

INTERNATIONAL MONETARY FUND



Staff Country Reports

Malawi: Fourth and Fifth Reviews Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, and Request for Waivers of Nonobservance of Performance Criteria—Staff Report; Staff Supplement; Staff Statement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Malawi

In the context of the fourth and fifth reviews under the three-year arrangement under the Poverty Reduction and Growth Facility for Malawi, and its request for waivers of nonobservance of performance criteria, the following documents have been released and are included in this package:

- the staff report for the Fourth and Fifth Reviews Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, and Request for Waivers of Nonobservance of Performance Criteria, prepared by a staff team of the IMF, following discussions that ended on April 12, 2007, with the officials of Malawi on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on December 3, 2007. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- A staff supplement on the joint World Bank/IMF debt sustainability analysis.
- A staff statement of December 17, 2007 updating information on recent developments.
- a Press Release summarizing the views of the Executive Board as expressed during its December 17, 2007 discussion of the staff report that completed the reviews.
- a statement by the Executive Director for Malawi.

The document(s) listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Malawi*

Memorandum of Economic and Financial Policies by the authorities of Malawi*

*Also be included in Staff Report

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

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INTERNATIONAL MONETARY FUND

MALAWI

Fourth and Fifth Reviews Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, and Request for Waivers of Nonobservance of Performance Criteria

Prepared by the African Department

(In consultation with other departments)

Approved by Robert Corker and Matthew Fisher

December 3, 2007

Discussions: Discussions for the **fourth review** of the PRGF arrangement began in Lilongwe March 29–April 12, 2007. The staff team comprised Mr. McDonald (head), Mr. Staines, Ms. Teferra (all AFR), Mr. Dalsgaard (FAD), and Mr. Tolosa (PDR). Mr. Baunsgaard (resident representative) assisted the mission. Mr. Berg, who has succeeded Mr. McDonald as mission chief, also joined the mission. Delays in parliamentary approval of the 2007/08 budget postponed completion of the fourth review.

Discussions for the **fifth review**, and to conclude the fourth review, were held September 26–October 9, 2007. The staff team comprised Mr. Berg (head), Mr. Staines, Ms. Teferra (all AFR), Mr. Maliszewski (FAD), and Ms. Khachatryan (PDR). Mr. MacFarlan (resident representative) assisted the mission. Staff reached understanding on quantitative performance criteria for end-December 2007.

During both missions staff met with Minister of Finance Goodall Gondwe, Governor of the Reserve Bank of Malawi (RBM) Victor Mbewe, and other senior government officials. Staff also met with donors and private sector representatives.

PRGF arrangement: A PRGF arrangement (SDR 38.2 million, 55 percent of quota) was approved on August 5, 2005 (Country Report 05/285), of which SDR 21.9 million has been disbursed. The authorities are requesting waivers for the nonobservance of the performance criteria on government domestic borrowing at end-December 2006 and end-June 2007 and of the end-March 2007 structural performance criterion. The authorities are also requesting the fifth and sixth disbursements under the current PRGF arrangement (SDR 6.7 million and SDR 4.8 million, respectively). The authorities' program for 2007/08 (July–June) is outlined in the attached Supplement to the Memorandum of Economic and Financial Policies (MEFP).

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EXECUTIVE SUMMARY

Macroeconomic outcomes have been good. Excellent weather, a supportive international environment, and generally strong policy implementation have led to high growth, falling inflation, rising international reserves and credit to the private sector, and falling domestic debt relative to GDP.

Progress on fiscal policy during 2006/07 was slower than expected. Revenue over-performance was used to finance higher discretionary spending. However, there were also large unforeseen nondiscretionary expenditures and aid shortfalls for administrative reasons that came to light late in the fiscal year. To partially redress these developments, the government curtailed the increase in discretionary spending in the second semester. Domestic borrowing exceeded the program target by 0.9 percent of GDP at end-December 2006 and 0.7 percent of GDP at end-June 2007.

The 2007/08 budget targets a small overall surplus. Program aid and domestic revenue projections have increased substantially since the budget was formulated, providing scope to absorb adverse shocks and revise spending plans. In view of past fiscal slippages, the program takes a cautious approach to setting end-December fiscal targets.

Monetary and exchange rate policy remains geared to maintaining moderate inflation. Reserve money is a key intermediate target, and the RBM also places weight on nominal exchange rate stability. This framework can be effective if the RBM supplies adequate reserves to the market and is flexible in adjusting intermediate targets as circumstances warrant.

The RBM met all its targets. However, strong demand for liquidity because of high growth and a strong harvest, and probably exacerbated by concerns over RBM losses in 2006, led to a large monetary expansion in mid-2007. The RBM is committed to redressing this monetary overhang, and the government has adopted a sound strategy to restore the RBM's finances.

Progress on structural measures—aimed mostly at improving public financial management (PFM)—has been substantive if delayed in some cases. The centralization of utility payments (performance criterion) was partly overtaken by other reforms, but implemented insofar as it was still necessary. All but one structural benchmark were met, albeit mostly with delays. The program includes measures to improve debt management and budget execution.

An update of the 2006 debt sustainability analysis concludes that Malawi's overall risk of external debt distress remains moderate.

Staff supports completion of the fourth and fifth reviews.

I. OVERVIEW

1. **Malawi is meeting its key macroeconomic objectives.**
 - **Output is growing rapidly.** A bumper harvest in 2006 supported a rebound in growth to 7.9 percent; a larger harvest in 2007 will hold growth at 7.4 percent. Growth has spread beyond agriculture and should remain above 7 percent in 2008.
 - **Domestic debt shrank** to 12.3 percent of GDP at end-June 2007. However, because of unforeseen nondiscretionary expenditures and aid shortfalls, domestic borrowing outstripped program targets through 2006/07.
 - **The RBM met its key monetary targets through 2006/07.** End-June 2007 inflation fell below projections to about 8 percent and external reserves grew to 1.3 month of imports. However, liquidity rose unexpectedly in mid-2007, reflecting rapid GDP growth and a good harvest, but possibly also efforts to stem RBM losses.
 - **Progress on structural measures has been substantive but slower than expected.** The need for centralizing utility payments (performance criterion) was rendered unnecessary by other PFM reforms for most budget units and implemented for the remainder. Benchmarks were mostly met, but with delay.
2. **Program objectives for 2007/08 are broadly as originally envisaged under the PRGF arrangement.**
 - **Fiscal policy** would further reduce domestic debt to 10 percent of GDP, to make room for a sustained increase in priority expenditures and higher external reserves, and to reduce the budget's vulnerability to shocks.
 - **Monetary policy** will redress the large monetary expansion in mid-2007 and targets inflation below 7 percent, external reserves at nearly two months of imports, and faster private sector credit growth. The government has adopted a strategy to put the RBM's finances on a secure footing.
3. **The government's minority position in parliament could undermine policy implementation.** The recent indefinite suspension of parliament has already slowed reforms, as some important steps (though no program conditions) require parliamentary approval.
4. **Revised GDP estimates better incorporate the informal sector.**¹ Estimates of nominal GDP in 2006 rose 42 percent to MK 430 billion (US\$3.2 billion). A reduction in agriculture's output share lowered estimates of output growth for 2006. The revisions do not

¹ The previous estimates are included in Table 1.

significantly affect program design (e.g., fiscal targets mainly reflect the importance of public borrowing relative to savings and revenues, not GDP). They resolve some outstanding issues, notably the puzzlingly high share of revenues and the wage bill in GDP.

5. **The government has signed an agreement with a foreign investor to develop the Kayelekera uranium mine.** The mine, at current prices, could generate output over a decade starting in 2009 worth about US\$1.6 billion, at its peak raising GDP by 10 percent and exports by 25 percent. The fiscal terms are consistent with staff recommendations and good international practices and could generate government receipts up to US\$300 million.

6. **An update to the 2006 debt sustainability analysis (DSA)** concludes that Malawi's risk of external debt distress remains moderate. Favorable macroeconomic developments during 2006/07 and the impending opening of the uranium mine have improved Malawi's debt sustainability over the medium term.²

II. FISCAL POLICY

A. Adjusting Fiscal Plans in 2006/07

7. **The 2006/07 (July-June) fiscal strategy focused on reducing domestic debt.** The debt burden declined substantially, although the targets proved to be too ambitious.

- **In the third PRGF review, the end-June target for domestic debt repayments was increased substantially** above the level originally budgeted because of the accelerated transfer of IMF debt relief from the RBM to the budget.
- **Domestic borrowing exceeded the adjusted target at end-December 2006 by MK 4.1 billion (0.9 percent of GDP).** In the first fiscal semester, discretionary spending was above budget because of poor expenditure control and expectations of higher domestic revenues. In addition, AfDB debt relief was MK 0.9 less than programmed (fully adjusted), and RBM losses of MK 0.9 billion were unforeseen, although some income deterioration was anticipated. Partly as a result of the higher borrowing, domestic interest costs were MK 0.8 billion above budget.
- **The government partially redressed this overrun by curtailing discretionary spending in the fourth quarter, as the scale of the end-December overrun became clear.** For the year as a whole, revenue gains relative to the budget exceeded the increase in discretionary spending by roughly MK 2 billion. However, late in the semester, the World Bank postponed disbursing MK 2.8 billion beyond the fourth quarter for its own administrative reasons (partially adjusted). **As a result, domestic**

² See "Malawi—Debt Sustainability Analysis 2007 Update Under the Framework for Low Income Countries", supplement to this staff report, IMF, November 2007.

borrowing exceeded the adjusted target at end-June 2007 by MK 3.1 billion (0.7 percent of GDP).

- **Overall, domestic debt repayment for 2006/07 was only MK 1.4 billion**, well below the MK 6.3 billion envisaged in the third review, but consistent with the original budget. Domestic debt nevertheless fell relative to GDP, even after incorporating securitized domestic arrears (see text table).

Malawi: Domestic Debt
(Percent of GDP)

| | 2002/03 | 2003/04 | 2004/05 | 2004/05 | 2005/06 | 2006/07 Prog. | 2006/07 Act. | 2007/08 |
|----------------------------|---------|---------|---------|---------|---------|------------------|-----------------|---------|
| Net domestic debt | 14.8 | 18.0 | 23.7 | 17.3 | 14.4 | 10.8 | 12.3 | 10.2 |
| Domestic interest payments | 4.0 | 6.6 | 7.8 | 5.3 | 3.9 | 3.0 | 3.1 | 2.4 |
| Memorandum items | | | | | | | | |
| Securitization of arrears | | | | | | | 0.7 | |
| IMF debt relief | | | | | | 1.9 | 1.8 | |

B. Judiciously Expanding Spending in 2007/08

8. **The government's fiscal strategy will further expand fiscal space** (see text table). The budget, reflected in the end-June 2008 indicative fiscal targets under the program, envisages a MK 1.4 billion repayment of domestic debt, reducing it by 1 percentage point to 11 percent of GDP. Key elements include:

Malawi: The source and use of fiscal space
(Percent of GDP)

| | 2003/04 | 2004/05 | 2005/06 | 2006/07 | 2007/08 |
|-------------------------------|---------|---------|---------|---------|---------|
| Source of fiscal space | 17.7 | 22.9 | 26.4 | 29.9 | 32.0 |
| Domestic contribution | 9.8 | 12.9 | 14.0 | 15.8 | 16.8 |
| Revenues | 16.4 | 18.2 | 17.9 | 18.9 | 19.2 |
| Domestic interest payments | -6.6 | -5.3 | -3.9 | -3.1 | -2.4 |
| External contribution | 7.9 | 10.0 | 12.4 | 14.1 | 15.2 |
| External financing (net) | 7.9 | 10.0 | 12.4 | 12.3 | 15.2 |
| IMF MDRI debt relief | 0.0 | 0.0 | 0.0 | 1.8 | 0.0 |
| Use of fiscal space | 17.7 | 22.9 | 26.4 | 29.9 | 32.0 |
| Wages | 4.7 | 5.5 | 5.3 | 5.1 | 5.8 |
| Other current spending | 10.5 | 11.4 | 14.5 | 12.9 | 13.1 |
| Development expenditures | 8.0 | 8.0 | 6.8 | 11.6 | 12.0 |
| Domestic debt repayment | -5.6 | -1.9 | -0.2 | 0.3 | 1.1 |
| Memorandum items | | | | | |
| Fiscal space ex IMF MDRI | 17.7 | 22.9 | 26.4 | 28.1 | 32.0 |
| Pro-poor spending | 4.4 | 6.5 | 8.1 | 7.9 | 8.2 |
| Program support (net) | 1.1 | 4.1 | 1.3 | 2.3 | 3.0 |

- **An increase in domestic revenues relative to GDP.** This provided scope to improve investment incentives and offset a tax-bracket creep. Nontax revenues should benefit

from improved incentives to collect departmental fees and an adjustment in the road levy.

- **An increase in the wage bill**, mostly because civil service salaries will rise by about 20 percent to allow adequate hiring and retention of personnel.
- **Spending of 1.9 percent of GDP on agricultural input subsidies.** The authorities view this expenditure as critical to food security and agricultural development. Maize operations by the Agricultural Development and Marketing Company will remain commercially financed. Staff will monitor borrowing for the emergence of contingent liabilities. The authorities, under the recently approved World Bank PRSC-1, are committed to revisiting their policies in this sector.

9. **Aid and tax revenue projections are now substantially higher than budgeted, and domestic debt repayments could reach MK 6 billion or 1.1 percent of GDP (MEFP ¶15).** This provides scope for the government to absorb adverse shocks or to increase spending. However, expenditures and domestic borrowing are already front-loaded, reflecting seasonal spending on the fertilizer subsidy and development projects, posing risks to budget implementation should revenues or aid fail to materialize in the second semester. In view of this front-loading and past fiscal slippages, the program envisages that the government wait until the mid-year budget review to decide how to use the additional resources. Thus, the end-December fiscal program targets factor in some savings from projected additional resources.

10. **Very preliminary data for the first fiscal quarter raise some concerns about budget implementation.** The wage bill surpassed its allocation by MK 0.5 billion reflecting a one-time payment of wage arrears to trainees, MK 3.6 billion in fertilizer subsidy spending was brought forward from the second fiscal quarter, and domestically-financed development spending was MK 2 billion above program. This was partially offset by MK 1.5 billion in higher revenues and below-budget spending. Though most of the overspending represents intra-year reallocations, it underscores the risks to budget implementation and the need to further improve PFM.

11. **Program design further supports the smoothing of spending in the face of temporary aid shocks.** With the improvement in the quality of government's macroeconomic policies and management, it is increasingly likely that aid shocks will be temporary rather than signaling the suspension of donor support. Therefore, the cap on the downward adjustment for aid shortfalls has been raised from US\$10 to US\$40 million.^{3, 4}

³ A large disbursement of US\$44 million is expected in late 2007. If this were delayed beyond 2007/08 and the cap fully utilized, targeted reserves in mid-2008 would exceed US\$214 million (1.5 month of imports), up from US\$180 million in mid-2007 (1.3 month of imports).

C. Strengthening PFM

12. **Progress on this top government priority has been substantive but delayed.**
- **The government has implemented several measures in this area, albeit mostly with delay** (MEFP ¶6-¶10 and Table 5c). The end-March 2007 performance criterion on centralizing utility payments was only partially implemented. The implementation of the Integrated Financial Management Information System (IFMIS) by most budget units obviated the need for centralizing these payments. However, payments were centralized in February 2007 for those institutions that remain autonomous from IFMIS, fulfilling, along with the IFMIS implementation, the intent of the criterion.
 - **New measures, informed by the PFM Action Plan, aim to address some of the weaknesses that plagued budget execution in 2006/07** (see MEFP ¶19 and Table 5c). The program includes structural benchmarks on forming a cash management unit (end-December 2007), accelerated issuing of indicative budget ceilings for the 2008/09 budget (end-January 2008), and reviewing and auditing of existing Treasury Funds (end-December 2007). The government will also simplify the pension formula without changing the budget cost. In addition, the government is working to expand the coverage and thus operational usefulness of the IFMIS.

III. MONETARY, EXCHANGE RATE, AND FINANCIAL SECTOR POLICY

A. Cementing Stability

13. **Monetary and exchange rate policy remains geared to maintaining an inflation rate between 5 percent and 7 percent.** Reserve money plays a key role as an intermediate target, as does the nominal exchange rate because of its visibility and importance for anchoring prices of traded goods. This policy framework can be effective as long as RBM provides adequate foreign exchange to clear the foreign exchange market and adjusts its intermediate targets as circumstances require. The RBM is not committed to a particular exchange rate level and is ready to adjust the exchange rate as necessary.

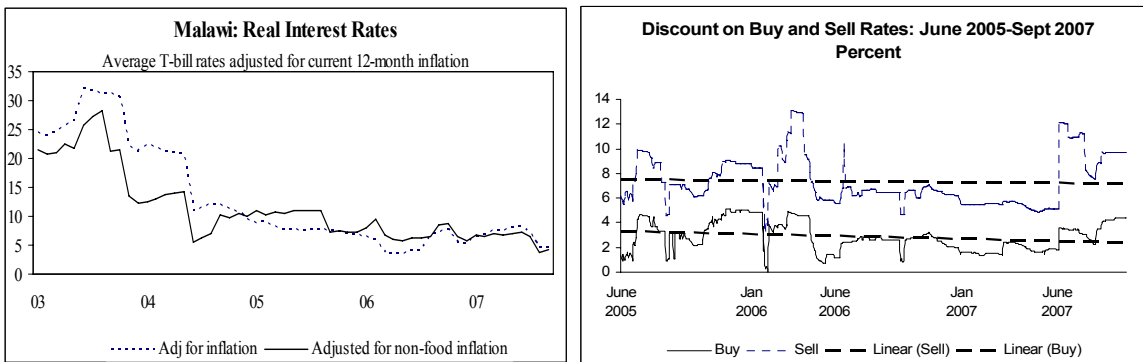
14. **The RBM met all performance criteria on net domestic assets and net foreign assets.** However, reserve money came under pressure in mid-2007 as rapid growth and the bumper harvest increased demand for liquidity, and possibly because of concerns that open-market operations would exacerbate RBM losses. In response, the RBM delayed sterilizing large aid inflows and the excess liquidity generated by the reduction in the liquidity reserve requirement (LRR) from 20.0 to 15.5 percent in February 2007. As a result, reserve money surpassed the end-June 2007 indicative target by a wide margin and, by end-September, was

⁴ Fiscal targets are now measured from the start of the fiscal year—end-June 2007. Monetary targets continue to be measured from end-June 2005.

49 percent higher than a year before. The RBM is committed to redressing the monetary overhang and will restrain reserve money growth in 2008 below 10 percent.

15. **Inflation and interest rates have continued to decline.** The bumper harvests and strong external environment have allowed a stable exchange rate and, along with overall good monetary and fiscal policy implementation, brought inflation down from 16 percent in mid-2006 to 7 percent at end-September 2007. Similar conditions in 2008, including restrained monetary growth, will hold inflation below 7 percent. Supported by lower inflation, private capital inflows and the monetary expansion, T-bill rates declined from 20 percent in mid-2006 to 12 percent at end-September 2007. Real T-bill rates have also trended down, reaching about 5 percent in September (see text figure). The RBM also reduced the bank rate from 17.5 to 15 percent in November 2007. However, there is now limited scope for further declines in real interest rates, and rates may have to rise temporarily as the RBM moves to redress the monetary overhang.

16. **Tensions have recently emerged in the foreign exchange market.** There has been little movement in Malawi's real effective exchange rate since 2004 and no indication of misalignment. Moreover, spreads between buy and sell exchange rates offered in the official and parallel market exchange rates (reflected in rates offered by foreign exchange bureaus) were trending down until mid-2007 (see text figure).⁵ However, probably responding to the monetary expansion, spreads rose substantially in June and are still high.



17. **The good harvest, capital inflows, and maize exports contributed to strong external reserve accumulation.** Similar factors will support a large accumulation in 2007/08 equal to 1.3 percent of GDP. Faster accumulation would be desirable but, without further fiscal consolidation or private capital inflows, could put substantial upward pressure on interest rates.

⁵ The discount is the difference between the rate offered by commercial banks (for electronic transfers) and the rate offered by foreign exchange bureaus (for cash transactions).

18. **The improved macroeconomic environment allowed the RBM to lift the ban on foreign participation in the domestic debt market.** Substantial inflows in the second half of 2006 increased participation to a peak of 17 percent of total bills in May 2007, dropping back to 11 percent in September 2007 (about US\$56 million or 23 percent of banking sector external reserves). The government is sequencing maturity dates to minimize rollover risks, but these flows are still vulnerable to a reversal, posing a significant threat to external reserves.

19. **With the bumper harvests, the government lifted the maize export ban imposed during the 2005 food crisis.** The RBM will receive US\$94 million from the export of government-owned maize to Zimbabwe—although the transaction’s counterparty risk needs careful management.

20. **Private sector credit expanded 40 percent in 2006/07.** Looking ahead, credit should expand more moderately, partly because prospects for further private portfolio inflows and reductions in domestic public debt and interest rates may be more limited.

21. **Policy decisions have strained the RBM’s finances, potentially jeopardizing the implementation of monetary policy.** The RBM’s income position has deteriorated mainly because of fiscal consolidation, more efficient treasury cash management, the transfer of IMF debt relief from the RBM to the budget, and the costs of sterilizing the lower LRR and external reserve accumulation. RBM losses were MK 0.9 billion in 2006 and expected to be roughly MK 2.8 billion in 2007. The government has adopted a strategy to put the RBM’s finances on a sustainable footing through an operational restructuring to reduce administrative costs, especially for printing, and gradual recapitalization (MEFP ¶27).⁶

B. Strengthening Financial Markets

22. **The government is developing a comprehensive strategy to strengthen financial intermediation,** drawing on the joint IMF-World Bank Financial Sector Assessment Program (FSAP) initiated in July (see MEFP ¶25-¶27). Measures include new regulations for the microfinance sector (end-June 2007 structural benchmark). The RBM has scaled up its supervision by inspecting the three largest banks (end-December 2007 structural benchmark). The RBM will shortly issue risk management guidelines for commercial banks.

23. **Drawing on the FSAP’s finding, the RBM is committed to move to a more market-based mechanism for exchange rate determination.** Staff has not observed an intensification of administrative restrictions or of exchange restrictions on current account

⁶ The securitization of the RBM’s loss in 2006 was included in both domestic financing and debt. Given the plan to recapitalize the RBM, program design has been revised so that future securities issued to cover RBM losses or to recapitalize the RBM will be included in domestic debt, but not in domestic financing. The projected loss for 2007 is included in the projected debt stock for end-2007.

transactions. Although the private sector has reported delays in accessing foreign exchange, the RBM has not reported any private external payments arrears since July 2006.⁷ Despite the widening of foreign exchange spreads since June, neither has staff observed actions to intensify the multiple currency practice.

24. **The government has been concerned that some foreign exchange bureaus were breaching foreign exchange regulations** and withdrew their operating licenses in April 2007; the bureaus have, however, challenged the move in court and will continue operating until the case is resolved. As emphasized by several IMF technical assistance missions, the bureaus foster competition in the foreign exchange market.

IV. ECONOMIC POLICIES FOR 2008/09

25. **Continued progress in cementing macroeconomic stability will allow policy to further focus on enhancing private sector growth.**

- **The key macroeconomic objectives will remain broadly unchanged:** growth of around 7 percent, inflation falling towards 6 percent, and reserves import coverage rising above 2 months.
- **Fiscal policy could create further space for priority spending and private sector credit.** A key challenge will be to accommodate another substantial increase in civil service wage rates, expected as part of the government's five-year strategy to realign remuneration. Staff has argued that wages have not been misaligned with civil service compensation in other countries or in the private sector.⁸ However, the projected wage bill remains below the government's 7-percent-of-GDP ceiling in its medium-term strategy.⁹

V. STAFF APPRAISAL

26. **Malawi is meeting its key economic objectives.** Growth is strong, inflation and the domestic debt burden are both declining, and external reserves are rising. Moreover, near-term economic prospects are good.

27. **Recent fiscal slippages are being addressed.** The overshoot on domestic borrowing in 2006/07 arose largely because of unforeseen developments. The structural reform agenda includes commitments to improve debt management, enhance cash-flow forecasts, and

⁷ Under the program's reporting requirements, a backlog of commercial bank foreign exchange applications for import-related payments arises when import payments are made outside of the grace period.

⁸ Country Report No. 07/147.

⁹ "Towards the Development of a Medium-Term Pay Policy for Malawi Civil Service", the Government of Malawi, 2005.

improve budget execution. Meanwhile, the 2007/08 budget provides some cushion against further negative surprises along with scope for judicious increases in spending, as long as expenditure control is maintained and revenue projections materialize.

28. **The RBM met all its performance criteria in 2006/07, but the large monetary expansion in mid-2007 must be redressed**, including through an increase in interest rates if necessary. This should help reduce the large spreads that have recently emerged between the official and the parallel market exchange rates. Staff is concerned that the expansion stems partly from pressures to reduce RBM losses, and welcomes the government's plan to ensure that the RBM has adequate financial resources to implement monetary policy, including with respect to external reserve accumulation.

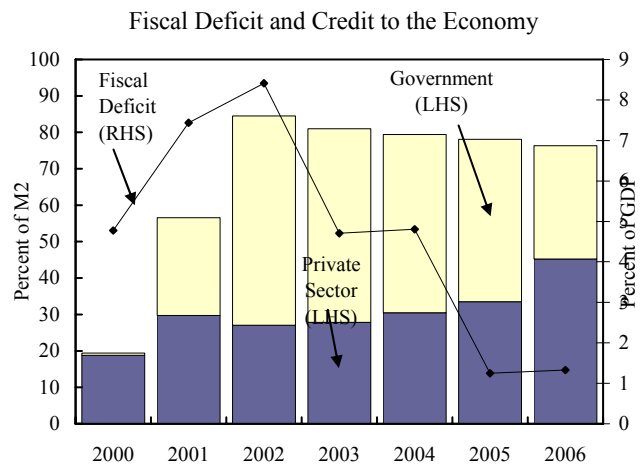
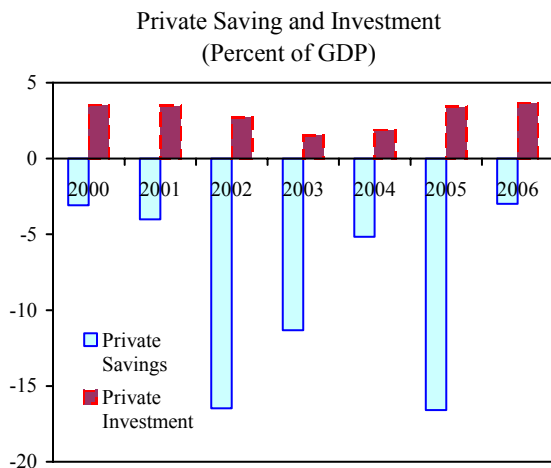
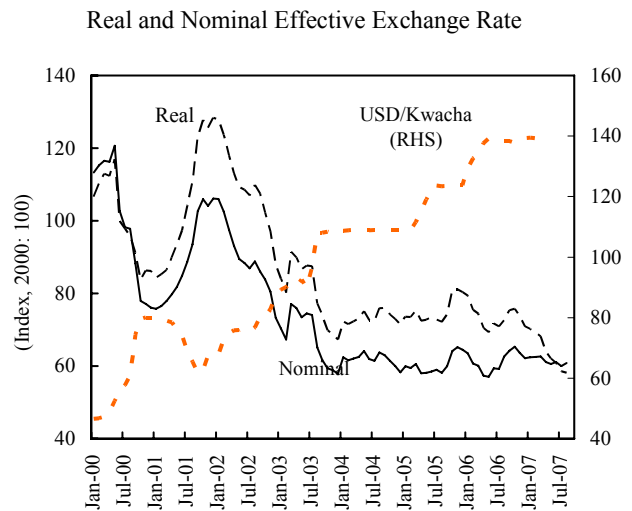
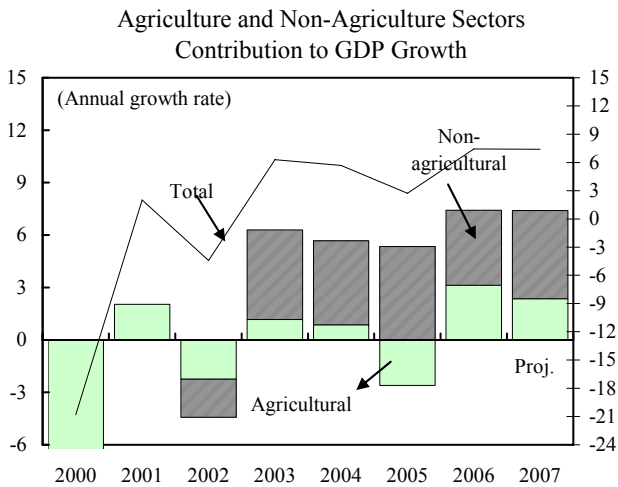
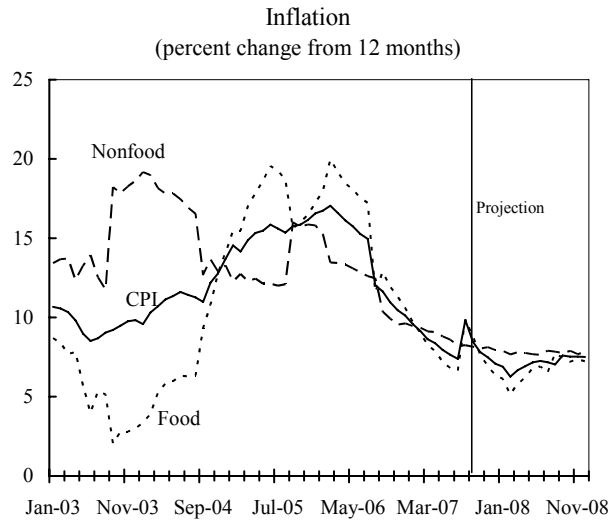
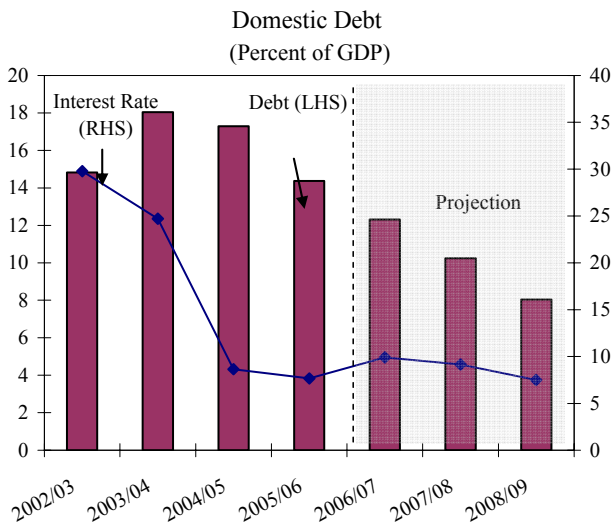
29. **To achieve its policy objectives, the RBM will need to be flexible in adjusting its intermediate targets, including the exchange rate, as circumstances warrant.** Staff welcomes the new clarity regarding the role of the exchange rate in the monetary policy regime and underscores the importance of the government's commitment to supply adequate reserves to the market. Staff will work with the authorities to strengthen the operation of the exchange rate mechanism, drawing on the FSAP's findings.

30. **Progress on structural reforms has been substantive, especially in PFM, but slow.** Greater progress on structural reform—in PFM and more broadly—would support the government's broader growth objectives under the Malawi Growth and Development Strategy and efforts to meet the Millennium Development Goals.

31. **Notwithstanding the positive outlook, the economy and the program remain vulnerable** to external shocks, including from the weather, terms of trade, and aid. Internally, the most acute risks stem from political uncertainties, which may affect program implementation and donor support. There are also program risks from the budgeted frontloading of expenditures and domestic borrowing and from budget execution, as suggested by the preliminary data for the first fiscal quarter.

32. **On the basis of satisfactory overall macroeconomic management and corrective measures taken to address slippages, staff recommends completion of the fourth and fifth reviews and the waivers on the nonobservance of the end-December 2006 and end-June 2007 performance criteria on central government domestic borrowing and on the end-March 2007 structural measure on centralizing utility payments.**

Figure 1. Malawi Selected Economic Indicators



Source: Malawi Authorities and Fund Staff estimates

Table 1a. Malawi: Selected Economic Indicators, 2005–09

| | 2005 | 2006 | | 2007 | | 2008 | 2009 |
|---|----------|--------|----------|--------|----------|----------|----------|
| | Act. | Prog. | Act. 1/ | Prog. | Proj. | Proj. | Proj. |
| National income and prices | | | | | | | |
| GDP at constant market prices (in percent) | 2.3 | 8.4 | 7.9 | 5.7 | 7.4 | 7.1 | 6.2 |
| Nominal GDP (billions of kwacha; new) 2/ 3/ | 338.0 | 417.5 | 430.3 | 478.3 | 497.1 | 555.4 | 622.0 |
| Nominal GDP (billions of kwacha; old) 2/ 3/ | 245.7 | 303.5 | 305.0 | 349.5 | 350.1 | 397.4 | 450.6 |
| Nominal GDP per capita (U.S. dollars) | 222.0 | 230.1 | 241.1 | 246.0 | 264.3 | 289.5 | 313.7 |
| GDP deflator (in percent) | 15.1 | 13.9 | 18.5 | 8.4 | 7.6 | 4.3 | 5.5 |
| Consumer prices (end of period) | 16.6 | 7.9 | 10.1 | 8.1 | 7.5 | 6.5 | 6.2 |
| Food | 17.2 | 8.7 | 10.6 | 7.4 | 6.6 | 5.7 | 5.8 |
| Nonfood | 15.8 | 8.2 | 9.6 | 9.0 | 8.5 | 7.4 | 6.6 |
| Consumer prices (annual average) | 15.5 | 13.1 | 13.9 | 8.4 | 8.1 | 6.9 | 6.3 |
| Central government (percent of GDP) | | | | | | | |
| Revenue (excluding grants) | 18.5 | 17.7 | 17.5 | 17.6 | 19.1 | 18.5 | 18.7 |
| Expenditure and net lending | 31.3 | 31.4 | 31.6 | 29.9 | 35.3 | 30.8 | 33.8 |
| Underlying balance 4/ | -0.5 | 0.4 | 1.0 | 0.7 | -0.5 | 0.0 | -1.5 |
| Overall balance (excluding grants) | -12.8 | -13.7 | -14.2 | -12.3 | -16.1 | -12.4 | -15.1 |
| Overall balance | -1.2 | -2.5 | -1.3 | -0.1 | -2.8 | 0.0 | -2.9 |
| Money and credit (change in percent of beginning-of-year M2) | | | | | | | |
| Money and quasi money | 14.3 | 22.1 | 17.4 | 15.5 | 22.5 | 12.2 | 12.5 |
| Net foreign assets | 5.1 | 6.3 | 21.5 | 20.0 | 14.5 | 13.8 | 21.5 |
| Net domestic assets | 9.2 | 15.7 | -4.0 | -4.5 | 8.0 | -1.6 | -9.0 |
| Credit to the government | 2.1 | 25.0 | -8.1 | -10.7 | 5.1 | -8.2 | -10.1 |
| Credit to the rest of the economy | 5.6 | -4.1 | 21.8 | 5.1 | 5.7 | 5.4 | 4.4 |
| Velocity | 6.4 | 6.5 | 7.0 | 6.5 | 6.6 | 6.5 | 6.5 |
| External sector (millions of U.S. dollars) | | | | | | | |
| Exports, f.o.b. | 511.8 | 572 | 546.4 | 463.8 | 631.0 | 753.2 | 822.4 |
| Imports, c.i.f. | -1,069.6 | -1,070 | -1,094.3 | -836.2 | -1,157.0 | -1,235.9 | -1,446.1 |
| Usable gross official reserves | 131.2 | 114 | 129.9 | 241.6 | 210.5 | 302.8 | 409.8 |
| (months of imports) | 1.2 | 1.2 | 1.1 | 2.6 | 1.6 | 2.0 | 2.6 |
| Current account (excluding transfers) | -28.1 | -26.5 | -24.8 | -24.5 | -21.5 | -19.0 | -18.9 |
| Nominal effective exchange rate | -11.4 | ... | -5.5 | ... | ... | ... | ... |
| Real effective exchange rate | 0.1 | ... | 0.5 | ... | ... | ... | ... |
| Terms of trade | -10.2 | -1.2 | -1.2 | -4.4 | -4.4 | 0.7 | 0.7 |
| Debt stock and service (percent of GDP) | | | | | | | |
| External debt (public sector) | 104.0 | 34.7 | 35.8 | 24.4 | 22.6 | 22.6 | 23.7 |
| NPV of debt (percent of avg. exports) | 360.0 | 160.0 | 31.9 | 33.0 | 39.0 | 41.8 | 44.5 |
| External debt service (percent of exports) | 21.9 | 11.8 | 27.1 | 3.3 | 2.7 | 2.2 | 2.0 |
| Net domestic debt (central government) | 15.9 | 14.4 | 12.6 | 9.2 | 12.5 | 9.1 | 7.5 |
| Domestic interest payment | 4.6 | 3.6 | 3.7 | 2.3 | 2.5 | 2.2 | 1.5 |
| Treasury bill rate (period average) | 24.4 | ... | 20.0 | ... | ... | ... | ... |

Sources: Malawian authorities; and IMF staff estimates and projections.

