" literature on growth.

- The aid flows have been accompanied by insufficient policy adjustment. A modified Dollar-Burnside policy adjustment index, built for Malawi, shows that aid flows have not been related to policy adjustment during the last 15 years.

### B. Stylized Facts About Foreign Aid to Malawi

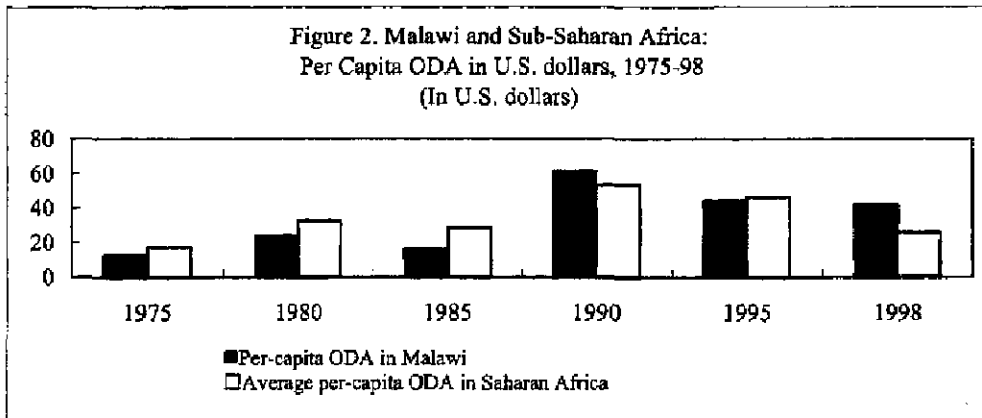
18. Official development assistance<sup>17</sup> (ODA) to Malawi increased in current U.S. dollars from US\$64 million in 1975 to US\$470 million in 1998. ODA flows peaked in 1990 and declined somewhat thereafter. In real terms (U.S. dollars at 1995 prices), ODA more than doubled between 1975 and 1998.

19. Because of the growth in population over the period, the rise in real foreign aid per capita was much less pronounced. Between 1975 and 1998, real foreign aid per capita rose by 15 percent (although it peaked at double its 1975 level in real terms in 1990). In 1998, ODA was equivalent to US\$40 per head (Figure 1 and Table 1).

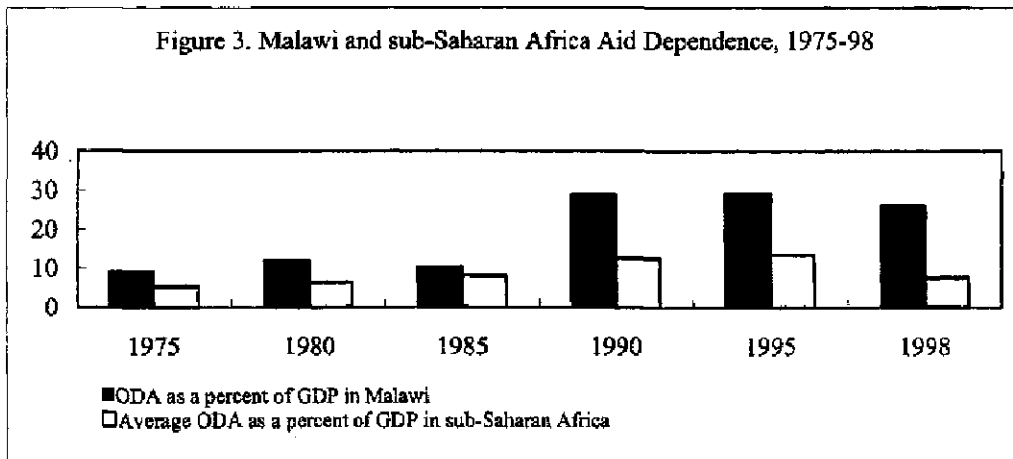


<sup>17</sup> Defined according to the Organization for Economic Cooperation and Development (OECD) measure of official development assistance (ODA), which includes grants, concessional loans, and debt forgiveness. The OECD assumes a constant 10 percent discount rate as a criterion to determine the grant component of official loans. Charles Chang, Eduardo Fernandez-Arias, and Luis Servén in "Measuring Aid Flows: a New Approach," World Bank Policy Research Working Paper No. 2050 (Washington: World Bank, 1999), propose a different methodology based on actual market interest rates. Their results, however, do not produce substantially different time series on ODA flows.

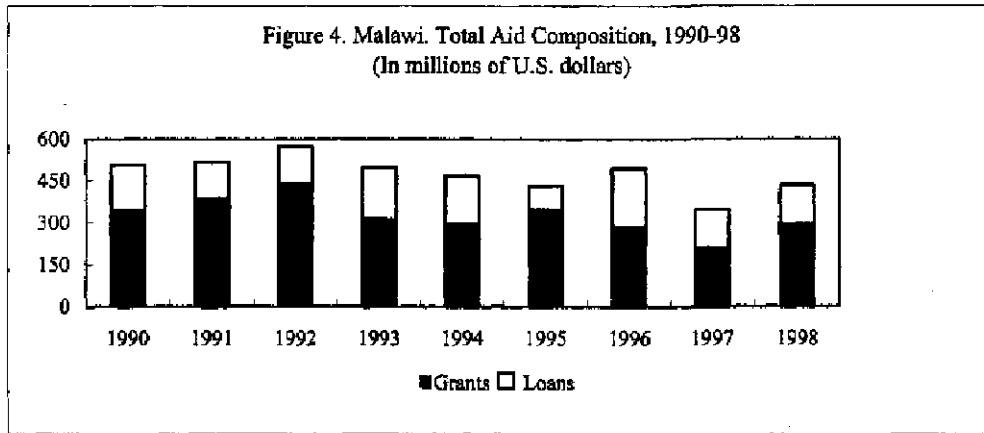
20. Malawi received less per capita ODA than the average for sub-Saharan Africa in the 1970s and 1980s. This was reversed in the 1990s. **In 1998, Malawi's per capita ODA was 50 percent higher than the average for sub-Saharan Africa; only Mozambique and Botswana received a higher amount of per capita ODA in 1998 (Figure 2 and Table 2)**



21. Malawi's aid dependency—as measured by the ratio of ODA to GDP—increased from 9 percent to 26 percent between 1975 and 1998 (Table 1). **During the 1990s Malawi relied on ODA much more than the average for sub-Saharan Africa (Figure 3).** Among the sub-Saharan countries, only Mozambique had a higher aid dependence (Table 2).



22. **Grants have constituted the bulk of aid flows to Malawi (Figure 4) representing almost 70 percent of total aid flows, on average, during the period 1990-1998; on average, 23 percent of budgetary grants were project related.**



23. **Malawi has received on average more aid from multilateral institutions—mainly the World Bank—than bilateral donors. The share of multilateral aid in total aid increased from 27 to 77 percent between 1975 and 1995, but then declined to 51 percent by 1998. Malawi's share of multilateral aid was broadly in line with that of other sub-Saharan African countries during 1990-98 (Table 3).**

### C. Aid and Macroeconomic Stabilization

24. **The high and variable rates of inflation experienced in Malawi during the last two decades have been major obstacles to the achievement of satisfactory real growth rates.<sup>18</sup> Thus, assessing whether aid flows have facilitated or complicated the task of stabilization is of importance, independent of their direct impact on growth.**

25. **This section discusses the macroeconomic impact of aid, first in light of the government budget constraint and then of its monetary impact. Evidence is provided to assess the importance of these considerations for Malawi.**

#### **Aid and the government budget constraint**

<sup>18</sup> See Section I, "Growth and Macroeconomic Policies."



26. The impact of aid on **demand** can be discussed with the help of a simple dynamic neoclassical model in which consumers optimize a well-behaved utility function<sup>19</sup> and the government satisfies in each period a budget constraint which includes: (a) among spending, real purchases of goods and services ( $G_t$ ), transfers ( $V_t$ ) and interest payments on government securities ( $R_{t-1} \cdot B_{t-1}$ ); and (b) among revenues, the proceeds of lump sum taxes ( $T_t$ ), the net sale of government bonds ( $B_t - B_{t-1}$ ) and monetary financing ( $M_t - M_{t-1}$ ). The government budget constraint can be written in the following way:

$$P_t * G_t + V_t + R_{t-1} * B_{t-1} = T_t + B_t - B_{t-1} + M_t - M_{t-1}$$

If the path for monetary financing of the deficit is given, there are four possible responses to an increase in foreign aid ( $F_t$ ) to the government. First, assume that government purchases, ( $G$ ), and transfers, ( $V$ ), remain fixed and that taxes, ( $T$ ), are reduced by  $F_t$  as a result of the aid inflows. Then private consumption demand will increase because taxes decline but bond financing remains unchanged. Second, assume that aid is used instead to reduce bond financing, while keeping unchanged monetary financing and taxation. As in the case of lower taxes, this will have an impact on consumption demand through increased wealth as consumers anticipate that lower taxes are needed in the future to service the smaller amount of bonds. Third, assume that government transfers are increased by the amount of the received aid while taxes and bond financing are maintained unchanged. This is equivalent, as before, to transferring wealth to consumers. Fourth, assume that government purchases are increased by the amount of aid received. This will have an immediate impact on demand.

27. Under the first three possibilities, aid injections will be equivalent to an increase in consumers' wealth and the result will be an increase in private demand. Under the fourth possibility, aid will increase government demand directly without any offsetting change in private demand, since the increase in government spending does not imply any increase in future taxation. **Thus, aggregate demand would increase after an aid injection under all four possibilities.** If domestic supply is rigid—as it is plausible to assume in the short term despite excess labor—the aid-induced shift into aggregate demand will translate into price increases and upward pressure on the real exchange rate.

28. The price impact of the increase in demand will depend on two factors:

- **The extent to which foreign resources can supplement domestic resources.** The impact on prices of aid-induced increases in private or government demand will be lower the more open the local market, since foreign resources could supplement

---

<sup>19</sup> It is assumed that consumers maximize the utility function  $\sum_{t=0}^{\infty} \beta^t \{[(C_t - \bar{C})^{1-\gamma} - 1]/(1-\gamma)\}$  subject to  $y_t + B_{t-1} * (1+R)/P_t + M_{t-1}/P_t + (V_t - T_t)/P_t = C_t + (B_t + M_t)/P_t$ , where  $y_t$  is the value of household income at time  $t$ ,  $C_t$  is consumption at time  $t$ ,  $\bar{C}$  is a subsistence level of consumption, and  $\beta$  is the discount factor. The standard transversality condition also holds.

domestic resources—which are assumed as fixed at a given point in time—and ease upward pressure on prices of nontradeables. Malawi's economy has been characterized by relatively high transportation costs, reflecting its landlocked geographical position and thus a relatively isolated domestic market despite external tariffs that are now low relative to the rest of the region.<sup>20</sup> Thus, the demand impact of aid flows is likely to produce stronger pressures on prices in Malawi than in other countries in the region.

- **The policy responses to the domestic demand impulse.** These will reflect decisions on the amount of monetary financing of the fiscal deficit and on the ways in which the government achieves the chosen level of monetary financing.

### **Aid and reserve money**

29. At first, an injection of aid in the form of a government grant will raise the central bank net foreign asset position; this will be offset by a reduction in the net domestic assets of the central bank, as the corresponding amount in local currency will be credited to the government's deposits with the central bank. Thus, at this stage the aid injection does not change the level of reserve money.<sup>21</sup> Assume now that the government either increases domestic spending, or repays domestic debt or reduces taxes on the private sector for an amount equal to the received grant. To finance these payments, it will issue a check on its central bank deposits; when the check clears, the central bank can honor it in three ways. First, it may simply print money; second, it may pay the check with local currency, while selling the corresponding amount in foreign currency in the currency market; or third, it may pay the check with local currency, but sell government securities for a corresponding amount.

30. The first policy response constitutes a **monetary accommodation** of the demand effect described above; the outcome will be higher prices, with the price of nontraded goods

---

<sup>20</sup> On the importance of transportation costs for Malawi trade and growth see World Bank, (1997). Malawi's external tariff system is described in section III, "Experience with Trade Liberalization."

<sup>21</sup> From the central bank balance sheet we know that reserve money,  $M_t$ , is equal to the sum of net foreign assets,  $NFA_t$ , and net domestic assets,  $NDA_t$ .  $NDA_t$  is equal to central government credit to the government ( $CG_t$ ) and to the commercial banks, ( $CB_t$ ), minus central government deposits ( $GD_t$ ) and commercial bank deposits ( $BD_t$ ) with the central bank, plus other items net ( $OIN_t$ ). If we assume as constant  $CB_t$ ,  $BD_t$ , and  $OIN_t$ , we can write the following:

$$\Delta M_t = \Delta NFA_t + \Delta CG_t - \Delta GD_t$$

increasing more than that of traded goods.<sup>22</sup> The resulting real appreciation of the exchange rate will exert pressure on costs in the production of traded goods, hurt competitiveness, hamper the chances for growth, and eventually make the country even more dependent on aid.<sup>23</sup> The second policy response constitutes a monetary **sterilization of the demand impact of aid through foreign exchange intervention**. The outcome will be an appreciation of the nominal exchange rate, with constant inflation and an immediate appreciation of the real exchange rate. The adverse impact on competitiveness is similar to the case of monetary accommodation. However, this policy response may be adequate in the case of a permanent increase in aid flows, as a real appreciation would be unavoidable. Moreover, a real appreciation of the exchange rate could have less of an adverse impact on growth if it takes place in presence of low inflation and changes in the nominal exchange rate.<sup>24</sup> The third policy response constitutes monetary **sterilization of the demand impact of aid through open market operations in government securities**. The outcome would be a reduction in the amount of credit remaining available for the private sector. In effect, aid sterilization would crowd out private sector credit and possibly generate upward pressures on real interest rates, which would, in turn, hurt competitiveness and growth.<sup>25</sup>

### The evidence for Malawi

31. Malawi has both received substantial aid flows and suffered high rates of inflation. There has been persistent upward pressure on the real exchange rate, in spite of several downward adjustments in the nominal rate.

32. Panel 1 in Figure 5 shows that reserve money has been highly correlated with aid flows.<sup>26</sup> Panel 2 in Figure 5 shows the close correlation between inflation, reserve money growth and growth in aid flows during the last 10 years. Panels 3 and 4 in Figure 5 describe

---

<sup>22</sup> The rate of inflation for traded goods will be in line with foreign inflation.

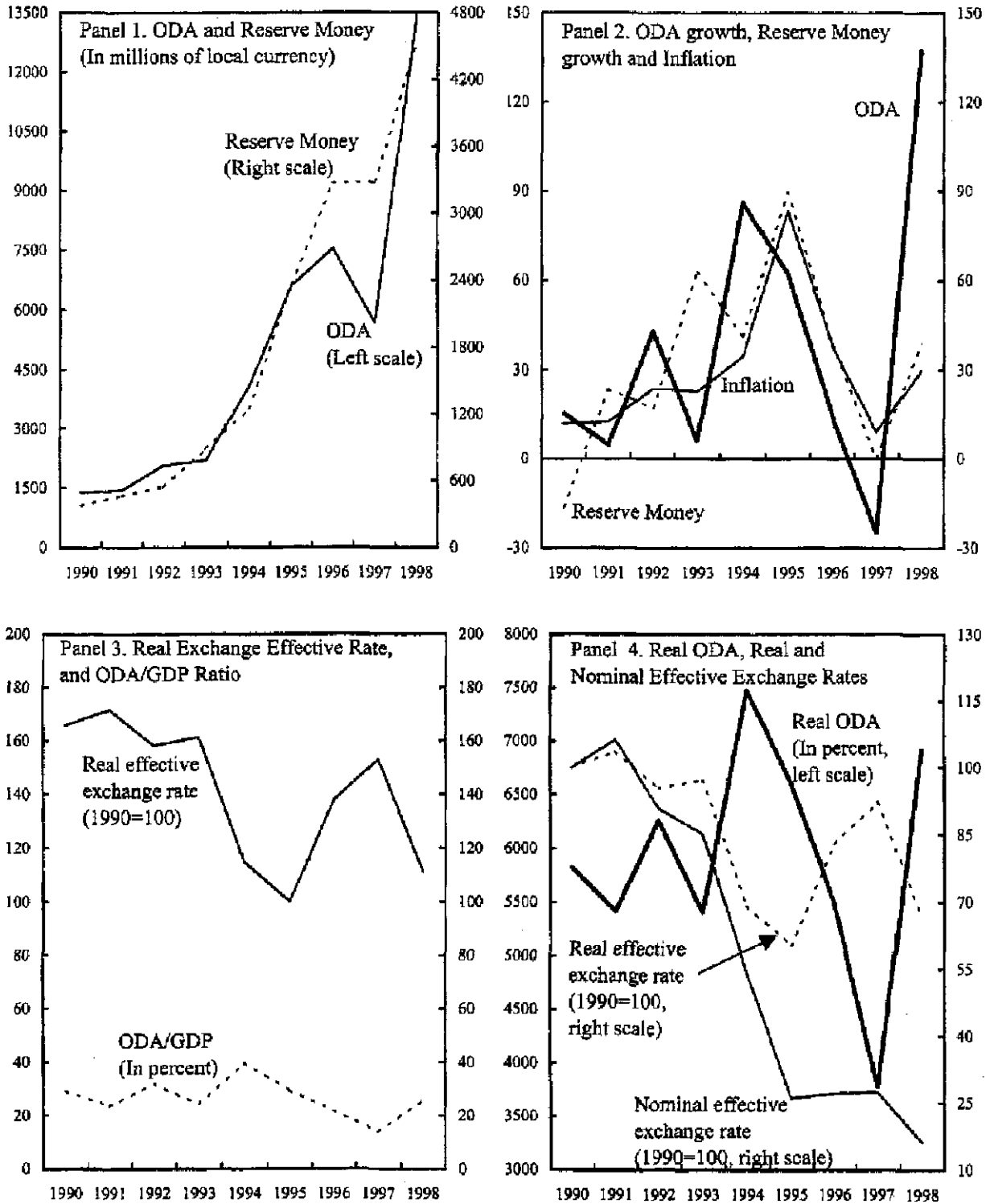
<sup>23</sup> This effect is similar to the "Dutch Disease;" see Sweder van Wijnbergen, "Aid, Export Promotion and the Real Exchange Rate: An African Dilemma," World Bank Development Research Department Discussion Paper No. 199 (Washington: World Bank 1986).

<sup>24</sup> Under sterilization through foreign exchange sales, the real appreciation takes place immediately. Under monetary accommodation, it may take some time, depending on the speed of price adjustment. However, for Malawi the close relationship between reserve money and consumer price inflation suggests that there is little scope for exploiting price sluggishness.

<sup>25</sup> The real interest rate will be affected if borrowers do not have perfect access to the international capital market.

<sup>26</sup> The correlation coefficient between detrended Official Development Assistance (ODA) and detrended reserve money is 0.91.

Figure 5 Malawi: AID and Financial Flows, 1990-1998



Sources: OECD, *Geographical Distribution of Financial Flows to Aid Recipients*, and Fund staff estimates.

aid flows and the real exchange rate of the kwacha during the latest 10 years. The episodes of large depreciation of the kwacha in 1994 and 1998 produced only short-lived effects on the real exchange rate because of persistent inflationary pressures, which reflected in part demand impulses stemming from aid-financed government spending.

33. The high correlation between reserve money and aid flows suggests that, by and large, the monetary impact of substantial aid flows to Malawi has not been counteracted by either the central bank's mopping up liquidity through open market operations or intervention in the foreign exchange market. This monetary accommodation has allowed inflationary pressures to persist, thereby hardening expectations and complicating the process of disinflation and macroeconomic stabilization.

#### **D. How Was Aid Spent in Malawi?**

34. If invested in productive assets, aid could increase available resources over the medium term and have an important impact on growth. It is therefore relevant to assess whether the bulk of aid flows went to finance investment or consumption. The extent to which saved and invested aid resources will generate growth will depend crucially on the amount of economic distortions. This can be illustrated in a simple one-sector neoclassical growth model with inelastic labor supply, in which aid is viewed as a transfer from abroad, and in which household income is taxed at the margin at a rate  $\tau$  and households receive lump-sum transfers from government.<sup>27</sup> Aid flows have two effects. First, there is a direct effect that reflects how much of the aid flow becomes additional investment. Second, there is an indirect effect that reflects the fact that a higher capital stock also moves the economy to a transition path with higher growth rate to the steady state, which will depend only on the gross after-tax rate of return on capital and on the consumer time discount rate. Both of these effects will be stronger the smaller are economic distortions, which have been modeled as income taxes that reduce the expected returns from investment. However one-off aid injections will not modify the long-term rate of growth of the economy, since they do not change the technology parameters.<sup>28</sup>

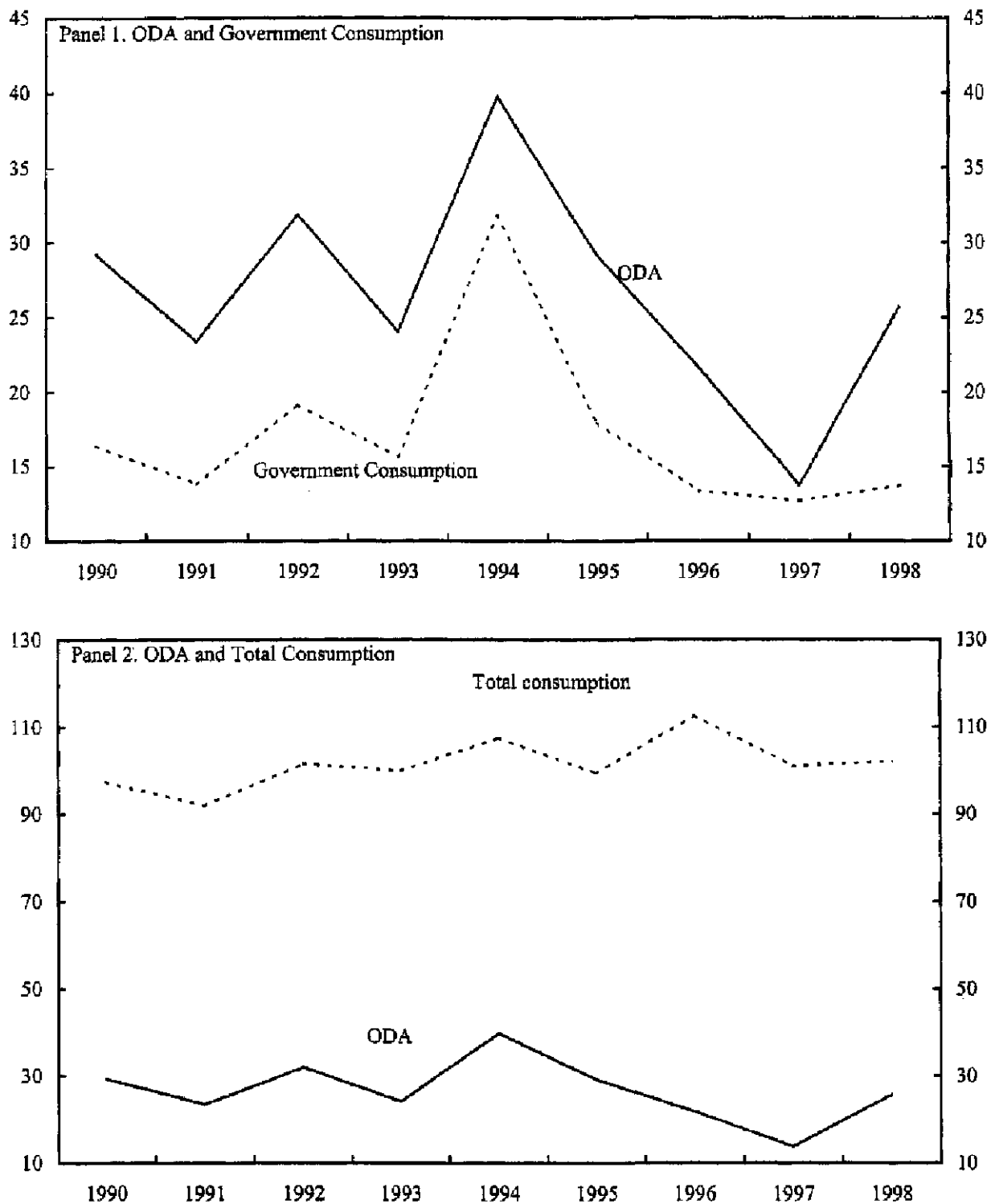
35. Panels 1 and 2 in Figure 6 show that aid to Malawi has been closely related to government consumption and, to a lesser extent, to private consumption, so that little was left for addition to productive capacity during the last ten years. Thus, it is not surprising that aid flows have not been accompanied by significant improvement in growth performance.