1/ GDP data are projections.

2/ Nominal GDP rojections are based on inflation projections agreed with the authorities in April 2007.

3/ The new GDP refers to revised GDP series. The new GDP series is used in all GDP ratio calculations.

4/ A measure of domestic adjustment effort (i.e., domestic primary balance excluding maize and the Health SWAp).

Definition: Overall balance plus statistical discrepancy, excluding grants, revenue and expenditure from maize, interest, foreign-financed development expenditures, and the Health SWAp. It excludes the securitization of domestic arrears and transfers to the RBM.

Table 1b. Malawi: Selected Economic Indicators on a Fiscal Year Basis, 2004/05 – 2009/10

| | 2004/05 | 2005/06 | 2006/07 | | 2007/08 | 2008/09 | 2009/10 |
|---|---------|----------|---------|----------|----------|----------|----------|
| | Act. | Act. | Prog. | Est. | Proj. | Proj. | Proj. |
| National income and prices | | | | | | | |
| GDP at constant market prices (in percent) | 3.6 | 5.1 | 7.0 | 7.6 | 7.3 | 6.6 | 6.7 |
| Nominal GDP (billions of kwacha; new) 1/ 2/ | 312.0 | 384.2 | 449.3 | 463.7 | 526.3 | 588.7 | 665.9 |
| Nominal GDP (billions of kwacha; old) 1/ 2/ | | | | | | | |
| Nominal GDP per capita (U.S. dollars) | 220.5 | 229.9 | 240.7 | 251.5 | 275.8 | 304.2 | 325.3 |
| GDP deflator (in percent) | 14.8 | 16.9 | 11.2 | 12.6 | 5.9 | 4.9 | 6.0 |
| Consumer prices (end of period) | 15.8 | 15.3 | 8.2 | 7.6 | 7.0 | 6.3 | 6.2 |
| Food | 19.5 | 17.5 | 4.7 | 6.8 | 6.2 | 6.1 | 5.4 |
| Nonfood | 12.1 | 12.8 | 12.2 | 8.6 | 7.9 | 6.5 | 7.1 |
| Consumer prices (annual average) | 13.6 | 16.1 | 9.8 | 10.0 | 7.3 | 6.5 | 6.3 |
| Central government (percent of GDP) | | | | | | | |
| Revenue (excluding grants) | 18.2 | 17.5 | 17.6 | 18.2 | 19.2 | 18.7 | 18.6 |
| Expenditure and net lending | 31.2 | 31.1 | 31.7 | 33.1 | 33.4 | 33.3 | 31.4 |
| Underlying balance 3/ | 1.3 | 0.7 | 0.5 | 0.7 | 0.1 | -1.5 | -0.7 |
| Overall balance (excluding grants) | -13.0 | -13.6 | -14.0 | -14.9 | -14.2 | -14.6 | -12.8 |
| Overall balance | -3.9 | -0.8 | -1.0 | -1.2 | -1.1 | -1.4 | -0.6 |
| Money and credit (change in percent of beginning-of-year M2) | | | | | | | |
| Money and quasi money | 18.4 | 15.2 | 22.5 | 25.0 | 15.9 | 12.3 | 13.6 |
| Net foreign assets | 5.8 | 9.2 | 17.2 | 29.7 | 10.3 | 17.8 | 18.2 |
| Net domestic assets | 12.7 | 6.0 | 5.3 | -4.7 | 5.6 | -5.4 | -4.6 |
| Credit to the government | 9.4 | -15.7 | -5.0 | -14.1 | 12.8 | -11.1 | -3.3 |
| Credit to the rest of the economy | 14.0 | 9.1 | 6.2 | 16.9 | 2.4 | 3.7 | 5.8 |
| Velocity | 6.4 | 6.8 | 6.3 | 6.5 | 6.5 | 6.5 | 6.5 |
| External sector (millions of U.S. dollars) | | | | | | | |
| Exports, f.o.b. | 517.3 | 519.6 | 464.4 | 576.5 | 676.9 | 781.4 | 858.4 |
| Imports, c.i.f. | -910.2 | -1,089.5 | -879.2 | -1,137.9 | -1,175.3 | -1,325.6 | -1,480.9 |
| Usable gross official reserves | 112.4 | 141.0 | 158.8 | 180.7 | 253.5 | 361.5 | 483.6 |
| (months of imports) | 1.0 | 1.2 | 1.7 | 1.3 | 1.7 | 2.3 | 3.0 |
| Current account (excluding transfers) | -24.3 | -26.2 | -26.7 | -23.0 | -20.2 | -18.9 | -17.6 |
| Nominal effective exchange rate 4/ | -9.7 | -3.0 | ... | ... | ... | ... | ... |
| Real effective exchange rate 4/ | 2.1 | 8.7 | ... | ... | ... | ... | ... |
| Domestic debt (percent of GDP) | | | | | | | |
| Net domestic debt (central government) | 17.3 | 14.4 | 10.8 | 12.3 | 10.2 | 7.6 | 5.0 |
| Domestic interest payment | 5.3 | 3.9 | 3.0 | 3.1 | 2.4 | 1.9 | 1.2 |
| Treasury bill rate (period average) | 24.5 | 22.4 | ... | ... | ... | ... | ... |

Sources: Malawian authorities; and IMF staff estimates and projections.

1/ Nominal GDP projections are based on inflation projections agreed with the authorities in April 2007.

2/ The new GDP refers to revised GDP series. The new GDP series is used in all GDP ratio calculations.

3/ A measure of domestic adjustment effort (i.e., domestic primary balance excluding maize and the Health SWAp). Definition: Overall balance plus statistical discrepancy, excluding grants, revenue and expenditure from maize, interest, foreign-financed development expenditures, and the Health SWAp. It excludes the securitization of domestic arrears and transfers to the RBM.

4/ Based on data through December 2005.

Table 2a: Malawi: Central Government Operations 2006/07
(Millions of Malawi kwacha)

| | 2006/07 Program, 3rd review | | | | | | 2006/07 projections | | | | | |
|--|-----------------------------|---------|---------|---------|---------|---------|---------------------|---------|---------|---------|---------|---------|
| | Q1 | Q2 | Q3 | Q4 | Annual | Percent | Q1 | Q2 | Q3 | Q4 | Annual | Percent |
| | Prog. | Prog. | Prog. | Prog. | Prog. | of GDP | Est. | Est. | Est. | Est. | Est. | of GDP |
| Total revenue and grants | 29,792 | 37,084 | 34,612 | 36,263 | 137,751 | 30.7 | 36,028 | 38,592 | 33,949 | 39,253 | 147,822 | 31.9 |
| Revenue | 19,354 | 19,080 | 19,821 | 21,002 | 79,258 | 17.6 | 19,530 | 19,923 | 20,165 | 24,676 | 84,295 | 18.2 |
| Tax revenue | 17,789 | 17,429 | 18,029 | 19,013 | 72,259 | 16.1 | 17,789 | 18,096 | 18,600 | 22,836 | 77,321 | 16.7 |
| Pension contributions, employees | 0 | 0 | 0 | 0 | 0 | 0.0 | 0 | 0 | 0 | 0 | 0 | 0.0 |
| Nontax revenue | 1,565 | 1,651 | 1,792 | 1,990 | 6,998 | 1.6 | 1,741 | 1,827 | 1,565 | 1,840 | 6,974 | 1.5 |
| Of which: sales receipts maize | 0 | 0 | 0 | 0 | 0 | 0.0 | 0 | 0 | 0 | 0 | 0 | 0.0 |
| Grants | 10,438 | 18,004 | 14,791 | 15,261 | 58,494 | 13.0 | 16,497 | 18,669 | 13,784 | 14,577 | 63,527 | 13.7 |
| Budget/ program support | 650 | 5,772 | 2,128 | 0 | 8,551 | 1.9 | 650 | 6,259 | 1,368 | 802 | 9,080 | 2.0 |
| Project | 4,430 | 3,838 | 7,876 | 11,537 | 27,680 | 6.2 | 4,232 | 3,710 | 8,352 | 7,566 | 23,860 | 5.1 |
| Dedicated grants | 3,164 | 6,282 | 3,911 | 2,219 | 15,576 | 3.5 | 4,105 | 5,931 | 3,900 | 6,053 | 19,989 | 4.3 |
| Of which: DFID/EU | 482 | 574 | 777 | 0 | 1,834 | 0.4 | 488 | 617 | 1,228 | 182 | 2,515 | 0.5 |
| National Aids Commission (NAC) | 1,695 | 3,440 | 992 | 0 | 6,126 | 1.4 | 1,756 | 3,241 | 1,510 | 1,425 | 7,932 | 1.7 |
| Health swap | 819 | 1,863 | 1,970 | 2,045 | 6,897 | 1.5 | 1,246 | 2,073 | 1,162 | 4,446 | 8,926 | 1.9 |
| HIPC debt relief | 1,556 | 851 | 214 | 382 | 3,002 | 0.7 | 1,444 | 695 | 165 | 155 | 2,460 | 0.5 |
| MDRI debt relief from IMF | 638 | 1,261 | 663 | 1,123 | 3,685 | 0.8 | 6,065 | 2,073 | 0 | 0 | 8,138 | 1.8 |
| Total expenditure and net lending | 31,290 | 38,922 | 35,712 | 36,368 | 142,292 | 31.7 | 31,750 | 41,637 | 47,375 | 32,826 | 153,588 | 33.1 |
| Current expenditure | 22,025 | 26,274 | 23,126 | 19,866 | 91,291 | 20.3 | 22,179 | 29,501 | 29,480 | 18,304 | 99,464 | 21.5 |
| Wages and salaries | 5,712 | 5,795 | 6,310 | 6,210 | 24,027 | 5.3 | 5,712 | 5,784 | 6,149 | 6,134 | 23,778 | 5.1 |
| Of which: Health Swap | 247 | 253 | 257 | 261 | 1,019 | 0.2 | 247 | 253 | 258 | 261 | 1,019 | 0.2 |
| Interest payments | 5,055 | 3,631 | 3,118 | 2,960 | 14,764 | 3.3 | 5,061 | 4,797 | 3,419 | 3,102 | 16,379 | 3.5 |
| Domestic | 4,200 | 3,380 | 2,960 | 2,783 | 13,323 | 3.0 | 4,200 | 4,181 | 3,251 | 2,838 | 14,470 | 3.1 |
| Foreign | 854 | 251 | 158 | 177 | 1,441 | 0.3 | 861 | 616 | 168 | 264 | 1,908 | 0.4 |
| Other current expenditure | 11,258 | 16,849 | 13,698 | 10,696 | 52,501 | 11.7 | 11,406 | 18,921 | 19,913 | 9,068 | 59,307 | 12.8 |
| Purchases of goods and services | 6,913 | 7,592 | 7,598 | 6,922 | 29,025 | 6.5 | 6,897 | 9,062 | 7,231 | 7,252 | 30,441 | 6.6 |
| Maize | 482 | 971 | 607 | 0 | 2,060 | 0.5 | 488 | 1,117 | 444 | 0 | 2,049 | 0.4 |
| Health SWAp | 1,241 | 1,712 | 1,420 | 1,306 | 5,678 | 1.3 | 1,241 | 2,464 | 1,620 | 1,218 | 6,544 | 1.4 |
| Elections | 0 | 0 | 500 | 500 | 1,000 | 0.2 | 0 | 0 | 14 | 0 | 14 | 0.0 |
| Other goods and services | 5,189 | 4,909 | 5,072 | 5,116 | 20,286 | 4.5 | 5,167 | 5,480 | 5,153 | 6,033 | 21,834 | 4.7 |
| Subsidies and transfers | 3,478 | 8,562 | 5,881 | 3,555 | 21,476 | 4.8 | 3,542 | 9,098 | 8,877 | 1,692 | 23,209 | 5.0 |
| Pension and gratuities | 1,191 | 1,191 | 1,191 | 1,191 | 4,763 | 1.1 | 1,191 | 1,191 | 1,191 | 1,191 | 4,763 | 1.0 |
| Transfer to NRA and MRA | 446 | 451 | 466 | 495 | 1,857 | 0.4 | 446 | 468 | 454 | 517 | 1,885 | 0.4 |
| Transfers to public entities | 1,559 | 1,659 | 1,680 | 1,823 | 6,721 | 1.5 | 1,622 | 2,596 | 1,900 | 1,419 | 7,538 | 1.6 |
| Of which: Transfers to RBM | 0 | 0 | 0 | 0 | 0 | 0.0 | 0 | 937 | 0 | 0 | 937 | 0.2 |
| Fertilizer and maize seed subsidy | 209 | 5,232 | 2,495 | 0 | 7,935 | 1.8 | 209 | 4,815 | 5,307 | -1,507 | 8,824 | 1.9 |
| Other subsidies and transfers | 75 | 28 | 50 | 47 | 200 | 0.0 | 75 | 28 | 25 | 72 | 200 | 0.0 |
| Arrears repayment | 867 | 695 | 219 | 219 | 2,000 | 0.4 | 967 | 761 | 3,804 | 125 | 5,657 | 1.2 |
| Development expenditure | 9,265 | 12,418 | 12,356 | 16,272 | 50,310 | 11.2 | 9,120 | 12,136 | 17,895 | 14,521 | 53,672 | 11.6 |
| Part I (foreign financed) | 6,764 | 9,354 | 10,799 | 14,715 | 41,631 | 9.3 | 6,528 | 8,360 | 14,498 | 12,840 | 42,225 | 9.1 |
| Part II (domestically financed) | 2,501 | 3,064 | 1,557 | 1,557 | 8,679 | 1.9 | 2,592 | 3,776 | 3,396 | 1,682 | 11,447 | 2.5 |
| Net lending | 0 | 230 | 230 | 230 | 690 | 0.2 | 452 | 0 | 0 | 0 | 452 | 0.1 |
| Overall balance (including grants) | -1,498 | -1,838 | -1,100 | -105 | -4,540 | -1.0 | 4,277 | -3,045 | -13,425 | 6,427 | -5,766 | -1.2 |
| Spending directly related to privatization | 0 | 0 | 0 | 0 | 0 | 0.0 | 0 | 0 | 0 | 0 | 0 | 0.0 |
| Augmented balance | -1,498 | -1,838 | -1,100 | -105 | -4,540 | -1.0 | 4,277 | -3,045 | -13,425 | 6,427 | -5,766 | -1.2 |
| Total financing | 3,705 | -370 | 1,100 | 105 | 4,540 | 1.0 | -1,882 | -1,317 | 14,947 | -6,075 | 5,674 | 1.2 |
| Foreign (net) | -792 | 1,169 | 1,583 | 4,203 | 6,163 | 1.4 | -830 | -1,490 | 2,574 | 3,509 | 3,762 | 0.8 |
| Borrowing | 1,854 | 2,076 | 1,931 | 4,846 | 10,707 | 2.4 | 1,816 | 2,430 | 2,898 | 3,930 | 11,074 | 2.4 |
| Program | 0 | 0 | 0 | 2,882 | 2,882 | 0.6 | 0 | 0 | 0 | 0 | 0 | 0.0 |
| Project | 1,854 | 2,076 | 1,931 | 1,964 | 7,825 | 1.7 | 1,816 | 2,430 | 2,898 | 3,930 | 11,074 | 2.4 |
| Amortization | -2,646 | -907 | -348 | -643 | -4,544 | -1.0 | -2,646 | -3,920 | -325 | -421 | -7,312 | -1.6 |
| Domestic (net) | -1,052 | -660 | -484 | -4,098 | -6,293 | -1.4 | -1,052 | 173 | 9,009 | -9,584 | -1,453 | -0.3 |
| Other financing (IMF MDRI relief, securitization etc.) | 5,549 | -879 | 0 | 0 | 4,670 | 1.0 | 0 | 0 | 3,364 | 0 | 3,364 | 0.7 |
| Discrepancy | -2,207 | 2,207 | 0 | 0 | 0 | 0.0 | -2,396 | 4,362 | -1,522 | -352 | 92 | 0.0 |
| Memorandum items: | | | | | | | | | | | | |
| Nominal GDP | 449,334 | 449,334 | 449,334 | 449,334 | 449,334 | ... | 463,701 | 463,701 | 463,701 | 463,701 | 463,701 | ... |
| Net domestic debt | 53,777 | 53,117 | 52,633 | 48,536 | 48,536 | 10.8 | 54,131 | 54,304 | 66,678 | 57,094 | 57,094 | 12.3 |

Sources: Malawian authorities; and IMF staff estimates.

Table 2b: Malawi: Central Government Operations 2007/08
(Millions of Malawi kwacha)

| | 2007/08 projections | | | | | Budget | Percent of GDP |
|--|---------------------|-------------|-------------|-------------|-----------------|---------|----------------|
| | Q1 Prog. | Q2 Prog. | Q3 Proj. | Q4 Proj. | Annual Proj. | | |
| Total revenue and grants | 38,327 | 49,754 | 41,176 | 40,766 | 170,023 | 163,864 | 32.3 |
| Revenue | 24,973 | 25,253 | 24,584 | 26,006 | 100,816 | 98,209 | 19.2 |
| Tax revenue | 22,674 | 20,815 | 21,961 | 23,152 | 88,602 | 86,202 | 16.8 |
| Pension contributions, employees | 0 | 0 | 0 | 0 | 0 | 0 | 0.0 |
| Nontax revenue | 2,299 | 4,438 | 2,623 | 2,855 | 12,214 | 12,007 | 2.3 |
| <i>Of which</i> : sales receipts maize | 0 | 2,000 | 0 | 0 | 2,000 | 2,000 | 0.4 |
| Grants | 13,354 | 24,501 | 16,592 | 14,760 | 69,207 | 65,655 | 13.2 |
| Budget/ program support | 699 | 8,802 | 2,020 | 1,300 | 12,821 | 11,120 | 2.4 |
| Project | 7,813 | 7,845 | 7,854 | 7,820 | 31,333 | 31,190 | 6.0 |
| Dedicated grants | 4,795 | 7,387 | 6,718 | 5,640 | 24,540 | 23,345 | 4.7 |
| Of which: DFID/EU | 0 | 1,677 | 907 | 0 | 2,584 | 1,500 | 0.5 |
| National Aids Commission (NAC) | 2,571 | 2,556 | 2,663 | 2,507 | 10,297 | 10,280 | 2.0 |
| Health swap | 2,224 | 3,155 | 3,148 | 3,133 | 11,659 | 11,565 | 2.2 |
| HIPC debt relief | 46 | 466 | 0 | 0 | 513 | 0 | 0.1 |
| MDRI debt relief from IMF | 0 | 0 | 0 | 0 | 0 | 0 | 0.0 |
| Total expenditure and net lending | 44,184 | 50,945 | 41,635 | 38,847 | 175,612 | 173,595 | 33.4 |
| Current expenditure | 27,322 | 33,468 | 27,040 | 24,571 | 112,402 | 110,434 | 21.4 |
| Wages and salaries | 6,691 | 7,898 | 7,898 | 7,898 | 30,386 | 30,386 | 5.8 |
| <i>Of which</i> : Health Swap | 295 | 296 | 297 | 295 | 1,183 | 1,183 | 0.2 |
| Interest payments | 3,333 | 3,271 | 3,607 | 2,917 | 13,128 | 12,684 | 2.5 |
| Domestic | 3,252 | 3,102 | 3,431 | 2,720 | 12,504 | 11,959 | 2.4 |
| Foreign | 81 | 170 | 177 | 197 | 624 | 725 | 0.1 |
| Other current expenditure | 17,298 | 22,299 | 15,535 | 13,756 | 68,888 | 67,364 | 13.1 |
| Purchases of goods and services | 10,067 | 10,205 | 9,728 | 9,890 | 39,890 | 39,796 | 7.6 |
| Maize | 1,500 | 500 | 0 | 0 | 2,000 | 2,000 | 0.4 |
| National / local elections | 0 | 0 | 550 | 550 | 1,100 | 1,100 | 0.2 |
| Health SWAp | 1,281 | 2,207 | 2,200 | 2,188 | 7,876 | 7,782 | 1.5 |
| Other goods and services | 7,286 | 7,498 | 6,979 | 7,151 | 28,914 | 28,914 | 5.5 |
| Subsidies and transfers | 7,106 | 11,969 | 5,681 | 3,741 | 28,497 | 27,068 | 5.4 |
| Pension and gratuities | 1,375 | 1,375 | 1,375 | 1,375 | 5,500 | 5,500 | 1.0 |
| Transfer to NRA and MRA | 798 | 887 | 887 | 887 | 3,458 | 2,150 | 0.7 |
| Transfers to public entities | 1,886 | 1,886 | 1,886 | 1,886 | 7,544 | 7,544 | 1.4 |
| Fertilizer and maize seed subsidy | 2,954 | 7,727 | 1,440 | -500 | 11,621 | 11,500 | 2.2 |
| Other subsidies and transfers | 94 | 93 | 93 | 94 | 374 | 374 | 0.1 |
| Arrears repayment | 125 | 125 | 125 | 125 | 500 | 500 | 0.1 |
| Development expenditure | 16,970 | 17,477 | 14,596 | 14,276 | 63,318 | 63,269 | 12.0 |
| Part I (foreign financed) | 13,853 | 13,879 | 12,698 | 12,499 | 52,929 | 52,880 | 10.1 |
| Part II (domestically financed) | 3,117 | 3,597 | 1,897 | 1,778 | 10,389 | 10,389 | 2.0 |
| Net lending | -108 | 0 | 0 | 0 | -108 | -108 | 0.0 |
| Overall balance (including grants) | -5,857 | -1,191 | -459 | 1,919 | -5,589 | -9,731 | -1.1 |
| Total financing | 5,857 | 1,191 | 459 | -1,919 | 5,589 | 9,731 | 1.1 |
| Foreign (net) | 1,917 | 2,970 | 4,801 | 1,891 | 11,579 | 11,278 | 2.2 |
| Borrowing | 2,169 | 3,450 | 5,011 | 2,171 | 12,802 | 12,847 | 2.4 |
| Program | 0 | 1,272 | 2,831 | 0 | 4,103 | 4,187 | 0.8 |
| Project | 2,169 | 2,178 | 2,181 | 2,171 | 8,700 | 8,660 | 1.7 |
| Amortization | -252 | -481 | -210 | -280 | -1,223 | -1,569 | -0.2 |
| Domestic (net) | 3,940 | -1,778 | -4,342 | -3,810 | -5,991 | -1,547 | -1.1 |
| Other financing (IMF MDRI relief, securitization etc.) | 0 | 0 | 0 | 0 | 0 | 0 | 0.0 |
| Discrepancy | 0 | 0 | 0 | 0 | 0 | 0 | 0.0 |
| Memorandum items: | | | | | | | |
| Nominal GDP | 526,253 | 526,253 | 526,253 | 526,253 | 526,253 | 526,253 | 100.0 |
| Net domestic debt | 61,034 | 62,055 | 57,713 | 53,903 | 53,903 | ... | 10.2 |
| RBM capitalization/securitization | | 2,800 | | | | | |

Sources: Malawian authorities; and IMF staff estimates.

1/ Includes debt relief through debt cancellation and transfers.

Table 2c: Malawi: Central Government Operations, 2002/03 – 2009/10
(Millions of Malawi kwacha)

| | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 | | 2007/08 | 2008/09 | 2009/10 |
|--|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| | Act. | Act. | Act. | Act. | Prog. | Est. | Proj. | Proj. | Proj. |
| Total revenue and grants | 42,685 | 65,817 | 84,925 | 116,986 | 137,751 | 147,822 | 170,023 | 187,689 | 205,039 |
| Revenue | 32,009 | 42,754 | 56,809 | 67,316 | 79,258 | 84,295 | 100,816 | 109,832 | 123,709 |
| Tax revenue | 27,251 | 36,902 | 49,798 | 59,884 | 72,259 | 77,321 | 88,602 | 98,486 | 111,226 |
| Nontax revenue | 4,758 | 5,852 | 7,011 | 7,431 | 6,998 | 6,974 | 12,214 | 11,346 | 12,483 |
| Of which : sales receipts maize | 591 | 1,351 | 468 | 1,175 | 0 | 0 | 2,000 | 0 | 0 |
| Grants | 10,675 | 23,063 | 28,117 | 49,670 | 58,494 | 63,527 | 69,207 | 77,856 | 81,330 |
| Budget/ Program support | 1,220 | 6,576 | 5,085 | 13,930 | 8,551 | 9,080 | 12,821 | 22,428 | 25,504 |
| Project | 4,604 | 6,518 | 11,020 | 11,089 | 27,680 | 23,860 | 31,333 | 29,569 | 34,755 |
| Dedicated grants | 188 | 4,219 | 6,933 | 17,210 | 15,576 | 19,989 | 24,540 | 25,859 | 21,071 |
| HIPC debt relief | 3,588 | 5,261 | 5,078 | 7,442 | 3,002 | 2,460 | 513 | 0 | 0 |
| MDRI debt relief from IMF | 0 | 0 | 0 | 0 | 3,685 | 8,138 | 0 | 0 | 0 |
| Total expenditure and net lending | 61,322 | 80,536 | 97,215 | 120,010 | 142,292 | 153,587 | 175,612 | 196,042 | 209,366 |
| Current expenditure | 49,473 | 59,537 | 71,657 | 93,746 | 91,291 | 99,464 | 112,402 | 133,761 | 129,123 |
| Wages and salaries | 10,930 | 12,337 | 17,056 | 20,209 | 24,027 | 23,778 | 30,386 | 36,463 | 41,247 |
| Of which : Health SWAp | 0 | 0 | 94 | 602 | 1,019 | 1,019 | 1,183 | 1,127 | 1,164 |
| Interest payments | 10,985 | 20,024 | 19,612 | 18,209 | 14,764 | 16,379 | 13,128 | 11,770 | 9,085 |
| Domestic | 8,871 | 17,253 | 16,650 | 15,017 | 13,323 | 14,470 | 12,504 | 10,969 | 8,217 |
| Foreign | 2,114 | 2,771 | 2,962 | 3,192 | 1,441 | 1,908 | 624 | 801 | 868 |
| Other current expenditure | 27,559 | 27,176 | 34,989 | 55,328 | 52,501 | 59,307 | 68,888 | 85,528 | 78,792 |
| Purchases of goods and services | 20,127 | 18,416 | 19,968 | 32,968 | 29,025 | 30,441 | 39,890 | 53,282 | 42,808 |
| Maize | 6,078 | 0 | 2,447 | 9,123 | 2,060 | 2,049 | 2,000 | 0 | 0 |
| Pulses and oils | 0 | 0 | 0 | 1,260 | 0 | 0 | 0 | 0 | 0 |
| Health SWAp | 0 | 0 | 984 | 5,077 | 5,678 | 6,544 | 7,876 | 14,975 | 4,363 |
| Elections | 10 | 2,029 | 63 | 60 | 1,000 | 14 | 1,100 | 5,000 | 666 |
| Other goods and services | 14,039 | 16,388 | 16,474 | 17,448 | 20,286 | 21,834 | 28,914 | 33,307 | 37,779 |
| Subsidies and other current transfers | 7,431 | 7,410 | 13,555 | 19,183 | 21,476 | 23,209 | 28,497 | 31,746 | 35,483 |
| Pension and gratuities | 1,431 | 1,613 | 2,106 | 3,209 | 4,763 | 4,763 | 5,500 | 6,269 | 7,444 |
| Fertilizer/Seeds subsidy | 0 | 0 | 4,328 | 6,937 | 7,935 | 8,824 | 11,621 | 12,824 | 14,317 |
| Other subsidies and transfers | 6,000 | 5,797 | 7,121 | 9,036 | 8,778 | 9,622 | 11,376 | 12,653 | 13,723 |
| Arrears repayment | 0 | 1,349 | 1,467 | 3,177 | 2,000 | 5,657 | 500 | 500 | 500 |
| Development expenditure | 11,787 | 20,999 | 24,969 | 26,263 | 50,310 | 53,672 | 63,318 | 62,282 | 80,243 |
| Part I (foreign financed) | 9,521 | 17,681 | 22,556 | 22,342 | 41,631 | 42,225 | 52,929 | 49,640 | 66,259 |
| Part II (domestically financed) | 2,266 | 3,319 | 2,413 | 3,921 | 8,679 | 11,447 | 10,389 | 12,642 | 13,984 |
| Net lending | 61 | 0 | 589 | 0 | 690 | 452 | -108 | 0 | 0 |
| Overall balance (including grants) | -18,637 | -14,719 | -12,289 | -3,024 | -4,540 | -5,766 | -5,589 | -8,354 | -4,327 |
| Spending directly related to privatization 1/ | 0 | 0 | 0 | 2,841 | 0 | 0 | 0 | 0 | 0 |
| Augmented balance (incl. privatization) | -18,637 | -14,719 | -12,289 | -5,865 | -4,540 | -5,766 | -5,589 | -8,354 | -4,327 |
| Total financing | 18,099 | 14,938 | 12,920 | 6,233 | 4,540 | 5,674 | 5,589 | 8,354 | 4,225 |
| Foreign (net) | -730 | 425 | 6,102 | 982 | 6,163 | 3,762 | 11,579 | 17,510 | 15,470 |
| Borrowing | 4,917 | 7,185 | 11,588 | 11,142 | 10,707 | 11,074 | 12,802 | 19,149 | 17,570 |
| Program | 0 | 1,386 | 5,182 | 3,373 | 2,882 | 0 | 4,103 | 5,985 | 1,610 |
| Project | 4,917 | 5,799 | 6,406 | 7,770 | 7,825 | 11,074 | 8,700 | 13,165 | 15,960 |
| Amortization | -5,448 | -7,577 | -8,210 | -10,161 | -4,544 | -7,312 | -1,223 | -1,640 | -2,100 |
| Special loans (net) | -323 | 0 | 1,116 | 0 | 0 | 0 | 0 | 0 | 0 |
| Foreign bank accounts | 125 | 817 | 1,609 | 0 | 0 | 0 | 0 | 0 | 0 |
| Domestic (net) | 18,829 | 14,512 | 6,818 | 905 | -6,293 | -1,453 | -5,991 | -9,156 | -11,244 |
| Financial instruments | 19,136 | 14,450 | 6,818 | 905 | -6,293 | -1,453 | -5,991 | -9,156 | -11,244 |
| Banking system | 13,922 | 6,601 | 4,018 | -7,955 | ... | -8,221 | ... | ... | ... |
| Nonbanks | 5,213 | 7,850 | 2,800 | 8,861 | ... | 6,768 | ... | ... | ... |
| Other financing (privatization, IMF MDRI, securitization etc.) | -307 | 62 | 0 | 4,346 | 4,670 | 3,364 | 0 | 0 | 0 |
| Discrepancy (- is overfinancing) | 538 | -218 | -631 | -368 | 0 | 92 | 0 | 0 | 0 |
| Memorandum items: | | | | | | | | | |
| Nominal GDP | 220,311 | 261,055 | 311,954 | 384,174 | 449,334 | 463,701 | 526,253 | 588,684 | 665,916 |
| Net domestic debt | 32,654 | 47,104 | 53,923 | 55,183 | 48,536 | 57,094 | 53,903 | 44,748 | 33,503 |
| PN/Capitalization/Securitization of RBM | | | | | | 923 | 2,800 | 0 | 0 |
| Underlying balance 2/ | -2,781 | -1,648 | 4,189 | 2,731 | 2,118 | 3,317 | 321 | -8,698 | -4,685 |
| Overall balance (excluding grants) | -29,312 | -37,783 | -40,406 | -52,339 | -63,034 | -69,293 | -74,796 | -86,210 | -85,555 |
| Pro-poor spending | 8,828 | 11,390 | 20,317 | 31,298 | 36,426 | 36,426 | 43,136 | 48,920 | 53,143 |
| Arrears (stock) | ... | ... | 10,037 | ... | ... | ... | ... | ... | ... |
| MDRI/HIPC debt service relief, total 3/ | ... | ... | ... | ... | 20,324 | 20,282 | 19,114 | ... | ... |
| Debt service payable | ... | ... | ... | ... | 2,982 | 6,761 | 1,334 | ... | ... |
| Net program aid | -2,754 | 2,874 | 4,173 | 15,737 | 16,805 | 10,458 | 15,590 | 25,972 | 24,146 |
| Gross debt of state owned enterprises 4/ | ... | ... | 28,652 | 34,727 | ... | ... | ... | ... | ... |

Sources: Malawian authorities; and IMF staff estimates.

1/ Includes 2005/06 transactions related to the sale of MTL: retrenchment costs and the capital injection less debt repayment.

2/ The underlying balance is a measure of domestic adjustment effort, specifically the domestic primary balance, excluding maize operations and the Health SWAp. Definition: Overall balance plus statistical discrepancy, less grants, less revenue from maize, plus total interest,

plus expenditures for maize and the Health SWAp, plus foreign-financed development expenditures. It excludes the securitization of domestic arrears and transfers to the RBM.

3/ Includes relief through debt cancellation and transfers.

4/ Include ADMARC, ESCOM, the Waterboards, Air Malawi and MHC.

Table 2d: Malawi: Central Government Operations, 2002/03 – 2009/10
(Percent of GDP)

| | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 | | 2007/08 | 2008/09 | 2009/10 |
|--|---------|---------|---------|---------|---------|-------|---------|---------|---------|
| | Act. | Act. | Act. | Act | Prog. | Est. | Proj. | Proj. | Proj. |
| Total revenue and grants | 19.4 | 25.2 | 27.2 | 30.5 | 30.7 | 31.9 | 32.3 | 31.9 | 30.8 |
| Revenue | 14.5 | 16.4 | 18.2 | 17.5 | 17.6 | 18.2 | 19.2 | 18.7 | 18.6 |
| Tax revenue | 12.4 | 14.1 | 16.0 | 15.6 | 16.1 | 16.7 | 16.8 | 16.7 | 16.7 |
| Nontax revenue | 2.2 | 2.2 | 2.2 | 1.9 | 1.6 | 1.5 | 2.3 | 1.9 | 1.9 |
| <i>Of which</i> : sales receipts maize | 0.3 | 0.5 | 0.1 | 0.3 | 0.0 | 0.0 | 0.4 | 0.0 | 0.0 |
| Grants | 4.8 | 8.8 | 9.0 | 12.9 | 13.0 | 13.7 | 13.2 | 13.2 | 12.2 |
| Budget/ Program support | 0.6 | 2.5 | 1.6 | 3.6 | 1.9 | 2.0 | 2.4 | 3.8 | 3.8 |
| Project | 2.1 | 2.5 | 3.5 | 2.9 | 6.2 | 5.1 | 6.0 | 5.0 | 5.2 |
| Dedicated grants | 0.1 | 1.6 | 2.2 | 4.5 | 3.5 | 4.3 | 4.7 | 4.4 | 3.2 |
| HIPC debt relief | 1.6 | 2.0 | 1.6 | 1.9 | 0.7 | 0.5 | 0.1 | 0.0 | 0.0 |
| MDRI debt relief from IMF | 0.0 | 0.0 | 0.0 | 0.0 | 0.8 | 1.8 | 0.0 | 0.0 | 0.0 |
| Total expenditure and net lending | 27.8 | 30.9 | 31.2 | 31.2 | 31.7 | 33.1 | 33.4 | 33.3 | 31.4 |
| Current expenditure | 22.5 | 22.8 | 23.0 | 24.4 | 20.3 | 21.5 | 21.4 | 22.7 | 19.4 |
| Wages and salaries | 5.0 | 4.7 | 5.5 | 5.3 | 5.3 | 5.1 | 5.8 | 6.2 | 6.2 |
| <i>Of which</i> : health SWAp | 0.0 | 0.0 | 0.0 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| Interest payments | 5.0 | 7.7 | 6.3 | 4.7 | 3.3 | 3.5 | 2.5 | 2.0 | 1.4 |
| Domestic | 4.0 | 6.6 | 5.3 | 3.9 | 3.0 | 3.1 | 2.4 | 1.9 | 1.2 |
| Foreign | 1.0 | 1.1 | 0.9 | 0.8 | 0.3 | 0.4 | 0.1 | 0.1 | 0.1 |
| Other current expenditure | 12.5 | 10.4 | 11.2 | 14.4 | 11.7 | 12.8 | 13.1 | 14.5 | 11.8 |
| Purchases of goods and services | 9.1 | 7.1 | 6.4 | 8.6 | 6.5 | 6.6 | 7.6 | 9.1 | 6.4 |
| Maize purchases | 2.8 | 0.0 | 0.8 | 2.4 | 0.5 | 0.4 | 0.4 | 0.0 | 0.0 |
| Pulses and oils | 0.0 | 0.0 | 0.0 | 0.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Health SWAp | 0.0 | 0.0 | 0.3 | 1.3 | 1.3 | 1.4 | 1.5 | 2.5 | 0.7 |
| Elections | 0.0 | 0.8 | 0.0 | 0.0 | 0.2 | 0.0 | 0.2 | 0.8 | 0.1 |
| Other goods and services | 6.4 | 6.3 | 5.3 | 4.5 | 4.5 | 4.7 | 5.5 | 5.7 | 5.7 |
| Subsidies and other current transfers | 3.4 | 2.8 | 4.3 | 5.0 | 4.8 | 5.0 | 5.4 | 5.4 | 5.3 |
| Pension and gratuities | 0.6 | 0.6 | 0.7 | 0.8 | 1.1 | 1.0 | 1.0 | 1.1 | 1.1 |
| Fertilizer/Seeds subsidy | 0.0 | 0.0 | 1.4 | 1.8 | 1.8 | 1.9 | 2.2 | 2.2 | 2.1 |
| Other subsidies and transfers | 2.7 | 2.2 | 2.3 | 2.4 | 2.0 | 2.1 | 2.2 | 2.1 | 2.1 |
| Arrears repayment | 0.0 | 0.5 | 0.5 | 0.8 | 0.4 | 1.2 | 0.1 | 0.1 | 0.1 |
| Development expenditure | 5.4 | 8.0 | 8.0 | 6.8 | 11.2 | 11.6 | 12.0 | 10.6 | 12.1 |
| Part I (foreign financed) | 4.3 | 6.8 | 7.2 | 5.8 | 9.3 | 9.1 | 10.1 | 8.4 | 10.0 |
| Part II (domestically financed) | 1.0 | 1.3 | 0.8 | 1.0 | 1.9 | 2.5 | 2.0 | 2.1 | 2.1 |
| Net lending | 0.0 | 0.0 | 0.2 | 0.0 | 0.2 | 0.1 | 0.0 | 0.0 | 0.0 |
| Overall balance (including grants) | -8.5 | -5.6 | -3.9 | -0.8 | -1.0 | -1.2 | -1.1 | -1.4 | -0.6 |
| Spending directly related to privatization 1/ | 0.0 | 0.0 | 0.0 | 0.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Augmented balance | -8.5 | -5.6 | -3.9 | -1.5 | -1.0 | -1.2 | -1.1 | -1.4 | -0.6 |
| Total financing | 8.2 | 5.7 | 4.1 | 1.6 | 1.0 | 1.2 | 1.1 | 1.4 | 0.6 |
| Foreign (net) | -0.3 | 0.2 | 2.0 | 0.3 | 1.4 | 0.8 | 2.2 | 3.0 | 2.3 |
| Borrowing | 2.2 | 2.8 | 3.7 | 2.9 | 2.4 | 2.4 | 2.4 | 3.3 | 2.6 |
| Program | 0.0 | 0.5 | 1.7 | 0.9 | 0.6 | 0.0 | 0.8 | 1.0 | 0.2 |
| Project | 2.2 | 2.2 | 2.1 | 2.0 | 1.7 | 2.4 | 1.7 | 2.2 | 2.4 |
| Amortization | -2.5 | -2.9 | -2.6 | -2.6 | -1.0 | -1.6 | -0.2 | -0.3 | -0.3 |
| Domestic (net) | 8.5 | 5.6 | 2.2 | 0.2 | -1.4 | -0.3 | -1.1 | -1.6 | -1.7 |
| Other financing (privatization, IMF MDRI, securitization etc.) | -0.1 | 0.0 | 0.0 | 1.1 | 1.0 | 0.7 | 0.0 | 0.0 | 0.0 |
| Discrepancy (- is overfinancing) | 0.2 | -0.1 | -0.2 | -0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Memorandum items: | | | | | | | | | |
| Net domestic debt | 14.8 | 18.0 | 17.3 | 14.4 | 10.8 | 12.3 | 10.2 | 7.6 | 5.0 |
| Underlying balance 2/ | -1.3 | -0.6 | 1.3 | 0.7 | 0.5 | 0.7 | 0.1 | -1.5 | -0.7 |
| Overall balance (excluding grants) | -13.3 | -14.5 | -13.0 | -13.6 | -14.0 | -14.9 | -14.2 | -14.6 | -12.8 |
| Pro-poor spending | 4.0 | 4.4 | 6.5 | 8.1 | 8.1 | 7.9 | 8.2 | 8.3 | 8.0 |
| Arrears (Stock) | ... | ... | 3.2 | ... | ... | ... | ... | ... | ... |
| MDRI/HIPC debt service relief, total 3/ | ... | ... | ... | ... | 4.5 | 4.4 | 3.6 | ... | ... |
| Net program aid | -1.3 | 1.1 | 1.3 | 4.1 | 3.7 | 2.3 | 3.0 | 4.4 | 3.6 |
| Liabilities of state owned enterprises 4/ | ... | ... | 9.2 | 9.0 | ... | ... | ... | ... | ... |

Sources: Malawian authorities; and IMF staff estimates.

1/ Includes for 2005/06 transactions related to the sale of MTL: retrenchment costs and the capital injection less debt repayment.

2/ The underlying balance is a measure of domestic adjustment effort, specifically the domestic primary balance, excluding maize operations and the Health SWAp. Definition: Overall balance plus statistical discrepancy, less grants, less revenue from maize, plus total interest, plus expenditures for maize and the Health SWAp, plus foreign-financed development expenditures. It excludes the securitization of domestic arrears and transfers to the RBM.

3/ This includes debt service savings from debt cancellation and relief provided through transfers.

4/ Include ADMARC, ESCOM, the Waterboards, Air Malawi and MHC.

Table 3a. Malawi : Monetary Authorities' Balance Sheet, 2006–09
(Millions of Malawi kwacha, unless otherwise indicated)

| | 2006 | 2007 | | | | | | 2008 | 2008 | 2008 | 2008 | 2009 | 2009 | 2009 | 2009 |
|--|--------|-----------|--------|-----------|--------|--------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| | Q4 | Q1 | | Q2 | | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| | Act. | CR 07/147 | Act. | CR 07/147 | Act. | Proj. | Proj. | Proj. | Proj. | Proj. | Proj. | Proj. | Proj. | Proj. | Proj. |
| Reserve money | 21,522 | 18,958 | 20,391 | 23,764 | 25,797 | 29,384 | 27,442 | 26,005 | 30,070 | 30,165 | 29,919 | 29,043 | 33,601 | 33,726 | 33,469 |
| Currency outside banks | 15,471 | ... | 14,085 | ... | 20,955 | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| Cash in vault | 2,562 | ... | 1,991 | ... | 2,154 | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| Commercial bank deposits with RBM | 3,489 | ... | 4,314 | ... | 2,687 | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| Net foreign assets (NFA) | 15,543 | 16,899 | 13,932 | 18,000 | 24,137 | 15,552 | 23,787 | 25,264 | 29,626 | 34,638 | 34,766 | 35,131 | 43,940 | 53,303 | 51,907 |
| NFA (millions of U.S. dollars) | 111.5 | 118.2 | 99.8 | 123.9 | 171.6 | 110.2 | 167.8 | 178.9 | 210.8 | 247.7 | 249.8 | 249.4 | 308.6 | 370.4 | 356.9 |
| Gross foreign assets | 131.3 | 142.9 | 133.8 | 158.8 | 204.4 | 135.4 | 210.5 | 221.6 | 253.5 | 300.6 | 302.8 | 302.3 | 361.5 | 423.3 | 409.8 |
| Foreign liabilities | -19.8 | -24.7 | -34.1 | -34.9 | -32.8 | -25.2 | -42.7 | -42.7 | -42.7 | -52.9 | -52.9 | -52.9 | -52.9 | -52.9 | -52.9 |
| Net domestic assets | 5,979 | 2,059 | 6,459 | 5,763 | 1,660 | 13,833 | 3,655 | 741 | 444 | -4,473 | -4,846 | -6,088 | -10,339 | -19,577 | -18,438 |
| Credit to government (net) | 7,460 | 8,117 | 8,503 | 6,425 | -2,361 | 6,650 | 9,450 | 9,968 | 9,226 | 2,783 | 1,973 | 946 | 957 | 1,204 | 1,343 |
| Credit to statutory bodies (net) | 0 | 0 | 0 | 0 | 156 | 170 | 164 | 187 | 181 | 175 | 179 | 209 | 203 | 196 | 200 |
| Credit to domestic banks | 22 | 46 | 2 | 49 | 2,655 | 1,454 | 675 | 431 | 202 | 94 | 49 | 57 | 56 | 54 | 55 |
| Other items (net) | -1,502 | -6,105 | -2,046 | -710 | 1,210 | 5,558 | -6,635 | -9,845 | -9,166 | -7,525 | -7,047 | -7,300 | -11,554 | -21,031 | -20,036 |
| Revaluation accounts | 0 | 0 | 37 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Open market operations | -8,074 | -15,335 | -9,136 | -12,929 | -5,998 | -7,364 | -14,551 | -18,107 | -18,417 | -16,224 | -16,766 | -17,376 | -22,071 | -31,875 | -31,286 |
| Encumbered reserves | 415 | 572 | 416 | 581 | 52 | 4,799 | 1,984 | 1,412 | 1,406 | 0 | 0 | 0 | 0 | 0 | 0 |
| IMF MDRI Relief | | -1,123 | | | | | | | | | | | | | |
| Others | 6,157 | 9,782 | 6,637 | 11,638 | 7,156 | 8,124 | 5,931 | 6,850 | 7,844 | 8,699 | 9,719 | 10,076 | 10,517 | 10,844 | 11,249 |
| Memorandum items: | | | | | | | | | | | | | 0 | | |
| Seasonally adjusted reserve money | 21,504 | 22,637 | 23,616 | 23,774 | 26,037 | 28,520 | 27,508 | 31,318 | 30,349 | 29,278 | 29,992 | 34,976 | 33,914 | 32,735 | 33,550 |
| Quarterly change | 6.1 | 3.6 | 9.8 | 5.0 | 10.3 | 9.5 | -3.5 | 13.9 | -3.1 | -3.5 | 2.4 | 16.6 | -3.0 | -3.5 | 2.5 |
| Annual change | 4.7 | 8.3 | 14.5 | 13.6 | 21.4 | 40.8 | 27.9 | 32.6 | 16.6 | 2.7 | 9.0 | 11.7 | 11.7 | 11.8 | 11.9 |
| Seasonally adjusted currency outside banks | 27,450 | ... | 28,124 | ... | 29,499 | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| Quarterly change | 23.3 | ... | 2.5 | ... | 4.9 | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| Annual change | 59.5 | ... | 59.2 | ... | 39.1 | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| Net foreign assets at program exchange rate | 15,543 | 16,476 | 13,932 | 17,261 | 23,914 | 15,487 | 23,589 | 25,145 | 29,624 | 34,811 | 35,117 | 35,060 | 43,372 | 52,060 | 50,161 |
| Net domestic assets at program exchange rate | 5,979 | 2,482 | 6,459 | 6,502 | 1,883 | 13,897 | 3,853 | 861 | 446 | -4,647 | -5,197 | -6,018 | -9,771 | -18,334 | -16,692 |
| Money multiplier | | | | | | | | | | | | | | | |
| Money multiplier | 2.85 | 3.28 | 3.24 | 3.01 | 2.83 | 2.62 | 2.74 | 2.81 | 2.81 | 2.81 | 2.82 | 2.82 | 2.83 | 2.83 | 2.83 |
| Seasonally adjusted | 2.80 | 2.88 | 2.78 | 2.88 | 2.68 | 2.64 | 2.74 | 2.50 | 2.69 | 2.84 | 2.82 | 2.51 | 2.71 | 2.86 | 2.83 |
| Net sales 1/ | | | | | | | | | | | | | | | |
| Quarterly change | 3,137 | 3,704 | 9,028 | -4,812 | -1,858 | -3,705 | 2,608 | -1,303 | -2,759 | 988 | 1,470 | 2,840 | -2,530 | 2,937 | 7,533 |
| Annual change | 14,650 | 6,258 | 19,731 | 3,713 | 19,900 | 6,602 | 6,073 | -4,258 | -5,159 | -466 | -1,604 | 2,540 | 2,768 | 4,718 | 10,781 |

Sources: Reserve Bank of Malawi; and IMF staff estimates and projections.

1/ Defined as the increase in holdings at cost value of both treasury and RBM bills in the private sector.

Table 3b. Malawi : Monetary Survey, 2006–09
(Millions of Malawi kwacha, unless otherwise indicated)

| | 2006 | | 2007 | | | | 2008 | 2008 | 2008 | 2008 | 2009 | 2009 | 2009 | 2009 | |
|--|--------|-----------|--------|-----------|--------|--------|--------|---------|---------|--------|--------|---------|---------|---------|---------|
| | Q4 | Q1 | | Q2 | | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| | Act. | CR 07/147 | Act. | CR 07/147 | Act. | Proj. | Proj. | Proj. | Proj. | Proj. | Proj. | Proj. | Proj. | Proj. | Proj. |
| Money and quasi-money | 61,317 | 62,146 | 66,163 | 71,469 | 72,901 | 76,917 | 75,130 | 72,982 | 84,501 | 84,882 | 84,305 | 81,944 | 94,932 | 95,413 | 94,812 |
| Money | 35,008 | ... | 35,849 | ... | 42,808 | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| Quasi money | 26,309 | ... | 30,314 | ... | 30,093 | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| <i>Of which:</i> foreign currency deposits | 9,909 | ... | 12,056 | ... | 10,711 | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| Net foreign assets (NFA) | 21,149 | 21,144 | 18,006 | 23,769 | 31,047 | 22,016 | 30,066 | 31,859 | 38,580 | 42,148 | 40,429 | 42,412 | 53,581 | 62,183 | 58,555 |
| NFA (millions of U.S. dollars) | 151.8 | 147.9 | 128.9 | 163.6 | 220.7 | 156.0 | 212.1 | 225.6 | 274.5 | 301.4 | 290.5 | 301.1 | 376.3 | 432.1 | 402.6 |
| Gross foreign assets | 190.5 | 180.3 | 182.6 | 206.2 | 267.3 | 190.4 | 265.5 | 277.0 | 326.9 | 366.0 | 358.2 | 365.7 | 438.9 | 497.7 | 472.2 |
| Foreign liabilities | -38.7 | -32.4 | -53.6 | -42.6 | -46.5 | -34.4 | -53.4 | -51.4 | -52.4 | -64.6 | -67.6 | -64.6 | -62.6 | -65.6 | -69.6 |
| Monetary authorities | 15,543 | 16,899 | 13,932 | 18,000 | 24,137 | 15,552 | 23,787 | 25,264 | 29,626 | 34,638 | 34,766 | 35,131 | 43,940 | 53,303 | 51,907 |
| NFA of the monetary authorities (millions of U.S. dollars) | 111.5 | 118.2 | 99.8 | 123.9 | 171.6 | 110.2 | 167.8 | 178.9 | 210.8 | 247.7 | 249.8 | 249.4 | 308.6 | 370.4 | 356.9 |
| Gross foreign assets | 131.3 | 142.9 | 133.8 | 158.8 | 204.4 | 135.4 | 210.5 | 221.6 | 253.5 | 300.6 | 302.8 | 302.3 | 361.5 | 423.3 | 409.8 |
| Foreign liabilities | -19.8 | -24.7 | -34.1 | -34.9 | -32.8 | -25.2 | -42.7 | -42.7 | -42.7 | -52.9 | -52.9 | -52.9 | -52.9 | -52.9 | -52.9 |
| Commercial banks | 5,607 | 4,245 | 4,075 | 5,769 | 6,910 | 6,464 | 6,279 | 6,595 | 8,954 | 7,510 | 5,664 | 7,282 | 9,641 | 8,880 | 6,647 |
| NFA of the commercial banks (millions of U.S. dollars) | 40.2 | 29.7 | 29.2 | 39.7 | 49.1 | 45.8 | 44.3 | 46.7 | 63.7 | 53.7 | 40.7 | 51.7 | 67.7 | 61.7 | 45.7 |
| Gross foreign assets | 59.1 | 37.4 | 48.7 | 47.4 | 62.9 | 55.0 | 55.0 | 55.4 | 73.4 | 65.4 | 55.4 | 63.4 | 77.4 | 74.4 | 62.4 |
| Foreign liabilities | -18.9 | -7.7 | -19.6 | -7.7 | -13.8 | -9.2 | -10.7 | -8.7 | -9.7 | -11.7 | -14.7 | -11.7 | -9.7 | -12.7 | -16.7 |
| Net domestic assets | 40,167 | 41,002 | 48,157 | 47,700 | 41,854 | 54,900 | 45,064 | 41,122 | 45,920 | 42,734 | 43,876 | 39,532 | 41,352 | 33,230 | 36,258 |
| Credit to government (net) | 19,049 | 21,380 | 25,102 | 19,206 | 13,901 | 22,171 | 22,171 | 22,688 | 23,253 | 16,840 | 16,001 | 14,376 | 13,879 | 7,260 | 7,464 |
| Credit to statutory bodies (net) | -332 | -819 | 575 | -847 | 740 | 782 | 791 | 815 | 839 | 863 | 887 | 915 | 943 | 970 | 998 |
| Credit to private sector | 27,747 | 19,388 | 26,862 | 24,818 | 29,453 | 30,580 | 30,128 | 28,855 | 31,081 | 32,612 | 34,119 | 32,223 | 34,089 | 35,954 | 37,689 |
| Other items (net) | -6,296 | 1,053 | -4,382 | 4,523 | -2,240 | 1,367 | -8,026 | -11,236 | -9,252 | -7,581 | -7,131 | -7,982 | -7,559 | -10,954 | -9,894 |
| RBM's revaluation accounts | 0 | 0 | 37 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Open market operations | -4,604 | -783 | -1,662 | -302 | -2,398 | -4,505 | -8,891 | -12,448 | -11,452 | -9,230 | -9,800 | -11,008 | -11,026 | -14,748 | -14,093 |
| Encumbered reserves | 415 | 572 | 416 | 581 | 52 | 4,799 | 1,984 | 1,412 | 1,406 | 0 | 0 | 0 | 0 | 0 | 0 |
| IMF MDRI Relief | | -1122.9 | | 0 | | | | | | | | | | | |
| Others | -2,107 | 2,387 | -3,174 | 4,243 | 106 | 1,073 | -1,119 | -200 | 794 | 1,649 | 2,669 | 3,026 | 3,467 | 3,794 | 4,199 |
| Memorandum items: | | | | | | | | | | | | | | | |
| Seasonally adjusted broad money | 61,804 | 65,948 | 67,529 | 68,263 | 71,055 | 75,062 | 75,892 | 78,201 | 80,516 | 82,836 | 85,160 | 87,805 | 90,456 | 93,112 | 95,774 |
| Quarterly change | 3.3 | 3.6 | 9.3 | 3.5 | 5.2 | 5.6 | 1.1 | 3.0 | 3.0 | 2.9 | 2.8 | 3.1 | 3.0 | 2.9 | 2.9 |
| Annual change | 17.4 | 14.9 | 21.6 | 22.5 | 25.7 | 25.5 | 22.8 | 15.8 | 13.3 | 10.4 | 12.2 | 12.3 | 12.3 | 12.4 | 12.5 |
| Seasonally adjusted credit to private sector | 27,450 | 16,231 | 28,124 | 16,692 | 29,499 | 30,354 | 29,383 | 30,254 | 31,536 | 32,370 | 33,275 | 33,785 | 34,588 | 35,687 | 36,757 |
| Quarterly change | 23.3 | 8.7 | 2.5 | 2.8 | 4.9 | 2.9 | -3.2 | 3.0 | 4.2 | 2.6 | 2.8 | 1.5 | 2.4 | 3.2 | 3.0 |
| Annual change | 59.5 | 17.5 | 59.2 | 17.5 | 39.1 | 36.3 | 7.0 | 7.6 | 6.9 | 6.6 | 13.2 | 11.7 | 9.7 | 10.2 | 10.5 |
| Velocity of money (annual GDP divided by seasonally adjusted end-period broad money) | 6.96 | 4.80 | 6.62 | 4.80 | 6.53 | 6.40 | 6.55 | 6.54 | 6.54 | 6.53 | 6.52 | 6.52 | 6.51 | 6.50 | 6.49 |

Sources: Reserve Bank of Malawi; and IMF staff estimates and projections.

Table 4a. Malawi: Balance of Payments, 2005–09 1/
(Millions of U.S. dollars, unless otherwise indicated)

| | 2005 | 2006 | | 2007 | | 2008 | 2009 |
|---|---------------|---------------|---------------|--------------|---------------|---------------|---------------|
| | Act. | Prog | Proj. | Prog | Proj. | Proj. | Proj. |
| Current account balance (including grants) | -351.8 | -169.5 | -194.9 | -32.0 | -112.6 | -114.9 | -196.4 |
| Merchandise trade balance | -560.7 | -497.8 | -551.8 | -374.4 | -528.7 | -552.8 | -733.3 |
| Exports | 508.9 | 572.0 | 542.5 | 461.8 | 628.3 | 749.1 | 817.8 |
| <i>Of which:</i> Tobacco | 278.2 | 295.1 | 289.7 | 245.5 | 279.0 | 364.0 | 374.9 |
| Uranium | | | | | - | - | 25.5 |
| Imports | -1069.6 | -1069.8 | -1094.3 | -836.2 | -1157.0 | -1301.9 | -1551.1 |
| <i>Of which:</i> Petroleum | -137.3 | -177.5 | -167.4 | -196.6 | -178.6 | -192.2 | -197.1 |
| Services balance | -244.7 | -84.6 | -236.2 | -216.5 | -235.8 | -267.3 | -200.4 |
| Interest public sector (net) | -25.9 | -18.9 | -21.4 | -4.5 | -4.2 | 5.2 | 8.6 |
| Receipts | 0.7 | 3.0 | 0.6 | 1.2 | 1.1 | 11.5 | 14.6 |
| Payments (amounts due before HIPC debt relief) | -26.6 | -22.0 | -22.0 | -5.7 | -5.3 | -6.3 | -6.1 |
| Other factor payments (net) | -15.7 | -18.7 | -16.9 | -18.0 | -18.2 | -19.5 | -20.7 |
| Nonfactor (net) | -203.1 | -47.0 | -197.9 | -194.0 | -213.5 | -253.0 | -188.3 |
| Receipts | 50.0 | 42.5 | 51.7 | 60.5 | 60.2 | 63.2 | 66.3 |
| Payments | -253.1 | -89.5 | -249.6 | -254.6 | -273.7 | -316.2 | -254.6 |
| Unrequited transfers (net) | 453.6 | 412.9 | 593.1 | 558.9 | 652.0 | 705.2 | 737.3 |
| Private (net) | 191.7 | 132.5 | 173.0 | 177.0 | 187.0 | 190.0 | 195.8 |
| Receipts | 203.6 | 143.0 | 185.1 | 189.4 | 199.4 | 202.7 | 208.8 |
| Payments | -11.8 | -10.6 | -12.1 | -12.4 | -12.4 | -12.7 | -13.0 |
| Official (net) | 261.9 | 280.5 | 420.1 | 381.9 | 464.9 | 515.2 | 541.5 |
| Balance of payments assistance | 97.2 | 46.1 | 72.0 | 83.5 | 82.8 | 117.8 | 145.7 |
| Project related | 150.6 | 234.4 | 348.1 | 298.4 | 382.2 | 397.4 | 395.8 |
| Capital account balance (incl. errors and omissions) | 324.0 | 111.2 | 130.6 | 95.4 | 171.6 | 179.3 | 308.4 |
| Medium- and long-term flows | 20.4 | 50.0 | 21.5 | 65.2 | 142.0 | 79.5 | 158.2 |
| Disbursements | 97.5 | 113.3 | 86.5 | 82.9 | 155.6 | 91.3 | 169.9 |
| Balance of payments support | 18.1 | 32.9 | 24.5 | 28.4 | 9.0 | 31.3 | 42.5 |
| Project support | 79.4 | 80.4 | 62.0 | 54.5 | 79.6 | 60.0 | 127.4 |
| Other medium-term loans | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other investment assets | 0.0 | 0.0 | 0.0 | 0.0 | 67.0 | 0.0 | 0.0 |
| Amortization (amounts due before HIPC debt relief) | -77.1 | -63.4 | -65.0 | -17.7 | -13.6 | -11.7 | -11.7 |
| Foreign direct investment and other inflows | 26.5 | 29.8 | 29.6 | 32.4 | 31.8 | 100.0 | 150.0 |
| MDRI debt forgiveness on debt due after current year | | 1844.0 | 1864.0 | 383.0 | 383.0 | | |
| Other liabilities (MDRI-IDA and ADF loans) | | -1812.7 | -1818.6 | -385.2 | -385.2 | | |
| Short-term capital and errors and omissions | 277.2 | 0.0 | 34.1 | 0 | 0 | 0 | 0 |
| Overall balance | -27.8 | -58.3 | -64.3 | 63.3 | 59.0 | 64.4 | 112.0 |
| Financing (- increase in reserves) | 27.8 | 58.3 | 64.3 | -63.4 | -59.0 | -64.4 | -112.0 |
| Central bank | -48.6 | 6.0 | -34.1 | -70.5 | -63.0 | -68.0 | -107.0 |
| Gross reserves (- increase) | -30.6 | 41.3 | 25.3 | -98.3 | -90.6 | -78.2 | -107.0 |
| Liabilities | -18.0 | -35.3 | -59.4 | 27.7 | 27.6 | 10.2 | 0.0 |
| <i>Of which:</i> IMF (net) | -10.6 | 10.6 | -59.5 | 27.7 | 27.6 | 10.2 | 0.0 |
| Purchases/drawings | 8.3 | 24.9 | 14.4 | 27.7 | 27.6 | 10.2 | 0.0 |
| Repurchases/repayments | -18.9 | -14.2 | -73.9 | 0.0 | 0.0 | 0.0 | 0.0 |
| MDRI liabilities (repayment) | 0.0 | -54.2 | -60.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Commercial banks | 18.8 | -8.6 | -16.1 | -4.0 | -4.1 | 3.6 | -5.0 |
| Arrears | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Debt relief | 57.6 | 46.2 | 99.9 | 9.0 | 5.9 | 0.0 | 0.0 |
| MDRI debt forgiveness on debt due in current year | | 14.6 | 14.6 | 2.2 | 2.2 | | |
| Residual financing gap (+ underfinanced) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Memorandum items: | | | | | | | |
| IMF MDRI debt relief | 0.0 | 13.2 | 13.2 | 20.7 | 20.7 | 8.3 | 6.4 |
| Usable gross official reserves | | | | | | | |
| Millions of U.S. dollars 1/ | 131.2 | 113.9 | 129.9 | 241.6 | 210.5 | 302.8 | 409.8 |
| Months of imports 2/ | 1.2 | 1.2 | 1.2 | 2.7 | 1.8 | 2.2 | 2.7 |
| Current account balance (percent of GDP) | | | | | | | |
| Excluding official transfers | -21.5 | -14.9 | -19.4 | -12.6 | -16.3 | -15.9 | -16.9 |
| Including official transfers | -12.3 | -5.6 | -6.2 | -1.0 | -3.2 | -2.9 | -4.5 |
| Export value growth (percent) | 1.9 | 11.2 | 6.6 | -0.3 | 15.8 | 19.2 | 9.2 |
| Merchandise imports, excluding all maize | -1006 | -1030 | -1054 | -836 | -1157 | -1232 | -1446 |
| Merchandise imports, excluding all maize & FDI imports | -1006 | -1030 | -1054 | -836 | -1157 | -1162 | -1341 |
| Merchandise import value, excluding maize, percent change | 26.9 | 10 | 4.8 | -1.5 | 9.7 | 6.5 | 17.4 |

Sources: Malawian authorities; and IMF staff estimates and projections.

1/ Excludes, open letter of credit, blocked deposits and encumbered reserves.

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

Table 4b. Malawi: Gross Financing Requirements and Sources of Financing, 2005–09
(Millions of U.S. dollars)

| | 2005 | 2006 | | 2007 | | 2008 | 2009 |
|---|---------------|----------------|----------------|---------------|----------------|---------------|---------------|
| | Act. | Prog. | Est. | Prog. | Proj. | Proj. | Proj. |
| Gross financing requirements | -729.0 | -2440.1 | -2563.3 | -919.1 | -1071.0 | -716.4 | -861.6 |
| External current account deficit (excl. official transfers) | -613.7 | -487.9 | -615.0 | -413.9 | -577.5 | -630.1 | -737.9 |
| <i>Of which:</i> trade balance on goods and services | -763.8 | -624.0 | -749.7 | -568.5 | -742.2 | -805.9 | -921.6 |
| Official debt amortization | -96.0 | -1955.5 | -1957.5 | -402.9 | -398.8 | -11.7 | -11.7 |
| <i>Of which:</i> IMF repurchases and repayments | -18.9 | -74.5 | -73.9 | 0.0 | 0.0 | 0.0 | 0.0 |
| MDRI debt repayment | | -1818.6 | -1818.6 | -385.2 | -385.2 | | |
| Other , including reserves | -19.2 | 3.3 | 9.3 | -102.2 | -94.7 | -74.6 | -112.0 |
| Gross reserves | -30.6 | 11.8 | 25.3 | -98.3 | -90.6 | -78.2 | -107.0 |
| Gross liabilities (excluding IMF) | -7.4 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| Change in n.f.a. of commercial banks | 18.8 | -8.6 | -16.1 | -4.0 | -4.1 | 3.6 | -5.0 |
| Sources of financing | 729.0 | 2440.0 | 2563.2 | 919.0 | 1071.0 | 716.4 | 861.6 |
| Private capital (net) | 303.6 | 29.8 | 63.7 | 32.4 | 98.8 | 99.8 | 150.2 |
| <i>Of which:</i> short term errors and omissions | 277.2 | 0.0 | 34.1 | 0.0 | 0.0 | -0.2 | 0.2 |
| Gross official Assistance | 367.7 | 428.6 | 521.0 | 492.5 | 581.1 | 616.6 | 711.4 |
| Official Grants | 261.9 | 327.7 | 420.1 | 381.9 | 464.9 | 515.2 | 541.5 |
| Balance of payments support | 97.2 | 68.2 | 72.0 | 83.5 | 82.8 | 117.8 | 145.7 |
| Other | 164.7 | 259.5 | 348.1 | 298.4 | 382.2 | 397.4 | 395.8 |
| Loan Disbursements | 105.8 | 100.9 | 100.9 | 110.6 | 116.2 | 101.5 | 169.9 |
| IMF | 8.3 | 14.4 | 14.4 | 27.7 | 27.6 | 10.2 | 0.0 |
| Balance of payments support | 18.1 | 24.5 | 24.5 | 28.4 | 9.0 | 31.3 | 42.5 |
| Project support | 79.4 | 62.0 | 62.0 | 54.5 | 79.6 | 60.0 | 127.4 |
| Accumulation of arrears (exceptional) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Debt relief (including MDRI) | 57.6 | 1981.6 | 1978.5 | 394.2 | 391.1 | 0.0 | 0.0 |
| Financing gap (surplus +/-deficit -) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Memorandum items (percent of GDP) | | | | | | | |
| Gross financing requirements | -25.5 | -79.2 | -81.0 | -27.9 | -30.3 | -18.1 | -19.7 |
| Current account balance, excluding official transfers | -21.4 | -15.8 | -19.4 | -12.6 | -16.3 | -15.9 | -16.9 |
| Trade balance on goods and services | -26.7 | -20.2 | -23.7 | -17.3 | -21.0 | -20.4 | -21.1 |
| Gross official assistance | 12.8 | 13.9 | 16.5 | 15.0 | 16.4 | 15.6 | 16.3 |
| Gross official assistance, net of amortization after debt rel | 11.5 | 14.7 | 17.1 | 14.7 | 16.2 | 15.3 | 16.0 |
| Balance of payments assistance (including IMF) | 4.3 | 3.5 | 3.5 | 4.2 | 3.4 | 4.0 | 4.3 |
| Financing gap | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

Sources: Malawian authorities; and IMF staff estimates and projections.