---

<sup>27</sup> The model is described in detail in the Appendix.

<sup>28</sup> In standard neoclassical models the steady state rate of growth will depend only on technological progress, which is a parameter of the production function. For a discussion of this feature see Robert Barro and Xavier Sala-Martin, *Economic Growth* (New York: McGraw-Hill, 1995).

Figure 6 Malawi: Aid Flows and Consumption, 1990-1998  
(In percent of GDP)



Sources: OECD, *Geographical Distribution of Financial Flows to Aid Recipients*, and Fund staff estimates.

Figures on the use of budgetary grants, which are available only since 1993, indicate that the bulk of grants went to general budgetary outlays rather than specific projects.

### E. Economic Reforms and Aid

36. Malawi's record in economic reforms has been mixed, although some significant headway has been made during the latest five years. The slow rate of progress in reducing existing economic distortions may explain the country's weak growth record despite substantial support from donors. It has also been argued that (i) aid flows may discourage policy adjustment since they lessen the urgency of policy reforms by removing budgetary constraints; and (ii) since donors direct aid resources toward low-income countries, aid flows build incentives against policy reforms, which would eventually raise per capita income levels and preclude access to future aid flows.<sup>29</sup>

37. To examine the relationship between aid and economic reform in Malawi, an aggregate policy adjustment index has been calculated. This follows the approach described by Burnside and Dollar (1997) in weighting different policies on the basis of the predicted impact of these policies on per capita GDP growth.<sup>30</sup> As illustrated by Figure 7, aid flows have been negatively correlated with economic reforms.<sup>31</sup> Thus Malawi's experience suggests that aid has not fostered growth-enhancing economic policies; it also leaves open the possibility that aid flows have allowed the postponement of needed economic reforms.

### F. Conclusions

38. The evidence presented in this section is consistent with the thesis that the effectiveness of aid in enhancing per capita growth performance has been limited by inconsistencies in policy implementation and economic reform in Malawi. Returns from

---

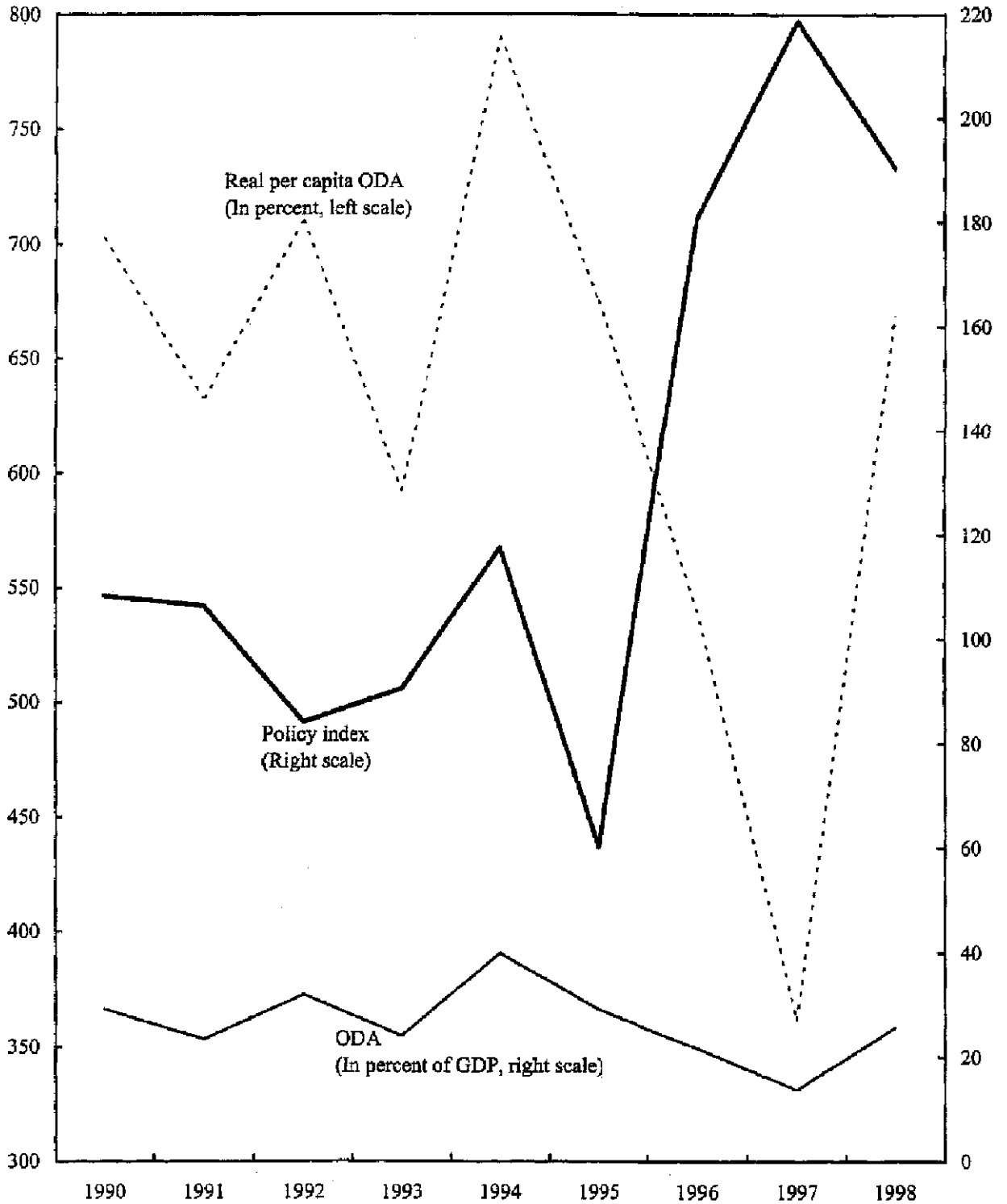
<sup>29</sup> A moral hazard model of aid has been developed by Jakob Svensson, "When is Foreign Aid Policy Credible: Aid Dependence and Conditionality" *Journal of Development Economics*, Vol. 61 (February 2000), pp. 61-80). See also Peter Boone "Politics and Effectiveness of Foreign Aid" *European Economic Review*, Vol. 40 (February 1996), pp. 1-49.

<sup>30</sup> Burnside and Dollar (1997) have estimated these weights through large cross-country regressions. A time series for the policy index (Pol) has been obtained according to the following equation:  $Pol = 1.26 + 8.4 * Budget\ surplus - 1.4 * inflation + 2.2 * Openness$ .

For the pre-1995 period, the openness index has been computed by Sachs and Warner (1996). The variable accounting for openness has been adjusted for the trade liberalization that took place during 1995-98.

<sup>31</sup> The correlation between the policy index and ODA as a percent of GDP is -0.6. If ODA is measured in real terms, the correlation is -0.15.

Figure 7 Malawi: Aid Flows and Policy Index, 1990-1998



Sources: OECD, *Geographical Distribution of Financial Flows to Aid Recipients*, and Fund staff estimates.



private investment have remained low, reflecting persisting economic distortions, while the bulk of aid resources has financed increased consumption rather than investment. Malawi has not achieved a sustained reduction in inflation, and macroeconomic conditions have remained unstable. This has constituted an impediment to growth and poverty reduction. It appears that aid flows have contributed to maintaining high demand pressures in the economy, since aid injections have translated into increases in government consumption and (to a lesser extent) increases in investment spending. The demand pressures have been by and large accommodated by monetary policy and have resulted in very high rates of inflation over the period. Temporary mitigations in the real appreciation of the kwacha resulting from large adjustments in the nominal exchange rate have further strengthened the inflationary process and worsened macroeconomic imbalances. It thus appears that attaining a lasting reduction in inflation remains a necessary condition for building an economic environment in which aid can be effective in raising per capita income on a sustained basis.

Table 1. Malawi: Official Development Assistance (ODA), 1975-98

Year	ODA (Percentage of GDP)	ODA per capita (In U.S. dollars)	ODA (In millions of U.S. dollars at 1995 prices)	Real ODA (In millions of U.S. dollars at 1995 prices)	Real ODA per capita (In U.S. dollars at 1995 prices)
1975	9.0	12.1	63.6	180.0	34.4
1980	12.0	23.7	143.4	265.2	43.8
1985	10.0	16.0	112.9	159.9	22.7
1990	29.0	60.9	505.1	589.1	71.1
1995	29.0	44.2	432.3	432.3	44.2
1998	26.0	41.9	433.7	405.4	39.2

Source: OECD, *Geographical Distribution of Financial Flows to Aid Recipients*.

Table 2. Sub-Saharan Africa: Official Development Assistance (ODA), 1975-98

		1975	1980	1985	1990	1995	1998
Angola	ODA/GDP (percent)	0.2	1.0	1.3	2.6	8.3	5.2
	ODA/POP (US\$)	0.8	7.5	10.5	26.9	36.4	26.9
	ODA (millions of US\$)	4.8	52.6	91.5	269.3	417.8	335.2
Benin	ODA/GDP (percent)	6.3	5.7	9.2	14.6	0.8	0.7
	ODA/POP (US\$)	17.7	26.1	23.6	56.8	2.8	2.5
	ODA (millions of US\$)	52.9	90.4	95.8	269.0	15.4	15.0
Botswana	ODA/GDP (percent)	14.9	10.0	8.7	4.0	1.9	2.1
	ODA/POP (US\$)	64.1	116.9	88.7	114.1	61.7	67.5
	ODA (millions of US\$)	50.5	106.1	96.5	148.5	90.1	106.4
Burkina Faso	ODA/GDP (percent)	8.0	10.9	13.8	12.1	20.8	15.3
	ODA/POP (US\$)	13.7	28.7	23.2	35.0	45.4	34.2
	ODA (millions of US\$)	87.7	212.3	197.4	334.8	488.8	397.5
Cameroon	ODA/GDP (percent)	1.9	3.9	2.0	4.0	5.6	4.9
	ODA/POP (US\$)	6.4	30.4	15.9	38.8	33.2	29.2
	ODA (millions of US\$)	49.3	264.1	158.9	447.1	443.6	423.6
C.A.R.	ODA/GDP (percent)	12.4	13.9	12.3	16.9	14.8	11.4
	ODA/POP (US\$)	27.8	48.1	39.7	83.5	48.4	32.4
	ODA (millions of US\$)	56.3	111.0	104.3	251.1	165.6	119.9
Chad	ODA/GDP (percent)	9.7	5.4	20.9	19.6	16.6	10.0
	ODA/POP (US\$)	15.2	8.0	36.4	56.0	37.2	24.5
	ODA (millions of US\$)	61.3	35.3	181.7	316.5	236.3	167.4
Congo, Republic of	ODA/GDP (percent)	7.4	4.4	5.6	7.8	5.9	3.3
	ODA/POP (US\$)	48.5	57.7	38.3	100.7	49.8	23.6
	ODA (millions of US\$)	66.9	92.1	71.2	218.1	125.3	64.6
Côte d'Ivoire	ODA/GDP (percent)	2.5	2.1	1.8	6.4	9.6	7.1
	ODA/POP (US\$)	3.1	5.6	2.9	13.9	17.6	13.3
	ODA (millions of US\$)	100.6	210.3	124.7	689.0	964.3	798.3
Ethiopia	ODA/GDP (percent)	4.1	4.3	10.7	11.8	15.3	9.9
	ODA/POP (US\$)	4.1	5.8	16.7	20.6	16.2	10.8
	ODA (millions of US\$)	133.4	216.0	714.7	1,019.5	882.7	647.5
Gabon	ODA/GDP (percent)	1.9	1.3	1.7	2.2	2.9	1.0
	ODA/POP (US\$)	59.6	77.0	74.3	142.4	133.2	37.4
	ODA (millions of US\$)	40.3	55.8	61.1	132.4	143.9	44.5
Gambia, the	ODA/GDP (percent)	7.2	22.7	26.2	34.1	11.9	8.6
	ODA/POP (US\$)	15.7	90.7	67.3	109.1	39.4	29.2
	ODA (millions of US\$)	8.1	54.4	50.1	99.2	43.8	36.0
Ghana	ODA/GDP (percent)	2.7	1.2	3.2	9.0	12.5	9.4
	ODA/POP (US\$)	13.3	17.9	15.8	37.5	45.5	36.3
	ODA (millions of US\$)	125.7	191.6	203.1	563.4	805.6	703.6
Kenya	ODA/GDP (percent)	3.7	5.6	7.1	13.8	8.1	4.2
	ODA/POP (US\$)	9.1	23.9	21.9	50.7	27.2	16.1
	ODA (millions of US\$)	128.9	396.5	438.1	1,187.3	730.6	473.1
Mozambique	ODA/GDP (percent)	0.5	5.1	6.6	39.7	43.8	26.7

Table 2. Official Development Assistance (ODA) 1975-1998 (Concluded)

		1975	1980	1985	1990	1995	1998
	ODA/POP (US\$)	1.9	14.0	21.6	71.2	67.3	61.4
	ODA (millions of US\$)	19.5	169.2	300.1	1008.1	1064.1	1039.3
Nigeria	ODA/GDP (percent)	0.4	0.1	0.1	0.8	0.8	0.6
	ODA/POP (US\$)	1.3	0.5	0.4	2.6	1.9	1.7
	ODA (millions of US\$)	83.3	35.7	32.3	250.4	212.4	204.0
Tanzania	ODA/GDP (percent)	10.8	12.0	7.6	24.5	15.6	12.3
	ODA/POP (US\$)	19.0	35.9	22.4	46.3	30.0	31.5
	ODA (millions of US\$)	302.5	666.2	486.9	1174.5	877.1	997.8
Zambia	ODA/GDP (percent)	4.0	7.6	12.6	12.9	58.7	10.8
	ODA/POP (US\$)	17.4	50.7	48.0	59.5	226.0	35.9
	ODA (millions of US\$)	86.5	295.4	328.5	480.9	2033.6	348.7

Source: OECD, *Geographical Distribution of Financial Flows to Aid Recipients*.

Table 3. Ratio of Multilateral Aid to Total Official Assistance for Selected Sub-Saharan Countries, 1975-98  
(percent)

	1975	1980	1985	1990	1995	1998
Angola	16.7	1.1	34.9	38.4	42.1	36.0
Benin	45.2	58.5	47.2	53.4	42.9	58.7
Botswana	25.0	21.3	35.4	19.5	39.1	33.7
Burkina Faso	40.7	28.8	36.3	25.4	47.2	42.1
Cameroon	46.7	26.8	18.7	24.7	21.8	29.1
Central African Republic	41.0	30.5	40.6	59.3	25.8	52.9
Chad	54.2	42.8	47.3	41.4	46.0	52.7
Congo, Republic of	31.2	23.6	35.7	7.4	16.3	8.0
Côte d'Ivoire	6.5	27.8	11.4	23.0	53.4	38.7
Ethiopia	45.2	55.7	40.4	43.4	40.5	43.6
Gabon	6.9	12.0	15.4	4.2	6.4	19.3
Gambia	55.6	56.8	36.1	43.0	48.2	64.4
Ghana	16.9	30.9	55.7	52.8	27.1	42.7
Kenya	17.4	30.2	20.0	37.7	37.0	42.4
Malawi	27.7	47.3	53.1	57.2	45.0	51.9
Mozambique	41.0	20.2	25.6	25.4	34.2	31.7
Nigeria	18.0	51.3	50.5	31.0	65.8	83.2
Tanzania	22.4	19.1	21.4	27.9	32.6	22.9
Zambia	22.0	20.9	34.4	15.0	78.4	26.7

Source: OECD, *Geographical Distribution of Financial Flows to Aid Recipients*.

**A NEOCLASSICAL MODEL OF AID AND GROWTH**

39. In what follows, we describe a perfect foresight neoclassical model that can be used to study the impact of aid flows on economic growth. This model shows that a one-period aid injection increases growth not only in the period immediately following the aid but also in all subsequent periods, although the economy will converge asymptotically to its steady state rate of growth. We assume that there is a single good consumed by infinitively lived households that maximize an elastic utility function:

$$\sum_t \beta^t \{ (C_t - C')^{1-\gamma} - 1 \} / (1-\gamma), \quad (1)$$

where  $C_t$  represents household consumption at time  $t$ ,  $0 < \beta < 1$  is the time-discount factor,  $\gamma$  is the coefficient of relative risk aversion, and  $C'$  is a subsistence level of household consumption. Each household supplies inelastically a single unit of labor and produces the good  $Y_t$ , according to a technology that uses initial-period capital,  $K_t$ . The production function is  $Y_t = A(K_t)^\theta$ , with  $A > 0$  and  $0 < \theta \leq 1$ . Net household income is taxed at the marginal rate  $0 < \tau < 1$ ; households receive a lump-sum transfer from government,  $T_t$ . The household budget constraint is then the following:

$$C_t + I_t - \delta K_t \leq (1 - \tau) (Y_t - \delta K_t) + T_t \quad (2)$$

where  $I_t$  is investment at time  $t$  and  $0 < \delta < 1$  is the depreciation rate. The law of motion for capital will be

$$K_{t+1} = (1 - \delta) K_t + I_t \quad (3)$$

The government purchases consumption goods,  $G_t$ , which are assumed not to affect household utility. The government finances its purchases and transfers through taxes on net household income and proceeds from foreign aid,  $F_t$ .

$$G_t \leq \tau(Y_t - \delta K_t) - T_t + F_t \quad (4)$$

The economy will thus have to satisfy the overall budget constraint:

$$C_t + I_t + G_t \leq Y_t + F_t \quad (5)$$

In this model, aid injections affect GDP only through investment.

If we assume constant returns to scale, that is that  $\theta = 1$ , the Euler conditions then imply that:

$$(C_{t+1} - C') = \{ \beta [(1-\tau)(A-\delta)+1] \}^{1/\gamma} * (C_t - C'). \quad (6)$$

Let us call  $g = \{ \beta [(1-\tau)(A-\delta)+1] \}^{1/\gamma}$ ,  $R = A + 1 - \delta$ , and  $\Psi = (1 - \tau)(A - \delta) + 1$ ; we can then write the following:

$$(C_{t+1} - C^*) / (C_t - C^*) = \beta \Psi^{1/\gamma} = g. \quad (6')$$

After combining the overall economy resource constraint – equation (5)—with the government one – equation (4)—and replacing in the equation defining equilibrium consumption – equation (6)—we obtain a second-order difference equation for the equilibrium capital stock:

$$K_{t+2} - (R + g) K_{t+1} + gRKt = (F_{t+1} - G_{t+1} - C^*) - g(F_t - G_t - C^*), \quad (7)$$

which can be easily solved by setting<sup>32</sup>  $Z_t = (F_t - G_t - C^*)$ :

$$Kt = R^{-1} \sum_{j=0}^{\infty} R^j Z_{t+j} + \Phi_1 g^t, \quad (7')$$

$$\Phi_1 = K_0 + R^{-1} \sum_{j=0}^{\infty} R^j Z_j$$

Thus the initial consumption level is given by the following:

$$\begin{aligned} C_0 - C^* &= R K_0 - K_1 + Z_0 = RK_0 + R^{-1} \sum_{j=0}^{\infty} R^j Z_{1+j} - \Phi_1 g + Z_0 \\ &= R K_0 + \sum_{j=0}^{\infty} R^j Z_j - (K_0 + R^{-1} \sum_{j=0}^{\infty} R^j Z_j) g \\ &= (R - g) K_0 + [(R - g)/R] \sum_{j=0}^{\infty} R^j Z_j. \end{aligned}$$

Suppose we consider two identical economies at time  $t=0$ . Without loss of generality, we assume  $G_t = 0$  for all  $t$ . Assume now that the first economy receives no aid, so that  $F_t = 0$  for all  $t$ . The second economy instead receives an aid injection at time  $t=0$  so that  $F_0 > 0$  but  $F_t = 0$  for all  $t > 0$ .

**In the first economy,**  $\Phi_1 = K_0 + C^*/(R-1) = K_0 + K'$ , where  $K' = C^*/(R-1)$  and  $K_1 = g K_0 - (g-1)K'$ .

**In the second economy,**  $\Phi_1 = K_0 + K' + R^{-1} F_0$  and  $K_1 = g K_0 - (g-1)K' + R^{-1} F_0 g$

**In both economies for all  $t \geq 2$ ,**  $K_t = \{ (K' + \Phi_1 g^t) / (K' + \Phi_1 g^{t-1}) \} K_{t-1}$ .

**In the first economy,** the rate of growth of output will follow the path

$$(Y_t/Y_{t-1}) = [K' + (K_0 - K') g^t] / [K' + (K_0 - K') g^{t-1}] < g,$$

which at  $t=1$  is  $g - (g-1)(K'/K_0)$ ; it increases over time and asymptotes to  $g$ .

<sup>32</sup> The difference equation (7) can be written using the forward operator,  $L$  (with  $X_{t+1} = L X_t$ ) as  $(1-gL)(1-RL)K_t = (1-gL)Z_{t+1}$ .

In the second economy, the rate of growth of output will follow the path

$$(Y_t/Y_{t-1}) = [K' + (K_0 - K' + R^{-1} F_0) g^t] / [K' + (K_0 - K' + R^{-1} K_0) g^{t-1}] < g.$$

At  $t=1$  this is  $g - (g-1)(K'/K_0) + R^{-1}g (F_0 / K_0) < g$ . It also increases with time and asymptotes to  $g$ . **This shows that the second economy, which receives an aid injection at time  $t=0$  grows faster than the no-aid economy not only at time  $t=1$  but for all subsequent periods, even though the rate of growth of both economies moves asymptotically toward  $g$ .** Thus the impact of a one-off aid injection is positive but goes asymptotically to zero. Moreover, the impact of an aid injection on growth will be larger the larger is  $g$ , which is, in turn, a negative function of policy distortions in the economy, as measured by the marginal tax rate on net household income,  $\tau$ .



### III. EXPERIENCE WITH TRADE LIBERALIZATION<sup>33</sup>

#### A. Introduction

40. Trade liberalization increases consumer choice, promotes the development of competitive industries, facilitates technology transfer, and encourages optimal resource allocation. Trade policies that are open and transparent also improve governance by reducing rent-seeking opportunities and administrative discretion. When preceded or accompanied by a coherent and mutually reinforcing set of macroeconomic policies and structural reforms, the liberalization of trade enhances prospects for sustainable and high-quality growth and improves the prospects of poverty reduction.

41. Malawi has liberalized its trade regime in recent years. It now has one of the most open regimes in Africa. It has also proceeded on a path of macroeconomic and structural reforms.

42. This section reviews Malawi's recent trade reform program. It also briefly summarizes other associated reforms and changes in the pattern of trade. Subsections B to D below provide an overview of Malawi's trade reform program, including the policy content, sequencing, and pace of implementation. Subsection E discusses complementary macroeconomic and structural policies. Subsection F reviews changes in the magnitude, direction, and structure of Malawi's trade. The principal findings and conclusions of the section are presented in subsection G.

#### B. The Trade Regime during the 1980s

43. **Throughout most of the 1980s, Malawi maintained a restrictive and complex trade and exchange regime** that was based on discretionary allocation of foreign exchange for imports, pervasive nontariff barriers, a large number and a wide dispersion of tariff bands, high tariff protection against imports, restrictive licensing requirements on imports and exports, and surrender requirements on export proceeds.

44. **Importers were subjected to cumbersome, lengthy, and costly procedures** including the obtaining of an import license (subject to a fee of 5 percent of value) and foreign exchange approval from the Reserve Bank of Malawi (RBM) through a commercial bank. The application process alone normally took about a month, with further administrative delay on arrival of the goods. **Allocation of foreign exchange was subject to substantial discretion.** Guidelines used by the RBM reflected perceived national priorities, subject to a foreign exchange budget. **The import tariff system was prohibitive and complex.** Imports attracted a maximum tax rate of 75 percent, an import levy of 10 percent,

---

<sup>33</sup> Prepared by Inutu Lukonga.

and surtax rates of 0-35 percent for nonluxury items and 55-100 percent for luxury goods.<sup>34</sup> Government imports were exempt from customs tariffs.

45. **During the 1980s, exports were restricted to ensure an adequate supply of goods for the domestic market.** A large number of goods, including maize, beans, groundnuts, and petroleum, could not be exported at all. Many other exports were subject to licensing. Specific duties were levied on exports of hides and skins, and tobacco, and foreign exchange earnings were required to be surrendered to the RBM.

### **C. The Trade Reform Program**

46. Malawi's trade reform program, which started in the latter half of the 1980s and was deepened in the mid-1990s, consisted of two distinct approaches:

- reducing the restrictiveness and complexity of the trade regime in the context of structural adjustment programs; and
- bolstering market access through bilateral, regional, and multilateral agreements.

47. Priorities under Malawi's trade reform program were to streamline import procedures by eliminating licenses and other bureaucratic requirements; simplify the import regime by amalgamating tariffs; reduce dispersion by cutting the number of tariff bands; reduce protection by progressively cutting tariff rates and equalizing domestic taxes between imports and domestic goods; and increase transparency by reducing discretion. The export regime was also liberalized—by reducing export surrender requirements and export levies—even though the process proceeded more slowly than that of the import regime.

48. Table 4 below provides a chronology of measures that were taken to liberalize the trade regime during the 1988-98 period.

---

<sup>34</sup> Domestic products attracted a surtax rate of 35 percent.

Table 4. Malawi: Chronology of Trade Liberalization Measures, 1988-98

**Eliminating nontariff barriers**

February 1, 1988	Exchange controls on about 25 percent of imports of nonpetroleum raw materials and spare parts were eliminated. Petroleum imports remained unrestricted.
August 14, 1988	Liberalization of foreign exchange controls was extended to an additional 50 percent of nonpetroleum imports, including raw materials, industrial spare parts, and intermediate goods, including most goods related to commercial transport, and some consumer goods.
January 10, 1991	The authorities introduced a narrow and temporary negative list that freed all other items from the requirement for prior foreign exchange approval. The negative list covered certain luxury items, notably, alcoholic beverages, precious metals, motor vehicles, and electrical goods.
February 7, 1994	The negative list for import commodities was finally abolished. However, following a shortage of petroleum imports, the government reinstated a state import monopoly through the Petroleum Control Commission (PCC).
June 6, 1997	All licensing requirements on imports and exports were abolished, except for items related to health, security, and environmental considerations.

**Consolidating the tariff structure**

April 1, 1988 and subsequently 1992-93	The customs duty and import levy were combined into one tariff schedule in 1988, followed by a broadening of the tax base.
1996	The differential in the surtax rate levied on imports and domestic goods was eliminated in combination with an upward adjustment in import duty rates.
	The number of tariff bands was reduced.

**Reducing tariff protection**

1988 and subsequently	Maximum tariffs were reduced in 1988 on nongovernmental imports from 70 percent to 45 percent of the c.i.f. value, with a weighted average of about 21 percent. Some tax rates were later abolished. Government imports were exempt from customs tariffs.
April 1996	The maximum tariff rate was reduced from 45 percent to 40 percent.
April 1, 1997	The government eliminated the import duty rate on raw materials used in manufacturing, and reduced the maximum rate (on finished products) from 40 percent to 35 percent.
July 1, 1999	The maximum tariff rate was reduced to 25 percent.

**Liberalizing the export regime**

February 7, 1994	The export surrender requirement was abolished, except for tea, sugar and tobacco; at present, 60 percent of proceeds are still subject to surrender requirements.
April 1995	A 10 percent temporary export levy on tobacco and sugar was introduced.
April 1996	The temporary export levy on tobacco and sugar was reduced to 8 percent.
April 1997	The export levy on tobacco and sugar was reduced to 4 percent, and concurrently extended to include coffee.
April 1997	The government eliminated the corporate tax on firms in export processing zones.
April 1998	The export levy was eliminated.

49. By the middle of 1999, Malawi's liberalization program had produced one of the most liberal and transparent trade regimes in Africa. Nontariff barriers had been largely eliminated, except for restrictions for health and security reasons.<sup>35</sup> The maximum tariff rate had been reduced to 25 percent, and average tariffs had declined to below 16 percent. There are now only three effective nonzero tariff bands. However, because of bilateral agreements and preferences given on a reciprocal basis to other members of the Cross Border Initiative (CBI) and Common Market for Eastern and Southern Africa (COMESA), much trade is subject to lower effective tariffs (see Subsection D). The domestic surtax is applied to imports and domestically produced goods in a nondiscriminatory manner. Criteria are being developed to ensure that any remissions of duty are applied in a transparent, predictable, and automatic manner. Currently, imports into areas declared as export promotion zones (EPZs) are exempt from all tariffs and income taxes for a specified number of years. All companies engaged exclusively in manufacture for export may apply for EPZ status. A manufacturing under bond (MUB) scheme offers slightly less attractive incentives to companies that export some but not all of their manufactures. Foreign currency deposit accounts are allowed for exporters.

50. Malawi's tariff structure, like that of most countries in the region, continues to be characterized by the phenomenon of cascading tariff escalation. The lowest tariff rate (5 percent) is applied to "necessities," consisting predominantly of capital goods and other inputs; the middle rate (15 percent) is applied to intermediate goods; and the highest rate (25 percent) is applied to "nonessential" goods, consisting predominantly of consumer goods.

51. The export regime has also been liberalized substantially. There are no general licensing requirements for exports and no export tariffs.<sup>36</sup> Nevertheless, exports of tobacco, tea, and sugar remain subject to a surrender requirement of 60 percent of foreign exchange receipts. Tobacco production has been liberalized, but exports are only permitted through a single auction house.

52. Malawi rates favorably on an IMF index of the restrictiveness of trade policy. The index reflects both tariff and nontariff barriers and is based on a scale of 1 to 10, with 10 being the most restrictive rating. Malawi had a rating of 3 overall (3 for tariffs and 1 for nontariff barriers) in 1999, compared with average ratings of 5 to 6 for the rest of Eastern and Southern Africa. Malawi's trade regime is among the most open of Southern African Development Community (SADC) and COMESA members.

---

<sup>35</sup> Only 13 commodities require an import license—about 5 percent of Malawi's total imports.

<sup>36</sup> Only 4 commodities require an export license: implements of war other than arms and ammunition; petroleum products; wild animals, trophies, and products of such animals; and maize and maize meal.

Table 5. Malawi: Aggregate Trade Restrictiveness Rating, 1999<sup>1</sup>

	1999
Malawi	3.0
COMESA	5.9
SADC	5.4
CBI	4.5

Source: IMF estimates.  
<sup>1</sup>On a scale of 1 to 10, with 10 being the most restrictive.

#### D. Market Access Initiatives

53. Malawi has concluded several bilateral and regional trading agreements since its multilateral trade liberalization program began, and it has also benefited from provisions under the Lomé Convention and the Generalized System of Preferences (GSP). It will be a beneficiary of the U.S. Africa Growth and Opportunity Act. Malawi acceded to the World Trade Organization (WTO) on April 15, 1994.

##### Bilateral trade agreements

54. Malawi's trade agreement with South Africa dates back to 1990. It is asymmetrical, allowing for duty-free imports<sup>37</sup> into South Africa of all goods that are grown, produced, or manufactured in Malawi, but without such reciprocal preferences for South African exporters. South African rough and uncut diamonds may be exported to Malawi exempt from export duty, provided they are to be used for industrial purposes. In practice, there have been complaints that some Malawi exporters have faced restrictions: the minimum domestic content of 25 percent generally required to qualify for exemption from South African import duties has sometimes proved onerous to establish. There are also quotas on selected imports from Malawi, including soya beans and textiles, and textile imports were recently suspended on concern that some Malawi exporters had contravened the domestic content provisions.

55. Malawi also has a trade agreement with Zimbabwe. This was initially adopted in 1986 and modified in 1994. Imports of goods are allowed duty-free entry on a reciprocal basis, subject to a minimum domestic content provision of 25 percent. Import and export restrictions are, however, permitted for the application of standards or regulations for classification, grading, or marketing of commodities. There have been concerns that the agreement has contributed to a polarization of production, with some producers in Zimbabwe

<sup>37</sup> Free of customs duty, but not excise tax.

able to benefit from inputs with low or zero tariffs, thereby undercutting Malawi goods; meanwhile, unnecessary bureaucratic procedures have delayed the delivery of goods from Malawi to Zimbabwe.

### Regional arrangements

56. Malawi was among the founding participants in the Cross-Border Initiative (CBI), a partnership in the 1990s between reforming countries in eastern and southern Africa (mostly members of COMESA), on the one hand, and the Fund, the World Bank, the European Union, and the African Development Bank, on the other.<sup>38</sup> Malawi has been one of the best-performing participants in the CBI with regard to trade reform, nearly meeting the CBI's targets for third-party trade liberalization, which included a reduction in the weighted average tariff below 15 percent; a maximum tariff below 25 percent; no more than three nonzero tariff bands; abolition of extraneous duties and charges; and elimination of quantitative restrictions on imports, except those restricted for health and security. Exports are for the most part free of prohibitions and taxes, except for export surrender requirements on tobacco, tea, and sugar exports (as noted above).

57. Malawi is a member of the Common Market for Eastern and Southern Africa (COMESA) which, in December 1994, replaced the Preferential Trade Area for Eastern and Southern African States (PTA).<sup>39</sup> COMESA has focused on the acceleration of regional integration through the facilitation of trade and the elimination of nontariff barriers and intraregional tariffs. A timetable was set for a progressive reduction in tariffs, with the target of free intraregional trade by October 31, 2000. Malawi, and eight other countries, met the final target. COMESA also plans to adopt a common external tariff by 2004 with three nonzero tariff bands of 5, 15, and 30 percent. Malawi already surpasses this liberalization objective.

58. Malawi currently sources only a small proportion of its imports from COMESA. As a result, and reflecting the high preferences already given to COMESA partners, the loss of revenue from establishment of the COMESA free trade area (FTA) is expected to be small, probably of the order of ½ percent of total budgetary revenue.

---

<sup>38</sup> Participants in the CBI agreed to initiate reforms in several areas, including external and regional trade, with a view to improving economic performance and encouraging regional integration. The CBI has now been reconstituted as the Regional Integration Facilitation Forum (RIFF).

<sup>39</sup> COMESA currently has 20 members: Angola, Burundi, Comoros, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Namibia, Rwanda, Seychelles, Sudan, Swaziland, Uganda, the Democratic Republic of the Congo, Zambia, and Zimbabwe. Nine of these (Djibouti, Egypt, Kenya, Madagascar, Malawi, Mauritius, Sudan, Zambia, and Zimbabwe) eliminated tariffs against each other on October 31, 2000.

59. Malawi is also a member of the Southern African Development Community (SADC), which overlaps with part of COMESA and began implementation of its own free trade area in September 2000, following ratification of a trade protocol by 11 members.<sup>40</sup> Although more of Malawi's imports come from SADC than COMESA—reflecting South Africa's membership of SADC—the agreement is unlikely to have much impact in the short term. The only concessions being made this year are by South Africa, and these are less extensive than those already obtainable under the bilateral arrangement with Malawi. Textile quotas will continue, but will be adjusted upward by 10-15 percent per year.

60. In the longer term, however, more substantial effects are likely. The agreement will take about 12 years before becoming fully effective. By that time, at least half of Malawi's imports will probably be affected (currently about 45 percent of Malawi's imports are from the SADC, of which 30 percentage points come from South Africa; 6 percent of budgetary revenue is derived from import duties from SADC countries). Malawi will start reducing its own tariffs against South African goods in 2005.

61. Malawi's membership of both the SADC and COMESA could produce distorted incentives and bureaucratic problems as a result of the possible adoption of inconsistent obligations. With the introduction by both bodies of free trade areas, with different initial tariff structures and rules of origin, Malawi's trade with other joint members (such as Zimbabwe and Mauritius) will be governed by competing conditions. Existing bilateral agreements will compound the problems. Differences in external tariffs among the countries will provide perverse incentives for trade and opportunities for rent seeking. Although these could be reduced by the adoption of common external tariffs by the regional trading arrangements (such as COMESA is planning for 2004), they will result in mutually inconsistent obligations, unless both adopt identical structures. Malawi could, for instance, find that it was required to abolish tariffs against a non-SADC COMESA member under the COMESA free trade area but increase them under a SADC customs union.

### **Multilateral initiatives**

62. Malawi officially became a member of the World Trade Organization (WTO) in April 1995, assuming the commitments of a developing country under the Uruguay Round of Multilateral Trade Negotiations. 100 percent of its tariff lines in agriculture were bound, but only 3.9 percent in industrial products. Agriculture and industrial goods were bound at 125 percent and 47 percent respectively. Malawi did not offer to reduce ceiling bindings, although this was required by the agreement. As these tariff bindings are far in excess of current tariff rates, they have little relevance. The commitments on domestic agricultural

---

<sup>40</sup> The SADC currently has 14 members: Angola, Botswana, the Democratic Republic of the Congo (DRC), Lesotho, Malawi, Namibia, Mauritius, Mozambique, Seychelles, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe. Angola, the DRC, and Seychelles are not signatories to the trade protocol.

policies and on export subsidies also have little relevance for Malawi's domestic agricultural policies. Malawi does not subsidize its agriculture, owing to fiscal constraints; if anything, it effectively retards agriculture by giving higher protection to industry, or more explicitly, by discouraging exports of some commodities, including surrender requirements for tobacco. The liberalization of textile markets in industrial countries is unlikely to have much impact on Malawi as it has not been exporting textile products to these countries.

#### **E. Complementary Reforms: Exchange System, Fiscal Measures and Other Issues**

63. Malawi's trade reform program was undertaken in the context of comprehensive macroeconomic and structural reforms, thereby mitigating potential protectionist pressures.

64. Significant progress was made in liberalizing the exchange system. Malawi accepted the obligations of Article VIII, Sections 2, 3, and 4 on December 7, 1995, maintaining an exchange system free of restrictions on making payments and transfers for current international transactions. Malawi has also liberalized restrictions on capital movement through commercial paper, and nonresidents are allowed to repatriate investment proceeds without constraints. Registration is required for record keeping purposes only. There has been some effort toward developing a capital market by introducing a stock exchange.

65. Complementary fiscal measures were introduced to improve collection rates, and domestic revenues were raised to substitute for lower trade tariffs. Structural reforms have focused on improving budgeting procedures and streamlining the role and functions of the government, privatizing state-owned enterprises, liberalizing the financial sector to allow foreign competition, and implementing other legislative reforms. However, while a significant number of companies have been offered for sale, progress has been slow in divesting major public assets, such as the utilities and trading companies held by the Malawi Development Corporation (MDC), and in commercializing and privatizing the Agriculture Development and Marketing Corporation (ADMARC). Consequently, the state and the Press Corporation continue to dominate production through interlocking ownership of the principal companies.

66. Malawi's trade continues to be restricted by some remaining structural weaknesses. These have in the past included relatively high transport costs associated with its landlocked situation, which have been compounded by poor security conditions in neighboring countries and oligopolistic practices. Greater competition in the industry should reduce these problems. However, haulers' charges are still high, reflecting inefficiencies in Malawi's industry and restrictions in the region on third-party carriers and low volumes.<sup>41</sup>

---

<sup>41</sup> A recent study by the National Statistics Office of the relationship between c.i.f. and f.o.b. prices suggests that Malawi's transportation costs are not out of line with other countries in the region.



## F. Changes in the Pattern of Trade

67. There have been some significant changes in the pattern of trade since liberalization. These, in turn, have reflected changes in relative profitability and the removal of legal and institutional impediments. However, some distortions remain in the incentive structure in Malawi, partly because of its cascaded tariff structure and persistent structural impediments and partly because of different and overlapping regional trade arrangements. The recorded direction of trade has also changed substantially, with South Africa now the dominant partner.

68. The trade openness index shows some positive changes, with the ratio of exports to GDP increasing from 22.3 percent in 1990 to 25.7 percent in 1997-1999; the imports-to-GDP ratio also rose from 26.6 percent to 33.9 percent, over the same period (Table 6). However, while new export products have emerged, tobacco remains the single most important export commodity, accounting for over 60 percent of total exports in 1997-99. This is followed by tea and sugar, with 8 percentage points and 6½ percentage points respectively. Nontraditional exports, which are predominantly within agriculture, registered strong growth in the 1990s, albeit from a small base, increasing their share in the total export basket from 6.7 percent in 1990 to 12.7 percent during 1997-99. In particular, exports of cotton products increased rapidly, together with exports of flowers and special vegetables to Europe, reflecting production by the EPZs.

69. The recorded geographical pattern of trade has changed more markedly, with a substantial increase in the share of trade identified with South Africa. Exports to industrial countries, while still accounting for the largest recorded share, have declined from 76.6 percent of total exports in 1990 to 62 percent in 1997-99. Similarly, imports from industrialized countries declined from 48.8 percent in 1990 to 33 percent in 1997-99. Exports to South Africa more than doubled in relative importance rising from 6.9 percent of total exports in 1990 to 13.9 percent by 1997-99, while recorded imports from South Africa increased from 28.4 percent to 36 percent over that period. Despite its bilateral trade agreement, trade with Zimbabwe remains relatively small, perhaps reflecting the bureaucratic constraints imposed by Zimbabwe. In 1997-99, exports to Zimbabwe were 3.1 percent of total exports while imports from Zimbabwe accounted for 14.3 percent of total imports. Among the industrialized countries, Germany and the United States are the leading export markets—reflecting the concentration of tobacco exports to the U.S. market. Germany and the United Kingdom are important importers of sugar from Malawi.

70. The trade regime in Malawi is designed to give incentives and some relative protection to the manufacturing sector through a cascaded tariff structure that applies the highest rates to finished consumer goods and very low tariff rates to capital goods and other inputs. However, at the same time, the agreement with Zimbabwe provides for duty free entry of goods produced or manufactured in Zimbabwe that satisfy the minimum content requirement. Consequently, because capital or intermediate goods imported into Malawi from other industrialized countries attract 5 percent or 15 percent tariffs, the trade regime actually provides some preferential treatment to manufactured imports. The result is that

Table 6. Malawi: Composition and Direction of Trade, 1990-1999

	<u>1990</u>	<u>1997-99</u>
<b>Trade openness</b>		
Exports/GDP (percent)	22.3	25.7
Imports/GDP (percent)	26.6	33.9
<b>Export composition (percent)</b>		
Tobacco	68.5	62.8
Tea	11.3	8.0
Sugar	6.8	6.6
Non-traditional exports	6.7	12.7
<b>Direction of trade</b>		
<b>Imports (percent)</b>		
Industrial countries	48.8	33.0
<i>Of which:</i>		
Germany	5.6	3.4
United Kingdom	21.2	11.2
United States	2.0	2.2
Developing countries	51.2	67.0
<i>Of which:</i>		
South Africa	28.4	36.0
Zimbabwe	8.6	14.3
<b>Exports (percent)</b>		
Industrial countries	76.6	62.0
<i>Of which:</i>		
Germany	15.7	13.3
United Kingdom	14.9	7.0
United States	11.5	14.0
Developing countries	23.4	38.0
<i>Of which:</i>		
South Africa	6.9	13.9
Zimbabwe	3.1	1.8

71. Source: Malawian authorities and IMF Staff.

domestic manufacturing industries that use imported capital and intermediate goods are at a disadvantage in competing against imported consumer goods from Zimbabwe: effective protection rates for manufacturers in Malawi are actually negative in some cases. In the longer term, consideration will need to be given to the appropriateness of Malawi's maintaining a cascaded tariff structure. It distorts relative prices, and the protection it currently provides may be hindering the emergence of a sustainable and internationally competitive industrial base.

72. The liberalization of agricultural products by industrial countries has had little, if any, impact on Malawi's export performance, as Malawi's exports do not enjoy preferential treatment in the European Union or U.S. markets, except for sugar. The agricultural policies of industrial countries have in general hurt Malawi's growth prospects by reducing prices for agricultural commodities.