Table 5a. Malawi: Quantitative Targets, September 2006–June 2007 1/

| Criteria | Jun. 2005 Stock Actual | End-Sep. 2006 | | | | End-Dec. 2006: Test Date | | | | |
|--|------------------------------|---------------|-----------|--------------------|--------|--------------------------|-----------|--------------------|--------|--------|
| | | CR 06/445 | Adjusters | Adjusted Target | Act. | CR 06/445 | Adjusters | Adjusted Target | Act. | |
| I. Monetary Targets (Millions of Malawi kwacha) | | | | | | | | | | |
| 1. Ceiling on net domestic assets of the monetary authorities 2/ | PC 3/ | 15,520 | -7,201 | 1,634 | -5,567 | -4,673 | -2,640 | -1,669 | -4,309 | -7,718 |
| 2. Ceiling on reserve money | IT | 19,580 | 1,582 | ... | 1,582 | 760 | 2,486 | ... | 2,486 | 1,942 |
| II. Fiscal Targets (Millions of Malawi kwacha) | | | | | | | | | | |
| 3. Ceiling on central government's net domestic borrowing 2/ 4/ 5/ | PC 3/ | 53,923 | 3,206 | -2,131 | 1,075 | 209 | 6,010 | -9,808 | -3,798 | 382 |
| 4. Ceiling on central government wages and salaries 4/ | PC 3/ | ... | 26,158 | -128 | 26,030 | 25,921 | 31,956 | -128 | 31,828 | 31,705 |
| 5. Ceiling on central government discretionary expenditures 4/ | IT | ... | 73,898 | 1,650 | 75,548 | 73,344 | 90,413 | -9 | 90,404 | 95,104 |
| III. External Targets (Millions of U.S. dollars) | | | | | | | | | | |
| 6. Floor on net foreign assets of the monetary authorities 2/ | PC 3/ | 33.0 | 71.4 | -13.3 | 58.1 | 44.2 | 41.7 | 13.6 | 55.2 | 78.5 |
| 7. Ceiling on the accumulation of external payments arrears 6/ | PC 3/ | ... | 0.0 | ... | 0.0 | 0.0 | 0.0 | ... | 0.0 | 0.0 |
| 8. Ceiling on new nonconcessional external debt with a maturity of one year or more 6/ | PC 3/ | ... | 0.0 | ... | 0.0 | 0.0 | 0.0 | ... | 0.0 | 0.0 |
| 9. Ceiling on new nonconcessional external debt with a maturity of less than one year 6/ | PC 3/ | ... | 0.0 | ... | 0.0 | 0.0 | 0.0 | ... | 0.0 | 0.0 |
| Memorandum items: | | | | | | | | | | |
| For fiscal Targets | | | | | | | | | | |
| Balance of payments support (in millions of U.S. dollars) | | | 159.0 | -10.0 | ... | 139.6 | 167.4 | 17.5 | ... | 184.9 |
| Balance of payments support (In millions of kwacha) | | | 20,693 | -1,384.0 | ... | 17,687 | 21,906 | 2,004 | ... | 23,910 |
| Debt service payments to the WB and the ADB (in millions of US dollars) | | | 7.0 | 3 | ... | 10.3 | 7.4 | 4 | ... | 11.3 |
| Debt service payments to the WB and ADB (in millions of kwacha) | | | 993 | 434 | ... | 1427 | 1047 | 521 | ... | 1569 |
| IMF debt relief transfers from the RBM to the CG (in millions of US dollars) | | | 4.5 | 40 | ... | 44.1 | 13.2 | 45.8 | ... | 59.1 |
| IMF debt relief transfers from the RBM to the CG (in millions of kwacha) | | | 638 | 5,427 | ... | 6,065 | 1,899 | 6,240 | ... | 8,138 |
| Health SWAp wage expenditures (in millions of kwacha) | | | 977 | -128 | ... | 849 | 1,230 | -128 | ... | 1,102 |
| Health SWAp ORT expenditures (in millions of kwacha) | | | 4,413 | 1,650 | ... | 6,063 | 7,050 | -9 | ... | 7,041 |
| Net Movement in special accounts (in millions of kwacha) | | | 3,590 | -1,123 | ... | 2,467 | 1,915 | 2,440 | ... | 4,355 |
| Net movement in NAC account | | | 0 | 838 | ... | 838 | 0 | 1,859 | ... | 1,859 |
| Maize revenue | | | 1,091 | 84 | ... | 1,175 | 1,411 | -236 | ... | 1,175 |
| Net movement in Health SWAp account | | | 2,498 | -2,045 | ... | 454 | 503 | 817 | ... | 1,320 |
| Swap receipts | | | 7,955 | -878 | ... | 7,077 | 8,883 | 292 | ... | 9,174 |
| Swap payments | | | -5,457 | -1,167 | ... | -6,624 | -8,379 | 525 | ... | -7,854 |
| Cash payment of arrears (in millions of kwacha) | | | 2,500 | 0 | ... | 3,789 | 3,000 | 0 | ... | 4,550 |
| Securitization of domestic arrears | | | 0 | 355 | ... | 355 | 0 | 355 | ... | 355 |
| RBM Securitization/Capitalization | | | | | ... | | | | ... | |
| Liquidity Reserve Requirement (percent) | | | 20.0 | 0 | ... | 20.0 | 20.0 | 0 | ... | 20.0 |
| For Monetary Targets | | | | | | | | | | |
| Balance of payments support (in millions of U.S. dollars) | | | | | ... | | | | ... | |
| Debt service payments to the WB and the ADB (in millions of US dollars) | | | | | ... | | | | ... | |
| Program exchange rate | | | 123 | 123 | 123 | 123 | 123 | 123 | 123 | 123 |

Table 5a. (concluded) Malawi: Quantitative Targets, September 2006–June 2007 1/

| Criteria | Jun. 2005 Stock Actual | End-Mar 2007 | | | | End-June 2007: Test Date | | | | |
|--|------------------------------|--------------|-----------|--------------------|---------|--------------------------|-----------|--------------------|---------|---------|
| | | CR 06/445 | Adjusters | Adjusted Target | Act. | CR 06/445 | Adjusters | Adjusted Target | Est. | |
| I. Monetary Targets (Millions of Malawi kwacha) | | | | | | | | | | |
| 1. Ceiling on net domestic assets of the monetary authorities 2/ | PC 3/ | 15,520 | -12,499 | -1,549 | -14,048 | -8,490 | -8,478 | -334 | -8,813 | -13,097 |
| 2. Ceiling on reserve money | IT | 19,580 | -623 | ... | -623 | 810 | 4,183 | ... | 4,183 | 6,216 |
| II. Fiscal Targets (Millions of Malawi kwacha) | | | | | | | | | | |
| 3. Ceiling on central government's net domestic borrowing 2/ 4/ 5/ | PC 3/ | 53,923 | -1,289 | 3,267 | 1,977 | 12,755 | -5,387 | 5,385 | -2 | 3,172 |
| 4. Ceiling on central government wages and salaries 4/ | PC 3/ | ... | 38,026 | 0 | 38,026 | 37,854 | 44,236 | 0 | 44,236 | 43,988 |
| 5. Ceiling on central government discretionary expenditures 4/ | IT | ... | 108,363 | -1,326 | 107,038 | 115,048 | 120,846 | 2,538 | 123,383 | 125,799 |
| III. External Targets (Millions of U.S. dollars) | | | | | | | | | | |
| 6. Floor on net foreign assets of the monetary authorities 2/ | PC 3/ | 33.0 | 85.2 | -3.2 | 82.0 | 66.7 | 90.9 | -12.0 | 78.9 | 138.6 |
| 7. Ceiling on the accumulation of external payments arrears 6/ | PC 3/ | ... | 0.0 | ... | 0.0 | 0.0 | 0.0 | ... | 0.0 | 0.0 |
| 8. Ceiling on new nonconcessional external debt with a maturity of one year or more 6/ | PC 3/ | ... | 0.0 | ... | 0.0 | 0.0 | 0.0 | ... | 0.0 | 0.0 |
| 9. Ceiling on new nonconcessional external debt with a maturity of less than one year 6/ | PC 3/ | ... | 0.0 | ... | 0.0 | 0.0 | 0.0 | ... | 0.0 | 0.0 |
| Memorandum items: | | | | | | | | | | |
| Balance of payments support (in millions of U.S. dollars) | | | 196.1 | -1.4 | | 194.7 | 216.1 | -10.0 | | 200.4 |
| Balance of payments support (In millions of kwacha) | | | 25,853.0 | -585.4 | | 25,268 | 28,735 | -1,402.5 | | 26,068 |
| Debt service payments to the WB and the ADB (in millions of US dollars) | | | 11.0 | 2 | | 12.9 | 11.5 | 2 | | 13.4 |
| Debt service payments to the WB and ADB (in millions of kwacha) | | | 1527 | 258 | | 1785 | 1591 | 270 | | 1861 |
| IMF debt relief transfers from the RBM to the CG (in millions of US dollars) | | | 52.1 | 6.9 | | 59.1 | 59.9 | -0.9 | | 59.1 |
| IMF debt relief transfers from the RBM to the CG (in millions of kwacha) | | | 7,232 | 907 | | 8,138 | 8,355 | -216 | | 8,138 |
| Health SWAp wage expenditures (in millions of kwacha) | | | 1,360 | 0 | | 1,360 | 1,621 | 0 | | 1,621 |
| Health SWAp ORT expenditures (in millions of kwacha) | | | 9,386 | -1,326 | | 8,060 | 10,756 | 2,538 | | 13,293 |
| Net Movement in special accounts (in millions of kwacha) | | | 1,892 | 389 | | 2,280 | 1,091 | 224 | | 1,314 |
| Net movement in NAC account | | | 776 | -655 | | 121 | -438 | 641 | | 202 |
| Maize revenue | | | 1,175 | 0 | | 1,175 | 1,175 | 0 | | 1,175 |
| Net movement in Health SWAp account | | | -60 | 1,044 | | 984 | 354 | -417 | | -63 |
| Cash payment of arrears (in millions of kwacha) | | | 4,603 | 0 | | 4,990 | 4,822 | 0 | | 5,115 |
| Securitization of domestic arrears | | | 0 | 3,719 | | 3,719 | 0 | 3,719 | | 3,719 |
| Liquidity Reserve Requirement (percent) | | | 20.0 | 2,001 | | 15.5 | 20 | 2,001 | | 15.5 |
| Program exchange rate | | 123 | 139 | 139 | | 139 | 139 | 139 | | 139 |

PC - performance criteria; IT - indicative target

1/ Targets are defined in the technical memorandum of understanding (TMU) and are set cumulative from end-June 2005.

2/ Targets are subject to an adjuster for BOP support.

3/ Targets for end-September 2006 and end-March 2007 are indicative.

4/ Targets are subject to an adjuster for donor-funded health expenditures.

5/ Targets are subject to adjusters for maize revenue and cash payment of arrears.

6/ Evaluated on a continuous basis.

Table 5b. Malawi: Quantitative Targets, December 2007–June 2008 1/

| Criteria | Jun. 2005 Stock Actual | Jun. 2007 Stock Actual | End-Dec. 2007:Test | | | |
|--|------------------------------|------------------------------|--------------------|----------------|---------------|---------|
| | | | Date | End-March 2008 | End-June 2008 | |
| | | | Proj. | Proj. | Proj. | |
| I. Monetary Targets (Millions of Malawi kwacha) | | | | | | |
| 1. Ceiling on net domestic assets of the monetary authorities 2/ | PC 3/ | 15,520 | 1,883 | -11,088 | -14,079 | -14,494 |
| 2. Ceiling on reserve money | IT | 19,580 | 25,797 | 7,861 | 6,425 | 10,489 |
| II. Fiscal Targets (Millions of Malawi kwacha) | | | | | | |
| 3. Ceiling on central government's net domestic borrowing 2/ 4/ 5/ | PC 3/ | 53,923 | 57,094 | 2,161 | -2,181 | -1,547 |
| 4. Ceiling on central government discretionary expenditures 4/ | IT | ... | | 46,203 | 63,635 | 79,169 |
| III. External Targets (Millions of U.S. dollars) | | | | | | |
| 5. Floor on net foreign assets of the monetary authorities 2/ | PC 3/ | 33.0 | 171.6 | 135 | 146 | 178 |
| 6. Ceiling on the accumulation of external payments arrears 6/ | PC 3/ | ... | | 0.0 | 0.0 | 0.0 |
| 7. Ceiling on new nonconcessional external debt with a maturity of one year or m | PC 3/ | ... | | 0.0 | 0.0 | 0.0 |
| 8. Ceiling on new nonconcessional external debt with a maturity of less than one | PC 3/ | ... | | 0.0 | 0.0 | 0.0 |
| Memorandum items: | | | | | | |
| For fiscal targets | | | | | | |
| Balance of payments support (in millions of U.S. dollars) | | | | 76.2 | 110.5 | 119.7 |
| Balance of payments support (In millions of kwacha) | | | | 10,774 | 15,624 | 16,924 |
| Debt service payments to the WB and the ADB (in millions of US dollars) | | | | 0.9 | 0.9 | 0.9 |
| Debt service payments to the WB and ADB (in millions of kwacha) | | | | 124.4 | 124.4 | 124.4 |
| IMF debt relief transfers from the RBM to the CG (in millions of US dollars) | | | | 0.0 | 0.0 | 0.0 |
| IMF debt relief transfers from the RBM to the CG (in millions of kwacha) | | | | 0.0 | 0.0 | 0.0 |
| Health SWAp wage expenditures (in millions of kwacha) | | | | 591 | 888 | 1,183 |
| Health SWAp ORT expenditures (in millions of kwacha) | | | | 3,488 | 5,688 | 7,876 |
| Net Movement in special accounts (in millions of kwacha) | | | | 699 | 1,351 | 2,000 |
| Net movement in NAC account | | | | 0 | 0 | 0 |
| Maize revenue | | | | 2,000 | 2,000 | 2,000 |
| Net movement in Health SWAp account | | | | -1,301 | -649 | 0 |
| Cash payment of arrears (in millions of kwacha) | | | | 250 | 250 | 375 |
| Securitization of domestic arrears | | | | 0 | 0 | 0 |
| RBM Securitization/Capitalization | | | | 2,800 | 2,800 | 2,800 |
| Liquidity Reserve Requirement (percent) | | | | 15.5 | 15.5 | 15.5 |
| For monetary targets | | | | | | |
| Balance of payments support (in millions of U.S. dollars) | | | | 276.7 | 310.9 | 320.2 |
| Debt service payments to the WB and the ADB (in millions of US dollars) | | | | 14.3 | 14.3 | 14.3 |
| Program exchange rate | | 123 | 139 | 141 | 141 | 141 |

PC - performance criteria; IT - indicative target

1/ Targets are defined in the technical memorandum of understanding (TMU). Up to the third PRGF review (CR No. 07/147), all targets were set cumulative from end-June 2005. Henceforth, the fiscal targets are set cumulative from the end of the previous fiscal year. Fiscal targets from July 1, 2007 to end-June 2008 are therefore cumulative from end-June 2007. The adjuster on the balance of payment support is \$40 million, cumulative from end-June 2007.

2/ Targets are subject to an adjuster for BOP support.

3/ Targets for end-March 2008 and end-June 2008 are indicative.

4/ Targets are subject to an adjuster for donor-funded health expenditures.

5/ Targets are subject to adjusters for maize revenue and cash payment of arrears.

6/ Evaluated on a continuous basis.

Table 5c. Malawi: Proposed Structural Performance Criteria and Benchmarks,
June 2006 –June 2008

| Number | Description | Date | Status |
|------------------------------|---|----------------|---|
| Performance Criteria | | | |
| 1 | Implementation of a centralized IFMIS mechanism for paying central government utility bills. | End-March 2007 | Partially Implemented; a waiver of nonobeservance requested |
| Structural Benchmarks | | | |
| 1 | Develop and implement new travel policy, which includes mechanisms for monitoring adherence. | End-Sept 2006 | Implemented with a delay |
| 2 | Formulate an action plan to address weaknesses in the area of PFM. | End-Oct. 2006 | Implemented |
| 3 | Compile quarterly financial reports for key public sector enterprises and publish their audited annual financial statements. | End-March 2007 | Implemented with a delay |
| 4 | Compile monthly reports on payroll execution. | End-March 2007 | Implemented |
| 5 | Issue external debt management guidelines. | End-June 2007 | Implemented with a delay |
| 6 | Submit legislation to Cabinet governing the microfinance sector. | End-June 2007 | pending |
| 7 | Form a cash management unit within the accounting general's office and establish a cash management committee. | End-Dec. 2007 | |
| 8 | Review the existing Treasury Funds and present information on their financial performance for auditing by the office of the accountant general. | End-Dec. 2007 | |
| 9 | Complete onsite inspections of the three largest banks . | End-Dec. 2007 | Implemented |
| 10 | Issue the first circulars to Ministries and assemblies communicating 2008/09 ceilings | End-Jan. 2008 | |

Table 6: Malawi: Schedule of Disbursements Under the Three-Year PRGF Arrangement
(Million of SDRs)

| Amount | Date | Conditions Necessary for Disbursement |
|---------|--------|--|
| 5.4190 | Aug-05 | Executive Board approval of three-year PRGF arrangement |
| 4.9245 | Mar-06 | Completion of 1st review and observance of end-Sep. 2005 PCs |
| 4.9245 | Sep-06 | Completion of 2nd review and observance of end-Dec. 2005 PCs |
| 6.6800 | Mar-07 | Completion of 3rd review and observance of end-Jun. 2006 PCs |
| 11.4510 | Nov-07 | Completion of 4th review and 5th review; observance of end-Dec. 2006 PCs and end-Jun. 2007 PCs |
| 4.7710 | Apr-08 | Completion of 6th review and observance of end-Dec 2007 PCs |
| 38.1700 | 1/ | |

1/ Equivalent to 55 percent of Malawi's quota (SDR 69.4 million).

APPENDIX—LETTER OF INTENT

December 3, 2007

Mr. Strauss-Kahn
Managing Director
International Monetary Fund
Washington, DC 20431

Dear Mr. Strauss-Kahn:

1. The Government of Malawi requests the completion of the fourth and fifth reviews and the fifth and sixth disbursements under the PRGF arrangement in the amount of SDR6.68 million and SDR4.771 million respectively. In this connection, the Government also requests the IMF Executive Board to grant waivers for the nonobservance of the quantitative performance criterion relating to central government domestic borrowing for end-December 2006 and for end-June 2007 and for the structural performance criterion on centralization of utility bill payments for end-March 2007. The seventh and final disbursement under the arrangement will be subject to the sixth review expected to be completed by May 2008. The third review of the economic program supported by Malawi's arrangement with the IMF under the Poverty Reduction and Growth Facility (PRGF) was completed on March 14, 2007.
2. In the attached Supplement to the Memorandum of Economic and Financial Policies (MEFP) and Technical Memorandum of Understanding, we review progress in implementing the program in the fiscal year 2006/07 and for the first quarter of the fiscal year 2007/08 and update the macroeconomic framework and policy measures for 2007/08. The Government of Malawi believes that implementation of the PRGF-supported program through end-June 2007 was satisfactory.
3. The Government of Malawi remains strongly committed to implementing the economic program supported by the PRGF arrangement. The program outlined in the attached MEFP presents quantitative performance and indicative targets through to the end of June 2008. We believe that the policies set forth in the attached MEFP are adequate to achieve the objectives of the program, but we will take any further measures that may become appropriate for this purpose. We will consult with IMF staff on the adoption of these measures, and in advance of revisions to the policies contained in the supplementary MEFP, in accordance with the agreed IMF's policies on such consultation.

4. The Government of Malawi authorizes the IMF to make this letter, the attached supplementary MEFP, and the IMF staff report available to the public, including through the IMF internet website.

Sincerely yours,

/s/

Goodall E. Gondwe, M.P.
Minister of Finance

/s/

Victor Mbewe
Governor
Reserve Bank of Malawi

**ATTACHMENT I—SUPPLEMENT TO THE MEMORANDUM OF ECONOMIC AND FINANCIAL
POLICIES OF THE GOVERNMENT OF MALAWI**

December 3, 2007

I. INTRODUCTION

1. **The current memorandum supplements the policies presented in our Memorandum of Economic and Financial Policies (MEFP) of July 2005 (Country Report No. 05/285), February 2006 (Country Report No. 0694), August 2006 (Country Report No. 06/445) and December 2006 (Country Report No. 07/147).** The memorandum reviews developments during the fiscal year 2006/07 and the first quarter of 2007/08. It also outlines the macroeconomic policies and structural reforms that the Government will pursue for the remainder of 2007/08.

2. **Malawi's macroeconomic performance remains strong** because of sound policies and a favorable environment. Annual real GDP growth for 2006 is estimated at 7.9 percent on the basis of the revisions to the national account (8.5 percent under the old series), led by a strong recovery in agricultural production, particularly for maize. Another bumper crop in 2007 has sustained growth at 7.4 percent. Lower food prices and a stable kwacha helped reduce inflation to 7.2 percent at end-August 2007. Continued favorable conditions and policies in 2008 will allow Malawi's output growth to remain high at 7.1 percent.

II. PROGRAM IMPLEMENTATION IN 2006/07

3. **Program implementation in 2006/07 was satisfactory.** We met our key economic objectives: inflation declined faster than forecasted, domestic debt fell by two percent of GDP (though slower than envisaged), and external reserves increased faster than we planned. We also met most of the performance criteria at both end-December 2006 and end-June 2007. However, unexpected non-discretionary spending led to higher-than-targeted domestic borrowing. Reserve money at end-June 2007 was also higher than expected.

Fiscal policies

4. **Our fiscal strategy during 2006/07 focused on reducing the domestic debt burden.** Higher domestic revenue projections permitted us to raise discretionary spending during the year without threatening this objective. As it turned out, the revenue gains (about MK5 billion) exceeded expectations as well as the increase in discretionary spending (about MK3 billion).

5. **Budget implementation, however, came under pressure from unforeseen non-discretionary spending and a large aid shortfall.** During the first half of the fiscal year, we were obliged to make unanticipated payments on external debt (MK0.9 billion) because of a shortfall in debt relief and on domestic interest costs (MK1.1 billion), and to cover

unforeseen losses at the RBM (MK0.9 billion). Moreover, a key donor postponed disbursing MK2.8 billion beyond the fourth quarter for administrative reasons. As a result, domestic borrowing exceeded the adjusted target at end-December 2006 by MK4.2 billion and at end-June 2007 by MK3.1 billion. The domestic debt burden has nevertheless continued to fall as a share of GDP and, incorporating a large securitization of domestic arrears (MK3.6 billion), fell from 14.4 percent of GDP at end-June 2006 to 12.3 percent of GDP at end-June 2007.

Public financial management

6. **We have strengthened our control of utility bill payments by all central government entities.** The implementation of the IFMIS has obviated the need for centralizing the payment of utility bills for those ministries connected online to the IFMIS: IFMIS prevents these ministries from moving funding allocations from utilities (telephones, electricity, water) to other purposes, and only utility bills can be paid out of these allocations. However, some institutions—such as the army and the police—have autonomous payment offices and are not connected online to the IFMIS. From February 2007, the allocation for utilities for these institutions was retained by the Accountant General’s department and payments are made directly from there.
7. **The Government has implemented a new travel policy for the civil service.** The policy will strengthen transparency, monitoring and accountability in relation to travel of civil servants both within and outside of Malawi. It will reduce unnecessary travel and hence travel costs in the budget. The Government has also decided to adjust the allowances for travel to better reflect actual costs.
8. **We are well advanced in our strategy to clear domestic arrears.** We have cleared our arrears to small creditors. We have also completed a program of securitizing domestic arrears using special T-bills and other government securities. This has substantially expedited repayment of government arrears to the private sector, accommodating long-standing requests from the private sector for the Government to fulfill commitments made in the past. What remains are some disputed compensation cases, now under review in the legal system. We securitized about 0.7 percent of GDP in arrears, mostly during the third fiscal quarter. The securitization does not affect domestic borrowing, but is included in the stock of domestic debt.
9. **To improve monitoring of fiscal risks of public sector enterprises, we have compiled quarterly financial reports for the major public sector enterprises,** including the utilities and ADMARC, and published their audited annual financial statements (structural benchmark for end-March 2007).
10. **To ensure effective control of the wage bill, we have started compiling monthly reports of payroll execution** (structural benchmark for end-March 2007).

Monetary and exchange rate policies

11. **Favorable market conditions since Malawi reached the HIPC completion point in mid-2006 have permitted the RBM to maintain a stable exchange rate.** The bumper harvests in 2006 and 2007 have resulted in attainment of our important objective of food self-sufficiency, as well as easing pressures on the exchange rate at the end of the crop cycle. In addition, the improvement in the macroeconomic environment attracted substantial foreign capital inflows during the second half of 2006. Spreads between official and the parallel market exchange rates (reflected in rates offered by foreign exchange bureaus) have continued to trend down until mid-2007.

12. **Implementation of monetary policy was satisfactory through the year and the RBM met all the performance criteria on net domestic assets and net foreign assets.** However, monetary policy came under pressure during the second half of the year because of unexpectedly large dedicated aid inflows and excess liquidity generated by the reduction in the liquidity reserve requirements (LRR) from 20 to 15.5 percent in February 2007. As a result, the end-June 2007 indicative target for reserve money was exceeded. Nevertheless, the good harvests and a stable exchange rate permitted overall inflation to decline from 16 percent in June-2006 to 7.2 percent in August 2007, supporting a decline in T-bill rates from about 20 percent to about 12 percent over the same period.

13. **Commercial bank credit to the private sector has continued to expand, increasing 35 percent during 2006/07.** This expansion was supported by the lower government domestic borrowing and foreign capital inflows.

III. POLICY ISSUES FOR 2007/08

14. **Our macroeconomic objectives for 2007/08 are largely unchanged from those agreed when the PRGF arrangement was originally approved.** Real GDP is projected to grow by 7.4 percent in 2007 and 7.1 percent in 2008. Growth during the past two years has been largely driven by the agricultural sector, but there are indications that the expansion has now spread to other sectors. We expect average inflation to decline from about 10 percent in 2006/07 to about 7 percent during 2007/08.

Fiscal policies

15. **Our objective is to create space for pro-poor and pro-growth spending, and for growth in credit to the private sector, while ensuring sustainability and resilience to shocks.** Reducing domestic debt remains a key part of this strategy. This will lower domestic interest costs, providing for a sustainable increase in spending on high-priority areas, especially water supply and other infrastructure, health, and education. We will accomplish our objective by continued judicious expenditure increases and strong domestic revenue performance. Our efforts will also benefit from a substantial increase in program aid and declines in domestic interest rates. The program is broadly in line with the budget for

2007/08, passed by the Parliament in September 2007, though revenue and budget aid projections are now higher; should this positive forecast begin to materialize more clearly, we may consider some judicious spending increases in the context of the mid-year budget review. As a result, we expect to make repayments on domestic debt of about MK6 billion, reducing the debt burden by two percentage points during the fiscal year to about 10 percent of GDP by end-June 2008.

16. **We expect revenues to increase relative to GDP.** The revenue performance in the first quarter of the year exceeded expectations, reflecting strong tax buoyancy, improved administrative capacity of the Malawi Revenue Authority, and revisions to the petroleum pricing formula. We expect that measures introduced this year to improve investment incentives and offset a tax-bracket creep will lead to little loss of revenues. Non-tax revenues should benefit from improved incentives to collect departmental fees and the adjustment in the road levy.

17. **Expenditures on goods and services and subventions (mainly rehabilitation of universities) will be increased.** The increase in spending on goods and services reflects allocations for the Health and Education Ministries, including provisions for drugs and teaching materials. The fertilizer subsidy will remain a key element of our food security policy. We aim to distribute the same amount of subsidized fertilizer as envisaged in last year's approved budget. However, we plan to increase the price subsidy. We do not envisage any cost to the budget from maize purchases to replace the stock of maize in the Strategic Grain Reserve, as the new purchases will be fully financed by sales of the existing stock. Stronger external support will drive an increase in overall capital spending.

18. **The budget also incorporates an increase in the payroll.** This partly reflects carry-overs from hiring in the health and security sectors and wage increases allocated to the Judiciary, members of Parliament, and cabinet ministers during the second half of 2006/07. We will increase civil service salaries by about 20 percent over the next year.

Public financial management

19. **Continued implementation of PFM reforms is critical to increase the public sector's effectiveness and productivity.** We prepared a comprehensive PFM action plan, as part of the PRGF program and in close collaboration with donors, which ties together and prioritizes the various PFM needs. We plan to take the following steps in this fiscal year:

- **We will give a high priority to establishing the cash flow planning system** to facilitate the Government's projection of receipts and expenditures throughout the fiscal year and support better projections of domestic interest payments. We will form a cash management unit within the Accountant General's Department and establish a cash management committee as a forum for decision making within the ministry of finance (end-December 2007 structural benchmark).

- **We will review the need for existing Treasury Funds** and present information on their financial performance for auditing by the national audit office (end–December 2007 structural benchmark).
- **We will take steps to fully implement the IFMIS system.** We are cautiously proceeding with the implementation of the Active Planner module to replace the existing system for budget planning as this will require some customization to comply with our budget planning requirements. Rolling out the system to local assemblies will start from a tender process for a software solution, which we expect to complete by March 2008.
- **We will accelerate the budget preparation process** to improve planning and coordination. To this end, we aim to issue first circulars to Ministries and assemblies communicating 2008/09 ceilings in January 2008 (structural benchmark). The new budget calendar will also consolidate all budget related issues, including investment and sectoral programs under the MGDS.
- **We will continue working on the adoption of a new budget classification** consistent with GFS 2001. Substantial progress has already been made.

Monetary and exchange rate policies

20. **Our monetary and exchange rate regime will remain geared towards moderate and stable inflation—in particular a credible inflation rate in the neighborhood of 5-7 percent in the medium-term**—with a view to cementing macroeconomic stability and setting the stage for sustained growth. More immediately, in view of its importance and visibility in anchoring prices, we place substantial weight on stability of the nominal exchange rate as an intermediate target. Monetary aggregate targets will also continue to play a critical supporting role. We will be flexible in adjusting our intermediate targets as circumstances warrant.

21. **We will continue to move towards a more market-based mechanism for exchange rate determination.** In this regard, we will continue to refrain from exchange restrictions and ensure that adequate foreign exchange reserves are made available to the market.

22. **Restrained money growth, a stable exchange rate and another good harvest will permit us to meet our inflation objective.** We have therefore moved to redress the monetary overhang that emerged at the end of 2006/07 and which continued into the first quarter of 2007/08. On this basis, we expect inflation to decline to 7 percent by the end of the fiscal year. We reduced the benchmark bank rate from 20 to 17.5 percent in August 2007, and expect this rate to fall further as inflation expectations stabilize. However, we are prepared to tighten monetary policy should our foreign reserves target and inflation objectives come under threat.

23. **Malawi's external prospects remain positive.** Two successive bumper crops have permitted substantial maize exports, and we project a much larger tobacco crop and higher aid inflows in 2008. The RBM will take advantage of these circumstances to increase the external reserve import coverage from 1.3 in mid-2007 to at near 2 in mid-2008, an increase of about 2 percent of GDP.

24. **Two successive bumper harvests have allowed us to license substantial maize exports,** but we will move cautiously in this area to ensure that Malawi's food security is not compromised. Maize prices have declined on account of the two bumper harvests and we have taken advantage of favorable market conditions to purchase maize for the Strategic Grain Reserve (SGR). In view of the potentially large harvest in 2007, and the limited scope for further purchases for the SGR, we expect that Malawi will export about 400 thousand metric tons of maize worth about US\$94 million.

Financial sector development

25. **The banking sector remains healthy.** However, in light of the large expansion in credit to the private sector and limited onsite inspection of systematically important banks, the RBM has scaled up supervision through onsite inspections of the three largest banks by (end-December 2007 structural benchmark). With the assistance of East-AFRITAC, we have issued risk management guidelines for commercial banks.

26. **Progress has been made on strengthening the financial sector.** The revised RBM Act, which aims to strengthen banking supervision and, as part of a SADC initiative, gives the RBM greater autonomy, is with the Ministry of Justice and will shortly be submitted to the cabinet. The RBM has drafted regulations for the microfinance sector (end-June 2007 structural benchmark) which should be finalized shortly. In other areas, we have revised or drafted new legislation to cover the payment system, insurance and pensions, the banking sector and banking supervision, and also the securities sector. We are also currently working with stakeholders on legislation concerning credit bureaus. We are developing a comprehensive strategy to strengthen financial intermediation and the outcome of the FSAP will be an important input into the final strategy.

27. **We have developed a strategy to eliminate the losses that emerged last year at the RBM.** These losses emerged for various reasons, including fiscal discipline that lowered the inflation tax, more efficient cash management at the Treasury and the cost of financing increases in external reserves. Our strategy will permanently ensure the RBM's financial independence and end its reliance on the budget. It incorporates two elements: (i) the operational restructuring of the RBM to reduce its administrative costs, especially for printing and coining the currency; and (ii) the transfer of financial instruments from the Treasury to the RBM. The amount of such instruments issued would be substantially higher than any operating losses that may persist after operational restructuring. This will over time increase the capital of the RBM and thus ensure the progressive elimination of any such

losses. The RBM is implementing a comprehensive review of its costs and has already identified an initial round of cuts. Financial restructuring will involve transferring securities (Treasury bills) to the RBM such that it can conduct monetary policy operations without impairing its income position, beginning by March 2008.

Other structural measures

28. **Improving our external public debt management is critical to ensure that our external debt does not return to unsustainable levels.** A comprehensive strategy will take time to put in place. Meanwhile, we have developed guidelines for the entire public sector to ensure that new borrowing is sufficiently concessional and accumulated within sustainable levels (structural benchmark for end-June 2007).

29. **The Government is determined to continue to improve the environment for doing business in Malawi for both domestic and foreign investors.** To this end, we are streamlining licensing and plan to improve other administrative procedures, such as creating a one-stop shop for supporting investors in Malawi. In addition, we established a Commercial Division of the high court to relieve the current backlog of commercial cases in Malawi's court system and to facilitate the resolution of commercial disputes and foster a credit culture. We also plan to address the large legislative backlog of economic laws, many of which require wholesale revisions.