### G. Summary and Conclusions

73. Malawi's trade liberalization program was, in general, appropriately sequenced and has produced an open and transparent regime. The emphasis placed on eliminating nontariff barriers has exposed domestic industries to international competition. With lower tariffs, economic decisions are now based to a greater extent on world market prices. Concurrent measures to find alternative sources of tax revenue have also enabled the reforms to proceed without major policy reversals,<sup>42</sup> thus increasing their credibility. Nevertheless, Malawi could still benefit from additional reforms, including removing tariff escalation, lowering external tariffs, eliminating the remaining export surrender requirements, and removing selected export-marketing restrictions.

74. The regional trading arrangements (RTAs) provide one mechanism for reducing trade barriers between Malawi and neighboring countries. However, it will be important to ensure that external tariffs are reduced alongside intraregional tariffs, to avoid costly trade diversion, and that Malawi's obligations under the SADC and COMESA are made mutually consistent. Participation in multilateral initiatives has the potential to increase the transparency and predictability of policy, but Malawi's bindings under the WTO were set at rates that were much higher than the applied tariffs and thus leave substantial scope for maintaining a policy stance that is economically distorted and inefficient. Malawi could consider introducing lower WTO tariff bindings, in order to enhance the credibility of its reforms and also to create an appropriate incentive structure for promoting efficient investment and trade flows.

75. **Overall, Malawi has not yet been able to exploit adequately the opportunities provided by lower tariff and nontariff barriers, or the bilateral and multilateral**

---

<sup>42</sup> The exception is the temporary export levy introduced in April 1995 to address a revenue shortfall. However, the levy's introduction was accompanied by a plan to phase it out.

**agreements for market access, because of weaknesses in its productive capacity. The contraction in output in industries that were previously protected has not been offset by a corresponding development of export industries; exports have continued to be concentrated among a few agricultural commodities. To achieve rapid and sustained growth, there is an urgent need to focus efforts on breaking the vicious circle of low productivity and reliance on a small number of primary commodities for export, and to increase investment by establishing macroeconomic stability and fostering a culture of private enterprise. There is also a need for comprehensive reforms to tackle supply side constraints and other bottlenecks, including transportation costs and poor infrastructure. Other supply side measures would include strengthening human resources and enforcing the rule of law.**

#### IV. THE IMPACT OF HIV/AIDS<sup>43</sup>

76. Malawi is one of the countries most severely affected by HIV/AIDS. Available data suggest that about 16 percent of the adult population is currently infected.<sup>44</sup> Furthermore, the pandemic is still spreading. The proportion of pregnant women attending antenatal facilities in Blantyre with HIV/AIDS rose from 2 percent in 1985 to 33 percent in 1996.<sup>45</sup> Life expectancy at birth, which was once projected to rise by 12 years between 1985 and 2010, may now show a decline (see Table 8). These trends pose serious obstacles to economic development.

77. This section provides a survey of selected studies on the direct impact of HIV/AIDS on mortality and morbidity (especially among economically active adults and children) and some measures of their possible effects on output, growth, and the fiscal position.

##### A. Prevalence of HIV/AIDS

78. About 1 million people in Malawi, 7 percent of the population, are currently infected with the HIV virus. Most of these are of working age. Initially, the virus affected primarily the urban population and women were the major victims. Increasingly, however, children are also now becoming infected. The U.S. Bureau of the Census (1999), estimated that, of an annual mortality rate of 23.7 percent, 9 percentage points was attributable to AIDS. These characteristics are shared with most other countries in southern Africa (see Table 7). The prevalence and spread of HIV/AIDS is likely to transform the outlook for population growth in Malawi. While past trends would point to population growth of just over 3 percent per year, recent projections suggest that it could fall below 1 percent by 2010 because of AIDS-associated deaths.<sup>46</sup>

---

<sup>43</sup> Prepared by Matthew Odedokun.

<sup>44</sup> Statistics on the prevalence and trend of HIV/AIDS in Malawi, as in neighboring countries, are partial and unreliable.

<sup>45</sup> According to the World Bank (1998), the HIV prevalence rate exceeded 20 percent for women under 34 years, and could have reached 43 percent by 1998.

<sup>46</sup> United States Bureau of the Census (1999) and Futures Group International (as quoted in World Bank (1998)).

79. The economic effects of HIV/AIDS will be disproportionate to the impact on the size of the population in the short term. Most of those currently dying or becoming debilitated are of prime working age; and the incidence seems to be highest among better-educated and professional workers.

Table7: Malawi. HIV/AIDS Incidence, in Malawi and Selected Other Countries and Regions<sup>1</sup>

Country/Region	Adults Living with HIV/AIDS, End-1999 (As percent of adult population)	Adults and Children Living with HIV/AIDS, End-1999 (As percent of total population)	AIDS Deaths, 1999 (Per thousand of total population)
Botswana	36.13	18.22	15.08
Burundi	11.31	5.46	5.92
Central Afr. Rep.	13.95	6.76	6.48
Côte d'Ivoire	10.76	5.23	4.95
Djibouti	11.71	5.86	4.91
Ethiopia	10.77	4.91	4.58
Kenya	14.07	7.12	6.10
Lesotho	24.05	11.39	7.59
Malawi	16.06	7.49	6.56
Mozambique	12.78	6.24	5.10
Namibia	18.99	9.47	10.66
Rwanda	11.08	5.53	5.53
South Africa	19.87	10.55	6.28
Swaziland	25.00	13.25	7.24
Zambia	20.06	9.69	11.10
Zimbabwe	24.26	13.03	13.90
Sub-Saharan Africa	8.56	4.11	3.69
Global	1.07	0.58	0.47

Source: UNAIDS/WHO (2000).

<sup>1</sup>The 16 countries listed here have the highest HIV/AIDS incidence in the world.

### B. Impact on Family Circumstances

80. The effects on households are diverse but intense:

- Loss of income of the breadwinner due to sickness, absenteeism from work, or the need to cater for a sick household member; and increased medical and funeral expenses.
- A disproportionate effect on women, owing to a higher infection rate to date, and the burden of caring for AIDS patients.

- Increased school absenteeism to take care of sick parents or siblings; and reduced schooling and higher levels of malnutrition, as a result of the death or sickness of the breadwinner. Probable permanent impact on human capital.
- Since the educated segment of the population is more prone to HIV infection, teachers are particularly affected. A study by the World Bank (1998) estimated that between a quarter and a half of teachers in Malawi may die by 2005.
- AIDS-related deaths give rise to a large number of orphans (amounting to 390,000 at the end of 1999). Because the AIDS pandemic tends to spread faster in clans and close communities, the traditional African mechanisms for child fostering are overstrained, shifting the burden to the state.

### **C. Effects on Economic Growth**

81. The most obvious route through which AIDS will affect economic growth is through the size and quality of the labor force. In theory, a pandemic like AIDS could raise the per capita income of survivors (as a result of a faster decline in population growth than total output). However, it seems unlikely that the conditions under which this would happen currently apply to Malawi: the decline in the labor force, particularly if it is concentrated on higher productivity workers, will actually lead to a steeper drop in output than in population; and, although unemployment is high (so that capital and land are unlikely to remain unused), productivity is unlikely to be maintained. Workers still employed will be more prone to absenteeism, because of their own health, or the need to look after others, or attend funerals; and replacement or substitute workers will require training.

82. HIV/AIDS can also retard economic growth through its effect on savings and, hence, capital accumulation. Resources that would otherwise have been saved may be diverted into financing the costs of medical treatment of AIDS patients, social support payments for orphans (and, possibly, widows), and the mounting of programs for preventing the spread of HIV. Both private and public savings may be affected. Evidence so far suggests that a significant proportion of Malawi's income is being expended by households, firms, and the government on HIV/AIDS (see next subsection). Given subsistence needs, it is probable that much of this comes from savings, with potential implications for capital accumulation. Smaller profits will also diminish business savings and reduce foreign direct investment.

83. The overall macroeconomic effects of HIV/AIDS have been simulated, within the framework of an aggregate growth model, in a number of studies. One such study on Malawi by Cuddington and Hancock (1995), which is based on cautious assumptions, predicts that AIDS will reduce GDP growth by 1.5 percentage points and per capita income by 0.3 percentage point per annum. This compares with an actual annual increase in per capita income growth over the 1975-98 period of only 0.6 percent. These figures imply that the level of output could be as much as 10 percent lower than it would otherwise have been by 2010, while the contraction in per capita income could be up to 3 percent. If it is assumed

that half of these cumulative effects would have been realized by 2000, it follows that the level of GDP in 2000 is about 5 percent (in per capita terms, 1.5 percent) lower than it would have been in the absence of this pandemic.

Table 8. Malawi: Selected Projected HIV/AIDS Indicators for 2010

	Situation in 1985,		Projected Situation in 2010	
	before HIV/AIDS	In the absence of HIV/AIDS	With HIV/AIDS, based on the: Epimodel used by Epimodel/DemProj	iwg AIDS model used by USBOC
Rate of population increase, percent	3.3	3.1	2.5	0.6
Total population, million	7.1	16.7	14.8	11.6
Crude death rate, per 1000	21.3	10.6	16.6	34.4
Infant mortality, per 1000 live births	150.6	82.2	91.1	119.4
Probable number of deaths before age of 5 years, per 1000 live births.	226.4	117.7	141.7	206.9
Life expectancy at birth, in years	45.2	57.4	44.1	23.0
Adult HIV prevalence rate, percent of total population (1996 = 20 percent)	0.0	N.A.	10.0	35.0

Source: World Bank (1998).

Notes: The last column is based on annual HIV prevalence estimates and projections derived by the U.S. Bureau of the Census (USBOC) using the Interagency Working Group AIDS model (iwgAIDS). The penultimate column uses the computer program, DemProj, developed by the Futures Group International.

#### D. Fiscal Impact

84. The main fiscal impact of HIV/AIDS is on health care, as much of the available support is within the public sector. However, it is difficult to isolate the health care costs of HIV/AIDS because the prevalence of some opportunistic infections (like tuberculosis, malaria, and pneumonia) would have been high, even in the absence of HIV. Also, the poor and rural populations have only limited access to treatment. Nevertheless, studies reviewed by Ainsworth and Over (1994) may provide some insights on the impact on the fiscal accounts:

- The percentage increase between 1985 and 1997 in public health expenditure in Malawi as a result of AIDS has been estimated at between 64.6 percent and 111.0 percent. The range reflects different assumptions, primarily about health care elasticities of demand and supply. In the budget for 2000/01 (July-June), MK 95 million (about 0.1 percent of GDP) has been set aside for HIV/AIDS treatment and prevention.
- Total expenditure on HIV/AIDS control/prevention in 1996 was US\$10.5 million or about 0.5 percent of GDP. This was all provided by donors.



- As AIDS patients compete for scarce public medical resources, non-AIDS patients with less severe conditions are often deprived of public health care—e.g., unexpectedly high mortality rates among non-AIDS patients have been reported where AIDS infections are high.
- A study by Forsythe (1992) estimated lifetime health care costs for adult AIDS patients at US\$143 (about 70 percent of per capita income); this did not include treatment costs.
- The other major direct impact on public spending is through government payroll and related outlays. Health care, funerals, and death benefits to survivors impose substantial costs. These are increased by the need to recruit and train replacement staff. The efficiency of government operations suffers from increased absenteeism, poorer health, higher staff turnover, and replacement of experienced civil servants. Against this, lower population growth will ultimately lead to lower demand for public services.
- On the revenue side, the fall in aggregate income resulting from death and sickness will depress the revenue accruing to the government from income-based taxes. Given the cautious estimate reported above that GDP in 2000 might be 5 percent lower than otherwise as a result of HIV/AIDS, the loss in nominal GDP for fiscal year 2000/01 would be about MK 4700 million. Given an overall tax rate of 17 percent of GDP, this loss in output or income could translate into a loss of MK 800 million in the budget year (just under 1 percent of GDP).

#### **E. Sectoral Impact**

85. Agricultural activities are likely to be adversely affected by HIV/AIDS in a number of ways. The death of an adult in a family is reported to reduce agricultural output and shift the composition of cultivated crops from relatively labor intensive to less labor intensive ones and, most likely, also from export crops to food crops. A recent case study estimated the costs of HIV/AIDS on a Malawi tea estate to have accounted for 3.4 percent of the estate's profit in 1995/96. Over one-third of these costs resulted from the provision of medical services, with slightly smaller contributions from death-in-service benefits and the costs of absences. Funeral costs were also significant.<sup>47</sup> Another recent study based on a Malawi tea estate (cited in World Bank, 1998) reports that, owing to a six fold increase in the mortality rate among the workers (most of them between 36 and 45 years old) between 1991 and 1995, the annual cost to the company was 6 percent of the operating profit.

---

<sup>47</sup> As cited in Bollinger, Stove, and Palamuleui, 1999; and Ainsworth and Over, 1994

86. Nonagricultural businesses are also adversely affected. Productivity and, hence, business revenues are depleted by poor health and absences, together with time taken off to attend funerals and care for the sick. Training costs are boosted by higher labor turnover. Many outlays for workers' health, funeral, and death benefits are borne by companies. A study by Ntirenda and Zimba (1998) of the effects of HIV/AIDS on Lonrho companies in Malawi shows that HIV/AIDS costs were about 1.1 percent of total costs and 3.4 percent of the gross profits of the companies in 1995/96 (April-March) and that, compared with 1991/92, the crude death rate increased by 220 percent; early health retirement, by 226 percent; death in service, by 46 percent; and death-in-service benefits, by 104 percent.

87. Such effects imply that firms are likely to change their production and investment decisions either by using less labor intensive production techniques or by employing more workers than are needed for the jobs as a buffer against AIDS-related loss of staff. Workers in the transport and mining sectors have been shown to be particularly vulnerable to HIV/AIDS. Road constructors, drivers, and Malawians working as migrant miners in South Africa (from whom sizable foreign exchange remittances are received) have been disproportionately affected. The export sector, too, may be hard hit as smallholder farmers switch from export crops to food crops and lower productivity reduces the external competitiveness of Malawian businesses.

### Additional References

- Ainsworth, Martha, and Mead Over, 1994, "AIDS and African Development," *World Bank Research Observer*, Vol. 9 (July) pp. 203-40.
- Bollinger, Lori, John Stover, and Martin Palamuleui, 1999, "The Economic Impact of AIDS in Malawi" (Washington: Futures Group International for the POLICY Project).
- Cuddington, J. T. and John Hancock, 1995, "The Macroeconomic Impact of AIDS in Malawi: A Dualistic, Labor Surplus Economy", *Journal of African Economies*, Vol. 4, (May) pp. 1-28.
- Burnside, Craig and David Dollar, 1997, "Aid, Policies and Growth," World Bank Policy Research Working Paper No. 1777 (Washington: World Bank).
- Forsythe, 1992, "The Economic Impact of HIV and AIDS in Malawi" (Lilongwe, Malawi: National AIDS Control Program). Cited in Bollinger, Stover, and Palamuleui (1999).
- Ntirenda, C. and D. Zimba, 1998, "The Impact of HIV/AIDS on Production: The Experience with Lonrho Companies, Malawi," paper presented at International Conference on AIDS, 1998. Cited in Bollinger, Stover, and Palamuleui (1999).
- Sachs, Jeffrey D. and Andrew M. Warner, 1996, "Sources of Slow Growth in African Economies," Harvard Institute for International Development Discussion Paper No. 545 (Cambridge, Massachusetts: Harvard University).
- Tsikata, T.M., 1998 "Aid Effectiveness: A Survey of the Recent Empirical Literature," IMF Paper on Policy Analysis and Assessment 98/1 (Washington: International Monetary Fund).
- UNAIDS/WHO, 2000, *Report on the Global HIV/AIDS Epidemic* (Geneva: Joint UN Program on HIV/AIDS and World Health Organization).
- UNAIDS 2000, *Malawi: Epidemiological Fact Sheet on HIV/AIDS and Sexually Transmitted Diseases*, (Geneva: Joint UN Program on HIV/AIDS).
- U.S. Bureau of the Census, 1999, *World Population Profile 1998* (Washington U.S. Department of Commerce, Bureau of the Census).
- World Bank, 1997, "Accelerating Malawi's Growth: Long-Term Prospects and Transitional Problems" (unpublished; Washington: World Bank).
- World Bank, 1998, *Malawi: Aids Assessment Study*, Vols. 1 and 2, (Washington: World Bank).

Table 9. Malawi: GDP by Economic Activity at Constant 1994 Factor Cost, 1994-99 1/

	1994	1995	1996	1997	1998	1999
(In millions of Malawi kwacha)						
Agriculture	2,319.4	3,237.7	4,063.5	4,068.9	4,489.6	4,944.1
Smallholders	1,624.2	2,331.6	3,070.2	2,964.0	3,520.3	3,992.4
Estates	695.2	906.0	993.3	1,104.9	969.3	951.7
Mining and quarrying	43.2	47.1	205.7	157.4	164.0	169.6
Manufacturing	1,597.0	1,685.2	1,675.1	1,691.3	1,717.3	1,748.6
Electricity and water	149.0	151.9	151.7	160.5	172.2	171.5
Construction	202.3	198.0	231.4	254.2	266.4	293.4
Distribution	2,536.6	2,576.2	2,574.8	3,017.8	2,838.2	2,765.4
Transport and communication	465.3	550.0	505.0	553.0	559.3	575.5
Financial and professional services	626.7	690.7	834.4	1,127.7	1,034.3	1,046.7
Ownership of dwellings	162.0	165.2	168.8	172.4	176.1	179.9
Private community services	211.2	215.3	236.5	260.1	262.0	263.9
Government services	1,113.8	1,197.7	1,157.6	1,200.1	1,232.2	1,257
Unallocable financial charges	-283.8	-310.6	-314.8	-406.8	-332.8	-332.3
GDP at constant 1994 factor cost	9,142.7	10,404.4	11,499.7	12,256.9	12,578.9	13,083.4
(Annual percentage change, unless otherwise indicated)						
Agriculture	...	39.6	25.5	0.1	10.3	10.1
Smallholders	...	43.6	31.7	-3.5	18.8	13.4
Estates	...	30.3	9.6	11.2	-12.3	-1.8
Mining and quarrying	...	9.0	336.8	-23.5	4.2	3.4
Manufacturing	...	5.5	-0.6	1.0	1.5	1.8
Electricity and water	...	1.9	-0.1	5.8	7.2	-0.4
Construction	...	-2.1	16.9	9.9	4.8	10.1
Distribution	...	1.6	-0.1	17.2	-6.0	-2.6
Transport and communication	...	18.2	-8.2	9.5	1.1	2.9
Financial and professional services	...	10.2	20.8	35.2	-8.3	1.2
Ownership of dwellings	...	2.0	2.2	2.1	2.1	2.2
Private community services	...	1.9	9.8	10.0	0.7	0.7
Government services	...	7.5	-2.5	2.8	2.7	2.0
GDP at constant 1994 factor cost	...	13.8	10.5	6.6	2.6	4.0
Memorandum items:						
GDP at current factor cost (in millions of Malawi kwacha)	9,142.7	18,801.5	33,250.3	38,550.2	49,740.4	72,771.5
GDP at current factor cost (percentage change)	...	105.6	76.8	15.9	29.0	46.3
GDP deflator at factor cost (1994=100)	100.0	180.7	289.1	314.5	395.4	556.2
GDP deflator at factor cost (percentage change)	...	80.7	60.0	8.8	25.7	40.7

Source: National Economic Council.

1/ Figures for 1999 are provisional.

Table 10. Malawi: GDP by Expenditure at Constant 1994 Market Prices, 1994-99 1/

	1994	1995	1996	1997	1998	1999
(In millions of Malawi kwacha)						
GDP at constant 1994 market prices	10,268.8	11,810.0	12,825.7	13,640.5	13,908.2	14,390.2
Net exports or imports(-) of goods and services	-3,448.4	-1,901.9	-4,625.6	-3,937.3	-2,986.2	-4,157.9
Exports of goods and services	3,033.2	4,055.8	3,622.1	3,618.6	4,021.9	3,869.5
Exports and reexports of goods	2,812.6	3,893.8	3,412.1	3,331.7	3,651.7	3,510.9
Exports of nonfactor services	220.6	162.0	210.0	286.9	360.2	358.6
Imports of goods and services	-6,481.6	-5,957.7	-8,247.7	-7,555.9	-6,998.1	-8,027.4
Imports of goods, f.o.b.	-4,063.4	-3,731.1	-4,804.7	-5,951.9	-5,005.2	-5,670.7
Imports of nonfactor services	-2,418.2	-2,226.6	-3,443.0	-1,604.0	-1,992.9	-2,356.7
Gross domestic expenditure	13,717.4	13,711.9	16,047.9	17,045.9	16,893.1	18,548.1
Consumption	10,712.9	11,672.9	14,008.7	14,815.8	14,838.8	15,388.2
Government	3,257.9	2,277.6	1,940.5	1,971.1	1,819.1	1,828.0
Compensation of employees	1,089.0	1,016.3	755.3	953.5	949.7	903.7
Goods and services	2,168.9	1,261.3	1,185.2	1,017.6	869.4	924.3
Private	7,455.0	9,395.3	12,068.2	12,844.7	13,019.7	13,560.2
Fixed capital formation	2,764.5	1,738.9	1,682.3	1,866.9	1,693.6	2,784.9
Government and statutory bodies	1,563.6	1,149.9	1,159.5	1,382.3	...	...
Private	1,200.9	589.0	522.8	484.6	...	...
Stock building	240.0	300.1	356.9	363.2	360.8	375
(Annual percentage change, unless otherwise indicated)						
GDP at constant 1994 market prices	...	15.0	8.6	6.4	2.0	3.5
Exports of goods and services	...	33.7	-10.7	-0.1	10.9	-3.5
Exports and reexports of goods	...	38.4	-12.4	-2.4	9.6	-3.9
Exports of nonfactor services	...	-26.6	29.6	36.6	25.5	-0.4
Imports of goods and services	...	-8.1	38.4	-8.4	-7.4	14.7
Imports of goods, f.o.b.	...	-8.2	28.8	23.9	-15.9	13.3
Imports of nonfactor services	...	-7.9	54.6	-53.4	24.2	18.3
Gross domestic expenditure	...	0.0	17.0	6.2	-0.9	9.8
Consumption	...	9.0	20.0	5.8	0.2	3.7
Government	...	-30.1	-14.8	1.6	-7.7	0.5
Compensation of employees	...	-6.7	-25.7	26.2	-0.4	-4.8
Goods and services	...	-41.8	-6.0	-14.1	-14.6	6.3
Private	...	26.0	28.4	6.4	1.4	4.2
Fixed capital formation	...	-37.1	-3.3	11.0	-9.3	64.4
Government and statutory bodies	...	-26.5	0.8	19.2	...	...
Private	...	-51.0	-11.2	-7.3	...	...
Stock building	...	25.0	18.9	1.8	-0.7	3.9
Memorandum items:						
GDP at current market prices (in millions of Malawi kwacha)	10,268.8	21,378.2	36,590.0	42,357.2	54,491.0	79,537.30
GDP at current market prices	...	108.2	71.2	15.7	28.6	46.0
GDP deflator at market prices (1994=100)	100.0	181.0	283.3	310.5	391.8	552.7
GDP deflator at market prices	...	81.0	57.6	8.8	26.2	41.1

Source: National Economic Council.