30. **We are working to improve our statistical reporting capacity.** We have completed the revisions to the national accounts and the balance of payments for 2002-2004 (with assistance mainly from Statistics Norway and also from the Fund). Similar revisions will be done for 2005 and 2006. We are also strengthening the compilation of the consumer price index and will shortly complete the revision of the weights using the 2004 Integrated Household Survey. Additionally, we are in the process of finalizing surveys on capital account, trade, current account and remittances. We are also improving data collection on project inflows, albeit a few donors are not fully engaged.

Table 1. Malawi: Quantitative Targets 1/

| Criteria | Jun. 2005 Stock Actual | Jun. 2007 Stock Actual | End-Dec 2007: | | | |
|--|------------------------------|------------------------------|---------------|----------------|--------------|---------|
| | | | Test Date | End-March 2008 | End-Jun 2008 | |
| | | | Proj. | Proj. | Proj. | |
| I. Monetary Targets (Millions of Malawi kwacha) | | | | | | |
| 1. Ceiling on net domestic assets of the monetary authorities 2/ | PC 3/ | 15,520 | 1,883 | -11,088 | -14,079 | -14,494 |
| 2. Ceiling on reserve money | IT | 19,580 | 25,797 | 7,861 | 6,425 | 10,489 |
| II. Fiscal Targets (Millions of Malawi kwacha) | | | | | | |
| 2. Ceiling on central government's net domestic borrowing 2/ 4/ 5/ | PC 3/ | 53,923 | 57,094 | 2,161 | -2,181 | -1,547 |
| 3. Ceiling on central government discretionary expenditures 4/ | IT | ... | | 46,203 | 63,635 | 79,169 |
| III. External Targets (Millions of U.S. dollars) | | | | | | |
| 4. Floor on net foreign assets of the monetary authorities 2/ | PC 3/ | 33.0 | 171.6 | 135 | 146 | 178 |
| 5. Ceiling on the accumulation of external payments arrears 6/ | PC 3/ | ... | | 0.0 | 0.0 | 0.0 |
| 6. Ceiling on new nonconcessional external debt with a maturity of one year or more 6/ | PC 3/ | ... | | 0.0 | 0.0 | 0.0 |
| 7. Ceiling on new nonconcessional external debt with a maturity of less than one year 6/ | PC 3/ | ... | | 0.0 | 0.0 | 0.0 |
| Memorandum items: | | | | | | |
| For fiscal Targets | | | | | | |
| Balance of payments support (in millions of U.S. dollars) | | | | 76.2 | 110.5 | 119.7 |
| Balance of payments support (In millions of kwacha) | | | | 10,774 | 15,624 | 16,924 |
| Debt service payments to the WB and the ADB (in millions of US dollars) | | | | 0.9 | 0.9 | 0.9 |
| Debt service payments to the WB and ADB (in millions of kwacha) | | | | 124.4 | 124.4 | 124.4 |
| IMF debt relief transfers from the RBM to the CG (in millions of US dollars) | | | | 0.0 | 0.0 | 0.0 |
| IMF debt relief transfers from the RBM to the CG (in millions of kwacha) | | | | 0.0 | 0.0 | 0.0 |
| Health SWAp wage expenditures (in millions of kwacha) | | | | 591 | 888 | 1,183 |
| Health SWAp ORT expenditures (in millions of kwacha) | | | | 3,488 | 5,688 | 7,876 |
| Net Movement in special accounts (in millions of kwacha) | | | | 699 | 1,351 | 2,000 |
| Net movement in NAC account | | | | 0 | 0 | 0 |
| Maize revenue | | | | 2,000 | 2,000 | 2,000 |
| Net movement in Health SWAp account | | | | -1,301 | -649 | 0 |
| Swap receipts | | | | 5,379 | 6,523 | 9,327 |
| Swap payments | | | | -4,080 | -6,576 | -9,059 |
| Cash payment of arrears (in millions of kwacha) | | | | 250 | 250 | 375 |
| Securitization of domestic arrears | | | | 0 | 0 | 0 |
| RBM Securitization/Capitalization | | | | 2,800 | 2,800 | 2,800 |
| Liquidity Reserve Requirement (percent) | | | | 15.5 | 15.5 | 15.5 |
| For Monetary Targets | | | | | | |
| Balance of payments support (in millions of U.S. dollars) | | | | 276.7 | 310.9 | 320.2 |
| Debt service payments to the WB and the ADB (in millions of US dollars) | | | | 14.3 | 14.3 | 14.3 |
| Program exchange rate | | 123 | 139 | 141 | 141 | 141 |

PC - performance criteria; IT - indicative target

1/ Targets are defined in the technical memorandum of understanding (TMU). Up to the third PRGF review (CR No. /07/147), all targets were set cumulative from end-June 2005. Henceforth, the fiscal targets are set cumulative from the end of the previous fiscal year. Fiscal targets from July 1, 2007 to end-June 2008 are therefore cumulative from end-June 2007. The adjuster on the balance of payment support is \$40 million, cumulative from end-June 2007.

2/ Targets are subject to an adjuster for BOP support.

3/ Targets for end-March 2008 and end-June 2008 are indicative.

4/ Targets are subject to an adjuster for donor-funded health expenditures.

5/ Targets are subject to adjusters for maize revenue and cash payment of arrears.

6/ Evaluated on a continuous basis.

Table 2. Malawi: Proposed Structural Performance Criteria and Benchmarks,
June 2006 –June 2007

| Number | Description | Date | Status |
|------------------------------|---|----------------|---|
| Performance Criteria | | | |
| 1 | Implementation of a centralized IFMIS mechanism for paying central government utility bills. | End-March 2007 | Partially Implemented; a waiver of nonobeservance requested |
| Structural Benchmarks | | | |
| 1 | Develop detailed schedule of wage adjustments by grade for 2005/06 | End-Sep. 2005 | Implemented in February 2006 |
| 2 | Formulate an action plan to address weaknesses in the area of PFM. | End-Oct. 2006 | Implemented |
| 3 | Compile quarterly financial reports for key public sector enterprises and publish their audited annual financial statements. | End-March 2007 | Implemented with a delay |
| 4 | Compile monthly reports on payroll execution. | End-March 2007 | Implemented |
| 5 | Issue external debt management guidelines. | End-June 2007 | Implemented with a delay |
| 6 | Submit legislation to Cabinet governing the microfinance sector. | End-June 2007 | pending |
| 7 | Form a cash management unit within the accounting general's office and establish a cash management committee. | End-Dec. 2007 | |
| 8 | Review the existing Treasury Funds and present information on their financial performance for auditing by the office of the accountant general. | End-Dec. 2007 | |
| 9 | Complete onsite inspections of the three largest banks . | End-Dec. 2007 | Implemented |
| 10 | Issue the first circulars to Ministries and assemblies communicating 2008/09 ceilings | End-Jan. 2008 | |

ATTACHMENT II—TECHNICAL MEMORANDUM OF UNDERSTANDING

1. This memorandum sets out the definitions for the quantitative and structural targets under which Malawi's performance under the Poverty Reduction and Growth Facility arrangement will be assessed. Monitoring procedures and reporting requirements are also specified.
2. **Coverage:** The central government includes all units of government that exercise authority over the entire economic territory. However, in contrast to the System of National Accounts 1993 (SNA 1993) and Government Finance Statistics Manual 2001 (GFSM 2001) standards, nonprofit institutions that are controlled and financed by the central government are excluded for the purposes of this memorandum. The accounts of the monetary authorities include those of the Reserve Bank of Malawi (RBM) and the central government's holdings of international reserves. Monetary aggregates under the program are based on the three-bank monetary survey.

I. QUANTITATIVE PERFORMANCE CRITERIA

A Floor on Net Foreign Assets of the Monetary Authorities

3. **Definition of net foreign assets (NFA) of the monetary authorities:** NFA of the monetary authorities are defined as the difference between gross foreign assets and liabilities. NFA will be valued in U.S. dollars, and monetary gold will be valued at the fixed RBM accounting rate. The counterpart entry to the central government's international reserve assets will be classified as a negative entry under "net credit to central government".
4. **Gross foreign assets of the monetary authorities,** or reserve assets are defined in the International Reserve and Foreign Currency Liquidity Guidelines for a Data Template as external assets immediately available and controlled by RBM "for direct financing of payments imbalances, for indirectly regulating the magnitudes of such imbalances through intervention in exchange markets to affect the currency exchange rate, and/or for other purposes." (*BPM5*, para. 424.).
5. This concept includes the following: (1) monetary gold holdings of the RBM; (2) holdings of SDRs; (3) the reserve position in the IMF; (4) central government (treasury) holdings with crown agents; and, (5) Foreign Convertible Currency Holdings; (6) Deposits held in foreign central banks, BIS and other banks; (7) loans to foreign banks redeemable upon demand; (8) foreign-currency denominated securities; (9) other un-pledged convertible liquid claims on nonresidents. Excluded are (1) any foreign currency claims on residents, (2) capital subscriptions in international institutions, (3) foreign assets in nonconvertible currencies, (4) transfers of foreign currency claims to RBM by other institutional units in Malawi just prior to reporting dates with accompanying reversals of such transfers soon after those dates; (5) gross reserves that are in any way encumbered or pledged, including, but not limited to (i) assets blocked when used as collateral for third party loans and third-party

payments, pledged to investor as a condition to invest in domestic securities, and (ii) assets lent by RBM to third party which are not available until maturity, prior to maturity and are not marketable (including the outstanding balance of the loan to Zimbabwe).

6. **Gross foreign liabilities of the monetary authorities** are defined as the sum of the following: (1) outstanding liabilities of the RBM to the IMF; and, (2) all short-term foreign currency liabilities of the RBM to non-residents with an original maturity of up to, and including, one year.

7. **Adjustment clause on net foreign assets—balance of payments support:** The floor on NFA of the monetary authorities will be adjusted upward (downward) by the full amount by which the cumulative receipts from the balance of payments support are greater (less) than the program baseline (see Table 1). The downward adjustment will be capped at US\$40 million, cumulative from end-June 2007. Balance of payments support is measured as the cumulative flow from June 30, 2005.

8. **Definition of balance of payments support:** Balance of payments support includes all grants and foreign financing that is not linked to additional budgetary expenditure. Excluded from this definition is external project financing to fund particular activities, including food security funding from the European Union and loan financing from the IMF.

9. **Adjustment clause on net foreign assets—debt service payments:** The floor on NFA of the monetary authorities will be adjusted upward (downward) by the full cumulative amount by which debt service payments to the World Bank and the ADB falls short of (exceed) the program baseline (Table 1). The cumulative amount will be measured from June 30, 2005.

B. Ceiling on the Net Domestic Assets of the Reserve Bank of Malawi

10. **Definition of net domestic assets (NDA) of the RBM:** NDA of the RBM is defined as reserve money minus net foreign assets valued at the program exchange rate of MK141 per US\$1. Reserve money consists of currency issued by the RBM and balances of commercial banks accounts with the RBM. It includes required reserves held for Malawi kwacha deposits and any other domestic currency reservable liabilities and other demand and time deposits held with the RBM.

11. **Adjustment clause on net domestic assets—balance of payments support:** The ceiling on NDA of the RBM will be adjusted downward (upward) by the full amount by which the cumulative flow of receipts from balance of payments support is greater (less) than the program baseline. The upward adjustment will be capped at US\$40 million, cumulative from end-June 2007. Balance of payments support will be converted to Malawi kwacha using the program exchange rate (see para. 8 for the definition of balance of payments support). Balance of payments support is measured as the cumulative flow from June 30, 2005.

12. **Adjustment clause on net domestic assets—liquidity reserve requirement:** The ceiling on NDA of the RBM will be adjusted downward for a decrease in the reserve requirement ratio, and the ceiling will be adjusted upward for an increase in the ratio. The adjustment will be spread equally over two quarters, starting in the quarter in which the reserve requirement ratio is reduced. The adjuster will be calculated as follows: (one minus the existing required percentage of reserve assets held at the discount houses) multiplied by (the program baseline required reserve ratio minus the new required reserve ratio) multiplied by (the amount of reservable deposit liabilities in commercial banks as at the end of the quarter prior to the change in regulation).

13. **Adjustment clause on net domestic assets—debt service payments:** The ceiling on NDA of the RBM will be adjusted downwards (upwards) by the full cumulative amount by which debt service payments to the World Bank and the ADB falls short of (exceed) the program baseline (Table 1). The cumulative amount will be measured from June 30, 2005. Debt service payments will be converted to Malawi kwacha using the program exchange rate.

C. Ceiling on Central Government's Domestic Borrowing

14. **Definition of central government's domestic borrowing (CGDB):** CGDB is computed as the sum of (i) net borrowing from the RBM (including ways and means advances, loans, holdings of local registered stocks, and holdings of treasury bills minus deposits), (ii) net borrowing from commercial banks (including advances, holdings of local registered stocks and holdings of treasury bills minus deposits), (iii) net borrowing from nonbanks (including holding of local registered stocks, holdings of treasury bills, and supplier credits minus government deposits held at the Malawi Savings Bank), and (iv) holdings of promissory notes. The treasury bills and local registered stocks are valued at cost rather than face value. Excluded are any promissory notes issued to cover RBM's operational losses in 2002 and 2003. The ceiling is measured as the change in the stock of CDGB from June 30, 2007, excluding promissory notes and securities transferred to the RBM from the Treasury since June 30, 2007.

15. **Definition of June 2004 domestic arrears:** June 2005 domestic arrears consist of all domestic arrears for which the obligation to pay was established on or before June 30, 2004.

16. **Definition of domestic arrears:** Domestic arrears are overdue payment obligations by central government other than external payment arrears, including on wages and salaries, pensions, transfers, domestic interest, goods and services, obligations arising from court cases, legally established compensation claims, and payments to the Malawi Revenue Authority (MRA) for tax refunds. Payments on wages and salaries, pensions, transfers, court established obligations, and compensations are in arrears when they remain unpaid for more than 30 days beyond their due date. Domestic interest payments are in arrears when the payment is not made on the due date. Payments for goods and services are deemed to be in

arrears if they have not been made within 30 days of the date of invoice, or—if a grace period has been agreed—within the contractually agreed grace period.

17. **Adjustment clause on CGDB—balance of payments support:** The ceiling on CGDB will be adjusted downward (upward) by the full amount by which the cumulative kwacha receipts from balance of payments support is greater (less) than the program baseline (see para. 7 for the definition of balance of payments support). The cumulative receipts will be measured from June 30, 2007. The upward adjustment will be capped at US\$40 million, measured at the current exchange rate and cumulative from end-June 2007.

18. **Adjustment clause on CGDB—securitization of arrears:** The ceiling on CGDB will be adjusted upward by the full cumulative amount by which pre-2005 domestic arrears are securitized from June 30, 2007.

19. **Adjustment clause on CGDB—cash payment of arrears:** The ceiling on CGDB will be adjusted downward by the full amount by which cumulative payments from June 30, 2007, for verified pre-2005 domestic arrears are less than the program baseline. Only payments that are charged against the Accountant General vote, and reported by the Accountant General will be recognized as payments for pre-2005 domestic arrears.

20. **Adjustment clause on CGDB—maize revenue:** The ceiling on CGDB will be adjusted upward (downward) by the full amount by which the cumulative receipts from the sale of commercial maize through ADMARC and deposited in the RBM maize account is less (greater) than the program baseline (see Table 2). Cumulative receipts will be measured from June 30, 2007.

21. **Adjustment clause on CGDB—donor pool account for the health SWAp:** The ceiling on CGDB will be adjusted downward (upward) by the full amount by which the net flows (in kwacha) from the U.S. dollar denominated donor pool account for the health SWAp is larger (smaller) than in the program baseline (Table 2). Net flows (in kwacha) are measured as the receipts received by the budget from the SWAp account less Swap related expenditures by the budget. The net flow is measured from June 30, 2007.

22. **Adjustment clause on CGDB—National Aids Commission (NAC) accounts:** The ceiling on CGDB will be adjusted downward (upward) by the full amount by which the change (in kwacha) of the stock in the accounts of the NAC held in the Malawi banking system is larger (smaller) than the change (in kwacha) of the stock in those accounts in the program baseline (Table 2). The stock of the NAC accounts will be determined on the basis of the quarterly financial reports of the NAC. The change in stock is measured relative to the stock as of June 30, 2007. Stocks in the accounts are stated with a positive sign.

23. **Adjustment clause on CGDB—debt service payments:** The ceiling on net CGDB will be adjusted downwards (upwards) by the full cumulative amount by which debt service

payments to the World Bank and the ADB, measured in kwacha, falls short of (exceed) the program baseline (Table 2). The cumulative amount will be measured from June 30, 2007.

D. Ceiling on External Payments Arrears

24. **Definition of external payment arrears:** External payment arrears consist of external debt-service obligations (principal and interest) of the central government or the RBM that have not been paid at the time they are due, as specified in the contractual agreements, except on external debt subject to rescheduling or restructuring. This performance criterion is monitored on a continuous basis.

E. Ceiling on Nonconcessional External Debt

25. **Definition of nonconcessional external debt:** The definition of debt, for the purpose of the limit, is set out in Executive Board Decision No. 6230-(79/140) of August 3, 1979, and as amended by Decisions No. 11096-(95/100), October 25, 1995; and 12274-(00/85) August 24, 2000. For program purposes, a short- and medium- and long-term debt is nonconcessional if it includes a grant element less than 35 percent, as indicated in Decision No. 11248-(96/38), April 15, 1996. The ceiling on nonconcessional debt applies to the contracting and guaranteeing by the central government, the RBM, or other agencies on behalf of the central government or the RBM on debt with nonresidents. The ceiling applies to debt and commitments contracted or guaranteed for which value has not been received. The ceiling is measured cumulatively from June 30, 2007.

26. **Short-term debt:** outstanding stock of debt with an original maturity of one year or less.

27. **Medium- and long-term debt:** outstanding stock of debt with a maturity of more than one year.

28. **Excluded from the limit** is the use of Fund resources, and any kwacha-denominated treasury bill and local registered stock holdings by nonresidents. Excluded from the limit are also (i) debts classified as international reserve liabilities of the RBM; (ii) new debt issued to restructure, refinance, or repay existing debt up to the amount actually used for the above-mentioned purposes; (iii) normal import financing; and (iv) arrangements to pay over time obligations arising from judicial awards to external creditors. A financing arrangement for imports is considered to be “normal” when the credit is self-liquidating.

II. QUANTITATIVE INDICATIVE TARGETS

A. Ceiling on Reserve Money

29. **Definition of reserve money:** Reserve money is defined as the sum of currency issued by the RBM and balances of commercial bank accounts with the RBM. It includes required reserves held for kwacha deposits, other domestic currency liabilities, and other demand and time deposits held with the RBM.

B. Ceiling on Central Government Discretionary Expenditures

30. **Definition of central government discretionary expenditures:** These are defined as all expenditures excluding (i) wages and salaries, (ii) interest payments, and (iii) foreign-financed development expenditures (development Part I expenditures) which are related to specific projects. Central government discretionary expenditures include statutory (i.e., nonvoted) expenditures for pensions and gratuities, and compensation and refunds; but exclude tax refunds (which are treated as a negative revenue). Central government discretionary expenditures also include other recurrent expenditures (ORT), domestically financed development expenditures (development Part II expenditures), and net lending (if any). Included in this definition are also recurrent expenditures and development Part II expenditures for which cash financing is or was made available by donors. Included in particular are all maize purchases for the Strategic Grain Reserve, purchases financed from the Japan debt relief account, and budget expenditures in the health sector financed from the donor pool account for the health SWAp. The ceiling is measured as a cumulative flow from June 30, 2007.

31. **Adjustment clause on central government discretionary expenditures—donor funded central government discretionary expenditures in the health sector.** The ceiling on central government discretionary expenditures will be adjusted upward (downward) by the full amount of donor-funded central government discretionary health sector expenditures that is greater (less) than the program baseline (Table 2). In respect of resources made available through the U.S. dollar-denominated donor pool account for the health SWAp (donor pool account), donor-funded central government discretionary expenditures in the health sector will be deemed to have been made according to the calculation: ‘outflows from the donor pool account to finance expenditures, expressed in Malawi kwacha’ less ‘donor financed supplementary wages in the health sector’.

III. STRUCTURAL PRIOR ACTIONS, PERFORMANCE CRITERIA AND BENCHMARKS

A. Measures Agreed Before the Fourth Review

32. **Travel Policy:** The Ministry of Finance will develop and implement (by issuing a circular) a travel policy that will aim to ensure accountability and control for all expenditure on travel.
33. **PFM action plan:** The Ministry of Finance will develop an action plan that prioritizes reforms, describes existing donor support, and identifies remaining areas of need for technical assistance in the area of public financial management.
34. **Payroll:** The Ministry of Finance will produce monthly reports on the execution of the payroll. The report will include information on the establishment, total number of employees, entries, exits, and promotions for the central government. The report will be produced within two weeks of the end of the month.
35. **IFMIS:** The Ministry of Finance will develop a mechanism within IFMIS for payment on a monthly basis of the utility bills of all central government entities (water, electricity, telephones). The mechanism will be managed by the accountant general. Implementation will be assessed by the delivery of centralized IFMIS payment receipts.
36. **Public Sector Enterprises:** The Ministry of Finance will compile quarterly financial reports of the key public sector enterprises and will publish their audited annual financial statements. The public enterprises covered include ESCOM, the five Water Boards, ADMARC, Air Malawi, the Malawi Postal Corporation, and the Malawi Housing Corporation.
37. **Microfinance sector:** The government will submit legislation to Cabinet governing the microfinance sector in Malawi. The legislation will establish the capital requirements of the microfinance institutions and provide a regulatory framework for accepting deposits and make loans. It will also provide reporting requirements to the RBM by these institutions and will establish the prudential norms under which these institutions will operate.
38. **External debt management guidelines:** The Ministry of Finance will develop and issue external debt management guidelines for the public sector (central government and public sector enterprises). The document will provide guidance on the level of concessionality at which new loans are to be contracted and the level of new borrowing. It will also outline procedures for contracting new loans through the Ministry of Finance, the responsibility of the Ministry of Finance for assessing the terms of the loan—including its concessionality—and the responsibility of the Ministry of Economic Planning and Development in conjunction with the Ministry of Finance for evaluating the costs and benefits of the project or the use for which the loan is intended.

B. Measures Agreed during the Fourth and Fifth Review

39. **Cash flow planning:** The Ministry of Finance will form a Cash Management Unit (CMU) within the accounting general's office and establish a Cash Management Committee as a forum for decision making. To facilitate operationalization of cash management, this would require: (i) approval of the responsibilities and recruitment of staff for the Cash Management Unit, and (ii) approval of terms of reference and membership for the Cash Management Committee which brings together all key stakeholders and serviced by the CMU.

40. **Budget preparation and execution:** The Ministry of Finance will review the existing Treasury Funds and present information on their financial performance for auditing by the office of the Accounting General.

41. **Budget preparation process:** To improve planning and coordination of the budget preparation process the Ministry of Finance will issue first circulars to Ministries and assemblies communicating 2008/09 ceilings in January 2008.

42. **Bank Supervision:** The RBM will perform onsite inspections of the three largest banks.

C. Reporting Of Certain Transactions In The Fiscal Accounts

43. **Operations of the National Aids Commission (NAC).** Financial operations of the NAC are included in the fiscal accounts according the NAC's financial reports. NAC financial reports comprises of the summary of the financial reports provided by the government ministries and departments that execute NAC-funded projects . The NAC report is reconciled with budget accounts for data consistency and accuracy purposes. The information about the sources of funding includes: (i) funds received from donors; (ii) government contribution to NAC; (iii) foreign exchange losses/gains and, (iv) other receipts. Expenditures are typically classified as development Part I expenditures.

44. **Donor pool funded expenditures in support of the Health SWAp.** The Government of Malawi has embarked on the implementation of an integrated program of service delivery in the health sector, the health sector wide approach (Health SWAp). In support of the Health SWAp some donors are pooling resources (the donor pool), and release these resources through normal government procedures (i.e. recurrent budget or development Part II budget) to the health sector. In order to manage the inflows of donor resources a U.S. dollar-denominated account has been set up at the RBM that holds donor pool resources until expenditures need to be financed. Donor funded expenditures for the Health SWAp from the pooled resources will be deemed to have been made in the amount of outflows from the donor pool account to finance expenditures (i.e., typically either to Malawi government No. 1 account in Malawi kwacha, or to pay directly for imports by the health sector). The attribution of donor financed expenditures to personnel emoluments, other recurrent

transactions, and development Part II expenditures is made on the basis of cash flow projections and established donor commitments to finance specific expenditures (e.g., supplementary wages and salaries for professional health cadres). Typically, expenditures for other recurrent transaction are estimated as the residual of outflows less expenditures for wages and salaries less expenditures for development Part II.

IV. REPORTING REQUIREMENTS

45. Monitoring of the program requires that the information listed in the tables shown below be reported to the IMF within the timeframe indicated in the table. The new data requirement includes more detailed information on the composition of RBM foreign exchange reserves, including the loan disbursements to Zimbabwe and repayments from the Bank of Zimbabwe. The new reporting format was discussed and agreed with RBM during the recent mission in September 2007.

Malawi: Program Maize Revenue, Health SWAp, and NAC Funds, Aid and Debt Service FY2005/06 and FY2006/07 and FY2007/08
(Millions of Malawi Kwacha)

| | FY05/06 | | | | | FY06/07 | | | | | FY07/08 | | | | | | | |
|---------------------------------------|-------------|------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|----------|----------|----------|----------|----------|
| | Q1 | Q2 | Q3 | Q4 | Total | Q1 | Q2 | Q3 | Q4 | Total | Q1 | Q2 | Q3 | Q4 | Total | | | |
| | Act. | Act. | Act. | Act. | Act. | Act. | CR 06/445 | Act. | CR 07/147 | Act. | CR 07/147 | Act. | Act. | Prog. | Prog. | Proj. | Proj. | Proj. |
| Maize revenue | | | | | | | | | | | | | | | | | | |
| Quarterly receipts | 300 | 454 | 298 | 124 | 1,175 | 0 | 320 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2,000 | 0 | 0 | 2,000 |
| Cumulative receipts 1/ | 300 | 753 | 1,051 | 1,175 | 1,175 | 1,175 | 1,411 | 1,175 | 1,175 | 1,175 | 1,175 | 1,175 | 1,175 | 0 | 2,000 | 2,000 | 2,000 | 2,000 |
| Health SWAp | | | | | | | | | | | | | | | | | | |
| RBM accounts | | | | | | | | | | | | | | | | | | |
| Revenues | 1,488 | 584 | 2,102 | 2,067 | 6,242 | 835 | 928 | 2,097 | 1,970 | 940 | 2,045 | 4,446 | 8,319 | 2,224 | 3,155 | 1,144 | 2,804 | 9,327 |
| Expenditures | 1,556 | 0 | 952 | 2,883 | 5,390 | 1,233 | 2,923 | 1,230 | 1,970 | 1,277 | 1,630 | 5,493 | 9,234 | 1,576 | 2,504 | 2,496 | 2,484 | 9,059 |
| Change in account balance | -67 | 584 | 1,150 | -816 | 852 | -398 | -1,995 | 867 | 0 | -337 | 414 | -1,047 | -915 | 648 | 651 | -1,352 | 321 | 268 |
| Cumulative change in account balan | -67 | 517 | 1,668 | 852 | 852 | 454 | 503 | 1,320 | -60 | 984 | 354 | -63 | -63 | 648 | 1,299 | -53 | 268 | 268 |
| Fiscal accounts | | | | | | | | | | | | | | | | | | |
| Receipts | | | | | | | | | | | | | | | | | | |
| Expenditures | 1,556 | 0 | 952 | 3,172 | 5,679 | 1,233 | 2,890 | 1,230 | 1,970 | 1,277 | 1,630 | 5,494 | 9,235 | 2,224 | 3,155 | 3,148 | 3,133 | 11,659 |
| Wage expenditures | 138 | 199 | 159 | 106 | 602 | 247 | 253 | 253 | 257 | 258 | 261 | 261 | 1,019 | 295 | 296 | 297 | 295 | 1,183 |
| ORT Expenditures | 1,417 | -199 | 793 | 3,066 | 5,077 | 986 | 2,637 | 977 | 1,713 | 1,020 | 1,370 | 5,233 | 8,216 | 1,281 | 2,207 | 2,200 | 2,188 | 7,876 |
| Development spending | | | | | | | | | | | | | | 1,300 | 1,300 | 0 | 0 | 2,600 |
| Net flow | | | | | | | | | | | | | | -652 | -649 | 652 | 649 | 0 |
| Cumulative receipts | | | | | | | | | | | | | | | | | | |
| Cumulative wage expenditures 1/ | 138 | 337 | 496 | 602 | 602 | 849 | 1,230 | 1,102 | 1,360 | 1,360 | 1,621 | 1,621 | 1,621 | 295 | 591 | 888 | 1,183 | 1,183 |
| Cumulative ORT expenditures 1/ | 1,417 | 1,218 | 2,011 | 5,077 | 5,077 | 6,063 | 7,050 | 7,041 | 9,386 | 8,060 | 10,756 | 13,293 | 13,293 | 1,281 | 3,488 | 5,688 | 7,876 | 7,876 |
| Cumulative net flow | | | | | | | | | | | | | | -652 | -1,301 | -649 | 0 | 0 |
| National AIDS Commission (NAC) | | | | | | | | | | | | | | | | | | |
| NAC Accounts | | | | | | | | | | | | | | | | | | |
| Revenues | 455 | 1,928 | 264 | 508 | 3,155 | 1,806 | 1,445 | 3,311 | 1,027 | 1,590 | 20 | 1,425 | 8,132 | 2,606 | 2,591 | 2,698 | 2,542 | 10,438 |
| Expenditures | 768 | 1,706 | 506 | 614 | 3,593 | 530 | 1,445 | 2,290 | 1,027 | 3,328 | 1,235 | 1,344 | 7,491 | 2,606 | 2,591 | 2,698 | 2,542 | 10,438 |
| Change in account balance | -313 | 222 | -241 | -106 | -438 | 1,276 | 0 | 1,022 | 0 | -1,738 | -1,215 | 81 | 641 | 0 | 0 | 0 | 0 | 0 |
| Cumulative change in account balan | -313 | -91 | -333 | -438 | -438 | 838 | 0 | 1,859 | 776 | 121 | -438 | 202 | 202 | 0 | 0 | 0 | 0 | 0 |
| Aid and Debt Service | | | | | | | | | | | | | | | | | | |
| Balance of payments support | 4,392 | 6,331 | 401 | 5,909 | 17,033 | 654 | 1,214 | 6,224 | 2,128 | 1,357 | 2,882 | 801 | 9,035 | 699 | 10,075 | 4,850 | 1,300 | 16,924 |
| Cumulative 1/ | 4,392 | 10,723 | 11,124 | 17,033 | 17,033 | 17,687 | 21,904 | 23,910 | 25,853 | 25,268 | 28,735 | 26,068 | 26,068 | 699 | 10,774 | 15,624 | 16,924 | 16,924 |
| Debt service payments to IDA and ADB | | | | | | | | | | | | | | | | | | |
| Cumulative 1/ | | | | | | 1,427 | 54 | 141 | 38 | 216 | 64 | 77 | 1,861 | 57 | 67 | 0 | 0 | 124 |
| | | | | | | 1,427 | 1,047 | 1,569 | 1,527 | 1,785 | 1,591 | 1,861 | 1,861 | 57 | 1,986 | 1,986 | 1,986 | 1,986 |
| Pass-through of IMF relief from RBM | | | | | | | | | | | | | | | | | | |
| Cumulative 1/ | | | | | | 6,065 | 1,261 | 2,073 | 663 | 0 | 1,123 | 0 | 8,138 | 0.0 | 0.0 | 0.0 | 0.0 | 0 |
| | | | | | | 6,065 | 1,899 | 8,138 | 7,232 | 8,138 | 8,355 | 8,138 | 8,138 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

1/ Cumulative from 2005 fiscal year for FY05/06 and 2006/07; and cumulative from 2007 fiscal year for FY2007/08.

Malawi: Program Balance of Payments Support and Debt Service Obligations, FY2005/06, FY2006/07 and FY2007/08
(Millions of U.S. dollars)

| | FY05/06 | | | | | FY06/07 | | | | | FY07/08 | | | | | | | | |
|--|-------------|-------------|-------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--|
| | Q1 | Q2 | Q3 | Q4 | Total | Q1 | Q2 | Q3 | Q4 | Total | Q1 | Q2 | Q3 | Q4 | Total | | | | |
| | Act. | Act. | Act. | Act. | Act. | Act. | CR 06/445 | Act. | CR 07/147 | Act. | CR 07/147 | Act. | Act. | Prog. | Prog. | Proj. | Proj. | Proj. | |
| Balance of payments support | | | | | | | | | | | | | | | | | | | |
| Grants | 35.7 | 52.7 | 3.0 | 19.0 | 110.4 | 4.7 | 0.0 | 45.3 | 15.0 | 9.8 | 0.0 | 5.7 | 36.7 | 5.0 | 62.3 | 14.3 | 9.2 | 90.7 | |
| EU | 0.0 | 17.5 | 0.0 | 19.0 | 36.5 | 0.0 | 0.0 | 13.8 | 2.6 | 0.0 | 0.0 | 5.7 | 19.5 | 3.9 | 0.0 | 10.9 | 9.2 | 24.0 | |
| IDA | 0.0 | 29.9 | 0.0 | 0.0 | 29.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 11.0 | 0.0 | 0.0 | 11.0 | |
| UK | 35.7 | 0.0 | 0.0 | 0.0 | 35.7 | 0.0 | 0.0 | 28.4 | 9.3 | 9.8 | 0.0 | 0.0 | 38.1 | 0.0 | 44.4 | 0.0 | 0.0 | 44.4 | |
| Norway | 0.0 | 5.3 | 3.0 | 0.0 | 8.3 | 4.7 | 0.0 | 3.1 | 3.2 | 0.0 | 0.0 | 0.0 | 7.8 | 1.1 | 6.9 | 3.4 | 0.0 | 11.3 | |
| Loans | 0.0 | 0.0 | 0.0 | 24.5 | 24.5 | 0.0 | 8.4 | 0.0 | 0.0 | 0.0 | 20.0 | 0.0 | 8.4 | 0.0 | 9.0 | 20.0 | 0.0 | 29.0 | |
| IDA | 0.0 | 0.0 | 0.0 | 24.5 | 24.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 20.0 | 0.0 | 0.0 | 0.0 | 9.0 | 0.0 | 0.0 | 9.0 | |
| ADB | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 8.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 20.0 | 0.0 | 20.0 | |
| Total | 35.7 | 52.7 | 3.0 | 43.5 | 134.9 | 4.7 | 8.4 | 45.3 | 15.0 | 9.8 | 20.0 | 5.7 | 65.5 | 5.0 | 71.3 | 34.3 | 9.2 | 119.7 | |
| Cumulative from end-June 2005 | 35.7 | 88.4 | 91.4 | 134.9 | 134.9 | 139.6 | 167.4 | 184.9 | 196.1 | 194.7 | 216.1 | 200.4 | 200.4 | 205.4 | 276.7 | 310.9 | 320.2 | 320.2 | |
| Cumulative total from end-June 2007 | | | | | | | | | | | | | | 5.0 | 76.2 | 110.5 | 119.7 | 119.7 | |
| Debt service payments | | | | | | | | | | | | | | | | | | | |
| IDA | | | | | | 5.1 | 0.2 | 0.4 | 0.3 | 0.3 | 0.4 | 0.4 | 6.0 | 0.3 | 0.4 | 0.0 | 0.0 | 0.7 | |
| AfDB | | | | | | 5.2 | 0.2 | 0.6 | 0.0 | 1.3 | 0.0 | 0.1 | 3.5 | 0.1 | 0.0 | 0.0 | 0.0 | 0.2 | |
| Total | | | | | | 10.3 | 0.4 | 1.0 | 0.3 | 1.5 | 0.4 | 0.5 | 9.5 | 0.4 | 0.5 | 0.0 | 0.0 | 0.9 | |
| Cumulative from end-June 2005 | | | | | | 10.3 | 7.4 | 11.3 | 11.0 | 12.9 | 11.5 | 13.4 | 13.4 | 13.8 | 14.3 | 14.3 | 14.3 | 14.3 | |
| Cumulative total from end-June 2007 | | | | | | | | | | | | | | 0.4 | 0.9 | 0.9 | 0.9 | 0.9 | |
| Pass-through of debt relief from the RBM to the GoM | | | | | | | | | | | | | | | | | | | |
| IMF | | | | | | 44.1 | 8.7 | 15.0 | 4.7 | 0.0 | 7.8 | 0.0 | 59.1 | | | | | | |
| Cumulative | | | | | | 44.1 | 13.2 | 59.1 | 52.1 | 59.1 | 59.9 | 59.1 | 59.1 | | | | | | |

Sources: IMF, UK, EU, Norway, AfDB, and WB.