1/ Figures for 1999 are provisional.

Table 11. Malawi: GDP by Expenditure at Current Market Prices, 1994-99 1/

	1994	1995	1996	1997	1998	1999
(In millions of Malawi kwacha)						
GDP at current market prices	10,268.8	21,378.2	36,595.0	42,357.2	54,491.0	79,537.3
Net exports or imports(-) of goods and services	-3,448.4	-3,713.1	-6,455.5	-4,885.1	-5,720.9	-15,431.6
Exports of goods and services	3,033.2	7,093.9	8,321.5	9,658.2	18,022.1	21,578.2
Exports and reexports of goods	2,812.6	6,797.0	7,791.8	8,868.4	16,734.8	19,712.5
Exports of nonfactor services	220.6	296.9	529.7	789.8	1,287.3	1,865.7
Imports of good and services	6,481.6	10,807.0	14,777.0	14,543.3	23,743.0	37,009.8
Imports of goods, f.o.b.	4,063.4	6,768.1	8,608.3	11,456.0	16,981.5	26,144.3
Imports of nonfactor services	2,418.2	4,038.9	6,168.7	3,087.3	6,761.5	10,865.5
Gross domestic expenditure	13,717.2	25,091.3	43,050.5	47,242.3	60,211.9	94,968.9
Consumption	10,712.9	21,376.6	38,746.0	42,162.6	52,950.0	79,738.9
Government	3,257.9	4,068.7	4,635.8	5,241.8	6,399.2	9,598.8
Compensation of employees	1,089.0	1,863.0	1,905.1	2,624.3	3,394.1	4,678.6
Goods and services	2,168.9	2,205.7	2,730.7	2,617.5	3,005.1	4,920.2
Private	7,455.0	17,307.9	34,110.2	36,920.8	46,550.8	70,140.1
Fixed capital formation	2,764.3	3,164.7	3,404.5	4,079.7	5,973.3	13,630.0
Government and statutory bodies	1,563.6	2,061.7	2,279.6	2,948.5	4,700.1	11,833.5
Private	1,200.7	1,103.0	1,124.9	1,131.2	1,273.2	1,796.5
Stock building	240.0	550.0	900.0	1,000.0	1,288.6	1,600.0
(In percent of GDP, unless otherwise indicated)						
GDP at market prices	100.0	100.0	100.0	100.0	100.0	100.0
Exports of goods and services	29.5	33.2	22.7	22.8	33.1	27.1
Exports and reexports of goods	27.4	31.8	21.3	20.9	30.7	24.8
Exports of nonfactor services	2.1	1.4	1.4	1.9	2.4	2.3
Imports of good and services	63.1	50.6	40.4	34.3	43.6	46.5
Imports of goods, f.o.b.	39.6	31.7	23.5	27.0	31.2	32.9
Imports of nonfactor services	23.5	18.9	16.9	7.3	12.4	13.7
Gross domestic expenditure	133.6	117.4	117.6	111.5	116.5	119.4
Consumption	104.3	100.0	105.9	99.5	97.2	100.3
Government	31.7	19.0	12.7	12.4	11.7	12.1
Compensation of employees	10.6	8.7	5.2	6.2	6.2	5.9
Goods and services	21.1	10.3	7.5	6.2	5.5	6.2
Private	72.6	81.0	93.2	87.2	85.4	88.2
Fixed capital formation	26.9	14.8	9.3	9.6	11.0	17.1
Government and statutory bodies	15.2	9.6	6.2	7.0	8.6	14.9
Private	11.7	5.2	3.1	2.7	2.3	2.3
Stock building	2.3	2.6	2.5	2.4	2.4	2.0
Memorandum items:						
Indirect taxes (in millions of Malawi kwacha)	1,126.2	2,576.7	3,344.7	3,807.0	4,750.6	6,765.8
Indirect taxes	10.9	11.4	9.6	9.1	8.7	8.5

Source: National Economic Council.

1/ Figures for 1999 are provisional.

Table 12. Malawi: Agricultural Production by Principal Crops, 1993-99.

	1993	1994	1995	1996	1997	1998	1999
(In thousands of metric tons)							
<b>Total production</b>							
Tobacco (auction sales)	130.4	97.5	130.3	141.5	158.1	135.4	133.0
Flue cured	24.6	20.7	20.0	15.3	14.9	13.8	13.9
Fire cured	4.1	5.5	8.2	7.7	8.5	6.9	8.2
Northern division	3.4	5.5	7.5	6.5	7.6	6.3	7.3
Southern division	0.7	0.0	0.7	1.2	0.9	0.6	0.9
Burley	101.6	71.3	101.5	117.9	133.9	113.8	110.4
Other	0.1	0.0	0.6	0.6	0.8	0.9	0.5
Tea	39.5	35.1	34.2	37.2	43.9	40.4	38.5
Sugar	114.2	203.0	224.4	217.5	195.3	209.7	200.1
<b>Smallholder production</b>							
Maize	2,034.0	819.0	1,327.9	1,793.5	1,226.5	1,534.3	2,245.8
Rice	65.4	41.1	39.1	72.6	65.7	68.8	92.8
Groundnuts	31.9	30.7	30.7	40.3	68.7	97.2	124.6
Tobacco	28.5	15.5	35.4	69.0	83.6	94.1	84.6
Cotton	45.3	17.0	25.2	82.6	45.1	36.3	50.6
Sorghum	21.1	16.7	20.1	54.7	39.5	41.5	41.4
Millet	15.2	9.7	13.3	20.3	16.4	19.6	20.2
Pulses	109.6	78.3	99.8	183.1	179.2	208.9	233.8
Cassava	216.1	250.1	328.4	534.6	713.6	829.8	895.4
Sweet potatoes	210.6	165.3	317.8	596.5	858.1	1,432.4	1680.3
(Annual percentage change)							
<b>Total production</b>							
Tobacco (auction sales)	2.5	-25.2	33.6	8.6	11.7	-14.7	-1.8
Flue cured	0.8	-15.9	-3.4	-23.5	-2.6	-7.4	0.7
Fire cured	-52.3	34.1	49.1	-6.1	10.4	-25.9	18.8
Northern division	-58.0	61.8	36.4	-13.3	16.9	-25.0	15.9
Southern division	40.0	...	...	71.4	-25.0	-33.3	50.0
Burley	8.7	-29.8	42.4	16.2	13.6	-15.0	-3.0
Other	-85.7	...	...	0.0	33.3	12.5	-44.4
Tea	40.6	-11.1	-2.6	8.8	18.0	2.5	-4.7
Sugar	-28.0	40.8	10.5	-3.1	-10.2	11.2	-4.6
<b>Smallholder production</b>							
Maize	209.6	-59.7	62.1	35.1	-31.6	25.1	46.4
Rice	174.8	-37.2	-4.9	85.7	-9.5	4.6	34.9
Groundnuts	163.6	-3.8	0.0	31.3	70.5	44.4	38.2
Tobacco	72.7	-45.6	128.4	94.9	21.2	12.6	-10.1
Cotton	233.1	-62.5	48.2	227.8	-45.4	-19.5	39.4
Sorghum	427.5	-20.9	20.4	172.1	-27.8	5.1	-0.2
Millet	289.7	-36.2	37.1	52.6	-19.2	19.5	3.1
Pulses	96.1	-28.6	27.5	83.5	-2.1	16.6	11.9
Cassava	67.8	15.7	31.3	62.8	33.5	16.3	7.9
Sweet potatoes	388.6	-21.5	92.3	87.7	43.9	66.9	17.3

Source: National Statistical Office, *Monthly Statistical Bulletin*.

Table 13. Malawi: Average Auction Prices for Tobacco and Tea, 1993-99

	1993	1994	1995	1996	1997	1998	1999
	(Malawi kwacha per kilogram)						
Tobacco 1/	5.0	10.4	23.8	25.8	25.9	55.4	62.2
Flue cured	5.8	11.3	29.9	35.0	31.4	59.9	64.7
Fire cured	4.1	15.2	25.8	24.9	29.9	75.7	67.7
Northern division	2.6	15.4	25.9	25.4	31.0	78.0	67.8
Southern division	5.3	13.0	23.5	21.0	20.6	55.8	65.7
Burley	4.9	9.8	22.5	24.7	25.1	53.8	61.5
Other	6.2	14.2	23.0	11.1	19.5	45.4	43.1
Tea							
Malawi auction	4.3	19.3	11.7	12.0	26.4	29.5	37.0
London auction 2/	6.2	11.3	18.5	19.8	25.7	...	...
	(Annual percentage change)						
Tobacco 1/	-19.0	109.4	129.3	8.4	0.4	113.8	12.3
Flue cured	-18.8	93.0	165.7	17.1	-10.3	90.9	7.9
Fire cured	17.8	274.0	69.2	-3.3	20.1	153.3	-10.7
Northern division	-27.7	485.0	68.2	-1.8	22.0	151.5	-13.0
Southern division	62.1	144.6	80.5	-10.5	-1.9	171.0	17.7
Burley	-24.6	99.6	130.5	9.8	1.6	114.2	14.5
Other	67.3	130.9	61.8	-51.8	76.2	132.9	-5.0
Tea							
Malawi auction	...	348.8	-39.4	2.6	120.0	14.6	25.5
London auction 2/	...	82.3	63.7	7.0	29.8	...	...

Source: National Statistics Office, *Monthly Statistical Bulletin*.

1/ Weighted average of auction prices in Lilongwe and Limbe.

2/ Weighted average of London auction prices for Malawi tea.



Table 14. Malawi: National Composite Consumer Price Index, 1993-2000

	All Items	Food	Nonfood	All Items	Food	Nonfood	All Items	
Weights	100.0	55.5	44.5	100.0	55.5	44.5	100.0	
	(Base 1990 = 100)			(12-month inflation 1/)			(Average infla	
1993	163.8	175.7	148.9	18.3	19.5	16.6	22.8	
1994	220.5	242.9	192.6	66.0	74.9	52.1	34.7	
1995	403.9	468.6	323.1	75.0	88.5	50.8	83.1	
1996	556.2	680.7	401.0	6.7	2.3	16.5	37.7	
1997	607.1	736.8	445.3	15.2	19.0	10.4	9.1	
1998	787.7	941.2	596.3	53.1	46.6	61.2	29.8	
1999	1,140.5	1,346.3	884.0	29.8	27.7	32.3	44.8	
1998	Jan.	700.4	877.4	479.6	18.2	21.4	11.3	10.1
	Feb.	718.4	903.1	488.0	18.5	21.0	13.1	11.1
	Mar.	734.0	919.3	502.9	20.0	21.8	16.2	12.2
	Apr.	743.8	911.4	534.8	20.2	19.4	21.8	13.4
	May	748.2	897.1	562.5	20.3	17.5	26.1	14.6
	Jun.	740.6	880.1	566.6	19.9	16.7	26.8	15.7
	Jul.	734.0	866.0	569.4	19.6	15.8	27.3	16.8
	Aug.	724.7	849.2	569.4	25.7	25.2	26.5	18.1
	Sep.	828.7	963.7	660.3	43.1	41.7	45.7	20.7
	Oct.	863.7	993.1	702.3	47.2	43.3	54.6	23.4
	Nov.	930.5	1,070.2	756.3	51.2	43.8	66.4	26.5
	Dec.	985.6	1,163.3	764.0	53.1	46.6	67.1	29.8
1999	Jan.	1,090.0	1,347.7	768.6	55.6	53.6	60.2	33.1
	Feb.	1,122.4	1,391.1	787.3	56.2	54.0	61.3	36.5
	Mar.	1,150.1	1,423.0	809.7	56.7	54.8	61.0	39.8
	Apr.	1,140.8	1,393.8	825.3	53.4	52.9	54.3	42.7
	May	1,143.7	1,399.0	825.3	52.9	55.9	46.7	45.4
	Jun.	1,129.3	1,372.2	826.4	52.5	55.9	45.8	48.0
	Jul.	1,103.3	1,310.0	845.5	50.3	51.3	48.5	50.4
	Aug.	1,035.1	1,181.9	852.0	42.8	39.2	49.6	51.4
	Sep.	1,130.2	1,272.1	953.2	36.4	32.0	44.4	50.5
	Oct.	1,143.5	1,282.2	970.5	32.4	29.1	38.2	49.0
	Nov.	1,234.0	1,364.5	1,071.2	32.6	27.5	41.6	47.2
	Dec.	1,264.1	1,417.8	1,072.4	28.3	21.9	40.4	44.8
2000	Jan.	1,419.4	1,660.8	1,118.3	30.2	23.2	45.5	42.4
	Feb.	1,466.0	1,744.0	1,119.3	30.6	25.4	42.2	40.1
	Mar.	1,482.7	1,771.2	1,122.9	28.9	24.5	38.7	37.8
	Apr.	1,446.2	1,696.0	1,134.7	26.8	21.7	37.5	35.6
	May	1,427.5	1,612.8	1,196.4	24.8	15.3	45.0	33.4
	Jun.	1,379.6	1,496.7	1,233.6	22.2	9.1	49.3	31.1
	Jul.	1,382.6	1,465.9	1,278.7	25.3	11.9	51.2	30.4
	Aug.	1,341.7	1,390.4	1,281.0	29.6	17.6	50.3	28.7
	Sep.	1,469.4	1,518.2	1,408.5	30.0	19.3	47.8	28.3

Source: Malawian authorities.

1/ Annual data refer to 12-month inflation at end-December.

2/ Monthly data refer to percentage change of the average index for the 12-month period ending in that month over the corresponding index for the previous year.

Table 15. Malawi: Central Government Operations, 1994/95-1999/2000 1/

	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000
	(In millions of kwacha)					
Total revenue and grants	3,746.3	6,423.4	7,690.7	8,203.6	16,057.5	22,505.9
Revenue	2,231.0	4,437.1	5,983.1	6,656.9	11,815.9	15,808.2
Tax	2,031.5	3,854.3	5,651.4	6,144.4	10,029.0	14,353.3
Taxes on income and profits	767.8	1,428.5	2,498.2	2,568.4	4,544.3	6,590.5
Taxes on domestic goods and services	805.1	1,425.3	1,945.9	2,286.5	4,011.6	5,833.7
Taxes on international trade	458.6	1,121.4	1,358.8	1,468.0	1,750.2	2,241.3
Tax refunds and arrears collection	0.0	-120.9	-151.5	-178.4	-277.0	-312.2
Nontax	199.5	582.8	331.7	512.5	1,786.9	1,454.9
Grants	1,515.3	1,986.3	1,707.6	1,546.7	4,241.7	6,697.8
Program	986.9	1,250.9	1,273.0	898.3	2,733.4	4,126.8
Drought related	428.1	290.0	0.0	0.0	0.0	0.0
Project	100.4	445.4	434.6	648.4	1,508.3	2,571.0
Expenditure	5,883.6	7,868.7	8,713.6	11,871.0	19,751.0	27,053.0
Current expenditure	4,761.3	6,133.5	6,692.6	9,394.5	12,132.6	16,347.3
Wages and salaries	1,018.5	1,664.2	1,771.4	2,515.4	3,209.3	4,295.6
Goods and services	1,936.6	2,034.4	2,666.3	4,200.3	4,120.0	6,114.9
Interest payments	716.7	1,653.6	1,881.3	1,421.9	2,535.0	3,399.5
Drought-related expenditure 2/	920.5	305.1	0.0	710.4	1,230.0	285.8
Other 3/	56.0	96.0	283.4	184.2	1,833.7	1,114.4
Development expenditure and net lending	1,066.3	1,639.2	1,737.6	2,292.3	5,784.7	9,591.2
Overall deficit, excluding grants	-3,652.6	-3,431.6	-2,771.0	-5,214.0	-7,935.0	-11,245.0
Overall deficit, including grants	-2,137.3	-1,445.3	-1,063.0	-3,667.0	-3,693.0	-4,547.0
Discrepancy 4/	239.0	-4.2	23.0	-112.3	-29.0	776.0
Financing	2,376.3	1,441.1	1,086.0	3,554.7	3,664.0	5,323.0
Net foreign financing	1,045.4	509.6	1,781.5	1,358.5	6,867.6	4,372.5
Borrowing	1,402.1	1,356.6	2,367.2	2,022.5	7,919.7	6,472.7
Repayments	-356.7	-847.0	-585.7	-664.0	-1,527.1	-2,137.2
Net domestic financing	1,330.9	931.4	-695.0	2,196.2	-3,204.0	951.0
Nonbank financing	286.2	1,022.5	-47.8	308.4	-588.1	2,526.9
Bank financing	749.7	-137.0	-339.7	1,163.8	-2,774.4	-1,265.3
Change in domestic arrears	295.0	46.0	-283.0	653.0	23.0	-311.0
Privatization proceeds	0.0	0.0	135.0	71.0	135.8	0.0
	(In percent of GDP unless otherwise indicated)					
Total revenue and grants	26.7	25.5	21.1	18.4	24.0	24.6
Revenue	15.9	17.6	16.4	14.9	17.7	17.3
Tax	14.5	15.3	15.5	13.8	15.0	15.7
Taxes on income and profits	5.5	5.7	6.9	5.8	6.8	7.2
Taxes on domestic goods and services	5.7	5.7	5.3	5.1	6.0	6.4
Taxes on international trade	3.3	4.4	3.7	3.3	2.6	2.4
Of which: export taxes	0.0	1.4	0.9	0.6	0.0	0.0
Nontax	1.4	2.3	0.9	1.2	2.7	1.6
Grants	10.8	7.9	4.7	3.5	6.3	7.3
Expenditure	42.0	31.2	23.9	26.6	29.5	29.5
Current expenditure	34.0	24.3	18.4	21.1	18.1	17.8
Wages and salaries	7.3	6.6	4.9	5.6	4.8	4.7
Interest payments	5.1	6.6	5.2	3.2	3.8	3.7
Drought-related expenditure 2/	6.6	1.2	0.0	1.6	1.8	0.3
Other 3/	0.4	0.4	0.8	0.4	2.7	1.2
Development expenditure and net lending	7.6	6.5	4.8	5.1	8.6	10.5
Overall deficit, excluding grants	-26.1	-13.4	-7.6	-11.7	-11.9	-12.3
Overall deficit, including grants	-15.3	-5.6	-2.9	-8.2	-5.5	-5.0
Discrepancy 4/	1.7	0.0	0.1	-0.3	0.0	0.8
Financing	17.0	5.7	3.0	8.0	5.5	5.8
Net foreign financing	7.5	2.0	4.9	3.0	10.3	4.8
Borrowing	10.0	5.4	6.5	4.5	11.8	7.1
Repayments	-2.5	-3.4	-1.6	-1.5	-2.3	-2.3
Net domestic financing	9.5	3.7	-1.9	4.9	-4.8	1.0
Memorandum item:						
GDP (millions of Malawi kwacha, fiscal year)	14,005.0	25,211.0	36,418.1	44,555.1	66,905.5	91,638.9

Sources: Ministry of Finance; and staff estimates

1/ Fiscal year beginning April 1 for 1993/94-1997/98 and beginning July 1 from 1998/99 onwards.

2/ For 1995/96, includes maize imports and expenditures on fertilizer stock replenishment.

3/ Includes pension and gratuities payments, and for 1995/96 expenditures on maize marketing and agricultural input program.

4/ Statistical discrepancy between fiscal and monetary accounts (excess of monetary over fiscal accounts).

Table 16. Malawi: Central Government Revenue, 1994/95-1999/2000 1/  
(In millions of Malawi kwacha)

	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000
Total revenue	2,231.0	4,437.1	5,983.1	6,656.9	11,815.9	15,808.1
Total tax revenue	2,031.5	3,854.3	5,651.4	6,144.4	10,029.0	14,353.3
Taxes on income and profits	767.8	1,428.3	2,498.2	2,568.4	4,544.3	6,590.5
Companies 2/	338.2	699.7	1,356.0	1,016.9	1,838.0	2,569.8
Individuals	429.6	728.9	1,142.2	1,551.5	2,706.3	4,020.7
<i>Of which:</i> Nonresident tax	5.7	9.0	20.0	6.0	7.0	7.5
PAYE deductions 3/	328.8	505.9	738.9	1,082.0	1,948.0	2851.4
Withholding taxes	65.6	189.5	272.6	363.0	571.0	916.3
Fringe benefits and other	29.5	24.5	110.7	100.5	180.3	245.6
Taxes on goods and services	805.1	1,425.3	1,945.9	2,286.5	4,011.6	5,833.7
Surtax	700.2	1,239.7	1,655.3	1,961.0	3,577.0	5,189.3
Domestic	300.2	501.8	663.5	791.0	1,265.0	1,626.0
Import	400.0	737.9	991.8	1,170.0	2,312.0	3,563.3
Excise duties	104.9	185.6	290.6	325.0	435.0	644.4
Taxes on international trade	458.6	1,121.4	1,358.8	1,468.0	1,750.2	2,241.3
Import duty	457.0	746.4	1,018.2	1,202.0	1,721.0	2,200.6
Export levy	0.0	354.1	331.8	251.1	0.0	0.0
Miscellaneous	1.6	20.9	8.8	14.9	29.2	40.7
Tax refunds and arrears collection 4/	0.0	-120.9	-151.5	-178.4	-277.0	-312.2
Nontax revenue	199.5	582.8	331.7	512.5	1,786.9	1,494.9
Treasury fund receipts	2.6	5.1	2.1	1.3	0.8	0.3
Rents	35.7	81.2	36.0	39.1	25.0	7.7
Departmental receipts	151.5	482.7	290.9	226.0	668.9	1,382.7
Other	9.7	13.8	-1.3	302.6	1,092.2	64.2
Memorandum item:						
GDP at market prices (fiscal year)	14,005.0	25,211.0	36,418.1	44,555.1	66,905.5	91,638.9

Sources: Ministry of Finance; and staff estimates.

1/ Fiscal year beginning April 1 for 1993/94-1997/98 and beginning July 1 from 1998/99 onward.

2/ Including provisional tax and tax refunds.

3/ Pay-as-you-earn deductions.

4/ Tax refunds (-) and tax arrears collection (+) are identified separately from their specific tax items.