Malawi: Reporting Requirements

| Data description | Data Freq. | Reporting | | Delivery | | |
|--|------------|-----------|-------|----------|---------------------|------|
| | | Agency | Freq. | Lag | Date | Mode |
| Gross international reserves, exchange rate, and foreign exchange purchases and sales | D | RBM | W | 2 | F | E |
| Reserve money, OMO transactions, and RBM conversion of treasury bills | D | RBM | W | 2 | F | E |
| Treasury bill and RBM bill auction results | W | RBM | W | 2 | F | E |
| RBM balance sheet and broad money estimate | W | RBM | W | 7 | F | E |
| Backlog of import applications for foreign exchange | W | RBM | W | 7 | F | E |
| Four-bank monetary survey | M | RBM | M | 30 | 30 | E |
| International Reserve and Foreign Currency Liquidity Data Template | M | RBM | M | 30 | 30 | E |
| Central government domestic borrowing | M | RBM | M | 30 | 30 | E |
| Interest rates | M | RBM | M | 30 | 30 | E |
| Holdings of local registered stocks, treasury bills, and RBM bills | M | RBM | M | 30 | 30 | E |
| Issue and maturity profile for treasury bills and RBM bills | M | RBM | M | 30 | 30 | E |
| Excess reserves by bank | D | RBM | M | 30 | 30 | E |
| Details of project and balance of payment support | M | RBM | M | 30 | 30 | E |
| Monthly exchange rates | M | RBM | M | 30 | 30 | E |
| FCDA holdings | M | RBM | M | 30 | 30 | E |
| Cash flow of foreign exchange | M | RBM | M | 30 | 30 | E |
| Foreign exchange exposure limits by bank | M | RBM | M | 30 | 30 | E |
| Bank statements of both the Health SWAp and government maize account held at the RBM | M | RBM | M | 30 | 30 | E |
| Seven bank monetary survey and full banking survey | M | RBM | M | 45 | 15 | E |
| Financial soundness indicators by banks | Q | RBM | Q | 45 | T15 | E |
| Insurance company survey | Q | RBM | Q | 45 | T15 | E |
| Fiscal table (GFS) including revenue, expenditure, and financing. | M | MOF | M | 30 | 30 | E |
| Funding tables on wages, other recurrent expenditures, and development | M | MOF | M | 30 | 30 | E |
| CCA, supplementary CCA, and reimbursement report | M | MOF | M | 30 | 30 | E |
| Pro-poor spending | M | MOF | M | 30 | 30 | E |
| Tokyo-Mitsubishi account statements | M | MOF | M | 30 | 30 | E |
| Revenue data (from MRA) | M | MOF | M | 30 | 30 | E |
| PSI import data | M | MOF | M | 30 | 30 | E |
| Ministry reports on commitment and expenditures (CCS3 and CCS4 returns) | M | MOF | Q | 30 | T30 | E |
| New external loans contracted or guaranteed by the central government 1/ | Q | MOF | Q | 30 | T30 | E |
| List of nonreschedulable external arrears by creditor 2/ | Q | MOF | Q | 30 | T30 | E |
| Budget execution report, including arrears and prospects for meeting budget targets based on the CCS3 and CCS4 | M | MOF | Q | 45 | T15 | E |
| Borrowing of the ten major parastatals 3/ | Q | MOF | Q | 45 | T15 | E |
| Quarterly financial statements of the ten major parastatals and MSB | Q | MOF | Q | 45 | T15 | H |
| Report on PRGF performance | Q | MOF | Q | 45 | T15 | E |
| Report on verified pre 30. June 2004 expenditure arrears | Q | AuG | Q | 45 | T15 | E |
| Report on new post 30. June 2004 arrears verified by AuG | Q | AuG | Q | 45 | T15 | E |
| Annual audited financial statements of the ten major parastatals and MSB | A | MOF | A | 90 | Mar. 30 | H |
| Consumer price index and monthly statistical bulletin | M | NSO | M | 30 | 30 | E |
| Import and export data | M | NSO | M | 45 | T15 | E |
| Balance of payments, and quarterly statistical bulletin | Q | NSO | Q | 45 | T15 | E |
| National accounts, balance of payments, and quarterly statistical bulletin | A | NSO | BA | 45 | Mar. 15; Sep. 15 | E |

D-Daily, W-Weekly, M-Monthly, Q-Quarterly, BA-Bi-annual A-Annual; F-Friday, 30-Every 30th, T30-Every third 30th; E-Electronic, H-Hard copy

1/ Detailed information on the amounts, currencies, terms, and conditions, including debt contracted or guaranteed by the RBM or any other agency on behalf of the central government.

2/ To be reported by DAMD, including a detailed explanation.

3/ Agriculture Development and Marketing Corporation, Air Malawi, Electric Supply Company of Malawi, Malawi Development Corporation, Malawi Housing Corporation, Malawi Postal Corporation, Malawi Telecommunications Ltd., Northern Regional Water Board, Central Regional Water Board, and Southern Region Water Board.

INTERNATIONAL MONETARY FUND

MALAWI

**Debt Sustainability Analysis 2007 Update
Under the Framework for Low Income Countries**

Prepared by the staff of the International Monetary Fund and reviewed by the staff of the
International Development Association

Approved by Robert Corker and Matthew Fischer

December 3, 2007

This report updates the debt sustainability analysis undertaken in August 2006 when Malawi reached the completion point under the HIPC Initiative.¹ Based on the joint World Bank/IMF Low-Income Country Debt Sustainability Framework, Malawi is assessed at **moderate risk** of debt distress. Its debt ratios have improved dramatically in recent years (because of fiscal consolidation and debt relief under HIPC Initiative and the MDRI) and are projected to improve further over the medium term. The assessment of debt sustainability does not change even after the inclusion of domestic debt. However, stress tests suggest potential vulnerabilities, particularly if the projected growth in output and exports does not materialize or if the government borrows on less concessional rates. Reducing the risk of debt distress will depend on maintaining sound macroeconomic policies and some further fiscal consolidation as well as on sustaining growth.

I. BACKGROUND

1. **This report updates the DSA undertaken in August 2006 when Malawi reached the completion point under the HIPC Initiative.** It incorporates revisions to the medium-term macroeconomic framework under the government's PRGF-supported program. It does not incorporate a loan-by-loan review of Malawi's stock of external debt obligations.
2. **Malawi has made significant progress in reducing its external debt burden in the context of the HIPC Initiative and the MDRI.** After reaching the completion point under the HIPC Initiative in August 2006, Malawi received assistance from the IMF, the World Bank, the AfDB, and other multilaterals, as well as from all its Paris Club creditors and a number of non-Paris Club creditors. Due to the unanticipated deterioration in Malawi's NPV

¹ 'Malawi—Debt Relief at the Heavily Indebted Poor Countries Initiative Completion Point and Under the Multilateral Debt Relief Initiative', August 16 2006, Country Report No. 06/420.

of debt-to-exports ratio between the decision and completion points resulting from exogenous shocks, Malawi was also eligible for topping-up of HIPC assistance. On reaching the completion point, Malawi also became eligible for debt relief under the MDRI from the IMF, the World Bank, and the AfDB, reducing total debt service obligations by US\$1.47 billion. After assistance under the HIPC Initiative, including topping-up, and debt relief under the MDRI, Malawi's stock of external debt fell from 104 percent of GDP at end-2005 to 14.2 percent at end-2006.² The NPV of debt declined from 38 percent of GDP at end-2005 to about 8 percent at end-2006, and from 190 percent of exports to 40.9 percent.

3. **Central government domestic debt has fallen in recent years as a result of fiscal consolidation.** Gross domestic debt fell from 20 percent of GDP at end-2005 to about 15 percent at end-2006. Currently, domestic debt consists mainly of short-term treasury bills (including securities issued to cover losses of the Reserve Bank of Malawi).

4. **Malawi's overall risk of debt distress has improved from high under the previous assessment on the basis of end-2005 data to moderate.** At the same time, in the absence of reliable data on private external debt, the external DSA is limited to public and publicly-guaranteed external debt. While the stock of private external debt is not believed to be large, its exclusion qualifies conclusions about the overall stance of the debt sustainability.

II. UNDERLYING DSA ASSUMPTIONS

5. **The medium-term framework underlying the DSA is consistent with the government's economic program supported by a PRGF arrangement with the IMF.** It envisages maintenance of robust real growth rates, a gradual reduction in the external current account deficit through export diversification, prudent fiscal policies, and the government's use of concessional financing. The assumptions have been modified from those underlying the 2006 DSA to reflect positive developments in 2006/07 and the benefits of implementing structural measures in the near future.³ The outlook is also boosted by the impending launch of the Kayelekera uranium mine in 2009. The key macroeconomic assumptions are summarized in Box 1. As a result, the current DSA assumes higher economic growth, exports and government revenues in the medium term. In the longer term, growth rates converge to those assumed in the previous DSA analysis.

² The Malawi authorities recently revised the historical GDP estimates to better reflect the informal sector. As a result, nominal GDP in 2006 was increased by over 40 percent. Due to these revisions, the GDP ratios in this DSA update do not match those in the previous 2006 DSA exercise.

³ In particular, reforms in the areas of public financial management, governance, and financial intermediation.

Box 1. Macroeconomic Assumptions in the Baseline Scenario

Real GDP growth is projected to average 7.2 percent over 2007–12, subsequently declining to 3.9 percent. Growth in the medium term is higher than previously projected through to 2012 because of the acceleration in growth during 2006-08 and the opening of a new uranium mine in 2009. Growth is substantially higher than the 2.9 percent average over the past decade, that reflected poor macroeconomic management and a sequence of negative shocks, including a food crisis in 2005.

The Kayelekera uranium mine is expected to last ten years starting in 2009. The mine will add to overall economic growth while production is being ramped up during the first four years, but will then detract from overall growth as production is wound down at the end of the mine's life. Malawi's overall economic growth will subsequently converge to the regional average. At its peak, the mine could add 10 percent to Malawi's overall GDP and 25 percent to exports.

Inflation, is expected to remain in single digits, declining moderately from current rates of around 7 percent to around 5 percent over the long run. The real exchange rate is assumed to remain stable.

The external current account, including aid transfers but excluding interest payments, is assumed to improve gradually as exports benefit from further diversification, output from the uranium mine, and investment in key sectors. The current account balance will also benefit from a significant increase in domestic private savings, reflecting a further strengthening in financial intermediation.

Imports are expected to rise at a more moderate pace than in the past—rising 4.9 percent each year compared to 11 percent over the past decade (largely because of substantial maize imports during the food crises in 2001/02 and 2005/06). The moderation in imports growth is underpinned by stronger domestic production, especially for food, and hence stronger food security. However, there may be scope for higher imports in other sectors, including imports related to FDI in the mining sector.

Exports growth is expected to accelerate, averaging around 14 percent during 2007–12 compared to 1.8 percent over the past decade. This strong performance reflects: (i) the new uranium exports; (ii) increased market access due to the improved business environment and more business-friendly legislative framework, (iii) enhanced competitiveness because of export diversification and structural reforms under different donor programs (including the WB PRSC); (iv) continued investment in the competitive sectors of economy, and (v) more favorable prices for Malawi's commodity exports. The strong export performance is assumed to be partially reversed once production from the uranium mine peaks, declines and then ceases in 2020, at which time exports growth averages about 5.5 percent for the rest of the projection period.

Revenues (excluding grants) are projected to increase relative to GDP due to the expansion of the tax base and reforms aimed at improving tax administration. Domestic revenues could reach 16.6 percent of GDP in the medium term and 17.7 percent in the long term, exceeding the 15 percent average over the past decade.

Aid, is projected to average 17.2 percent of GDP over 2007-12, and remain around 17 percent over the remainder of the projection period. Aid flow projections are based on the data provided by donors for the 2006 DSA, updated for actual disbursements in 2006/07 and adjustments to donor commitments in the medium-term. New external borrowing after 2010 is projected to increase 6.5 percent each year. Grant equivalent financing (loans and grants) is expected to decline from about 84 percent of total external financing in 2007 to about 82 percent by 2027. This is consistent with the long run assumption that non-concessional domestic debt will be partly replaced by concessional external debt.

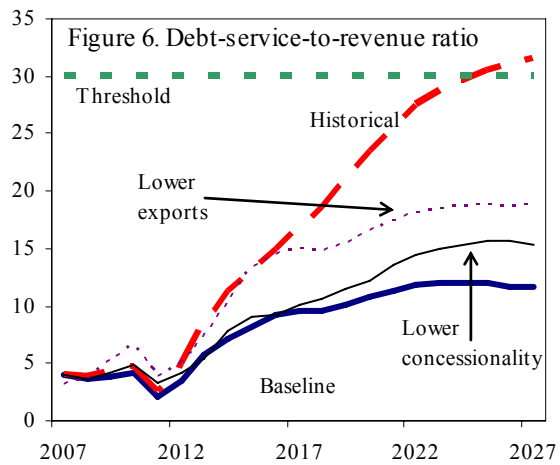
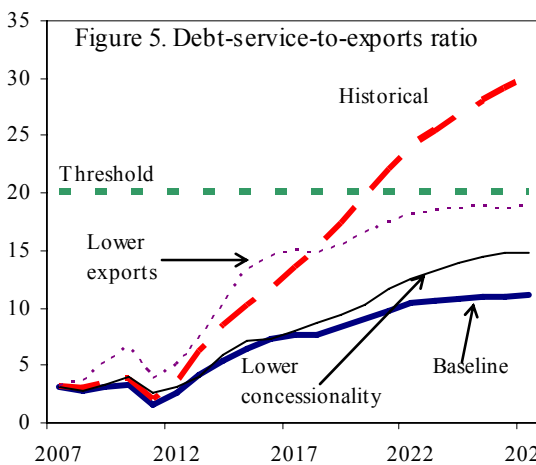
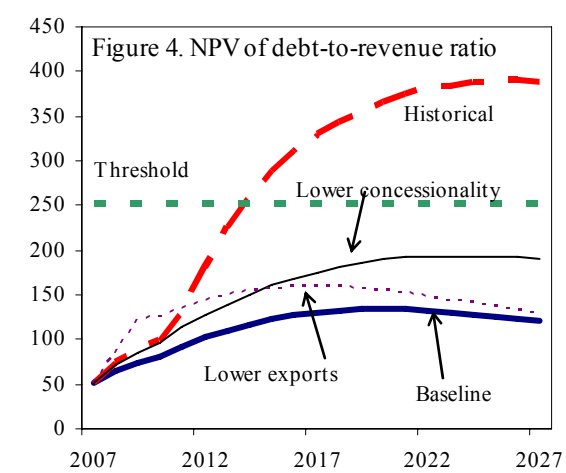
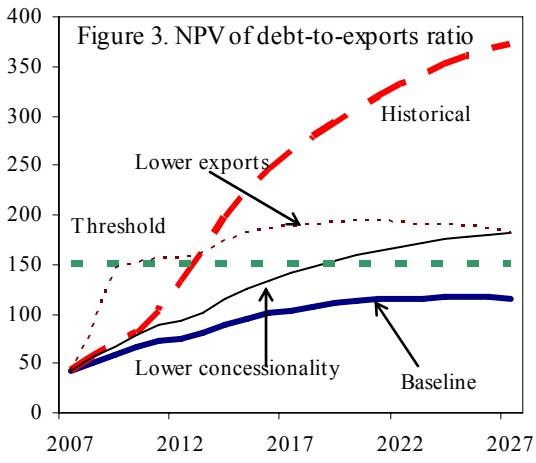
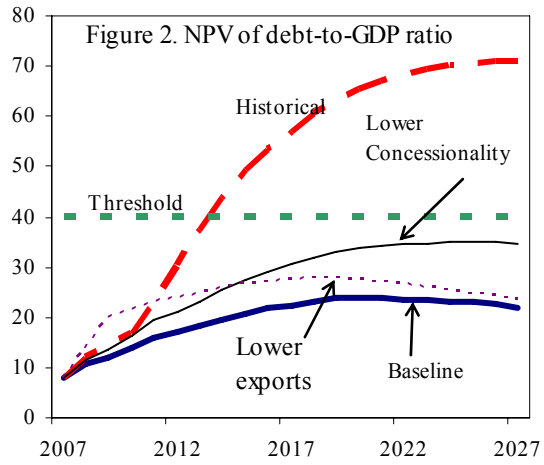
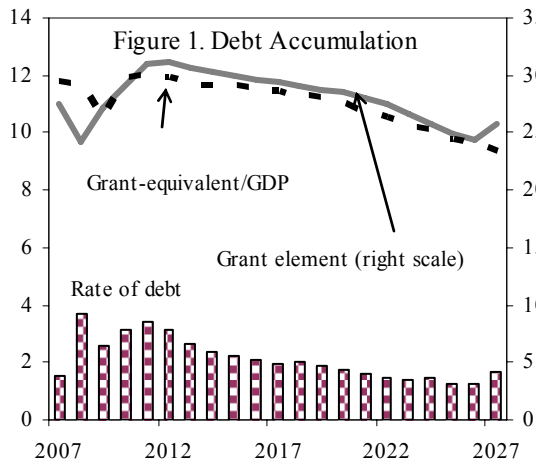
III. EXTERNAL SECTOR DSA

6. **In the baseline scenario, all external debt indicators remain below the policy dependent debt burden thresholds.** The baseline scenario incorporates the same lending terms assumed for the 2006 DSA. The debt-burden thresholds utilized are those applicable for medium-level performers in policy implementation and institutional quality, as measured by a three-year moving average of the World Bank's Country Policy and Institutional Assessment Index (CPIA). In this context, the DSA projects all the external debt indicators remaining below their thresholds for debt distress (Table 1 and Figures 1-6). For instance, the ratio of the NPV of debt to exports increases from 61 during 2007-2012 to about 107.3 in the long run. It peaks at 116.5 percent in 2024, and declines slightly at the end of the projection period. The ratio of debt service to exports rises from about 3.2 percent in 2007 to about 10.4 percent in 2022, but nevertheless remains below the threshold.

7. **Debt service obligations are projected to remain manageable, reflecting moderate new borrowing levels and the concessionality of existing debt and new borrowings.** Debt service payments are projected to average 2.8 percent of exports (3.5 percent of revenues) during the medium term, rising to about 8.7 percent of exports (10.2 percent of revenues) during the later years of the projection period. The increase arises because of the slower growth in aid, and slower export growth due to depletion of the uranium mine.

| | Threshold | Malawi's Ratios | | | | | |
|------------------------------------|-----------|-----------------|------|-------|-------|-------|-------|
| | | 2007 | 2009 | 2012 | 2015 | 2018 | 2027 |
| NPV of debt, in percent of: | | | | | | | |
| Exports | 150 | 41.9 | 58.7 | 75.1 | 95.8 | 107.4 | 115.3 |
| Revenues | 250 | 51.7 | 73.9 | 102.2 | 122.5 | 132.0 | 120.0 |
| GDP | 40 | 8.2 | 11.9 | 17.1 | 22.5 | 23.2 | 22.0 |
| Debt service in percent of: | | | | | | | |
| Exports | 20 | 3.2 | 3.0 | 2.6 | 6.5 | 7.7 | 11.2 |
| Revenues | 30 | 4.0 | 3.8 | 3.5 | 8.3 | 9.5 | 11.6 |

8. **External debt accumulation in the baseline scenario is broadly manageable.** The annual increase in the NPV of external debt is 2.9 percentage points of GDP during 2007–2012, subsequently decelerating to average 1.8 percentage points over the last decade of projections. Malawi, is expected to continue using IMF resources and to borrow from IDA. Overtime, Malawi is also expected to accept loans on less-concessional terms This is reflected in the small reduction in the grant element indicators (see Figure 1).



9. **Stress tests reveal potential vulnerabilities in Malawi’s external debt situation.**

Lower concessionality of new loans has adverse implications for Malawi’s debt sustainability. This scenario assumes that new borrowing is charged interest at 2 percentage points higher than in the baseline. Under this scenario, the NPV of external debt breaches the export threshold in 2018 onwards. While debt service remains below the export threshold, it rises significantly from 3.2 percent in 2007 to 13.9 percent in 2024. Similarly, debt service rises from 4 percent to 15 percent of revenues over the same period. The NPV of external debt rises from 51.7 percent of revenues in 2007 to 191 percent in 2021.

10. **Malawi’s external debt sustainability could be severely affected by lower exports**, including a cancellation of the uranium mine or a downturn in Malawi’s commodity prices. This scenario assumes that export growth will be one standard deviation below its historical average. Under this assumption, the NPV of debt will breach the export threshold by 2010. Debt service will peak at 18.5 percent of exports in 2023 and remain steady in subsequent years. The NPV of debt will peak at 158.2 percent of revenues in 2016 and debt service will peak at 14.0 percent of revenues in 2023.

11. **The historical scenario** assumes no external sector adjustment and that key macroeconomic variables evolve at their historic averages over 1997-2007. Under these circumstances, the debt sustainability indicators cross their respective thresholds as early as 2012 and continue to deteriorate thereafter. The period from which these historical averages are drawn include years of particularly poor macroeconomic performance, including the emergence of a domestic debt spiral and a severe food crisis. However, they do indicate the range of shocks to which Malawi may be subject.

IV. PUBLIC SECTOR DSA

12. **Total public debt—the sum of external and domestic public debt—is projected to decline over the projection period** (Table 3 and Figures 7-9). Under the baseline scenario, public debt increases slightly throughout the projection period in both nominal and NPV terms. In NPV terms, it is projected to increase from 23.1 percent of GDP in 2007 to 24.0 percent by 2027. This reflects the decline in domestic debt and the country’s reliance on more concessional foreign debt. Given the fiscal effort and the external financing assumptions under the baseline scenario, domestic debt is projected to decline as a share of total public debt over the medium-term. The substitution of costly non-concessional domestic debt with concessional external debt can also help reduce public debt vulnerabilities.

13. **The speed of debt reduction is reasonable** as Malawi faces considerable social and infrastructure needs. Domestic debt (including securities issued for RBM recapitalization) as a share of GDP declines by about 1.4 percentage points of GDP each year over the medium term to 2012. Once domestic debt declines to about 5 percent of GDP around this time, the pace of reduction slows down. The primary deficit will remain high: it declines from historic

average of 10 percent to a small surplus of 1.4 percent of GDP in the medium term, but reverses to a deficit averaging about 2.4 percent in GDP in the long run.

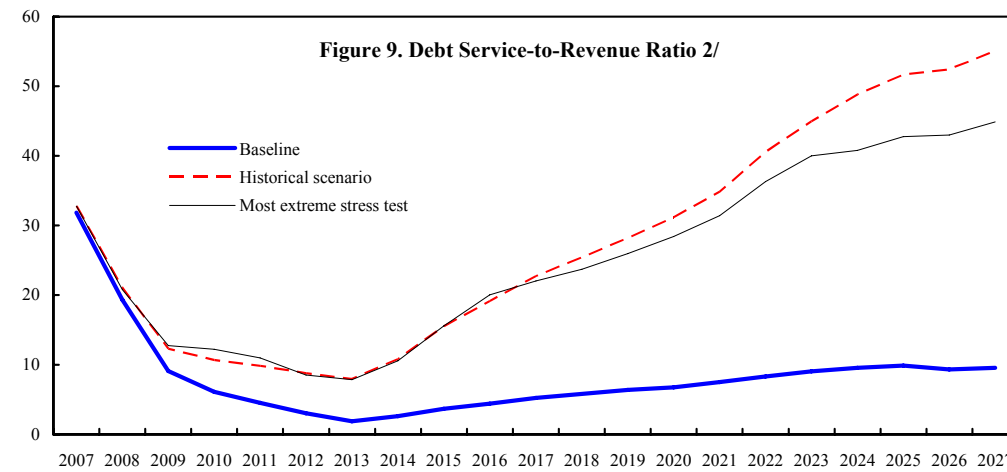
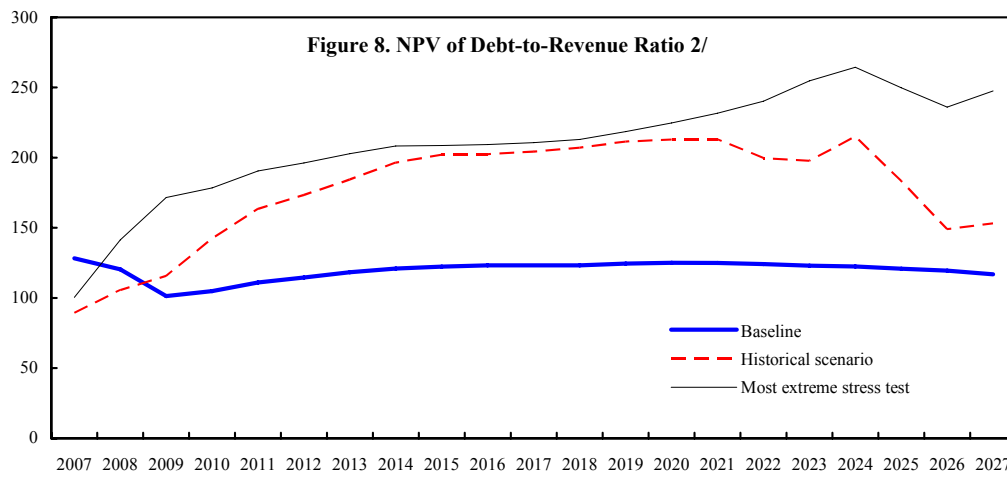
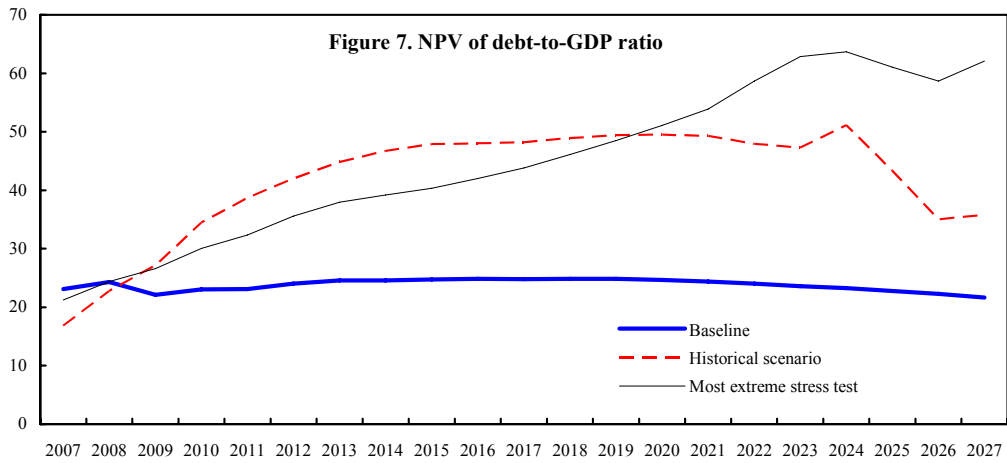
14. **The stress tests reveal that Malawi’s public debt continues to remain vulnerable to a number of shocks.** A combination of shocks, including real GDP growth below and a primary balance at their historical averages, may cause a quick departure from debt sustainability. Given these vulnerabilities, the authorities should continue their efforts to maintain a prudent fiscal stance, improve revenue performance, and strengthen public expenditure and financial management.⁴ A number of measures under the PRGF-supported program could support this effort.

V. CONCLUSIONS

15. **Malawi’s is subject to a moderate risk of external debt distress.** Under the baseline scenario, which assumes higher growth than the historic average, all external debt indicators remain below their thresholds. However, external debt sustainability is threatened by borrowing on less concessional terms or weaker growth in GDP and exports. This may indicate that Malawi will continue to require considerable grant resources to maintain debt sustainability. Malawi’s debt sustainability stands to improve substantially once uranium exports commence, but could be adversely affected by the downturn in Malawi’s commodity prices. On balance, the mix of positive baseline scenario and the downside risks indicates a moderate risk of debt distress.

16. **The risk of debt distress remains moderate even when domestic debt is included in the assessment.** Nevertheless, Malawi’s fiscal sustainability remains vulnerable to a number of shocks, including lower GDP growth, higher primary deficits and lower concessionality of external debt. The baseline scenario reflects a positive outlook for macroeconomic developments in Malawi, with strong GDP growth and improvements in current account. Given this, it is essential that the Malawian authorities remain committed to sound macroeconomic policies and their reform agenda.

⁴ ‘Malawi—Public Expenditure Review, 2006’, World Bank Group, 2007.



Source: Staff projections and simulations.
 1/ Most extreme stress test is test that yields highest ratio in 2017.
 2/ Revenue including grants.

Table 1. Malawi: External Debt Sustainability Framework, 2002-27 1/
(Percent of GDP, unless otherwise indicated)

| | 2002 | 2005 | Projections | | | | | | | | |
|---|-------|-------|-------------|-------|-------|-------|-------|-------|-------|-------|-------|
| | | | 2007 | 2008 | 2009 | 2012 | 2015 | 2018 | 2022 | 2025 | 2027 |
| I. Baseline Medium-Term Projections | | | | | | | | | | | |
| External debt (nominal) | 106.9 | 103.7 | 14.8 | 17.8 | 19.4 | 25.6 | 30.7 | 33.5 | 33.1 | 31.2 | 29.3 |
| Identified net debt-creating flows | -46.9 | 2.0 | 0.5 | 0.8 | 1.2 | -6.9 | -4.8 | -3.5 | -3.8 | -3.6 | -3.6 |
| Current account deficit, excluding interest payments | 11.8 | 11.5 | 2.6 | 4.6 | 6.0 | -1.7 | -1.1 | 0.1 | -0.2 | -0.4 | -0.6 |
| Deficit in balance of goods and services | 16.8 | 26.7 | 20.4 | 22.7 | 22.0 | 12.2 | 12.4 | 11.2 | 9.5 | 8.3 | 7.6 |
| Exports | 17.3 | 19.5 | 19.5 | 20.5 | 20.2 | 22.7 | 21.8 | 21.6 | 20.6 | 19.7 | 19.1 |
| Imports | 34.1 | 46.2 | 39.9 | 43.2 | 42.2 | 34.9 | 34.2 | 32.8 | 30.1 | 28.0 | 26.7 |
| Net current transfers (negative = inflow) | -8.7 | -15.8 | -18.1 | -18.1 | -15.9 | -13.5 | -13.3 | -10.9 | -9.5 | -8.5 | -7.9 |
| <i>Of which:</i> official | ... | -9.2 | -12.8 | -13.3 | -11.5 | -10.7 | -10.5 | -8.3 | -7.2 | -6.4 | -6.0 |
| Other noninterest current account flows (negative = net inflow) | 3.7 | 0.7 | 0.3 | 0.1 | -0.1 | -0.4 | -0.2 | -0.2 | -0.2 | -0.2 | -0.4 |
| Net FDI (negative = inflow) | -1.4 | -0.9 | -0.9 | -2.5 | -3.4 | -3.0 | -2.9 | -2.5 | -1.9 | -1.6 | -1.4 |
| Endogenous debt dynamics 2/ | -57.3 | -8.6 | -1.1 | -1.3 | -1.4 | -2.2 | -0.7 | -1.1 | -1.6 | -1.6 | -1.6 |
| Denominator: $1+g+r+gr$ | 1.6 | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 |
| Contribution from nominal interest rate | 1.0 | 0.8 | 0.4 | 0.3 | 0.3 | 0.4 | 0.7 | 0.6 | 0.5 | 0.5 | 0.4 |
| Contribution from real GDP growth | 11.5 | -2.4 | -0.9 | -0.9 | -1.0 | -1.6 | -0.7 | -1.0 | -1.4 | -1.3 | -1.3 |
| Contribution from price and exchange rate changes | -69.8 | -7.0 | -0.6 | -0.6 | -0.7 | -1.0 | -0.7 | -0.7 | -0.8 | -0.7 | -0.7 |
| Residual 3/ | -9.2 | -10.9 | 0.1 | 2.1 | 0.5 | 8.1 | 6.4 | 4.2 | 3.3 | 2.8 | 2.6 |
| <i>Of which:</i> exceptional financing | ... | -2.0 | -0.2 | 0.0 | -0.1 | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 |
| NPV of external debt 4/ | ... | ... | 8.2 | 10.6 | 11.9 | 17.1 | 20.9 | 23.2 | 23.7 | 22.9 | 22.0 |
| In percent of exports | ... | ... | 41.9 | 51.5 | 58.7 | 75.1 | 95.8 | 107.4 | 115.1 | 116.5 | 115.3 |
| In percent of government revenues | ... | ... | 51.7 | 65.8 | 73.9 | 102.2 | 122.5 | 132.0 | 131.8 | 126.2 | 120.0 |
| Debt service-to-exports ratio (in percent) | 18.8 | 21.1 | 3.2 | 2.9 | 3.0 | 2.6 | 6.5 | 7.7 | 10.4 | 11.0 | 11.2 |
| PPG debt service-to-exports ratio (in percent) | 18.8 | 21.1 | 3.2 | 2.9 | 3.0 | 2.6 | 6.5 | 7.7 | 10.4 | 11.0 | 11.2 |
| PPG debt service-to-revenue ratio (in percent) | 29.2 | 24.6 | 4.0 | 3.6 | 3.8 | 3.5 | 8.3 | 9.5 | 11.9 | 11.9 | 11.6 |
| Total gross financing need (billions of U.S. dollars) | 0.4 | 0.4 | 0.2 | 0.2 | 0.2 | -0.2 | -0.2 | -0.1 | 0.0 | 0.0 | 0.0 |
| Noninterest current account deficit that stabilizes debt ratio 5/ | 67.9 | 20.4 | 1.9 | 1.7 | 4.3 | -2.9 | -2.7 | -0.6 | 0.3 | 0.4 | 0.4 |

Sources: Country authorities and staff estimates, projections and simulations.