Table 17. Malawi: Economic Classification of Government Expenditure, 1994/95-1999/2000 1/

	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000
	(In millions of kwacha)					
Total expenditure	5,883.6	7,868.7	8,713.6	11,871.0	19,751.0	27,053.0
Current expenditure	4,761.3	6,133.5	6,692.6	9,394.5	12,132.6	16,347.3
Wages and salaries	1,018.5	1,664.2	1,771.4	2,515.4	3,209.3	4,295.6
Goods and services	1,936.6	2,034.4	2,666.3	4,200.3	4,120.0	6,614.9
Interest payments	716.7	1,653.6	1,881.3	1,421.9	2,535.0	3,399.5
Domestic	439.5	1,095.0	1,479.6	929.2	1,409.3	2,080.8
External	277.3	558.6	401.7	492.8	1,125.7	1,318.8
Transfers (including separation benefits)	169.0	243.2	373.7	546.5	1,026.2	1,751.5
Other recurrent expenditure	920.5	538.0	0.0	710.4	1,242.0	285.8
Of which: Expenditure since March 1998 in arrear	...	...	...	184.0	368.0	276.0
Other expenditure	56.0	96.0	283.4	184.2	1,833.7	1,114.4
Development expenditure and net lending	1,066.3	1,639.2	1,737.6	2,292.3	5,784.7	9,591.2
Domestic	351.6	347.5	540.4	572.6	1,451.3	1,940.1
Foreign-financed projects	714.7	1,291.7	1,197.2	1,719.7	4,333.4	7,651.2
	(In percent of total government expenditure)					
Current expenditure	80.9	77.9	76.8	79.1	61.4	60.4
Wages and salaries	17.3	21.1	20.3	21.2	16.2	15.9
Goods and services	32.9	25.9	30.6	35.4	20.9	24.5
Interest payments	12.2	21.0	21.6	12.0	12.8	12.6
Domestic	7.5	13.9	17.0	7.8	7.1	7.7
External	4.7	7.1	4.6	4.2	5.7	4.9
Transfers (including separation benefits)	2.9	3.1	4.3	4.6	5.2	6.5
Other recurrent expenditure	15.6	6.8	0.0	6.0	6.3	1.1
Of which: Expenditure since March 1998 in arrear	...	...	...	1.5	1.9	1.0
Other expenditure	1.0	1.2	3.3	1.6	9.3	4.1
Development expenditure and net lending	18.1	20.8	19.9	19.3	29.3	35.5
Domestic	6.0	4.4	6.2	4.8	7.3	7.2
Foreign-financed projects	12.1	16.4	13.7	14.5	21.9	28.3

Sources: Ministry of Finance; and staff estimates.

1/ Fiscal year, beginning April 1 for 1994/95-1997/98, and beginning July 1 from 1998/99 onward.

2/ From March 1998, estimate of new expenditure financed by arrears. Amounts estimated on the basis of the Auditor-General's investigation.

Table 18. Malawi: Functional Classification of Central Government Current Expenditure, 1994/95-1999/2000 1/

	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000
General services	1,616.6	1,320.7	1,757.5	3,120.1	3,556.8	3,778.4
General administration	1,129.3	753.4	1,039.1	2,211.2	2,660.1	2,459.1
Defense affairs	159.4	171.4	339.8	439.1	439.0	623.3
Justice	327.9	395.9	378.6	469.8	457.7	696.1
Social services	1,549.7	1,875.1	2,357.6	4,567.1	3,375.4	5,777.6
Education	497.6	997.0	1,270.8	2,092.3	1,678.7	2,556.0
Health	392.9	378.9	616.0	857.3	762.2	1,421.0
Social security and welfare services	659.2	499.2	470.8	1,274.9	768.3	1,582.9
Housing, community, and amenity services	...	...	...	217.6	89.8	136.0
Recreational, cultural, and other services	...	...	...	41.5	36.8	42.0
Broadcasting and publishing services	...	...	...	83.5	39.6	39.8
Economic services	565.0	739.5	515.2	919.3	678.1	1,129.4
Agriculture and natural resources	339.4	551.2	341.3	536.1	517.2	797.8
Tourism affairs and services	...	...	...	18.9	5.3	25.5
Physical planning and development	...	...	...	30.0	16.4	38.9
Transport and communication services	152.1	95.0	92.6	179.7	63.1	105.2
Industry and commerce	...	...	...	110.1	50.5	88.8
Labor relations and employment services	...	...	...	23.7	10.1	21.3
Environmental protection and conservation	...	...	...	0.8	2.1	19.9
Scientific and technological services	...	...	...	14.2	7.5	23.5
Other	73.5	93.3	81.3	6.0	5.9	8.6
Unallocable	1,325.1	2,294.2	2,368.9	3,319.3	4,086.4	4,775.3
Public debt services	716.7	1,653.6	1,881.3	2,080.8	3,430.0	3,251.3
Pensions and gratuities	169.0	243.2	373.7	570.8	656.4	1,524.0
Other	439.4	397.4	113.9	667.7	0.0	0.0
Total 2/	5,056.3	6,229.5	6,999.2	11,925.9	11,696.6	15,460.8
General services	32.0	21.2	25.1	26.2	30.4	24.4
General administration	22.3	12.1	14.8	18.5	22.7	15.9
Defense affairs	3.2	2.8	4.9	3.7	3.8	4.0
Justice	6.5	6.4	5.4	3.9	3.9	4.5
Social services	30.6	30.1	33.7	38.3	28.9	37.4
Education	9.8	16.0	18.2	17.5	14.4	16.5
Health	7.8	6.1	8.8	7.2	6.5	9.2
Social security and welfare services	13.0	8.0	6.7	10.7	6.6	10.2
Housing, community, and amenity services	...	...	...	1.8	0.8	0.9
Recreational, cultural, and other services	...	...	...	0.3	0.3	0.3
Broadcasting and publishing services	...	...	...	0.7	0.3	0.3
Economic services	11.2	11.9	7.4	7.7	5.8	7.3
Agriculture and natural resources	6.7	8.8	4.9	4.5	4.4	5.2
Tourism affairs and services	...	...	...	0.2	0.0	0.2
Physical planning and development	...	...	...	0.3	0.1	0.3
Transport and communication services	3.0	1.5	1.3	1.5	0.5	0.7
Industry and commerce	...	...	...	0.9	0.4	0.6
Labor relations and employment services	...	...	...	0.2	0.1	0.1
Environmental protection and conservation	...	...	...	0.0	0.0	0.1
Scientific and technological services	...	...	...	0.1	0.1	0.2
Other	1.5	1.5	1.2	0.1	0.1	0.1
Unallocable	26.2	36.8	33.8	27.5	34.9	30.9
Public debt services	14.2	26.5	25.9	17.4	29.3	21.0
Pensions and gratuities	3.3	3.9	5.3	4.8	5.6	9.9
Other	8.7	6.4	2.6	5.6	0.0	0.0

Source: Ministry of Economic Planning and Development, *Economic Reports*.

1/ Fiscal year beginning April 1 for 1993/94-1997/98 and beginning July 1 from 1998/99 onward.

2/ Total current expenditure under this classification does not correspond exactly to current expenditure under the economic classification as the coverage

Table 19. Malawi: Accounts of Main Public Enterprises, 1993/94-1998/99 1/

(In thousands of Malawi kwacha)

	Revenue	Interest Charges	Depreciation	Net Profit or Loss	Gross Investment
<b>Agricultural Development and Marketing Corporation</b>					
1993/94	324,902	16,999	5,367	32,849	7,545
1994/95	406,386	42,004	5,352	22,119	33,201
1995/96	646,912	80,126	12,660	33,363	67,367
1996/97	1,603,829	21,633	13,525	42,695	35,000
1997/98	952,076	137,665	17,340	-37,211	31,012
1998/99	1,536,228	123,336	26,887	376,898	45,842
<b>Malawi Railways</b>					
1993/94	30,000	5,314	6,178	-25,775	28,067
1994/95	41,272	7,236	4,854	-61,664	3,070
1995/96	44,405	2,087	14,552	8,303	...
1996/97	...	...	...	...	...
1997/98	82,997	642	28,356	-17,451	...
<b>Electricity Supply Commission (ESCOM)</b>					
1993/94	148,464	17,817	24,094	44,433	258,176
1994/95	222,858	28,260	76,667	117,921	535,999
1995/96	360,399	26,625	90,617	243,147	637,709
1996/97	457,503	48,517	87,252	321,724	677,824
1997/98	685,519	124,034	295,998	54,848	1,113,638
1998/99	1,158,317	291,878	160,119	67,221	1,888,468
<b>Malawi Development Corporation 2/</b>					
1993	31,303	3,551	296	20,316	850
1994	41,901	7,151	390	26,245	2,981
1995	57,837	12,329	739	32,142	6,071
1996	70,702	12,758	1,681	34,011	6,411
1997	72,055	9,675	5,398	29,750	108,725
1998	80,455	25,749	624	-118,234	10,899
<b>Malawi Housing Corporation</b>					
1993/94	31,780	6,287	16,244	-24,076	3,908
1994/95	36,715	8,089	17,169	-32,336	1,843
1995/96	59,612	8,335	15,580	-1,375	6,010
1996/97	84,099	7,927	15,564	12,121	95,500
1997/98	158,759	5,039	57,528	30,230	91,156
1998/99	162,821	2,952	64,891	1,906	38,064
<b>Air Malawi</b>					
1993/94	100,823	1,136	8,766	-22,780	23,170
1994/95	278,484	1,737	10,150	-3,046	9,420
1995/96	371,149	1,672	11,957	18,190	15,337
1996/97	427,890	3,480	35,671	12,140	21,450
1997/98	572,169	7,122	38,452	-17,396	16,723
1998/99					
<b>Biantyre Water Board</b>					
1993/94	30,319	2,932	10,862	-10,753	6,022
1994/95	47,106	3,893	21,723	3,084	58,147
1995/96	105,536	3,901	23,360	9,966	139,191
1996/97	155,251	3,793	30,437	18,461	151,556
1997/98	207,496	4,242	35,283	-18,579	64,290
1998/99	346,742	2,260	72,207	36,243	123,978

Table 19. Malawi: Accounts of Main Public Enterprises, 1993/94-1998/99 1/ (concluded)

(In thousands of Malawi kwacha)

	Revenue	Interest Charges	Depreciation	Net Profit or Loss	Gross Investment
<b>Lilongwe Water Board</b>					
1993/94	17,544	10,664	6,434	-33,374	9,345
1994/95	27,061	16,130	10,976	-102,350	5,457
1995/96	48,834	17,291	16,610	-22,822	7,007
1996/97	100,936	19,316	22,500	5,426	17,457
1997/98	118,100	22,900	21,800	-56,600	10,300
1998/99	126,899	33,170	42,694	-147,713	21,514
<b>Malawi Book Service</b>					
1993/94	13,372	120	163	-622	251
1994/95	14,895	323	308	-3,466	348
1995/96	25,600	10,859	316	537	727
1996/97	Privatized				
1997/98	Privatized				
<b>Mining Investment and Development Corporation (MIDCOR)</b>					
1993/94	113	125	87	-86	360
1994/95	2,310	0	113	567	39
1995/96	2,372	0	50	58	23
1996/97	Abolished				
1997/98	Abolished				
<b>Malawi Dairy Industries 2/</b>					
1993/94	38,658	500	2,520	1,886	5,408
1994/95	44,236	135	2,576	707	4,036
1995/96	84,459	74	4,244	4,797	12,495
1996/97	138,192	1,158	4,244	9,075	19,163
1997/98	Privatized				
<b>Consolidated 4/</b>					
1993/94	812,732	67,818	84,546	-16,836	345,050
1994/95	1,228,898	88,728	147,897	-156,639	733,124
1995/96	3,377,815	132,163	181,662	502,171	968,298
1996/97	4,414,865	135,109	221,468	586,855	1,088,091
1997/98	3,806,568	262,846	132,303	121,573	1,670,802

Source: Ministry of Statutory Corporations.

1/ Unless otherwise indicated, fiscal year beginning April 1.

2/ Year ended December 31.

3/ Year ended September 30.

4/ Includes other public enterprises not listed here.

Table 20. Malawi: Interest Rates, 1994-99 1/

(In percent per annum, unless otherwise indicated; end-of-period)

	1994	1995	1996	1997	1998	1999
<b>Reserve Bank of Malawi</b>						
Bank rate	40.0	50.0	27.0	23.0	40.0	47.0
<b>Treasury bills 2/</b>						
30 days	40.7	43.9	...	...	...	...
61 days	42.7	48.7	...	...	...	...
91 days	45.6	53.3	13.9	19.2	43.6	34.7
182 days	54.4	64.4	15.1	20.0	48.0	39.6
271 days	...	...	...	21.2	55.2	40.2
<b>Commercial banks 3/</b>						
<b>Lending rates 4/</b>						
Minimum (= prime lending rate)	40.0	46.0	26.0	22.0	43.0	47.0
Maximum	...	51.0	31.0	27.0	49.0	53.0
<b>Deposits</b>						
<b>Savings</b>						
Short term 5/	34.0	33.0	13.0	10.0	25.0	30.0
3 months	34.0	40.0	12.0	10.0	28.5	33.0
12 months	33.0	nego.	10.0	12.0	nego.	nego.
<b>Other financial institutions 3/</b>						
<b>Malawi Savings Bank 6/</b>						
Deposits	18.0	25.0	19.0	9.0	...	...
<b>New Building Society</b>						
Fixed deposits (6-11 months)	25.3	36.0	8.0	...	26.5	30.0
Savings deposits	23.0	33.0	12.5	9.5	23.0	25.0
Investment deposits	23.5	34.0	13.0	11.0	24.0	26.0
Minimum mortgage rate 4/	19.8	34.0	30.0	17.5	...	...
<b>Leasing and Finance Co.</b>						
<b>Lending rate</b>						
3-month time deposits	36.0	56.0	36.5	30.0	45.0	51.0
12-month time deposits	24.8	44.8	11.5	11.5	30.0	...
24-month time deposits	26.3	40.0	...	14.0	34.0	...
36-month time deposits	27.3	27.3	...	...	...	...
60-month time deposits	28.3	28.3	...	...	...	...
Investment and Development Bank	29.0	29.0	...	...	...	...
<b>Investment and Development Bank</b>						
24-hour notice of withdrawal	17.5	20.0	5.0	5.0	9.0	7.0
30-day time deposits 7/	31.0	40.0	13.0	10.0	26.0	29.0
12-month time deposits 7/	35.5	nego.	nego.	9.0	...	...
Local registered stock 8/	38.0	38.0	38.0	38.0	...	...
<b>Memorandum items:</b>						
<b>Real interest rates 9/</b>						
<b>Commercial banks</b>						
Prime lending rate	-15.7	-16.6	18.1	5.9	-6.6	14.7
Savings deposits	-19.3	-24.0	5.9	-4.5	-18.4	1.4
12-month time deposits	-19.9	...	3.1	-2.8	...	...
Local registered stock	-16.9	-21.7	29.3	19.8	...	...
<b>Composite consumer price index</b>						
(12-month rate of change, in percent)	66.0	75.0	6.7	15.2	53.1	28.2

Source: Reserve Bank of Malawi.

1/ Rate for 1998 is as of October.

2/ From 1996 onward, the issuance of 30-day and 61-day bills was discontinued.

3/ Selected from a much wider range of rates offered by the institutions.

4/ Effective July 23, 1987, these rates were deregulated and set independently by the commercial banks.

5/ MK 10,000 or over, subject to 30 days' written notice of withdrawal; maximum MK 1 million.

6/ After the separation from the Post Office in 1993, the Post Office Savings Bank was renamed the Malawi Savings Bank.

7/ MK 250,000 or over.

8/ Maximum available nominal rate on stock with five years or more to redemption.

9/ Deflated by the 12-month rate of change of the consumer price index. For 1998, refers to the 12-month rate of change at end-October.



Table 21. Malawi: Monetary Survey, March 1997-September 2000

	1997				1998				1999				2000		
	Mar.	June	Sep.	Dec.	Mar.	June	Sep.	Dec.	Mar.	June	Sep.	Dec.	Mar.	June	Sep.
	(In millions of kwacha)														
<b>Net foreign assets</b>	523.2	1829.5	2662.4	1787.9	1,728.7	2,616.8	4,054.7	7,627.5	7,163.6	9,606.1	9,444.1	8,848.3	8,332.6	10,489.5	12,614.9
<b>Monetary authorities<sup>1/</sup></b>	410.0	1102.5	1710.4	1130.6	910.9	1,397.8	1,954.3	5,398.0	5,734.3	7,634.7	8,266.7	7,397.1	6,788.7	8,271.8	9,685.5
<b>Foreign assets</b>	2183.9	2755.7	3628.4	3378.5	3,755.2	4,964.6	7,394.4	11,399.3	10,158.8	11,657.0	11,944.8	11,422.3	10,639.4	12,037.3	15,227.9
<b>Foreign liabilities</b>	-1773.9	-1653.2	-1918.0	-2247.9	-2,844.3	-3,566.8	-3,439.5	-5,101.3	-4,477.1	-4,022.3	-3,678.1	-4,025.2	-3,850.7	-3,765.5	-5,542.4
<b>Commercial banks</b>	113.2	727.0	952.0	657.3	817.8	1,219.0	2,100.0	2,029.5	1,428.3	1,971.4	1,177.4	1,451.2	1,543.9	2,217.7	2,929.4
<b>Net domestic assets</b>	3953.4	4065.8	3793.3	3767.5	4,255.2	5,267.3	4,966.1	1,013.6	-250.9	3,066.8	3,012.8	3,051.7	3,667.3	3,687.6	3,398.9
<b>Domestic credit (net)</b>	2583.4	3614.9	2802.2	3082.3	3,896.1	4,506.5	5,329.4	2,450.5	1,990.2	3,520.9	3,687.2	3,978.2	5,200.3	4,303.7	6,617.6
<b>Credit to the government</b>	683.2	1225.1	1132.6	1235.2	1,847.0	2,039.2	2,525.1	-425.3	-1,392.8	-331.6	-254.5	-675.8	-194.9	-1,597.3	1,028.0
<b>Credit to statutory bodies</b>	170.4	206.6	95.5	243.8	219.3	295.2	179.2	-310.4	133.6	366.3	560.9	1,288.7	1,012.9	1,046.5	911.5
<b>Credit to the private sector</b>	1728.8	1583.2	1574.1	1603.3	1,829.8	2,174.1	2,625.1	3,186.2	3,289.4	3,486.2	3,380.8	3,365.3	4,382.3	4,856.5	4,678.1
<b>Other assets (net)</b>	1380.0	990.9	995.1	685.2	356.1	758.8	-363.4	2,336.4	-2,341.1	-454.1	-674.4	-926.5	-1,533.0	-618.1	-3,218.7
<b>Money and quasi money</b>	4486.6	3835.3	6457.7	5555.4	5,983.9	7,884.1	9,020.8	8,641.2	8,669.0	11,786.7	11,696.6	11,545.6	11,314.2	13,479.3	16,084.9
<b>Money</b>	2334.0	2136.0	3693.5	3066.6	3,276.9	4,529.8	4,732.1	4,385.1	4,863.7	6,663.0	6,648.8	6,416.5	6,348.7	7,396.7	7,733.2
<b>Currency outside banks</b>	1143.6	1544.3	1731.5	1375.3	1,390.0	2,164.9	2,302.4	1,980.0	2,677.8	3,375.6	3,419.7	2,992.0	2,890.1	3,470.4	4,112.7
<b>Demands deposits</b>	1190.4	1591.7	1962.0	1691.3	1,886.9	2,364.9	2,429.7	2,405.0	2,785.9	3,287.4	3,229.1	3,424.5	3,258.6	3,926.3	3,620.5
<b>Quasi money</b>	2152.6	2699.3	2764.2	2488.8	2,707.0	3,354.3	4,288.7	4,256.1	3,805.3	5,123.7	5,047.8	5,129.1	5,165.5	6,082.6	8,351.7
<b>Of which: foreign currency deposits</b>	334.7	763.3	849.3	610.5	889.8	1,126.1	1,915.1	2,080.8	1,490.7	2,311.8	2,003.5	1,442.2	1,666.1	2,271.4	3,168.1
<b>Memorandum items:</b>	(12-month change, in percent of beginning-of-period broad money stock)														
<b>Net foreign assets</b>	16.5	9.6	6.7	-3.3	26.9	13.5	21.6	105.1	90.8	88.7	59.7	14.1	13.5	7.5	27.1
<b>Net domestic assets</b>	2.2	-0.9	-1.6	5.5	6.5	21.6	18.1	-49.6	-75.3	-27.9	-21.7	23.6	45.2	5.3	3.3
<b>Credit to the government</b>	-14.3	-4.1	-6.2	2.4	23.9	14.0	21.6	-29.9	-54.1	-30.1	-30.8	-2.9	13.8	-10.7	11.0
<b>Credit to statutory bodies</b>	8.1	2.4	-0.1	0.8	1.1	1.5	1.3	-10.0	-1.4	0.9	4.2	18.5	10.1	5.8	3.0
<b>Credit to the private sector</b>	8.8	3.3	4.1	3.6	2.3	10.1	16.3	28.5	23.7	16.6	8.4	2.1	11.1	11.6	11.1
<b>Other assets (net)</b>	-0.4	-2.5	0.6	-1.3	-22.8	-4.0	-21.0	33.3	-43.4	-15.4	-3.4	-40.1	8.2	-1.4	-21.8
<b>Money and quasi money</b>	18.7	8.7	5.1	2.2	33.4	35.1	39.7	55.3	44.9	49.5	29.7	33.6	30.5	14.4	37.5

Source: Reserve Bank of Malawi.

<sup>1/</sup> Valued at current Malawi kwacha-SDR exchange rate; prior to January 1994 liabilities to the IMF and SDR allocations revalued every May.