1/ Includes public and publicly guaranteed debt.

2/ Derived as $[r - g - r(1+g)]/(1+g+r+gr)$ times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and r = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (including debt relief and changes in arrears) changes in gross foreign assets, and valuation adjustments.

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

5/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and nondebt inflows in percent of GDP)

Table 2. Malawi: Sensitivity Analyses for Key Indicators of Public and Publicly Guaranteed External Debt, 2007-27
(Percent of GDP, unless otherwise indicated)

| | 2007 | 2009 | 2012 | 2015 | 2017 | 2018 | 2022 | 2023 | 2024 | 2025 | 2027 |
|--|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| NPV of debt-to-GDP ratio | | | | | | | | | | | |
| Baseline | 8.2 | 11.9 | 17.1 | 20.9 | 22.5 | 23.2 | 23.7 | 23.4 | 23.3 | 22.9 | 22.0 |
| A1. Key variables at their historical averages in 2008-27 1/ | 8.2 | 13.8 | 30.2 | 49.3 | 57.1 | 60.3 | 68.2 | 69.2 | 70.1 | 70.6 | 71.0 |
| A2. New public sector loans on less favorable terms in 2008-27 2/ | 8.2 | 13.7 | 21.2 | 27.4 | 30.5 | 31.9 | 34.6 | 34.8 | 35.0 | 35.0 | 34.8 |
| B1. Real GDP growth at historical average minus one standard deviation in 2008-09 | 8.2 | 14.2 | 20.5 | 25.0 | 27.0 | 27.8 | 28.4 | 28.1 | 27.9 | 27.5 | 26.4 |
| B2. Export value growth at historical average minus one standard deviation in 2008-09 3/ | 8.2 | 19.7 | 23.9 | 26.8 | 27.5 | 27.8 | 26.6 | 26.0 | 25.5 | 24.8 | 23.4 |
| B3. US dollar GDP deflator at historical average minus one standard deviation in 2008-09 | 8.2 | 15.2 | 21.8 | 26.6 | 28.7 | 29.6 | 30.2 | 29.9 | 29.7 | 29.3 | 28.1 |
| B4. Net non-debt creating flows at historical average minus one standard deviation in 2008-09 4/ | 8.2 | 31.3 | 33.8 | 35.4 | 34.7 | 34.4 | 30.8 | 29.7 | 28.7 | 27.6 | 25.3 |
| B5. Combination of B1-B4 using one-half standard deviation shocks | 8.2 | 43.1 | 45.9 | 47.6 | 46.4 | 45.8 | 40.7 | 39.1 | 37.7 | 36.1 | 32.9 |
| B6. One-time 30 percent nominal depreciation relative to the baseline in 2008 5/ | 8.2 | 16.7 | 24.0 | 29.3 | 31.5 | 32.5 | 33.2 | 32.9 | 32.7 | 32.2 | 30.9 |
| NPV of debt-to-exports ratio | | | | | | | | | | | |
| Baseline | 41.9 | 58.7 | 75.1 | 95.8 | 103.8 | 107.4 | 115.1 | 115.6 | 116.5 | 116.5 | 115.3 |
| A1. Key variables at their historical averages in 2007-26 1/ | 41.9 | 68.3 | 132.9 | 226.5 | 263.8 | 279.4 | 331.4 | 341.4 | 351.0 | 358.9 | 371.6 |
| A2. New public sector loans on less favorable terms in 2007-26 2/ | 41.9 | 67.6 | 93.3 | 125.6 | 140.8 | 147.7 | 168.3 | 171.7 | 175.4 | 178.1 | 182.0 |
| B1. Real GDP growth at historical average minus one standard deviation in 2008-09 | 41.9 | 58.7 | 75.1 | 95.8 | 103.8 | 107.4 | 115.1 | 115.6 | 116.5 | 116.5 | 115.3 |
| B2. Export value growth at historical average minus one standard deviation in 2008-09 3/ | 41.9 | 144.9 | 155.6 | 182.3 | 188.3 | 190.8 | 191.9 | 190.3 | 189.4 | 187.2 | 181.4 |
| B3. US dollar GDP deflator at historical average minus one standard deviation in 2008-09 | 41.9 | 58.7 | 75.1 | 95.8 | 103.8 | 107.4 | 115.1 | 115.6 | 116.5 | 116.5 | 115.3 |
| B4. Net non-debt creating flows at historical average minus one standard deviation in 2008-09 4/ | 41.9 | 155.0 | 148.8 | 162.3 | 160.5 | 159.4 | 149.9 | 146.5 | 143.7 | 140.1 | 132.2 |
| B5. Combination of B1-B4 using one-half standard deviation shocks | 41.9 | 224.6 | 212.8 | 230.2 | 226.2 | 224.0 | 208.6 | 203.4 | 199.0 | 193.5 | 181.8 |
| B6. One-time 30 percent nominal depreciation relative to the baseline in 2008 5/ | 41.9 | 58.7 | 75.1 | 95.8 | 103.8 | 107.4 | 115.1 | 115.6 | 116.5 | 116.5 | 115.3 |
| NPV of debt-to-revenue ratio | | | | | | | | | | | |
| Baseline | 51.7 | 73.9 | 102.2 | 122.5 | 129.4 | 132.0 | 131.8 | 130.0 | 128.6 | 126.2 | 120.0 |
| A1. Key variables at their historical averages in 2007-26 1/ | 51.7 | 86.0 | 181.0 | 289.6 | 328.8 | 343.3 | 379.5 | 383.8 | 387.4 | 388.7 | 386.5 |
| A2. New public sector loans on less favorable terms in 2007-26 2/ | 51.7 | 85.0 | 127.0 | 160.6 | 175.4 | 181.5 | 192.8 | 193.1 | 193.6 | 192.9 | 189.3 |
| B1. Real GDP growth at historical average minus one standard deviation in 2008-09 | 51.7 | 88.6 | 122.7 | 147.0 | 155.3 | 158.3 | 158.1 | 155.9 | 154.2 | 151.4 | 143.9 |
| B2. Export value growth at historical average minus one standard deviation in 2008-09 3/ | 51.7 | 122.9 | 142.9 | 157.2 | 158.3 | 158.1 | 148.2 | 144.2 | 140.9 | 136.7 | 127.2 |
| B3. US dollar GDP deflator at historical average minus one standard deviation in 2008-09 | 51.7 | 94.3 | 130.5 | 156.4 | 165.2 | 168.5 | 168.3 | 165.9 | 164.1 | 161.1 | 153.1 |
| B4. Net non-debt creating flows at historical average minus one standard deviation in 2008-09 4/ | 51.7 | 194.9 | 202.6 | 207.5 | 200.0 | 195.8 | 171.7 | 164.7 | 158.6 | 151.7 | 137.5 |
| B5. Combination of B1-B4 using one-half standard deviation shocks | 51.7 | 267.9 | 274.8 | 279.2 | 267.4 | 261.0 | 226.6 | 216.8 | 208.3 | 198.8 | 179.4 |
| B6. One-time 30 percent nominal depreciation relative to the baseline in 2008 5/ | 51.7 | 103.7 | 143.5 | 172.0 | 181.7 | 185.3 | 185.1 | 182.4 | 180.5 | 177.1 | 168.4 |
| Debt service-to-exports ratio | | | | | | | | | | | |
| Baseline | 3.2 | 3.0 | 2.6 | 6.5 | 7.7 | 7.7 | 10.4 | 10.7 | 10.9 | 11.0 | 11.2 |
| A1. Key variables at their historical averages in 2008-27 1/ | 3.2 | 3.4 | 3.6 | 10.3 | 13.5 | 15.2 | 24.0 | 25.5 | 26.8 | 28.1 | 30.3 |
| A2. New public sector loans on less favorable terms in 2008-27 2/ | 3.2 | 3.3 | 3.1 | 7.1 | 8.1 | 8.6 | 12.6 | 13.2 | 13.9 | 14.4 | 14.8 |
| B1. Real GDP growth at historical average minus one standard deviation in 2008-09 | 3.2 | 3.0 | 2.6 | 6.5 | 7.7 | 7.7 | 10.4 | 10.7 | 10.9 | 11.0 | 11.2 |
| B2. Export value growth at historical average minus one standard deviation in 2008-09 3/ | 3.2 | 5.2 | 5.1 | 13.5 | 14.9 | 14.9 | 18.2 | 18.5 | 18.6 | 18.8 | 18.8 |
| B3. US dollar GDP deflator at historical average minus one standard deviation in 2008-09 | 3.2 | 3.0 | 2.6 | 6.5 | 7.7 | 7.7 | 10.4 | 10.7 | 10.9 | 11.0 | 11.2 |
| B4. Net non-debt creating flows at historical average minus one standard deviation in 2008-09 4/ | 3.2 | 4.5 | 4.7 | 12.9 | 13.5 | 13.3 | 15.0 | 15.1 | 15.1 | 15.0 | 14.8 |
| B5. Combination of B1-B4 using one-half standard deviation shocks | 3.2 | 6.2 | 6.6 | 18.4 | 19.2 | 18.9 | 21.1 | 21.1 | 21.0 | 21.0 | 20.6 |
| B6. One-time 30 percent nominal depreciation relative to the baseline in 2008 5/ | 3.2 | 3.0 | 2.6 | 6.5 | 7.7 | 7.7 | 10.4 | 10.7 | 10.9 | 11.0 | 11.2 |
| Debt service-to-revenue ratio | | | | | | | | | | | |
| Baseline | 4.0 | 3.8 | 3.5 | 8.3 | 9.6 | 9.5 | 11.9 | 12.0 | 12.0 | 11.9 | 11.6 |
| A1. Key variables at their historical averages in 2008-27 1/ | 4.0 | 4.3 | 5.0 | 13.2 | 16.8 | 18.7 | 27.5 | 28.7 | 29.6 | 30.4 | 31.5 |
| A2. New public sector loans on less favorable terms in 2008-27 2/ | 4.0 | 4.1 | 4.2 | 9.1 | 10.1 | 10.6 | 14.4 | 14.9 | 15.3 | 15.6 | 15.4 |
| B1. Real GDP growth at historical average minus one standard deviation in 2008-09 | 4.0 | 4.6 | 4.2 | 9.9 | 11.5 | 11.4 | 14.2 | 14.4 | 14.4 | 14.3 | 14.0 |
| B2. Export value growth at historical average minus one standard deviation in 2008-09 3/ | 4.0 | 4.4 | 4.7 | 11.6 | 12.5 | 12.3 | 14.0 | 14.0 | 13.9 | 13.7 | 13.2 |
| B3. US dollar GDP deflator at historical average minus one standard deviation in 2008-09 | 4.0 | 4.9 | 4.5 | 10.6 | 12.2 | 12.1 | 15.2 | 15.3 | 15.3 | 15.2 | 14.9 |
| B4. Net non-debt creating flows at historical average minus one standard deviation in 2008-09 4/ | 4.0 | 5.7 | 6.3 | 16.5 | 16.9 | 16.4 | 17.2 | 17.0 | 16.6 | 16.3 | 15.4 |
| B5. Combination of B1-B4 using one-half standard deviation shocks | 4.0 | 7.4 | 8.6 | 22.4 | 22.7 | 22.1 | 22.9 | 22.5 | 22.0 | 21.5 | 20.3 |
| B6. One-time 30 percent nominal depreciation relative to the baseline in 2008 5/ | 4.0 | 5.4 | 4.9 | 11.6 | 13.4 | 13.3 | 16.7 | 16.8 | 16.8 | 16.8 | 16.3 |

Table 3. Malawi: Public Debt Sustainability Framework, 2002-27 1/
(Percent of GDP, unless otherwise indicated)

| | Actual | | | Baseline Medium-Term Projections | | | | | | | | | |
|---|--------|-------|-------|----------------------------------|------|------|------|------|------|------|------|------|------|
| | 2002 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2012 | 2015 | 2016 | 2018 | 2025 | 2027 |
| Public sector debt 1/ | 121.7 | 123.4 | 28.9 | 29.8 | 31.1 | 29.2 | 31.0 | 31.5 | 34.6 | 35.3 | 36.2 | 33.2 | 31.3 |
| <i>Of which: foreign-currency denominated</i> | 106.9 | 103.7 | 14.4 | 15.0 | 17.8 | 19.5 | 21.9 | 25.6 | 30.7 | 31.8 | 33.5 | 31.2 | 29.3 |
| Change in public sector debt | -50.8 | -8.2 | -94.4 | 0.8 | 1.4 | -1.9 | 1.7 | 0.1 | 1.0 | 0.6 | 0.5 | -0.8 | -1.0 |
| Identified debt-creating flows | -73.0 | -9.7 | -12.0 | -3.0 | -5.0 | -3.7 | -2.4 | -3.4 | -1.5 | -0.3 | 0.6 | 0.7 | 0.6 |
| Primary deficit | 4.8 | -3.4 | -0.5 | -1.7 | -2.6 | -1.0 | -1.7 | 0.1 | 1.0 | 1.4 | 2.1 | 3.8 | 2.3 |
| Revenue and grants | 12.6 | 26.4 | 25.7 | 26.7 | 26.5 | 25.4 | 27.6 | 27.4 | 27.6 | 27.6 | 27.9 | 27.2 | 27.0 |
| <i>Of which: grants</i> | 1.5 | 9.6 | 9.8 | 11.0 | 10.4 | 9.3 | 10.6 | 10.7 | 10.5 | 10.4 | 10.3 | 9.0 | 8.7 |
| Primary (noninterest) expenditure | 17.4 | 23.0 | 25.2 | 25.0 | 23.9 | 24.4 | 25.9 | 27.5 | 28.6 | 28.9 | 30.0 | 31.0 | 29.3 |
| <i>Automatic debt dynamics</i> | -76.9 | -4.8 | -8.3 | 0.8 | -1.0 | -1.8 | -0.3 | -3.1 | -2.1 | -1.4 | -1.3 | -3.0 | -1.7 |
| Contribution from interest rate/growth differential | -74.3 | -8.7 | -6.7 | 1.1 | -1.0 | -1.8 | -1.2 | -3.2 | -2.2 | -1.5 | -1.5 | -1.7 | -1.8 |
| <i>Of which: contribution from average real interest rate</i> | -69.0 | -3.4 | -0.8 | 1.8 | 1.1 | 0.4 | 0.8 | -1.1 | -0.5 | -0.6 | -0.4 | -0.2 | -0.4 |
| <i>Of which: contribution from real GDP growth</i> | -5.3 | -5.3 | -5.9 | -0.6 | -2.2 | -2.1 | -2.0 | -2.1 | -1.8 | -0.8 | -1.0 | -1.5 | -1.4 |
| Contribution from real exchange rate depreciation | -2.5 | 4.0 | -1.6 | -0.3 | 0.0 | 0.0 | 0.8 | 0.1 | 0.1 | 0.1 | 0.1 | -1.3 | 0.1 |
| Denominator = 1+g | 1.0 | 1.0 | 1.1 | 1.0 | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 | 1.0 | 1.0 | 1.0 | 1.0 |
| Other identified debt-creating flows | -0.9 | -1.5 | -3.2 | -2.2 | -1.4 | -1.0 | -0.4 | -0.5 | -0.3 | -0.3 | -0.1 | 0.0 | 0.0 |
| Privatization receipts (negative) | -0.1 | 0.0 | -0.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Recognition of implicit or contingent liabilities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| <i>Debt relief (HIPC and other)</i> | -0.8 | -1.5 | -2.3 | -2.2 | -1.4 | -1.0 | -0.4 | -0.5 | -0.3 | -0.3 | -0.1 | 0.0 | 0.0 |
| Other (specify, e.g. bank recapitalization) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Residual, including asset changes | 22.2 | 1.5 | -82.5 | 3.9 | 6.3 | 1.8 | 4.2 | 3.5 | 2.5 | 0.9 | -0.2 | -1.5 | -1.7 |
| NPV of public sector debt | 66.9 | 53.9 | 22.3 | 23.1 | 23.9 | 21.7 | 22.9 | 23.0 | 24.8 | 25.2 | 25.9 | 24.9 | 24.0 |

1/Includes public and publicly guaranteed debt.

Table 4. Malawi: Sensitivity Analyses for Key Indicators of Public and Publicly Guaranteed Debt, 2002-27
(Percent of GDP, unless otherwise indicated)

| | 2007 | 2009 | 2010 | 2011 | 2012 | 2015 | 2017 | 2018 | 2025 | 2027 |
|---|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| NPV of debt-to-GDP ratio | | | | | | | | | | |
| Baseline | 23.1 | 21.7 | 22.9 | 22.9 | 23.0 | 24.8 | 25.5 | 25.9 | 24.9 | 24.0 |
| A1. Real GDP growth and primary balance are at historical averages | 16.8 | 26.8 | 34.6 | 38.8 | 42.1 | 57.6 | 62.8 | 65.1 | 65.4 | 62.0 |
| A2. Primary balance is unchanged from 2006 | 16.8 | 18.7 | 21.8 | 22.4 | 22.3 | 26.7 | 28.3 | 28.9 | 23.4 | 21.0 |
| A3. Permanently lower GDP growth | 18.9 | 18.8 | 21.8 | 23.6 | 25.8 | 33.8 | 39.2 | 42.4 | 65.5 | 71.1 |
| B1. Real GDP growth is at historical average minus one standard deviations in 2008-2009 | 21.2 | 26.0 | 29.7 | 31.8 | 33.8 | 41.2 | 45.8 | 48.4 | 61.4 | 62.7 |
| B2. Primary balance is at historical average minus one standard deviations in 2008-2009 | 18.9 | 38.0 | 40.4 | 41.1 | 41.3 | 43.3 | 44.6 | 45.6 | 47.9 | 46.8 |
| B3. Combination of B1-B2 using one half standard deviation shocks | 18.9 | 35.4 | 36.1 | 34.9 | 33.4 | 31.6 | 29.3 | 28.5 | 21.8 | 19.8 |
| B4. One-time 30 percent real depreciation in 2008 | 18.9 | 22.4 | 24.7 | 25.6 | 26.7 | 30.9 | 33.3 | 34.9 | 41.9 | 42.1 |
| B5. 10 percent of GDP increase in other debt-creating flows in 2008 | 18.1 | 22.9 | 24.5 | 24.7 | 24.9 | 28.6 | 30.8 | 32.1 | 36.6 | 36.4 |
| NPV of Debt-to-Revenues-and-Grants Ratio | | | | | | | | | | |
| Baseline | 128.2 | 101.4 | 104.9 | 110.6 | 110.2 | 110.3 | 112.7 | 114.3 | 113.3 | 110.2 |
| A1. Real GDP growth and primary balance are at historical averages | 89.3 | 117.0 | 142.7 | 162.7 | 170.5 | 214.7 | 232.2 | 239.6 | 235.9 | 222.3 |
| A2. Primary balance is unchanged from 2006 | 89.3 | 85.2 | 97.3 | 103.7 | 102.6 | 119.5 | 125.7 | 127.7 | 105.6 | 95.9 |
| A3. Permanently lower GDP growth | 100.3 | 84.8 | 95.1 | 106.7 | 114.7 | 144.5 | 163.9 | 176.0 | 267.0 | 289.9 |
| B1. Real GDP growth is at historical average minus one standard deviations in 2008-2009 | 118.0 | 111.1 | 122.7 | 136.0 | 143.6 | 172.5 | 190.1 | 200.4 | 260.6 | 269.1 |
| B2. Primary balance is at historical average minus one standard deviations in 2008-2009 | 100.3 | 173.7 | 180.0 | 190.8 | 189.8 | 194.3 | 198.3 | 201.6 | 216.2 | 213.4 |
| B3. Combination of B1-B2 using one half standard deviation shocks | 100.3 | 150.1 | 148.1 | 148.1 | 140.7 | 131.0 | 120.8 | 117.1 | 91.8 | 84.4 |
| B4. One-time 30 percent real depreciation in 2008 | 100.3 | 102.5 | 109.9 | 118.7 | 122.7 | 138.5 | 147.9 | 154.3 | 189.3 | 191.9 |
| B5. 10 percent of GDP increase in other debt-creating flows in 2008 | 96.0 | 104.5 | 109.2 | 114.6 | 114.4 | 128.1 | 136.7 | 142.2 | 165.2 | 165.7 |
| Debt Service-to-Revenue-and-Grants Ratio | | | | | | | | | | |
| Baseline | 31.9 | 9.1 | 6.1 | 4.5 | 2.9 | 3.3 | 4.8 | 5.4 | 9.0 | 8.6 |
| A1. Real GDP growth and primary balance are at historical averages | 32.8 | 12.3 | 10.6 | 9.8 | 8.3 | 13.9 | 20.6 | 23.2 | 42.8 | 44.8 |
| A2. Primary balance is unchanged from 2006 | 32.8 | 11.3 | 8.8 | 7.6 | 6.0 | 9.3 | 13.5 | 15.0 | 27.2 | 27.9 |
| A3. Permanently lower GDP growth | 32.8 | 11.6 | 8.8 | 7.4 | 6.1 | 10.5 | 14.9 | 17.1 | 37.2 | 40.7 |
| B1. Real GDP growth is at historical average minus one standard deviations in 2008-2009 | 31.9 | 12.3 | 9.4 | 8.1 | 6.7 | 11.2 | 15.9 | 18.2 | 36.6 | 39.0 |
| B2. Primary balance is at historical average minus one standard deviations in 2008-2009 | 32.8 | 12.8 | 12.2 | 11.0 | 8.2 | 13.6 | 19.3 | 20.9 | 34.5 | 35.9 |
| B3. Combination of B1-B2 using one half standard deviation shocks | 32.8 | 13.4 | 11.7 | 9.9 | 7.1 | 11.6 | 16.1 | 17.2 | 27.9 | 29.0 |
| B4. One-time 30 percent real depreciation in 2008 | 32.8 | 12.5 | 9.6 | 8.3 | 7.0 | 11.8 | 15.5 | 17.3 | 31.6 | 33.3 |
| B5. 10 percent of GDP increase in other debt-creating flows in 2008 | 32.8 | 12.2 | 9.9 | 7.6 | 6.1 | 10.8 | 14.2 | 15.7 | 29.7 | 31.3 |

INTERNATIONAL MONETARY FUND

MALAWI

**Fourth and Fifth Review Under the Three-Year Arrangement Under the Poverty
Reduction and Growth Facility, and Request for Waivers of Nonobservance of
Performance Criteria**

Informational Annex

Prepared by the African Department

December 3, 2007

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I—RELATIONS WITH THE FUND
(As of October 31, 2007)

I. **Membership Status:** Joined 07/19/1965; Article VIII (December 7, 1995)

| | | |
|---|--------------------|---------------------------|
| II. General Resources Account: | <u>SDR million</u> | <u>Percent Quota</u> |
| Quota | 69.40 | 100.0 |
| Fund holdings of currency | 67.10 | 96.69 |
| Reserve position in Fund | 2.31 | 3.34 |
| | | |
| III. SDR Department: | <u>SDR million</u> | <u>Percent Allocation</u> |
| Net cumulative allocation | 10.98 | 100.0 |
| Holdings | 0.18 | 1.64 |
| | | |
| IV. Outstanding Purchases and Loans: | <u>SDR million</u> | <u>Percent Quota</u> |
| PRGF arrangements | 19.62 | 28.27 |

V. **Financial Arrangements:**

| <u>Type</u> | <u>Approval Date</u> | <u>Expiration Date</u> | <u>Amount Approved (SDR million)</u> | <u>Amount Drawn (SDR million)</u> |
|-------------|----------------------|------------------------|--------------------------------------|-----------------------------------|
| PRGF | 8/5/2005 | 8/4/2008 | 38.17 | 21.95 |
| PRGF | 12/21/2000 | 12/20/2004 | 45.11 | 12.88 |
| PRGF | 10/18/1995 | 12/16/1999 | 50.96 | 50.96 |

VI. **Projected Obligations to Fund¹**

(millions of SDRs; based on existing use of resources and present SDR holdings):

| | <u>Forthcoming</u> | | | | |
|------------------|--------------------|-------------|-------------|-------------|-------------|
| | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> |
| Principal | | | | | 0.49 |
| Charges/Interest | <u>0.16</u> | <u>0.52</u> | <u>0.52</u> | <u>0.52</u> | <u>0.52</u> |
| Total | <u>0.16</u> | <u>0.52</u> | <u>0.52</u> | <u>0.52</u> | <u>1.01</u> |

¹ When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears are shown in this section.

VII. Implementation of HIPC Initiative:

| | |
|--|-------------------------------|
| A. Commitment of HIPC assistance | <u>Enhanced Framework</u> |
| Decision point date | 12/21/00 |
| Assistance committed (NPV terms) ^{2/} | |
| Total assistance (US\$ million) | 1,057.00 |
| <i>Of which:</i> Fund assistance (SDR million) | 45.27 |
| Completion point date | 9/1/06 |
| B. Delivery of Fund assistance (SDR million) | |
| Amount disbursed | 33.37 |
| Interim assistance | 11.57 |
| Completion point balance | 21.80 |
| Additional disbursement of interest income ^{3/} | 3.82 |
| Total disbursements | 37.19 |

VIII. Implementation of Multilateral Debt Relief Initiative (MDRI):

| | |
|---|-------|
| I. MDRI-eligible debt (SDR Million) ^{4/} | 37.87 |
| Financed by: MDRI Trust | 14.53 |
| Remaining HIPC resources | 23.34 |
| II. Debt Relief by Facility (SDR Million) | |

| <u>Delivery Date</u> | <u>Eligible Debt</u> | | |
|--------------------------|----------------------|-------------|--------------|
| | <u>GRA</u> | <u>PRGF</u> | <u>Total</u> |
| September 2006 | 10.84 | 19.12 | 29.96 |
| December 2006 | N/A | 7.91 | 7.91 |

² Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two amounts can not be added.

³ Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

⁴ The MDRI provides 100 percent debt relief to eligible member countries that qualified for the assistance. Grant assistance from the MDRI Trust and HIPC resources provide debt relief to cover the full stock of debt owed to the Fund as of end-2004 that remains outstanding at the time the member qualifies for such debt relief.

IX. Safeguards Assessments:

A safeguards update of the Reserve Bank of Malawi (RBM) completed in January 2006 under the PRGF arrangement, approved on August 5, 2005, followed up on RBM assessments completed in 2001 and 2003. The 2006 assessment found that although the RBM had taken steps to strengthen its operations, new vulnerabilities had emerged in governance and financial reporting. Recommendations to mitigate the identified weaknesses included: (i) reconstitution of the RBM board of directors, which was dissolved in August 2005, and the subsequent reestablishment of an audit committee; (ii) expansion of explanatory notes in the financial statements to include advances to the government and a letter of credit financial commitments; and (iii) strengthening of the central bank law provisions on the appointment and dismissal of board members.

X. Exchange Arrangements:

The exchange rate of the Malawi kwacha is currently classified as a managed float. However, in view of the exchange rate's stability since mid-2006, this classification is under review. On October 31, 2007, the exchange rate was MK 139.79 = US\$1.00.

XI. Article IV Consultation:

Malawi is on a 24-month Article IV consultation cycle. The last Article IV consultation (CR No. 07/147) was concluded by the Executive Board on March 14, 2007.

XII. Technical Assistance:

| Date | Duration | Dept. | Recipient | Purpose | Form |
|-------|----------|---------|--|--|---------|
| 9/01 | 1½ weeks | FAD | Ministry of Finance | Expenditure tracking and fiscal ROSC | Mission |
| 11/01 | 2 weeks | MAE | RBM | Monetary operations and further developing financial markets | Mission |
| 02/02 | 2 weeks | FAD | Ministry of Finance | Expenditure policy | Mission |
| 05/02 | 6 months | FAD | Ministry of Finance | Expenditure management | Advisor |
| 07/02 | 2 weeks | STA | National Statistical Office (NSO), RBM | GDDS Anglophone project on national accounts statistics | Mission |
| 08/02 | 2 weeks | STA | RBM | Monetary and financial statistics | Mission |
| 02/03 | 2 weeks | MAE | RBM | Monetary operations, payments system, banking supervision | Mission |
| 08/03 | 2 weeks | STA | NSO | GDDS Anglophone project on balance of payments statistics | Mission |
| 09/03 | 2 weeks | STA | NSO, Ministry of Finance, RBM | ROSC on the quality of macroeconomic data | Mission |
| 02/04 | 2 weeks | MFD | RBM | Monetary operations, credit quality assessment, payments system, banking supervision | Mission |
| 04/04 | 2 weeks | STA | RBM | Monetary and financial statistics | Mission |
| 01/05 | 2 weeks | LEG/MFD | RBM | AML/CFT | Mission |
| 03/05 | 2 weeks | FAD | Ministry of Finance | Tax Policy Mission | Mission |
| 08/05 | 1 week | STA | Ministry of Finance | GDDS project on fiscal sector | Mission |
| 11/05 | 1 week | FAD | Ministry of Finance | Civil service pensions | Mission |
| 12/05 | 2 weeks | MFD | RBM | Monetary operations, banking supervision, payments systems, and forex bureaus | Mission |
| 02/06 | 1 week | FAD | Ministry of Finance | Civil service pensions | Mission |
| 03/06 | 1 week | FAD | Ministry of Finance | PSIA on the Fertilizer Scheme | Mission |
| 05/06 | 1 week | FAD | Ministry of Finance | Tax regime for mining | Mission |
| 05/06 | 2 weeks | MFD | RBM | Liquidity Forecasting | Mission |
| 07/06 | 2 weeks | MFD | RBM | Payments System | Mission |
| 07/06 | 3 weeks | STA | RBM | Balance of Payments | Mission |
| 10/06 | 1 week | FAD | Ministry of Finance | Public Financial Management | Mission |
| 10/06 | 3 weeks | MCM | RBM | Currency Issues | Mission |
| 11/06 | 2 weeks | MCM | RBM | Liquidity Forecasting | Mission |
| 11/06 | 2 weeks | MCM | RBM | Central Bank Accounting | Mission |
| 11/06 | 2 weeks | MCM | RBM | Bank Supervision | Mission |
| 02/07 | 2 weeks | FAD | Ministry of Finance | Budget process and improving budget preparation | Mission |
| 03/07 | 2 weeks | FAD | Malawi Revenue Administration (MRA) | Revenue administration | Mission |
| 03/07 | 2 weeks | MCM | RBM | Foreign exchange bureaus | Mission |
| 03/07 | 2 weeks | STA | NSO | National accounts and CPI statistics | Mission |
| 04/07 | 2 weeks | STA | RBM | BoP statistics | Mission |
| 07/07 | 2 weeks | MCM | RBM | FSAP | Mission |
| 09/07 | 2 weeks | STA | NSO, Ministry of Finance, RBM | DFID: STE Phase II, GDDS Dissemination | Mission |

XIII. Resident Representative:

Mr. A. Maitland MacFarlan, who replaced Mr. Baunsgaard, started his assignment on August 21, 2007.

II—RELATIONS WITH THE WORLD BANK GROUP

Contact person: Ms. Yisgedullish Amde, Tel. 202 473 2203 / 258-2148-2340

A. World Bank Country Assistance Strategy (CAS)

1. The fourth Malawi CAS was discussed by the Bank's Board on February 13, 2007. The CAS (Report No. 38326-MW) outlines a program of assistance covering FY07-10 in support to the implementation of the government's PRSP, the Malawi Growth and Development Strategy (MGDS).
2. This CAS contains four outcomes: (i) improve smallholder agricultural productivity and integration into agro-processing; (ii) put in place a foundation for long-term economic growth through improved infrastructure and investment climate; (iii) decrease vulnerability at the household level to HIV/AIDS and malnutrition, and (iv) sustain improvements in expenditure management, budget execution, and the accountability of civil service.
3. Six on-going projects (Irrigation and Rural Livelihoods Project, Community-Based Rural Land Project, Privatization and Utilities Restructuring Project, Rural Infrastructure Service Project, National Water Development II Project, and the Poverty Reduction Support Credit (PRSC)) support the first outcome, with three others in the pipeline (Agriculture and Food Security Program, Food Security/ Rural Development Credit, and Lake Malawi Watershed Management GEF) during the CAS period. To support the second outcome, Seven ongoing projects (Regional Trade Facilitation Project, Privatization and Utilities Restructuring Project, Infrastructure Services Project, National Water Development II Project, Business Environment Strengthening Project, the Mozambique-Malawi Transmission Interconnection Project, and the PRSC) are being implemented as well as those planned during the CAS period (Infrastructure Investment project, Regional Communications Infrastructure Program); WBI, IFC and MIGA, the Bank's other agencies will also be actively engaged to support this outcome.
4. The third CAS outcome is being supported by six ongoing projects (Multi-Sector AIDS Program, MASAF, Health Sector Support and Malaria Booster Program, Education Sector Support Program, Irrigation and Rural Livelihoods Development Project, and the PRSC) with three projects (HIV/AIDS Project, Agriculture and Food Security Program, and Education SWAp) in the pipeline. Bank interventions to support the fourth outcome include the ongoing Financial Management and Transparency Project, the Privatization and Utilities Restructuring Project, and the planned Public Sector Project. In addition, all ongoing operations support the strengthening of line ministries and public accountability, thus contributing to the fourth pillar. Finally, the various analytical work being carried out by the Bank support, and contribute to the achievement of all CAS outcomes.

B. Financial Relations with the World Bank Group

5. The World Bank has been active in Malawi since 1966. Total lending and grants to Malawi from the World Bank as of October 2007 is US\$2,637 million, of which US\$2,375 million has been disbursed. As of June 2007, there were 15 active projects in Malawi with a net commitment of US\$461.6 million and an undisbursed balance of US\$224.2 million. Sectoral breakdown is as follows: social sectors at 39 percent; agriculture at 17 percent; infrastructure at 23 percent; private sector at 15 percent, and public sector at 6 percent.

6. Malawi became a World Bank Institute (WBI) focus country in FY07. WBI is concentrating on fostering reforms in the judicial and legal system (e.g., commercial courts and specialized court proceedings for corruption cases). It is also supporting development of a coherent social protection strategy, and creating capacity for policy formulation and institutional frameworks.

7. The International Finance Corporation (IFC) continues its strategy to increase its engagement in Malawi. During FY07, IFC committed \$15 million in Celtel Malawi as part of a multi-country facility. In addition a further \$3 million has been committed this year in NBS Bank under the MSME programme. IFC is currently working on various projects in the agribusiness sector and continues to look for opportunities in manufacturing, mining and tourism, the target sectors to reduce Malawi's dependence on agriculture.