Table 22. Malawi: Summary Accounts of Monetary Authorities, March 1997-September 2000 <sup>1/</sup>  
(In millions of Malawi kwacha; end of period)

	1997				1998				1999				2000		
	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.
Net foreign assets <sup>2/</sup>	409.9	1,102.5	1,710.4	1,130.7	911.0	1,397.8	1,934.7	1,398.0	5,734.3	7,634.7	8,266.7	7,397.1	6,789.3	8,269.2	9,690.4
Foreign assets	2,183.9	2,755.7	3,628.4	3,378.5	3,755.3	4,964.6	7,394.4	11,399.3	10,158.8	11,687.0	11,944.8	11,422.3	10,639.0	12,038.6	13,230.1
Foreign liabilities	-1,774.0	-1,653.2	-1,918.0	-2,247.8	-2,844.3	-3,566.8	-5,459.6	-5,801.3	-4,424.5	-4,022.3	-3,678.1	-4,025.2	-3,849.7	-3,769.4	-5,539.6
IMF <sup>3/</sup>	-1,776.5	-1,651.4	-1,917.7	-2,246.0	-2,426.7	-2,445.9	-3,527.9	-4,482.3	-4,423.4	-3,993.5	-3,649.8	-3,997.7	-3,835.6	-3,763.8	-5,539.6
Other	2.5	-1.8	-0.3	-1.8	-417.6	-1,120.9	-1,931.7	-2.5	-1.2	-28.8	-28.3	-27.5	-14.2	-5.6	0.0
Net domestic assets	692.0	1,021.2	571.6	169.9	2,502.7	2,237.2	1,301.5	-1,289.9	-1,635.5	-1,523.8	-2,074.8	-1,467.5	-390.8	-1,515.5	-2,709.1
Net domestic credit	200.0	916.2	609.3	772.8	1,331.9	1,682.5	2,373.0	-759.6	-1,012.1	164.1	-115.4	-218.8	105.9	-813.0	1,229.2
Credit to the government (net)	41.2	757.4	450.5	585.7	1,344.8	1,512.7	2,203.2	-836.7	-1,229.2	-67.0	-359.7	-476.0	-187.9	-1,122.8	927.1
Credit (gross)	933.7	1,536.4	1,184.1	877.0	1,890.4	1,932.3	3,273.3	3,727.9	1,619.9	807.4	2,626.5	2,559.3	3,356.7	2,072.8	2,077.7
Deposits	-892.5	-779.0	-733.6	-291.3	-545.6	-419.6	-1,070.1	-4,564.6	-2,849.1	-374.3	-2,986.2	-3,035.3	-3,544.6	-3,195.6	-1,150.6
Credit to statutory bodies (net)	158.8	158.8	158.8	187.1	187.1	169.8	169.8	77.1	217.1	231.1	244.3	257.2	266.1	283.6	296.2
Credit (gross)	159.2	159.2	159.2	187.5	187.5	187.5	191.4	191.4	234.5	248.5	261.7	274.6	283.5	301.0	313.6
Deposits	-0.4	-0.4	-0.4	-0.4	-0.4	-17.7	-17.7	-114.3	-17.4	-17.4	-17.4	-17.4	-17.4	-17.4	-17.4
Other assets (net)	492.0	105.0	-37.7	-602.9	970.8	554.7	-1,071.5	-2,162.8	-2,391.3	-902.1	-1,073.6	-566.3	-496.7	-702.5	-3,938.3
Other items (net)	-1,616.7	-1,533.5	-1,501.0	-1,973.6	49.0	-682.3	-1,182.6	-530.3	-623.4	-1,787.9	-1,959.4	-1,248.7	685.7	-26.3	-70.8
Reserve money	2,718.6	3,657.2	3,783.0	3,276.2	3,364.7	4,317.3	4,418.8	4,308.1	4,098.8	6,011.0	6,192.0	5,929.6	5,712.1	6,058.5	7,047.4
Liabilities to banks	1,575.0	2,112.9	2,124.4	1,900.9	1,974.7	2,152.4	2,116.4	2,328.0	2,021.0	2,635.4	2,772.2	2,937.6	2,822.0	2,588.1	2,934.7
Cash in vault	99.8	158.0	135.0	184.1	172.4	177.1	212.0	249.7	239.9	244.2	283.2	618.1	319.7	373.3	401.3
Deposits with Reserve Bank of Malawi	1,475.2	1,954.9	1,989.4	1,716.8	1,802.3	1,975.3	1,904.4	2,078.3	1,781.1	2,391.2	2,489.1	2,992.0	2,502.3	2,214.8	2,533.4
Liabilities to the private sector (currency in circulation)	1,143.6	1,544.3	1,658.6	1,375.3	1,390.0	2,164.9	2,302.4	1,980.0	2,077.8	3,375.6	3,419.7	2,992.0	2,890.1	3,470.4	4,112.7

Source: Reserve Bank of Malawi.

<sup>1/</sup> Totals may not be the sum of their parts, owing to rounding.

<sup>2/</sup> Valued at end-of-month Malawi kwacha-SDR exchange rate; prior to January 1994, liabilities to the IMF and SDR allocations revalued every May.

<sup>3/</sup> Outstanding use of Fund resources plus outstanding Trust Fund obligations as recorded in the Reserve Bank of Malawi's balance sheet, less Malawi's reserve tranche with the Fund.

Table 23. Malawi: Summary Accounts of Commercial Banks, March 1997-September 2000 1/

(In millions of Malawi kwacha unless otherwise indicated; end of period)

	1997				1998				1999				2000		
	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.
Net foreign assets	113.2	727.0	932.0	269.2	817.8	1,219.0	2,120.0	2,029.5	1,429.3	1,971.4	1,177.4	1,451.2	1,542.7	2,218.0	2,925.8
Foreign assets	373.9	866.9	1,194.6	883.7	1,132.3	1,590.0	2,828.0	2,633.0	1,829.4	2,461.3	1,735.4	2,195.6	2,099.4	2,929.3	3,891.1
Foreign liabilities	-260.7	-139.9	-242.6	-314.5	-314.5	-371.0	-708.0	-603.5	-400.1	-489.9	-557.9	-744.4	-556.7	-711.3	-965.4
Cash and reserves	1,552.9	2,008.6	2,063.0	1,803.6	1,801.4	1,911.3	1,979.7	2,176.4	1,956.5	2,499.4	2,775.9	2,761.9	2,770.5	2,184.4	2,612.8
Cash	99.8	158.0	140.9	184.1	172.4	177.1	212.0	236.2	228.1	244.2	283.2	618.1	319.7	373.3	401.3
Deposits with Reserve Bank of Malawi	1,433.1	1,850.6	1,922.1	1,619.5	1,629.0	1,734.2	1,767.7	1,940.2	1,728.5	2,255.2	2,492.8	2,143.8	2,450.8	1,811.1	2,211.5
Net domestic assets	1,676.9	1,555.4	1,711.3	1,807.3	1,974.7	2,588.9	2,618.7	2,455.2	3,205.4	3,940.4	4,323.5	4,340.5	4,109.6	5,606.8	6,429.9
Domestic credit (net)	2,383.4	2,098.7	2,192.9	2,309.6	2,367.3	4,616.5	4,837.9	3,210.1	3,002.3	3,356.3	3,961.8	4,502.4	5,122.1	5,144.9	5,394.3
Credit to the government (net) 2/	642.0	467.7	682.1	649.5	502.2	526.5	321.9	411.4	-163.5	-265.1	264.4	105.6	-7.0	-474.5	160.9
Credit to statutory bodies (net)	11.6	47.8	-63.3	56.8	32.3	1,915.9	1,890.9	-387.5	-83.5	135.2	316.6	1,031.5	745.8	762.9	615.3
Credit (gross)	467.4	476.5	473.3	413.6	370.8	1,221.2	1,106.4	185.8	151.9	622.5	816.9	1,442.9	1,153.0	1,228.5	1,173.7
Deposits	-395.8	-428.7	-536.6	-336.8	-338.5	694.7	784.5	573.3	235.4	487.3	500.3	411.4	406.2	465.6	558.4
Credit to the private sector	1,729.8	1,563.2	1,574.1	1,603.3	1,832.8	2,174.1	2,625.1	3,186.2	3,249.4	3,486.2	3,380.8	3,365.3	4,382.3	4,856.5	4,678.1
Other assets (net)	-706.5	-543.3	-481.6	-502.3	-392.6	-2,027.5	-2,219.2	-754.9	203.0	584.1	361.8	-161.9	-1,012.5	461.9	1,035.6
Deposits of the private sector	3,343.0	4,291.0	4,726.3	4,180.1	4,593.9	5,719.2	6,218.4	6,661.2	6,591.1	8,411.1	8,276.9	8,553.6	8,424.2	10,008.9	11,972.2
Demand deposits	1,525.1	2,355.0	2,811.3	2,301.8	2,776.7	3,491.0	4,344.8	2,405.0	2,785.9	3,287.4	3,229.1	3,424.5	3,258.6	3,526.3	3,620.5
Of which: foreign currency deposits 3/	334.7	763.3	849.3	610.5	889.8	1,126.1	1,515.1	2,080.8	1,490.7	2,102.2	1,386.8	1,442.2	1,666.1	2,271.4	3,168.1
Time and saving deposits	1,817.9	1,936.0	1,915.0	1,878.3	1,817.2	2,228.2	2,373.6	2,175.4	2,314.6	3,021.5	3,216.0	3,661.0	3,499.5	3,811.2	5,183.6
Memorandum item:															
Reserve/deposit ratio (in percent) 4/	43.5	43.1	40.7	38.7	35.5	30.3	26.3	29.1	26.2	26.8	30.1	25.1	29.1	18.1	18.5

Source: Reserve Bank of Malawi.

1/ Totals may not be the sum of their parts, owing to rounding.

2/ With effect from January 1995 treasury bill holdings recorded at the discount value.

3/ Foreign currency deposits were introduced in February 1994.

4/ Including deposits of statutory bodies.

Table 24. Malawi: Commercial Banks' Advances by Sector, 1994-99

	1994	1995	1996	1997	1998	1999
	(In millions of kwacha, end of period)					
Agriculture	304.4	352.3	365.3	439.1	552.0	617.0
Mining and quarrying	1.0	0.4	0.9	8.4	5.6	6.2
Manufacturing	353.5	316.2	331.9	322.1	573.7	914.3
Electricity, water, and gas	0.2	0.1	15.6	1.1	3.2	4.0
Construction and civil engineering	25.8	54.0	34.9	54.8	135.7	151.4
Wholesale and retail trade	238.7	239.3	265.1	491.9	719.4	1,259.9
Transport, storage, and communications	35.4	25.5	43.4	61.9	63.0	93.2
Finance, insurance, real estate, and business services	92.7	125.6	91.0	89.6	332.6	688.2
Community, social, and personal services	24.7	22.5	52.6	39.4	140.8	152.7
Personal accounts	36.2	95.3	22.5	206.8	787.4	341.7
Total	1,112.3	1,231.0	1,423.3	1,715.2	3,313.5	4,229.0
	(In percent of total)					
Agriculture	27.4	28.6	25.7	25.6	16.7	14.6
Mining and quarrying	0.1	0.0	0.1	0.5	0.2	0.1
Manufacturing	31.8	25.7	23.3	18.8	17.3	21.6
Electricity, water, and gas	0.0	0.0	1.1	0.1	0.1	0.1
Construction and civil engineering	2.3	4.4	2.5	3.2	4.1	3.6
Wholesale and retail trade	21.5	19.4	18.6	28.7	21.7	29.8
Transport, storage, and communications	3.2	2.1	3.0	3.6	1.9	2.2
Finance, insurance, real estate, and business services	8.3	10.2	6.4	5.2	10.0	16.3
Community, social, and personal services	2.2	1.8	3.7	2.3	4.3	3.6
Personal accounts	3.3	7.7	1.6	12.1	23.8	8.1

Sources: Reserve Bank of Malawi, *Financial and Economic Review*; and Malawian authorities.

Table 25. Malawi: Summary Accounts of Nonbank Financial Institutions, March 1993-December 1999 1/  
(In millions of Malawi kwacha; end of period)

	1993		1994		1995		1996		1997		1998		1999	
	March	Dec.	March	Dec.	March	Dec.	March	Dec.	March	Dec.	March	Dec.	March 2/	Dec.
Cash deposits with monetary authorities	18.0	10.7	4.6	2.4	1.0	4.1	17.1	14.1	31.1	23.8	10.1	11.3	8.2	47.5
Domestic assets (net)	393.4	338.3	368.7	833.4	928.3	942.2	1,321.7	1,024.1	1,241.2	1,702.5	1,603.1	1,987.1	4,260.4	3,567.3
Credit to the government	22.5	29.2	28.6	38.9	111.8	164.5	246.1	161.1	158.1	217.8	194.4	126.6	418.0	365.9
Credit to statutory bodies	6.0	5.3	5.8	5.7	5.1	9.8	0.0	0.0	4.1	0.0	4.5	4.2	21.0	1.7
Credit to the private sector	390.9	324.5	342.5	804.2	785.6	907.2	933.8	1,008.6	1,040.0	1,463.4	1,643.1	1,891.9	2,174.8	1,590.5
Other assets (net)	-26.0	-20.7	-8.2	-15.4	25.8	-139.3	143.8	-145.6	39.0	21.3	-40.0	-35.6	1,646.6	1,609.2
Other assets (gross), including bank credit, if any of MSB, NBS and Indebank 1/ 3/	23.2	31.5	37.6	371.8	410.5	445.2	254.9	173.7	305.0	278.3	265.2	414.0	746.2	758.2
Other liabilities (gross), including nondeposit liabilities of MSB and NBS 1/ 4/	-49.2	-52.2	-45.8	-387.2	-384.7	-584.5	-171.1	-319.3	-266.0	-257.0	-305.2	-449.6	900.4	851.0
Deposits	307.1	280.6	292.0	294.4	571.9	704.9	828.6	1,089.7	1,014.0	1,178.3	1,108.8	1,263.8	1,714.8	1,788.5
Share capital	109.1	99.2	102.9	172.6	149.3	187.1	175.7	240.4	270.0	322.1	379.8	509.4	547.9	392.0
Liabilities to banks (MCB only)	8.9	0.0	0.0	68.1	29.9	22.4	0.0	0.0	0.3	0.9	1.1	0.4	22.7	56.3
Insurance and assurance companies														
Credit to the government	...	71.1	61.5	93.5	135.9	174.6	190.4	216.2	379.1	427.2	...	...	...	...
Credit to the private sector	...	197.6	200.2	256.5	254.7	362.6	468.8	587.3	570.3	583.5	...	...	...	...
Credit to banks	...	58.6	73.3	63.5	43.1	68.3	28.1	137.2	35.1	40.2	...	...	...	...
Demand deposits	...	-0.8	22.8	-2.8	0.9	2.1	4.8	...	...	...	...	...	...	...
Time and savings deposits	...	59.4	50.5	66.3	42.2	66.2	23.3	...	...	...	...	...	...	...
Other assets	...	29.9	39.6	47.0	48.5	99.1	81.8	58.0	52.9	54.1	...	...	...	...
Total assets	...	352.2	374.6	460.5	482.2	704.6	769.1	998.7	1,037.4	1,105.0	...	...	...	...
Premiums received	...	11.7	15.0	18.0	17.2	30.2	28.0	...	...	...	...	...	...	...
Expenses, commissions, and claims paid	...	9.1	13.3	12.8	10.4	16.9	29.2	...	...	...	...	...	...	...
Premiums (net)	...	2.6	1.7	5.2	6.8	13.3	-1.2	...	...	...	...	...	...	...
Investment income	...	...	...	...	...	...	49.2	...	...	...	...	...	...	...
Miscellaneous income	...	...	...	...	...	...	6.1	...	...	...	...	...	...	...

Sources: Reserve Bank of Malawi, *Financial and Economic Review*; and the data provided by the Reserve Bank of Malawi.

1/ Malawi Savings Bank (MSB), New Building Society (NBS), Mercantile Credit Bank (MCB), and Investment Development Bank (Indebank).

2/ Apart from MSB, NBS, NFC, and Indebank, the list of nonbank institutions increased as from March 1999 to include: Leasing and Finance (LFC), Finance Corporation of Malawi (FINCOM), Indefinance, and CBM Finance.

3/ From March 1999 onwards, other assets of all other financial institutions put together.

4/ From March 1999 other liabilities of all other financial institutions put together.

Table 26. Malawi: Balance of Payments, 1993-99

(In millions of U.S. dollars, unless otherwise indicated)

	1993	1994	1995	1996	1997	1998	1999
Current account balance (incl. grants)	-186	-159	-25	-176	-263	-43	-151
Trade balance	-310	-209	-70	-140	-244	-41	-226
Exports	317	327	404	483	539	539	447
Traditional exports	285	287	356	414	466	456	391
Of which: tobacco	213	194	256	300	352	332	275
Nontraditional	32	39	49	69	74	83	56
Imports	-627	-536	-474	-624	-783	-579	-673
Services balance	-65	-82	-102	-108	-84	-134	-90
Interest public sector (net)	-32	-31	-34	-22	-20	-27	-17
Receipts	1	4	3	7	13	8	9
Payments	-33	-34	-37	-29	-33	-35	-26
Other factor payments	-10	-13	-13	-17	-21	-19	-20
Nonfactor (net)	-23	-39	-55	-69	-43	-88	-53
Receipts	17	25	19	35	47	39	42
Payments	-40	-64	-74	-103	-89	-127	-95
Unrequited transfers (net)	189	131	147	72	65	132	165
Private (net)	61	20	-4	-24	-19	-25	9
Receipts	46	36	12	8	18	11	22
Payments	16	-16	-17	-33	-37	-37	-13
Official	128	111	152	97	83	157	157
Receipts	124	114	154	99	85	159	158
Balance of payments assistance	50	59	88	73	61	76	86
Project related	12	28	36	26	24	63	66
Drought related	62	28	29	0	0	20	6
Other (commercial)	4	-3	-2	-2	-2	-1	-1
Payments	4	-3	-2	-2	-2	-1	-1
Capital account balance (including errors & omissions)	231	164	131	292	215	134	168
Medium- and long-term flows	199	146	109	150	77	165	88
Disbursements	234	193	156	193	117	210	127
Amortization (public sector)	-35	-47	-47	-44	-40	-45	-39
Foreign direct investment and other inflows 1/	0	0	0	30	24	34	39
Short-term capital and errors & omissions	32	18	22	112	114	-65	45
Overall balance	45	4	106	116	-48	91	17
Financing	-45	-4	-106	-116	48	-91	-17
Central bank	-29	29	-87	-109	53	-76	-32
Reserves (-increase)	...	17	-69	-112	63	-103	14
Liabilities	...	12	-18	3	-10	26	-46
Of which: IMF (net)	-6	20	2	7	-6	-7	-12
Purchases/drawings	0	26	12	22	10	18	11
Repurchases/repayments	-6	-6	-10	-15	-17	-25	-22
Commercial banks	-12	-24	-3	-6	-5	-15	15
Arrears	-4	-9	-16	0	0	0	0
Memorandum items:							
Gross official reserves							
In millions of U.S. dollars	54	37	106	218	155	258	244
In months of imports 2/	1.1	0.8	1.7	3.0	2.6	4.0	4.2
Current account balance (percent of GDP)							
Excluding official transfers	-15.0	-23.0	-12.4	-12.1	-13.9	-11.6	-17.1
Including official transfers	-9.0	-13.4	-1.7	-7.7	-10.5	-2.5	-8.3
Malawi kwacha per U.S. dollar (end year)	4.5	15.3	15.3	15.3	21.2	43.9	46.4
Terms of trade (annual percentage change)	...	0.9	-6.8	32.0	9.2	-4.1	-13.4

Sources: Malawian authorities; and staff estimates.

1/ Foreign direct investment not presented separately in years prior to 1996.

2/ In months of following year's imports of goods and nonfactor services.

Table 27. Malawi: Composition of Exports, 1993-99

(Values in millions of U.S. dollars; volumes in thousands of metric tons)

	1993	1994	1995	1996	1997	1998	1999
<b>Tobacco</b>							
Value	213.0	194.4	255.9	300.4	351.6	331.7	274.6
Volume	95.7	98.4	99.5	106.7	116.7	128.9	120.3
Price (US\$/mt)	2,226.1	1,976.0	2,571.9	2,820.7	3,012.9	2,573.3	392.0
<b>Sugar</b>							
Value	15.6	25.8	26.5	34.2	23.9	50.9	23.1
Volume	26.8	40.1	44.8	58.6	40.1	86.1	56.7
Price (US\$/lb)	0.3	0.3	0.3	0.3	0.3	0.3	0.2
<b>Tea</b>							
Value	35.6	30.1	27.1	25.7	42.6	40.2	39.3
Volume	35.3	38.7	32.6	36.7	39.8	40.5	47.0
Price (US\$/kg)	1.0	0.8	0.8	0.7	1.1	1.0	0.8
<b>Coffee</b>							
Value	7.9	14.8	15.6	10.7	12.7	10.5	8.9
Volume	5.7	4.6	5.4	5.1	4.2	3.6	4.4
Price (US\$/lb)	0.6	1.5	1.3	1.0	1.4	1.3	0.9
<b>Cotton</b>							
Value	2.0	1.7	3.8	14.9	11.6	5.0	5.3
Volume	1.9	2.5	2.2	10.6	20.6	4.3	5.0
Price (US\$/lb)	0.5	0.3	0.8	0.6	0.3	0.5	0.5
<b>Other (commercial)</b>							
Value	0.0	2.3	1.5	1.5	1.8	2.4	2.5
Volume	0.0	5.7	4.5	3.1	3.8	5.3	3.4
Price (US\$/mt)	0.0	403.9	326.8	499.7	473.7	450.6	735.3
<b>Maize</b>							
Value	0.0	1.9	5.3	0.0	0.0	0.0	0.0
Volume	0.0	12.4	25.7	0.0	0.0	0.0	0.0
Price (US\$/kg)	0.0	0.2	0.2	0.0	0.0	0.0	0.0
<b>Pulses</b>							
Value	1.4	2.9	7.4	12.1	6.4	4.3	6.5
Volume	3.5	9.2	28.6	41.8	26.0	14.0	19.6
Price (US\$/mt)	389.2	311.6	257.1	290.1	246.2	307.1	331.6
<b>Other</b>							
Value	32.5	39.5	48.7	69.4	73.6	63.2	56.1
<b>Total domestic exports, f.o.b.</b>	<b>308.0</b>	<b>313.3</b>	<b>391.6</b>	<b>469.0</b>	<b>524.2</b>	<b>507.6</b>	<b>416.4</b>
<b>Reexports</b>	<b>9.1</b>	<b>13.5</b>	<b>12.6</b>	<b>14.4</b>	<b>15.2</b>	<b>31.0</b>	<b>30.7</b>
<b>Total exports f.o.b.</b>	<b>317.2</b>	<b>326.8</b>	<b>404.2</b>	<b>483.4</b>	<b>539.4</b>	<b>538.6</b>	<b>447.1</b>
<b>Memorandum items:</b>							
<b>Total exports, f.o.b.</b>	<b>317.2</b>	<b>326.8</b>	<b>404.2</b>	<b>483.4</b>	<b>539.4</b>	<b>538.6</b>	<b>447.1</b>
<b>Traditional exports (including reexp</b>	<b>284.7</b>	<b>287.4</b>	<b>355.5</b>	<b>414.0</b>	<b>465.8</b>	<b>456.4</b>	<b>391.0</b>
<b>Nontraditional exports</b>	<b>32.5</b>	<b>39.5</b>	<b>48.7</b>	<b>69.4</b>	<b>73.6</b>	<b>83.2</b>	<b>56.1</b>

Sources: Malawian authorities; and staff estimates.

Table 28. Malawi: Tobacco Exports, 1993-99 1/

(Values in millions of U.S. dollars; volumes in thousands of tons; and prices in U.S dollars per kilogram)

	1993	1994	1995	1996	1997	1998	1999
<b>Flue cured</b>							
Value	57.1	44.2	57.7	51.3	64.9	28.3	19.8
Volume	23.7	21.0	22.4	16.4	17.9	11.4	7.5
Unit value	2.4	2.1	2.6	3.1	3.6	2.5	2.6
<b>Burley</b>							
Value	156.8	153.7	196.7	203.4	246.8	179.5	182.7
Volume	66.0	65.1	68.8	73.1	86.2	69.3	79.3
Unit value	2.4	2.4	2.9	2.8	2.9	2.6	2.3
<b>Fire cured (northern division)</b>							
Value	12.9	14.6	18.0	14.8	18.2	30.1	15.7
Volume	7.0	5.8	6.1	4.9	6.3	11.7	5.5
Unit value	1.8	2.5	3.0	3.0	2.9	2.6	2.9
<b>Fire cured (southern division)</b>							
Value	0.5	0.5	1.0	0.7	0.3	93.8	54.9
Volume	0.2	0.2	0.3	0.3	0.8	34.1	26.8
Unit value	2.5	2.5	3.3	2.3	0.4	2.8	2.0
<b>Sun/air-cured</b>							
Value	0.8	0.8	1.1	0.7	1.5	2.8	0.7
Volume	0.3	0.3	0.4	0.3	0.5	1.4	0.2
Unit value	2.7	2.7	2.8	2.3	3.0	2.0	3.5
<b>Other (commercial)</b>							
Value	0.7	0.8	2.2	1.6	1.0	3.1	4.0
Volume	0.2	0.4	1.1	0.6	0.3	1.3	3.2
Unit value	3.5	2.0	2.0	2.7	3.3	2.4	1.3
<b>Total</b>							
Value	228.8	214.6	276.7	272.5	332.7	337.6	277.8
Volume	97.4	92.8	99.1	95.6	112.0	129.2	122.5
Unit value	2.35	2.31	2.79	2.85	2.97	2.61	2.27

Source: Tobacco Control Commission (TCC).

1/ Data reported by the TCC differ from the data reported by the National Statistical Office. The former may have a component of reexports.



Table 29. Malawi: Direction of Trade, 1994-99

	Exports						Imports					
	1994	1995	1996	1997	1998	1999	1994	1995	1996	1997	1998	1999
	(In millions of U.S. dollars)											
<i>DOYS</i> World total	388.4	397.4	302.4	508.8	546.0	441.3	476.9	533.7	502.8	711.3	556.2	646.7
Industrial	276.0	259.1	173.3	283.9	335.9	304.4	158.8	151.9	108.7	127.4	215.3	273.2
France	17.8	10.7	6.6	9.3	11.5	10.9	6.5	12.8	6.9	3.9	5.8	7.5
Germany	50.1	57.9	36.6	68.7	53.3	73.5	17.6	24.1	13.0	14.0	13.5	36.8
Japan	45.4	44.0	10.5	30.4	22.8	29	31.8	14.5	14.7	21.9	16.9	29.2
Netherlands	22.2	24.0	17.7	32.7	42.4	18.8	6.2	3.0	5.2	4.8	6.4	3.6
United Kingdom	35.8	25.4	17.0	19.7	42.6	41.1	32.9	23.0	22.5	33.3	74.3	101.4
United States	57.0	43.3	50.2	79.9	67.6	61.5	20.8	20.4	9.8	19.3	9.7	14.0
Other	47.7	53.8	34.7	43.2	95.7	69.6	43.0	52.1	34.6	30.0	66.7	80.7
Developing countries	112.4	138.3	129.1	224.9	213.1	137.1	318.1	381.8	394.1	583.9	340.9	373.5
Africa	93.3	117.7	93.7	143.7	112.1	115.7	266.4	327.0	317.6	463.2	320.8	322.4
Botswana	6.2	7.8	1.1	1.4	0.8	1.1	7.6	8.7	5.3	3.0	1.4	3.3
Mozambique	24.6	30.3	2.6	4.6	4.8	9	1.8	2.2	4.2	6.1	9.0	5.4
South Africa	52.2	64.2	55.2	86.1	72.5	51.7	192.7	237.0	196.7	280.1	201.9	208.9
Tanzania	1.3	1.6	2.6	4.7	6.3	6.5	0.8	1.0	3.0	4.3	6.9	6.0
Zambia	3.8	4.6	4.1	1.7	2.2	6.2	3.5	4.3	3.8	11.8	8.8	10.8
Zimbabwe	2.3	2.8	3.8	5.7	10.8	10.8	56.0	68.9	81.6	136.3	73.6	67.3
Other	4.8	6.4	24.3	39.5	14.7	30.4	4.0	4.9	33.0	21.6	19.2	30.7
Other developing countries	17.1	20.6	35.4	81.2	101.0	21.4	51.7	54.8	76.5	120.7	20.1	51.1
	(In percent of total)											
<i>DOYS</i> World total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Industrial	71.1	65.2	57.3	55.8	61.2	68.9	33.3	28.5	21.6	17.9	38.7	42.2
France	4.6	2.7	2.2	1.8	2.1	2.5	1.4	2.4	1.4	0.5	1.0	1.2
Germany	12.9	14.6	12.1	13.5	9.7	16.6	3.7	4.5	3.0	2.0	2.4	5.7
Japan	11.7	11.1	3.5	6.0	4.2	6.6	6.7	2.7	2.9	3.1	6.6	4.5
Netherlands	5.7	6.0	5.9	6.4	7.7	4.3	1.3	0.9	1.0	0.7	1.1	0.6
United Kingdom	9.2	6.4	5.6	3.9	7.8	9.3	6.9	4.3	4.5	4.7	13.4	15.7
United States	14.7	10.9	16.6	15.7	12.3	13.9	4.4	3.8	1.9	2.7	1.7	2.2
Other	12.3	13.5	11.5	8.5	17.4	15.8	9.0	9.8	6.9	4.2	12.4	12.5
Developing countries	28.9	34.8	42.7	44.2	38.8	31.1	66.7	71.5	78.4	82.1	61.3	57.8
Africa	24.5	29.6	31.0	28.2	20.4	26.2	55.9	61.3	63.2	65.1	57.7	49.9
Botswana	1.6	2.0	0.4	0.3	0.1	0.2	1.6	1.6	1.1	0.4	0.3	0.5
Mozambique	6.3	7.6	0.9	0.9	0.9	2.0	0.4	0.4	0.8	0.9	1.6	0.8
South Africa	13.4	16.2	18.3	16.9	13.2	11.7	40.4	44.4	39.1	39.4	36.3	32.3
Tanzania	0.5	0.4	0.9	0.9	1.1	1.5	0.2	0.2	0.6	0.6	1.2	0.9
Zambia	1.0	1.2	1.4	0.3	0.4	1.4	0.7	0.8	0.8	1.6	1.6	1.7
Zimbabwe	0.6	0.7	1.3	1.1	2.0	2.4	11.7	12.9	16.2	19.2	13.2	10.4
Other	1.2	1.6	8.0	7.8	2.7	6.9	0.8	0.9	4.6	3.0	3.5	3.2
Other developing countries	4.4	5.2	11.7	16.0	18.4	4.8	10.8	10.3	15.2	17.0	3.6	7.9
Memorandum items:												
Group of countries	(in millions of U.S. dollars)											
European Union	158.5	148.0	159.0	205.3	206.1	176.1	102.5	109.0	95.0	271.5	126.1	165.8
Cross-Border Initiative countries	8.8	10.9	31.3	16.4	13.2	21.7	63.8	78.5	17.3	28.5	24.7	23.1
Preferential Trade Area countries	33.4	41.2	111.6	128.7	101.7	91.2	65.6	80.7	306.4	336.6	317.7	316.0
Group of countries	(in percent of total)											
European Union	40.8	37.2	52.6	40.3	37.5	39.9	21.5	20.4	18.9	38.5	22.7	28.7
Cross-Border Initiative countries	2.3	2.7	10.4	3.2	2.4	4.9	13.4	14.7	3.4	4.0	4.4	3.4
Preferential Trade Area countries	8.6	10.4	36.9	25.3	18.5	20.7	13.8	15.1	60.9	47.6	52.1	48.9

Source: IMF, *Direction of Trade Statistics (DOTS)*.

Note: All updates are done with data obtained from the National Statistical Office, Foreign Trade Section.

Table 30. Malawi: Public Sector External Debt and Debt Service, 1993-99

	1993	1994	1995	1996	1997	1998	1999
	(In millions of U.S. dollars)						
Total debt stock	1,857	2,083	2,081	2,156	2,259	2,479	2,608
Multilateral	1,522	1,709	1,767	1,863	1,893	2,091	2,187
IMF	86	112	116	120	106	102	88
Other	1,436	1,597	1,651	1,744	1,787	1,989	2,099
Bilateral	305	341	289	269	370	358	421
Paris Club	270	303	255	219	317	292	341
Non-Paris Club	35	38	34	50	52	66	40
Other (commercial)	30	33	25	23	21	30	36
Total scheduled debt service	77	88	81	86	85	103	87
Principal obligations due	48	53	49	58	56	76	60
Multilateral	28	29	35	39	42	52	48
IMF	7	6	10	15	17	24	21
Others	21	23	25	25	25	28	27
Bilateral	10	11	12	17	12	10	13
Paris Club	6	8	8	14	9	7	12
Non-Paris Club	4	4	4	3	3	3	1
Other	10	13	2	3	2	1	0
Interest obligations due	29	35	32	27	28	27	27
Multilateral	21	27	24	21	19	20	19
IMF	2	1	2	2	2	1	1
Others	19	26	22	19	17	19	18
Bilateral	8	7	8	6	8	7	7
Paris Club	7	6	7	5	6	5	6
Non-Paris Club	1	1	1	1	2	2	1
Other (commercial)	1	1	1	1	1	0	0
Memorandum items:	(In percent)						
Debt-service/ exports ratio	22.0	24.8	22.2	16.8	15.3	18.2	17.7
Debt-service/government revenue	21.9	39.3	43.2	23.6	23.4	35.5	27.8

Sources: Malawian authorities; and staff estimates.

Table 31. Malawi: Summary of Tax as of End-December 1999  
(All amounts in Malawi kwacha)

Tax	Nature of Tax	Exemptions and Deductions	Rates
1.0 Taxes on net income and profits	A non resident tax on interest royalties and other accruals		15% of gross accruals
1.1 Taxes on companies corporation and enterprises Taxation Act (Cap. 41:01)	<p>Annual tax on net income, including net capital gains realized in cash or otherwise, received by or accrued to domestic companies from sources in Malawi. Income for services rendered in Malawi is deemed to be income accrued from a source in Malawi even though the income is received from a source outside Malawi. Dividend income was "grossed up" in the hands of the tax payers who were allowed a credit for the company tax paid until 1992, but was subsequently phased out. Nonresident companies are subject to tax on income which accrues or is received from sources in Malawi. A 5 percent branch profits tax also applies to these companies. Unabsorbed losses can be carried forward indefinitely.</p> <p>The taxable income of cooperative societies, clubs, and other recreation organizations is deemed to be an amount equivalent to 6.25 percent of turnover.</p>	<p>The receipts of land and agricultural banks, registered trade unions, nonprofit organisations, and religious and educational institutions are exempt, as is the income of certain noncommercial statutory co-operations, life insurance companies, and local authorities.</p> <p>Deductions include any expenditure and losses (not of a capital nature) wholly and exclusively incurred in the production of income; bad and doubtful debts; direct expenditure on, and sums contributed for, scientific experiments and research related to the taxpayer's trade, ordinary expenditure on repairs to premises, plant and machinery employed in the business;</p>	35 percent of taxable income
		<p>An additional tax of 5 percent of taxable income is charged in the case of companies: (1) which are not incorporated in Malawi, in respect of profits; (2) which are incorporated in Malawi, in respect of profits distributed to nonresident shareholders, provided in both cases that so much of the 5 percent tax is waived as represents the amount by which the tax rate in the country of incorporation, or tax rate in the country of incorporation, or</p>	

**Malawi: Summary of Tax as of End-December 1998**  
(All amounts in Malawi kwacha)

Tax	Nature of Tax	Exemptions and Deductions	Rates										
<p>1.1 <u>Taxes on companies</u> <u>corporation, and enterprises</u> Taxation Act(Cap.41:01) (concluded)</p>	<p>A non-resident tax on interest royalties and other accruals.</p>	<p>annuity allowance, or pension paid to a retired former, employee; and certain expenditure incurred in establishing a manufacturing business.</p>	<p>residence of the shareholders, respectively, is lower than 40 percent.</p>										
			<p>15 percent.</p>										
<p>L.2 <u>Taxes on individuals</u> <u>1.21 Income tax</u> Taxation Act (Cap.41:01)</p>	<p>Applies to individuals accruing or receiving income, in cash or otherwise, from sources in Malawi. In general, the income of a married woman not separated from her husband, and of minor children, is deemed to accrue to the head of the family. Where it is to the taxpayer's advantage, tax is chargeable on the wife's earned income as though she were a single person. Nonresidents are generally liable to tax on income which accrues or is received from sources in Malawi, with the exception of dividends from companies incorporated in Malawi, and subject to the</p>	<p>Exemption includes the emoluments of the President, certain officers of foreign governments and international organizations, and persons rendering service in Malawi whose salaries are exempt under an agreement. Exemptions also apply to retirement and disability benefits, Malawi development bonds, and any public loan issued subject to interest exemption; the income of certain non-commercial statutory corporations, foreign service allowances; and scholarships</p>	<p>The amount of tax payable is calculated according to the rates shown below:</p>										
			<p><u>Table of Tax on Taxable Income</u></p>										
			<table border="1"> <thead> <tr> <th data-bbox="1466 922 1564 996">Taxable Income (In Kwacha)</th> <th data-bbox="1854 946 1895 996">Rate (%)</th> </tr> </thead> <tbody> <tr> <td data-bbox="1466 1032 1564 1051">First 24,000</td> <td data-bbox="1854 1032 1875 1051">0</td> </tr> <tr> <td data-bbox="1466 1061 1564 1079">Next 18,000</td> <td data-bbox="1854 1061 1875 1079">15</td> </tr> <tr> <td data-bbox="1466 1089 1564 1108">Next 18,000</td> <td data-bbox="1854 1089 1875 1108">25</td> </tr> <tr> <td data-bbox="1466 1118 1564 1168">In excess of 60,000</td> <td data-bbox="1854 1146 1875 1165">35</td> </tr> </tbody> </table>	Taxable Income (In Kwacha)	Rate (%)	First 24,000	0	Next 18,000	15	Next 18,000	25	In excess of 60,000	35
Taxable Income (In Kwacha)	Rate (%)												
First 24,000	0												
Next 18,000	15												
Next 18,000	25												
In excess of 60,000	35												

**Malawi: Summary of Tax as of End-December 1999**  
(All amounts in Malawi kwacha)

Tax	Nature of Tax	Exemptions and Deductions	Rates
	provisions of the various double taxation agreements in existence.		
	Assesable income, in cash or otherwise including inter alia, annuities, amounts received by reason of cessation of employment or withdrawal from a pension fund; employee cash benefits (excluding foreign passages). Taxable income is assessable income less permissible deductions. In 1995/96, a drought levy of 1-3 percent was introduced on taxable income. This levy has been removed. Employers are required to deduct tax under a PAYE scheme according to prescribed deduction tables in respect of wages and salaries exceeding MK24,000 per annum.	Deductions include any expenditure wholly and exclusively incurred in the production of income, bad and doubtful debts; pension contributions up to 8 percent of pensionable emoluments or MK3,000 per annum, whichever is the smaller; and approved charitable contributions over MK250 up to any amount in any one year of assessment.  None	
1.22 Fringe benefits tax	Employers, both corporate and individuals who provide benefits-in-kind such as accommodation, automobiles, etc., are chargeable to tax on the value of the benefits provided. The value is determined either by reference to the cost to the employer of providing the benefit or the value is determined by reference to guidelines issued by the Commissioner.	Exempt income includes war disability and war widows' pensions; old age pensions paid out of public funds and disability benefits.	35 percent  Rate in%
		Principal Value of estate	
		0-30,000 30,001-40,000 40,001-80,000 80,001-140,000 140,001-200,000 200,001-400,000 400,001-600,000 600,001 and above	0 5 6 7 8 9 10 11
1.3 Taxes on property 1.31 Death duties Estate duty (Cap.43.02 as amended	Duty is levied on the principal value of all property belonging to the deceased at his death. The duty is payable by the executor of the deceased; and beneficiary of the estate is also liable up to the amount of his interest in the estate.	Estates valued at less than MK30,000 are effectively exempt. There is provision for reduced duty in the case of quick succession to land or a business.	

**Malawi: Summary of Tax as of End-December 1999**  
(All amounts in Malawi kwacha)

Tax	Nature of Tax	Exemptions and Deductions	Rates																				
2.0 <u>Taxes on goods and services</u>	Levied imports (of mainly consumer goods) and on domestic manufactures. The tax is ad valorem and is payable by the importer or the manufacturer of taxable goods.	Exemption include basic foodstuffs such as live animals. Also exempt are certain industrial materials	<p>The following rates are applied to the taxable value:</p> <table border="0"> <tr> <td></td> <td align="right">percent</td> </tr> <tr> <td>For domestic products</td> <td align="right">20</td> </tr> <tr> <td>For Imports:-</td> <td></td> </tr> <tr> <td>  Capital</td> <td align="right">20</td> </tr> <tr> <td>  Other</td> <td align="right">10</td> </tr> </table> <p>(Other includes petroleum, paraffin, diesel (10%)). The taxable value is the national wholesale selling price. For domestic manufacturers, it is the normal ex-factory selling price which includes any duty payable other than surtax and the cost of ordinary packaging. For imports, it is 100 percent of the sum of the value for customs duty purposes plus the customs duty payable.</p>		percent	For domestic products	20	For Imports:-		Capital	20	Other	10										
	percent																						
For domestic products	20																						
For Imports:-																							
Capital	20																						
Other	10																						
2.1 <u>Surtax</u> (Cap.42.01)																							
2.1 <u>Surtax (concluded)</u>																							
2.2 <u>Selective excises on goods</u> Customs and Excise Act (Cap 42.01) as amended	Excise duties are levied at ad valorem rates on selected goods manufactured or produced in Malawi, including cigarettes and alcoholic drinks. Excise duties are also levied on selected luxury imported goods. (passenger cars).		<table border="0"> <thead> <tr> <th align="left">Excisable good</th> <th align="right">Tax percent</th> </tr> </thead> <tbody> <tr> <td>Opague beer</td> <td align="right">10</td> </tr> <tr> <td>Beer (excluding Chibuku)</td> <td align="right">60</td> </tr> <tr> <td>Portable spirits</td> <td align="right">60</td> </tr> <tr> <td>Low to medium priced cigarettes</td> <td align="right">40</td> </tr> <tr> <td>Other tobacco products</td> <td align="right">60</td> </tr> <tr> <td>Motor vehicles (Passenger cars)</td> <td></td> </tr> <tr> <td>  a. Up to 1.5 litres</td> <td align="right">20</td> </tr> <tr> <td>  b. 1.5 to 2 litres</td> <td align="right">25</td> </tr> <tr> <td>  c. Above 2 litres</td> <td align="right">55</td> </tr> </tbody> </table>	Excisable good	Tax percent	Opague beer	10	Beer (excluding Chibuku)	60	Portable spirits	60	Low to medium priced cigarettes	40	Other tobacco products	60	Motor vehicles (Passenger cars)		a. Up to 1.5 litres	20	b. 1.5 to 2 litres	25	c. Above 2 litres	55
Excisable good	Tax percent																						
Opague beer	10																						
Beer (excluding Chibuku)	60																						
Portable spirits	60																						
Low to medium priced cigarettes	40																						
Other tobacco products	60																						
Motor vehicles (Passenger cars)																							
a. Up to 1.5 litres	20																						
b. 1.5 to 2 litres	25																						
c. Above 2 litres	55																						
2.3 <u>Selective Surtax on services</u>	Levy on expenditure incurred by individuals in hotels and registered restaurants.	None	20 percent																				
	Airport tax	None	MK950 per Malawian citizen. US\$20 per non-Malawian																				
2.4 <u>Withholding tax</u>	Tax on receipts from rent of properties	None	20 percent																				

Malawi: Summary of Tax as of End-December 1999  
(All amounts in Malawi kwacha)

Tax	Nature of Tax	Exemptions and Deductions	Rates
	royalties, fees and commission, and supplies to institutions under tender on any other arrangements with a value of MK1000 or more at any one single time.		
<b>2.5 Taxes on use of goods or property</b>			
<b>2.5.1 Motor vehicle taxes</b>			
	Owners of motor vehicles are subject to several type of taxes including registration fees, licensing fees and road service permit fees. The taxes are levied at specific rates that vary according to type of vehicle and weight.	None	
		<u>Registration</u>	<u>kwacha</u>
		Commercial vehicles	400.00
		Private cars and public service vehicles	400.00
		Motorcycles	400.00
		<u>Licensing fees</u>	<u>kwacha</u>
		Vehicles commercial (per 50 kg net weight)	
		Goods	100.00
		Private passengers and public service	
		(a) for each 50kg net weight	10.00
		(b) for each licensed passenger	10.00
		Road service permit fees	(kwacha)
			Rates
		Annual fees	
		Public service vehicles	100.00
		Heavy goods vehicles	250.00
		Light goods vehicles	150.00
		Buses	250.00
		Short-term permits vehicles registered in Malawi	100.00
		Shortest period three months	
<b>3.0 Taxes on international transactions</b>			
<b>3.1 Import duties</b>	Malawi maintains a three-column tariff schedule based on Harmonized Commodity Description(HS). This provides for a preferential	The law provides for suspensions, rebates, remissions, and refunds of duty in certain circumstances, and general exemptions from duty including, Inter alia	Ad valorem rates of customs duties may be summarized as follows: (1) low rates of, e.g. 5 and 10 percent applying to necessities and seminecessities;(2) Intermediate rates of e.g 10 and 25 percent:

**Malawi: Summary of Tax as of End-December 1999**  
(All amounts in Malawi kwacha)

Tax	Nature of Tax	Exemptions and Deductions	Rates
4.0 <u>Other taxes</u>	rate of duty for imports from "ACP States" within the meaning of the Lome Convention, the Commonwealth, GATT, COMESA and EEC countries, and most-favored-nation rate for the rest of the world. Ad valorem customs duties are imposed on most goods imported into Malawi for domestic consumption. With respect to ad valorem import duties, the GATT valuation code applies.	goods imported for the use of the President and goods entered for transit or temporary importation or exportation. Manufacturers are granted rebates on imported materials required for further processing in Malawi, on most of these goods, a free rate of duty is generally applied.	(3) high rate of, e.g. 30 percent.
	Duty is levied on a range of instruments including agreements; bills of exchange; bonds; leases and licenses; mortgages; insurance policies.	<p>General exemptions include</p> <p>(1) Any instrument on which stamp duty would be payable by the Government.</p> <p>(2) Any pension warrant issued by any government.</p> <p>(3) Any will or other testamentary disposition.</p> <p>(4) Instruments relating to embassies/ diplomatic missions whose countries have reciprocal/similar exemption arrangements granted to Malawi.</p>	Rates of duty vary depending on the nature of the instrument, the matter to which it relates, and the value thereof.

Source: Ministry of Finance