8. The Multilateral Investment Guarantee Agency (MIGA) is currently underwriting its first project in Malawi, in support of the services sector. The anticipated gross exposure from this investment is \$5 million. As part of a joint engagement with the Foreign Investment Advisory Service (FIAS), MIGA was asked by the World Bank Group to advise Government of Malawi on restructuring its economic development institutions. A technical assistance team visited the country in early 2007 and is currently working with Government on follow-up.

C. Areas in Which the Bank Leads

Education and HIV/AIDS

9. The Multi-Sectoral AIDS Project (US\$35 million in grants) was approved in FY04. The project supports efforts by the Government of Malawi to reduce HIV transmission and mitigate the impact of the disease throughout Malawian society. A major study of Malawi's HIV/AIDS problem revealed 10 important constraints that the project is addressing through a range of activities, including capacity building in public, private, and civil society organizations; educational work for prevention; and increased support for AIDS orphans. Many of Malawi's other development partners are also active in this effort, pooling their funds to support this critical effort. The Bank will play an enhanced role in supporting

Malawi's response to HIV/AIDS. Working closely with the Global Fund and other partners, the Bank will take on the secretariat for the pooled fund support to HIV/AIDS.

10. The Health Sector Support Project for Malawi (the first project with a sector-wide approach in Malawi), approved in December 2004, aims to improve the effectiveness, efficiency, and equity of Malawi's essential health care delivery system. The project (with US\$15 million in grants, and a supplementary malaria booster project of US\$5 million to strengthen the Bank's response to Malaria, approved in July 2006), has the following three components: Component 1. Increasing access to quality essential health services by making the already-defined Essential Health Package (EHP) accessible to all, especially to the poorest and most vulnerable populations. Component 2. Increasing the number of staff available through the continuation of the six-year emergency training plan, a concerted recruitment campaign, the financing and filling of current vacancies, the use of volunteers and contractual staff, and other stop-gap staffing strategies. Component 3. Improving the effectiveness and efficiency of both the health system and the referral network to support EHP delivery. The supplementary malaria booster project will focus on monitoring and evaluation.

11. The Education Sector Support Project for Malawi (with US\$32.2 million in grants), approved in May 2005, provides immediate financing to support the education sector in Malawi. The project has the following six components: Component 1. Complementing government and donor efforts to improve quality and expand teacher development and training at all levels. Component 2. Improving the conditions of learning at selected secondary schools staffed with trained teachers. Component 3. Providing a school health and nutrition package to all primary schools. Component 4. Supplying basic learning materials directly to schools while strengthening the participation of communities in school management. Component 5. The project's capacity building and policy development will cover: (i) national education policy consolidation and capacity building; and (ii) support for the implementation of the government's decentralization policy in education. Component 6. Supporting the physical implementation and management of fiduciary and procurement issues.

12. Projects in the pipeline include an HIV/AIDS Project (pooled with other development partners), and an education SWAp.

Social Protection and Community Development

13. The Malawi Social Action Fund (MASAF) is a long-term, wide-ranging poverty-reduction project that supports decentralization and community capacity building. The project aims to empower individuals, households, communities, and their development partners in the implementation of measures that can assist them in better managing risks associated with health, education, sanitation, water, transportation, energy and food insecurity, and to provide support to critically vulnerable populations through a variety of

sustainable interventions. The current project, MASAF III (US\$60 million, of which US\$27 million is in the form of an IDA grant) was approved in FY03. The project encourages communities to develop social safety nets for their most vulnerable members (such as skills training for AIDS orphans), facilitates delivery of the most needed social services, and stimulates communities to save and invest.

Infrastructure

14. The Integrated Infrastructure Services Project (US\$40 million), which aims to improve household welfare and strengthen economic growth in market centers and surrounding rural areas through the provision of core infrastructure services, was approved on June 27, 2006.

15. In addition, the Second National Water Development Project (US\$50 million) approved on May 24, 2007, aims to increase access to sustainable water supply and sanitation services for people living in cities, towns, market centers, and villages and to improve water resources management at the national level. The project will also contribute to building sector capacity through improved monitoring, regulation, incentive structures, public private partnerships, and coordination among the sector stakeholders.

16. The Mozambique-Malawi Transmission Interconnection Project was approved by the Board on 17 July, 2007. In addition, an infrastructure investment project (FY09), which will likely be pooled with other development partners, is also in the pipeline.

Private Sector

17. Parastatal reform continues to be an urgent need in Malawi. In the past few years, progress has been made with Bank assistance through the Privatization and Utility Reform Project (PURP, US\$28.9 million, approved in FY00). PURP aims to improve the quality of and access to economic and physical infrastructure, especially telecommunications, water, and power, by promoting greater private sector involvement. PURP was restructured to address slow implementation issues, respond to new challenges facing the government, incorporate lessons learned, and improve the program's effectiveness.

18. The recently approved Business Environment Strengthening Technical Assistance Project (US\$15 million) aims to support acceleration of economic growth by reducing the cost of doing business, improving service delivery to the private sector and providing targeted support to small and medium enterprises.

19. Malawi also participates in the Regional Trade Facilitation Project, which principally aims to contribute to poverty alleviation through private sector-led growth in participating countries by improving access to financing for productive transactions and cross-border trade. The project brings together a group of countries by setting up a credible insurance mechanism against losses caused by political risks. The governments of these countries

would agree to be the ultimate risk takers in the insurance mechanism, thus creating a strong disincentive to bring claims. The private market currently does not offer this type of insurance, particularly for medium-term transactions (over one year). The project will thus widen the scope for private sector activity by extending the maturities at which credit is available. It will also create a more stable business environment by extending consistent and predictable coverage. Finally, through better risk management, the project will lower the risk premium.

Agriculture

20. The Community-Based Rural Land Development Project (US\$27 million) was approved by the Board in April 2004. Based on positive community level experience gained through the MASAF projects, and in partnership with the government and UK's development agency, DFID, this project acquires idle estate land and transfers it to landless small farmers, thus enabling such farmers to feed their families and grow surpluses for commercial sale. There is an urgent need for Malawi to move toward a more equitable distribution of land that will provide food security for small farmers. The project target is to relocate 15,000 households.

21. The Irrigation, Rural Livelihoods, and Agriculture Project (US\$40 million), approved in November 2005. This is a collaborative project with the International Fund for Agricultural Development (IFAD), which contributed \$8 million, through a concessionary loan. The project aims to complement other agriculture sector support activities on the ground. The development objective of the proposed project is to raise the agricultural productivity and net incomes of about 196,550 poor rural households in 11 target districts by providing an integrated package of support, including rehabilitation of irrigation infrastructure, agricultural/ irrigation advisory services, marketing and post-harvest assets and services, and capacity building.

22. Given that the agriculture sector is key to development in Malawi, two pipeline projects are planned in the CAS; an Agriculture Sector/ Food Security SWAp, followed by a Rural Development Project.

Environment

23. Direct Bank involvement in the environment sector is currently limited to the Mulanje Mountain Biodiversity Conservation Project (US\$6.75 million) which was approved in FY01. Of this, \$5.5 million was used to capitalize an endowment fund meant to provide sustainable support to biodiversity conservation of Mulanje Mountain Forest Reserve. The project aims to raise awareness about conservation needs, strengthen the capacity of the Forest Department and of local communities to carry out conservation measures, and encourage more local community participation in managing the forest reserve. In addition, especially within the framework of MASAF, the project promotes environmentally sound community development initiatives and funds community resource management projects.

Poverty Monitoring

24. The Bank has provided support with the poverty monitoring tasks identified in the Poverty Reduction Strategy Paper (PRSP) as requiring technical assistance. Through the PRSP Trust Fund, the Bank assisted the government (and specifically, the National Statistical Office) in conducting the Second Integrated Household Survey, including design, collection, processing, and dissemination of data covering not only household characteristics, but also community level indicators. Following completion of the survey in 2005, the Poverty and Vulnerability Assessment, which provides in-depth analysis of the new household data, has been prepared in 2006 jointly by the Ministry of Economic Planning and Development, the National Statistical Office, and the World Bank.

D. Areas in Which the Bank and the Fund Share the Lead

Poverty Reduction Strategy

25. The Government of Malawi is in the second year of implementing its second generation PRSP, the Malawi Growth and Development Strategy (MGDS). A joint IDA-IMF staff advisory note (JSAN) was presented to the Boards of the IMF and the Bank in January 2007, and the Boards have subsequently endorsed the strategy. The first annual progress review of the MGDS is currently underway. The IMF and the Bank staffs maintain a collaborative relationship in supporting the government in the process.

Debt Sustainability and Enhanced Heavily Indebted Poor Country (HIPC) Initiative

26. Staff of the IMF and the Bank prepared “Malawi: Completion Point Document for the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative,” which was presented to the Boards of the World Bank and the IMF in August 2006. Malawi’s debt sustainability outlook after HIPC assistance deteriorated substantially since the decision point as a result of a fundamental change in Malawi’s economic circumstances due to exogenous factors. Therefore, the Boards approved the provision of topping-up assistance at the completion point, consistent with the guidelines under the enhanced HIPC Initiative. In addition, upon approval of the completion point under the enhanced HIPC Initiative, Malawi qualified for additional debt relief from IDA, the IMF, and the AfDF under the MDRI.

27. Following the HIPC Completion Point, the World Bank and IMF have continued to collaborate in assisting the Government of Malawi in the area of public debt management. Firstly, the Bank and Fund collaborated in the Global Debt Management Partnership (GDMP) to undertake more structured assessments in debt management capacity in low income countries. Under this initiative, a pilot of the Government Debt Management Performance Assessment (DeMPA) tool was undertaken, with the World Bank leading when it came to the assessment itself. Secondly, the Bank, Fund, and the Government of Malawi worked closely in preparing a chapter on Public Debt Sustainability and Debt Management Reforms as part of the Public Expenditure Review. Thirdly, the Bank, Fund and the

Government also collaborated in identifying a reform program in the area of improved debt management that could be supported by the Bank's PRSC. The main elements of the reform program are the cabinet approval of a Debt Management Policy and implementation of mechanisms for effective coordination between MoF and the RBM. Fourthly, the Bank and Fund are collaborating in supporting the Government's debt management reforms within the context of the Lipsky-Daboub initiative. Under the Lipsky-Daboub initiative, the Bank and Fund has been discussing with the Government and donors to identify support gaps within the Public Financial and Economic Management (PFEM) action plan. Lastly, a new LIC-DSA is being planned for March 2008 to be undertaken jointly between the Fund and the Bank, but with the Fund leading the exercise.

Budgetary Planning, Revenues Administration, and Public Expenditure Reforms

28. The Bank's assistance in improving public expenditure management has been channeled through development policy lending, investment lending, and public expenditure reviews. In the area of public expenditure management, PRSC-1 has supported reforms for improving payroll management, timeliness and follow-up of external audit. Future PRSCs will also support reforms for improving the budget process.

29. The Financial Management, Transparency, and Accountability Project (FIMTAP, US\$24 million, FY03) is also assisting the government with improving financial management systems and increasing transparency. The main objective of the project is to improve civil service and public expenditure management for better allocation and utilization of public resources.

30. The Bank plans to prepare another public sector management SWAp, which may focus on support to fiscal decentralization and service delivery.

31. The PER has just been finalized. It was conducted jointly with the Government of Malawi and focused on public debt issues, inter-sectoral analysis, and intra-sectoral expenditure issues in education, health, nutrition, and roads. A PER on the agriculture sector is underway and will be published separately.

Civil Service and Wage Reform

32. Following the World Bank-financed study on the review of civil service and wage policy issues, the government has begun implementing the recommendations of the study at the end of 2004, including streamlining the system of allowances, consolidating such allowances in the base for personal income tax, rationalizing salary grades, and moving towards a unified salary structure. These reforms are also supported under the IMF PRGF arrangement.

E. Areas in Which the Fund Leads

Macroeconomic Stability, Fiscal Policy, and Monetary Policy

33. Malawi has made noticeable progress in stabilizing the macroeconomy over the last three years. Improved fiscal discipline and prudent monetary policy have resulted in declining domestic debt, interest rates, and inflation. The challenge is for these gains to be consolidated. The Fund will work with the authorities in sustaining this progress, both through financial support and technical assistance.

III—STATISTICAL ISSUES

1. Economic statistics are broadly adequate for surveillance, but serious deficiencies remain. The data module of the Report on the Observance of Standards and Codes (data ROSC), published February 17, 2005, found that, while the legal and institutional framework for the production of macroeconomic statistics was broadly adequate, there were shortcomings in the scope, accuracy, and reliability of data. There were also deficiencies in the scope for strengthening the Statistics Act to formally assign the responsibility for the compilation of government finance statistics to the Ministry of Finance, and responsibility for the compilation of monetary statistics to the Reserve Bank of Malawi.

2. The authorities are making efforts to improve the quality and timeliness of economic and financial data through participation in the Fund's General Data Dissemination System (GDDS). As one of 22 countries participating in the Fund's General Data Dissemination System (GDDS) Project for Anglophone African Countries, Malawi has undertaken to use the GDDS as a framework for the development of their national statistical systems. The country is participating in the GDDS/PRSP and the monetary and financial statistics modules of the Anglophone Africa project (funded by the U.K. Department for International Development (DFID)). This project aims to assist participating countries in implementing plans for improvement identified in the metadata and meeting GDDS recommended statistical practices. The metadata have been posted on the Fund's Dissemination Standards Bulletin Board (DSBB) since December 2002 and updated in February 2007.

A. Real Sector Statistics

3. Real sector statistics cover the national accounts, prices, and trade statistics and need to be substantially improved. Only a limited set of source data are available, and quality and timeliness should be improved. The National Statistics Office (NSO) needs additional resources to meet, in particular, the required quality standard of national accounts. A long-term technical assistance program (2004-07) on national accounts is being provided under a project by Statistics Norway.

National accounts

4. **The NSO recently revised the national accounts methodology to implement the SNA93 and to better account for the activities in the informal sector.** The new estimate of nominal GDP in 2006 was revised upward by some 40 percent. The revisions include a lower estimated output share of the agricultural sector, resulting in lower estimates of output growth for 2006 and 2007.

Prices

5. A consumer price index (CPI) is available on a timely basis. The CPI is based on the 1997/98 household survey, and data are collected on a monthly basis by regional price

collectors. The authorities are in the process of revising the CPI weights using the 2004 Integrated Household Survey.

Trade

6. Preliminary estimates of trade are now available with a lag of two to three months. Trade data are received electronically from six major ports. The adjustment of imports from c.i.f. to f.o.b. prices is not appropriate and there is no reconciliation with data from neighboring countries.

B. Government Finance Statistics

7. Some fiscal data are reported on a cash basis to AFR. Although administrative records are kept on a manual basis, the systems are designed to provide adequate information. However, there are serious quality problems, including data inconsistencies, that complicate program monitoring:

- While **tax revenue data** are received in a timely fashion, it is not always possible to reconcile them with deposits in the Malawi Government (MG) Account No. 1.
- **Nontax revenue** collected by line ministries is not properly accounted for in the fiscal reports prepared by the Ministry of Finance. It also includes capital revenue.
- Data on **recurrent expenditure** suffer from serious shortcomings partly related to insufficient bank reconciliation at the level of line ministries (between spending records and financing information). The fiscal reports prepared by the Ministry of Finance show spending based on funding data (from the Credit Ceiling Authority). Line ministries subsequently submit spending reports to the Ministry of Finance based on recorded expenditure. At times there are sizable discrepancies between these two sources of data for both wages and other recurrent transactions—to some extent reflecting the widespread practice of reallocation across budget lines.
- Domestically financed **development expenditure** estimates are based on funding released to line ministries, and data on externally funded expenditure estimates are based on reported project grants and loans. Owing to differences in timing and financing modalities (e.g., some donors require prefinancing of expenditure before reimbursement), there are substantial differences between the flow of expenditure and corresponding financing data. Thus, there are substantial errors in the reporting of capital spending. In addition, many donor projects are still not incorporated in the budget, and hence the corresponding expenditure is not captured in government finance statistics. Some externally funded development expenditures are likely recurrent and, reported capital expenditure could be overstated.
- Data on **expenditure arrears** are likely incomplete, as reporting from the Commitment Control System appears to be only partial, and ministry level data are not consistent from report to report. Previously unknown arrears have repeatedly been

cleared through the “special activities” vote, thus calling into question the accuracy of arrears data and the data on clearances.

- The **budget classification and chart of accounts** may be adequate for some administrative, economic, functional and program classifications. An output-oriented activities-based budget classification (ABB) is used for the presentation of the budget. However, **pro-poor expenditures** that have been protected in line with the PRSP are only identified in the ABB classification. As no bridge table exists to map the ABB classification into the program classification used for expenditure reporting and accounting, pro-poor expenditures cannot be monitored.
- **Financing estimates** are based on monetary and debt data, rather than on government records of financing. Reporting on treasury bills directly issued to the RBM at times has been slow.

8. The authorities have received significant technical assistance from the Fund and other donors to strengthen expenditure monitoring and reporting, accounting, and statistical reporting, but results have lagged. The government has pledged to strengthen public financial management and fiscal reporting, and renewed efforts are being made to establish a work plan, including utilizing donor technical assistance more effectively.

9. Malawi does not report government finance data for publication in the *Government Finance Statistics Yearbook (GFSY)* or the *International Financial Statistics (IFS)*. An August 2005 STA mission that visited Lilongwe and reiterated the importance of continued efforts to implement the Integrated Financial Management Information System (IFMIS), to improve the coverage and sectorization of government financial operations and to correctly classify transactions according to international guidelines. Although the mission assisted the authorities with the compilation of annual fiscal data for 2003/04 in accordance with the *GFSY* Questionnaire, such data were not reported for inclusion in the publication. The mission proposed, and discussed with the authorities, a migration plan and timetable to adopt the *GFSM 2001* methodology.

C. Monetary and Financial Statistics

10. The Reserve Bank of Malawi (RBM) reports monetary and financial statistics (MFS) to STA on a regular basis. A mission in April-May 2004 noted that significant progress had been achieved in implementing previous technical assistance recommendations. Coverage of the monthly depository corporations survey now accounts for more than 90 percent of the deposit-taking financial institutions. On the other hand, the mission also noted that some important recommendations were yet to be implemented, such as the sectorization of the domestic economy, and classification of financial instruments to ensure that the RBM adheres fully to the methodology of the *Monetary and Financial Statistics Manual*.

11. Concurrently, the mission completed the development of an integrated database to be used by the RBM, STA, and AFR for publication and operational needs. The mission also discussed the standardized report forms (SRF) for reporting monetary data to STA. The authorities submitted the SRF test data; however, there has not been further progress after STA provided comments on these test data in October 2005. A mission, in the context of the GDDS project for Anglophone Africa, is scheduled for early 2008 to assist the authorities in implementing outstanding recommendations and in further developing the SRF.

D. External Sector Statistics

34. Concepts and definitions used to compile the balance of payments statistics are in broad conformity with the guidelines presented in the fourth edition of the *Balance of Payments Manual (BPM4)*, although there has been some progress in the transition to the methodology of *BPM5*. Since the liberalization of exchange controls, the compilation of data relies on surveys as the source of information for major components in the balance of payments, such as services, direct investment flows, and other financial transactions of the private sector. Data from primary sources (surveys and/or International Transaction Reporting System reports) are supplemented with information from secondary data sources, such as foreign trade statistics collected by the MRA through customs declarations, debt statistics from the MOF, net foreign assets from the RBM, and information on grants collected from main donors. Following a number of technical assistance missions over the past four years, the compilers have introduced some new data sources and have revised several components of the balance of payments.

**MALAWI: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE
(AS OF NOVEMBER 13, 2007)**

| | Date of Latest Observation | Date Received | Frequency of Data ⁶ | Frequency of Reporting ⁶ | Frequency of Publication ⁶ | Memo Items: | |
|---|----------------------------|---------------|--------------------------------|-------------------------------------|---------------------------------------|--|--|
| | | | | | | Data Quality – Methodological Soundness ⁷ | Data Quality – Accuracy and Reliability ⁸ |
| Exchange Rates | 7/07 | 9/27/07 | D | D | D | | |
| International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹ | 09/07 | 10/31/07 | M | M | M | | |
| Reserve/Base Money | 09/07 | 10/31/07 | M | M | M | LO, LO, LO, LO | LO, O, O, O, O |
| Broad Money | 09/07 | 10/31/07 | M | M | M | | |
| Central Bank Balance Sheet | 09/07 | 10/31/07 | M | M | M | | |
| Consolidated Balance Sheet of the Banking System | 09/07 | 10/31/07 | M | M | M | | |
| Interest Rates ² | 9/07 | 10/17/07 | M | M | M | | |
| Consumer Price Index | 09/07 | 10/31/07 | M | M | M | O, LO, O, O | LO, LO, LNO, LO, LO |
| Revenue, Expenditure, Balance and Composition of Financing ³ – General Government ⁴ | NA | NA | NA | NA | NA | LO, LNO, LNO, LO | LNO, O, LO, O, LO |
| Revenue, Expenditure, Balance and Composition of Financing ³ – Central Government | 09/07 | 10/31/07 | M | M | I | | |
| Stocks of Central Government and Central Government-Guaranteed Debt ⁵ | 09/07 | 10/31/07 | M | M | M | | |
| External Current Account Balance | 2006 | 04/07 | A | Q | A | LO, LO, LNO, LO | LNO, LNO, LO, LO, LO |
| Exports and Imports of Goods and Services | 2006 | 06/07 | A | A | A | | |
| GDP/GNP | 2006 | 06/07 | A | A | A | LO, LO, LNO, LO | LNO, LNO, LNO, LO, LO |
| Gross External Debt | 12/05 | 05/06 | M | NA | NA | | |

¹ Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

² Both market based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

³ Foreign, domestic bank, and domestic nonbank financing.

⁴ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

⁵ Including currency and maturity composition.

⁶ Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).

⁷ Reflects the assessment provided in the data ROSC, published February 17, 2005, and based on the findings of the mission that took place September 1–16, 2003 for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O); largely observed (LO); largely not observed (LNO); not observed (NO); and not available (NA).

⁸ Same as footnote 7, except referring to international standards concerning (respectively) source data, assessment of source data, statistical techniques, assessment and validation of intermediate data and statistical outputs, and revision studies.

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December 14, 2007

**Statement by the IMF Staff Representative
December 17, 2007**

The following information has become available since the issuance of the staff report. These developments do not change the thrust of the staff appraisal.

Revisions to estimates of gross reserves

The RBM has revised and reduced the end-June 2007 figure for gross reserves by US\$19.5 million. The revisions involve reclassifications that bring reporting in line with the latest technical memorandum of understanding (TMU). As a result, the RBM has also reduced its estimate of end-June net foreign assets (NFA) and increased the estimate for net domestic assets (NDA) by the same amount. Staff will follow up and verify this information and subsequently report to the Executive Board. Despite these revisions, the end-June 2007 performance criteria on NFA and NDA were still met. Moreover, the revision does not affect the framework and policies underlying the program.

Despite the lower end-June number, new preliminary data imply that gross reserves of the RBM at end-September 2007 were US\$34 million higher than the estimate in the staff report, which was based on data available at the time of the review mission. End-September estimates for NFA are correspondingly higher and estimates for NDA correspondingly lower by the same amount. The reserve accumulation during the third calendar quarter is consistent, inter alia, with the reported strength in tobacco exports. These revisions do not affect program targets for end-December 2007.

In other areas:

The agricultural season now appears to be under way satisfactorily, despite some administrative difficulties with the agricultural input subsidy program and the later-than-usual arrival of the rains in parts of the country.

Data received on the fiscal performance during the first fiscal quarter broadly confirm the assessment in the staff report. In addition, as expected, the World Bank has disbursed US\$20 million in program support.

The large monetary overhang from mid-2007 appears to be receding. Year-over-year growth in reserve money has dropped from near 50 percent at end-September to about 20 percent at end-November. The exchange rate has remained stable and inflation has remained stable at 7.2 percent in October.

On December 12, the Board of Directors of the Millennium Challenge Corporation selected Malawi to be eligible for compact assistance.



Press Release No. 07/294
FOR IMMEDIATE RELEASE
December 17, 2007

International Monetary Fund
Washington, D.C. 20431 USA

IMF Completes Fourth and Fifth Reviews under the PRGF Arrangement for Malawi and Approves US\$18.1 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the fourth and fifth reviews of Malawi's economic performance under a three-year Poverty Reduction and Growth Facility (PRGF) arrangement. The completion of the review enables the release of SDR 11.45 million (about US\$18.1 million), bringing total disbursements under the arrangement to SDR 33.4 million (about US\$52.9 million).

The three-year PRGF arrangement for Malawi was approved on August 5, 2005 (see [Press Release No 05/188](#)), for a total amount of SDR 38.2 million (about US\$60.4 million) to support the government's economic program for 2005-2007.

Following the Executive Board discussion on Malawi, Mr Takatoshi Kato, Deputy Managing Director and Acting Chair, stated:

“Malawi has shown commendable performance under its PRGF-supported program. Economic growth remains high and inflation has continued to decline. This should continue to support Malawi's poverty reduction and development efforts.

“The domestic debt burden has declined further, though somewhat less rapidly than expected. Fiscal policy implementation has been supported by strong revenue performance, and the recent improvement in the government's control of payroll execution has facilitated the lifting of the program's ceiling on the wage bill. However, the government's domestic borrowing targets came under pressure from unforeseen challenges, including delays in aid disbursements and unexpectedly high interest payments. It will be important to keep careful control over public spending moving forward.

“The improvement in the macroeconomic environment has permitted the monetary authorities to bring inflation down to single digits while maintaining a stable exchange rate. Inflation is expected to remain in single figures. However, monetary policy implementation

came under some strain in mid-2007, and the authorities need to address the ensuing rapid monetary expansion.

“The program envisages economic growth in 2007 /08 spreading beyond the agricultural sector and remaining high. Further declines in the domestic public debt burden should continue to support robust private sector credit growth.

“The progress in stabilizing Malawi’s macroeconomic environment will continue to support economic growth and poverty reduction. Sustaining progress will require greater emphasis on structural reforms. Improvements in public financial management have been substantive if somewhat slower than foreseen, and more needs to be done to translate budget resources into better service delivery. The authorities will also need to focus on strengthening financial intermediation and creating a better business environment,” Mr. Kato said.

BUFF/ED/07/195

December 13, 2007

**Statement by Peter Gakunu, Executive Director for Malawi, and
Gebreselassie Tesfamichael, Advisor to Executive Director
December 17, 2007**

Introduction

The Malawian authorities thank the Fund for its continued engagement and support for their macroeconomic policies and reforms under the PRGF. They are appreciative of the quality of the dialogue with staff and support from management. They are in general agreement with the assessment by staff on the economic developments and program implementation during the review period.

The strong commitment of the authorities to sustaining macroeconomic stability and implementation of structural reforms, as well as a generally favorable external environment, have underpinned the strong economic performance under the PRGF arrangement. The authorities, however, continue to face daunting challenges in sustaining high economic growth and macroeconomic stability, building a modern and efficient network of economic and social infrastructure, tackling wide spread poverty, developing resilience against natural and other exogenous shocks, and achieving the Millennium Development Goals.

Looking forward, the authorities are convinced that the Policies and measures incorporated in the Memorandum of Economic and Financial policies (MEFP) will achieve the objectives of their program. They, nevertheless, stand ready, to take any additional measures that may be necessary during the course of implementation to ensure the success of the program. In light of the satisfactory program performance, the authorities request the completion of the fourth and fifth review and the granting of waivers for the non observance of the performance criteria on government domestic borrowing as at end-December 2006, and end-June 2007, as well as of the end-March structural performance criterion.

Macroeconomic developments

Malawi's macroeconomic performance remains strong and the authorities' prudent fiscal and monetary policies, and structural reforms, supported by propitious natural and external

developments, have sustained robust growth. Real GDP grew at 7.9 percent in 2006, reflecting strong recovery in agriculture due to the government's food security program and favorable weather conditions. The back-to-back bumper harvests have reversed the earlier trend of substantial food imports and positioned Malawi as a significant exporter of maize to the region, relieving pressure on foreign reserves and lowering food prices.

The lower food prices and a stable kwacha helped to reduce inflation to 7.2 percent at end-August 2007. Implementation of HIPC and MDRI has significantly reduced Malawi's external debt to about 8 percent of GDP, in NPV terms, at end of 2006, while concerted fiscal consolidation has reduced central government domestic debt to 15 percent of GDP at end of 2006. It is notable that this performance was achieved by a minority government pursuing reform in a complex political environment. Continued favorable conditions, more vigorous and broader private sector development, and the initiation and coming on stream of the Kayelekera uranium mine provide a solid foundation for robust growth in 2008 and beyond. The thrust of government policies will continue to be focused on achieving the objectives of the PRGF arrangement by sustaining robust growth and further consolidating macroeconomic stability. In line with the objectives of the Malawi Growth and Development Strategy (MGDS) which anchors the PRGF, the government will primarily focus on promoting and broadening growth and improving economic management and the business environment. In this context, real GDP is projected to grow by 7.4 percent in 2007 and 7.1 percent in 2008. Although growth has been largely dependent on agriculture which remains the mainstay going forward, there is realistic expectation that this will be complemented by robust growth in other sectors given the better business environment and improved credit availability.

Fiscal Policy

On the fiscal front, the authorities' core strategy is centered on reducing the domestic debt burden. Although they maintained their focus, shortfalls in expected debt relief, unanticipated domestic interest payments, together with the significant postponement of a large donor disbursement, led to a higher than targeted domestic borrowing. However, higher domestic revenue projections, and eventually collections, enabled the authorities to raise priority discretionary development spending. Although the authorities' target rate of debt reduction might have been overly ambitious, it needs to be noted that domestic debt has continued to decline as a share of GDP and is currently at 12.3 percent.

Going forward, the authorities' main objective is to create the necessary fiscal space for pro-poor and pro-growth spending to motivate higher private sector growth, meet MDGs and enhance resilience to shocks. In this endeavor, the authorities will continue to pursue their domestic debt reduction strategy, enhance revenue mobilization, increase social sector expenditure and continue their successful program of food security by expanding irrigated

agriculture and provision of subsidized fertilizer and other inputs. The authorities will also complete the balance of their civil service salaries enhancement agenda which they initiated in 2006.

Monetary and Exchange Rate policies

On monetary and exchange rate matters, the RBM achieved its 2006/07 targets. Inflation was reduced to 7.2 percent at end-August 2007, from 16 percent in July 2006 and all performance criteria on net domestic assets and net foreign assets were met. There has been appreciable foreign investment in the domestic debt market and the authorities have taken prudential steps in putting a ceiling and have presently decided not to roll it over given the global climate and risk for reversal. Liquidity rose rapidly in July due to the robust GDP growth, strong aid disbursement and excess liquidity generated by a significant reduction of the liquidity reserve requirement (LRR). The RBM has been mopping up liquidity since July by significantly enhanced sale of foreign exchange.

The authorities have continued to attach importance on stability of the nominal exchange rate as an intermediate target in maintaining macroeconomic stability. In this connection, staff has rightly noted that there is no indication of misalignment although, there has been little movement in the real effective exchange rate since 2004. The rising spread observed between buying and selling rates in official and parallel exchange rates market since mid-2007 might not only be a response to the monetary expansion but also a reaction to the early closure of the tobacco market due to low production.

The authorities will, through the RBM, continue to pursue sound and prudent monetary policy focused on reducing inflation to a moderate and stable level. Their target for the medium term is a rate in the range of 5-7 percent which is realistic given the downward trend since 2005. Their prudent restraint on money growth and policy of stable exchange rate together with their investment in food security and prospects for favorable weather conditions enhance the realism of their inflation target. The RBM will target an increase of its external reserves to two months of import cover by mid-2008 to take advantage of the propitious environment created by maize exports and the favorable outlook for higher aid inflows, to mitigate against the perennial risk of shocks. With respect to exchange rates the RBM will continue to move towards a more market based mechanism of exchange rate determination and continue to refrain from restrictions.

Financial Sector

The government will continue to maintain the health of the financial sector in the face of rapid expansion while evolving comprehensive measures to further develop and strengthen financial intermediation. The authorities will continue to seek the support of the Bretton

Woods institutions, particularly through FSAP, in this priority task. The authorities have initiated and will continue to enhance on site inspection of major banks to strengthen financial supervision. They have been preparing a comprehensive set of draft legal instruments, relating to the financial sector as a whole as well as specific institutions and sub-sectors which are being harmonized as they move on the legislative process.

Public Financial Management Reform

The authorities have made substantial progress in Public Financial Management (PFM) reform, a task they consider a priority, although, some of the necessary measures were implemented with delay. They have strengthened control over utility payments to eliminate arrears, and centralized payment in most institutions through the implementation of IFMIS. The authorities are reviewing IFMIS, its interface with GFS 2001 and its roll-out to the local assemblies and have requested the Fund for hands-on technical assistance to deal with some of the technical issues. They have developed a PFM Action Plan to anchor the additional reform measures. The reluctance by some donors to harmonize their systems with IFMIS and provide data on their activities to the relevant government entities hampers progress, and donor understanding in this regard would be very helpful.

The authorities will continue to implement the reform program incorporated in the PFM Action Plan with the valued support of their external partners. They intend to establish, as a matter of priority and under the supervision of top management, a cash management unit and committee to enhance cash flow planning and create a more effective and accurate projection of government resources and obligations and mitigate some of the current problems in this respect. Most of the existing Treasury Funds are small or no longer operational and the authorities plan to undertake thorough review and audit for further action on their status. The authorities are proceeding to fully implement IFMIS while at the same time resolving technical problems arising from the integration and harmonization of the accounting system with the budgeting module. Substantial work has been done in improving budget classification and coding to prepare for the adoption of GFS 2001, although this will require time as the task will necessitate reconfiguring programs and sub programs. The authorities have been developing and refining a budget preparation calendar which will contribute to the overall improvement of the budgetary process.

Food Security

There were bumper crops in the last two harvest in Malawi as a result of the governments effective food security strategy and favorable weather conditions. Crop production has almost tripled between 2005 and 2007 increasing from 1.2 million tons to 3.2 million tons enabling the authorities to build up their Strategic Grain Reserves while allowing them to

export to the region up to 400,000 metric tons of maize. In terms of the special arrangement for the exports, the authorities will continue to insure that there are no contingent liabilities while they continue to closely monitor and align shipments with payments on a monthly basis.

Other structural reforms

The authorities intend to pursue and consolidate their structural reform agenda. They have developed interim guidelines for the public sector to ensure that the external debt does not become unsustainable as they evolve a more comprehensive strategy. They continue to attach high priority to improving the business environment and will continue to take the necessary administrative, institutional and legislative measures to attain a competitive position in motivating and attracting private investment.

Conclusion

The Malawian authorities continue to be strongly committed to the successful implementation of the PRGF supported economic program. The implementation of the programs for the fourth and fifth reviews has been within the set objectives and targets. Going forward, the authorities will continue to pursue policies and take measures that ensure the success of their program. On the basis of the good performance during the period under review and the agreed measures to be implemented during the remaining period of the fiscal year, my authorities request the completion of the fourth and fifth reviews under the PRGF arrangement.