IMF Country Report No. 20/288

# MALAWI

October 2020

## REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR MALAWI

In the context of the Request for Disbursement Under the Rapid Credit Facility, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on October 2, following discussions that ended on September 2, with the officials of Malawi on economic developments and policies underpinning the IMF arrangement under the Rapid Credit Facility. Based on information available at the time of these discussions, the staff report was completed on September 24, 2020.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Association (IDA).
- A **Statement by the Executive Director** for Malawi.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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

# IMF Executive Board Approves an Additional US$101.96 Million Disbursement under the Rapid Credit Facility for Malawi to Address the COVID-19 Pandemic

**FOR IMMEDIATE RELEASE**

- This is the second disbursement under the Rapid Credit Facility (RCF), which brings total IMF COVID-19 emergency support to Malawi to US$193 million.
- Malawi's economic outlook has worsened since the first RCF as COVID infections have risen and the global and regional economic situation has deteriorated.
- This additional IMF financing will help fill part of the resulting increased external financing gap and provide the fiscal space needed to address critical spending needs. The authorities are committed to transparency and accountability to ensure that the RCF resources are used appropriately.

**Washington, DC – October 2, 2020:** The Executive Board of the International Monetary Fund (IMF) today approved a disbursement of SDR 72.31 million (US$101.96 million or 52.1 percent of quota) to Malawi under the Rapid Credit Facility (RCF). This is the second emergency disbursement since the onset of the pandemic and will help finance Malawi's urgent balance of payment and fiscal needs. It follows the Executive Board's approval of the disbursement of SDR 66.44 million (US$91 million or 47.9 percent of quota) on May 1, 2020 (IMF Press Release No. 20/200).

Malawi's economic outlook has worsened since the first RCF with the accelerated spread of the pandemic in the country and the deteriorating global and regional economic situation. As a result, external financing needs have substantially increased. The fiscal situation has also deteriorated with revenue losses and channeling of budget resources toward critical spending, including to support incomes and food security of the most vulnerable and increased health sector outlays—in line with Malawi's national response plan supported by the World Health Organization and other development partners.

IMF financing under the second RCF will help fill part of the external financing gap and catalyze other concessional financing. The authorities have committed to transparency and accountability to ensure that the RCF resources are used appropriately and for their intended purpose.

Following the Executive Board's discussion of Malawi, Mr. Zhang, Deputy Managing Director and Chair, issued the following statement:

"The authorities are actively implementing measures to mitigate the impact of the pandemic and preserve macroeconomic stability. Key steps include strengthening the health care system, stepping up social spending, ensuring food security, and easing liquidity constraints in the banking system.

"The IMF's emergency financing under the second RCF will help close the immediate additional external and fiscal financing gaps. Further concessional assistance from the international community will be critical to close the remaining external financing gaps during

2020 and 2021 and help ease the adverse economic and social impacts of the pandemic, while preserving Malawi’s hard-earned macroeconomic stability.

“A widening of the budget deficit is appropriate in the near term, given the fiscal costs associated with the economic slowdown and critical pandemic-related spending, which should be executed transparently and targeted at the most affected segments of society. To safeguard medium-term debt sustainability and fiscal space for development initiatives, it will be important to formulate medium-term measures now—such as policies that strengthen debt management and boost domestic revenue mobilization—and implement them once the pandemic abates.

“The authorities are committed to preserving macroeconomic stability, pursuing reforms in support of higher, more resilient, and broad-based medium-term growth, and improving governance. They have expressed their strong interest in a new Extended Credit Facility arrangement that is aligned with the long-term growth strategy currently under development.”

*More information*

IMF Lending Tracker (emergency financing request approved by the IMF Executive Board)

https://www.imf.org/en/Topics/imf-and-covid19/COVID-Lending-Tracker

IMF Executive Board calendar

https://www.imf.org/external/NP/SEC/bc/eng/index.aspx

# MALAWI

## REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY

September 24, 2020

## EXECUTIVE SUMMARY

**Context and request.** Presidential elections in June 2020, a re-run of the canceled 2019 elections, resulted in a change of government, with President Chakwera securing 59 percent of the vote. The new administration is facing a rapid acceleration of COVID-19 cases in Malawi and adverse spillovers from continued deterioration of the global and regional economic situation, significantly worsening the macroeconomic outlook. Consequently, an additional urgent balance of payments need of 2.9 percent of GDP has arisen—bringing the total external financing gap in 2020 to 5.0 percent of GDP. The authorities have requested an additional disbursement of 52.1 percent of quota (SDR 72.31 million) under the "exogenous shock" window of the Rapid Credit Facility (RCF), where 30 percent of the disbursement would finance the government budget. This follows the May 1, 2020 Board approval of a 47.9 percent of quota RCF disbursement (without budget support). The authorities have cancelled the Extended Credit Facility (ECF) and expressed a strong interest in discussing a new ECF—better aligned with their new long-term growth and reform strategy—once conditions permit.

**Macroeconomic policies.** The authorities are committed to the policies discussed in IMF Country Report 20/168. The new administration has prioritized transparency and efficiency in all aspects of government, including government spending to manage and contain the impact of the pandemic. The fiscal stance has been temporarily loosened to mitigate the impact of the crisis and support recovery. Monetary policy continues to focus on containing inflation but the RBM stands ready to provide liquidity as needed. Banking supervision has been stepped up to ensure financial sector stability. As they develop a new long-term growth strategy, the authorities plan to prioritize policies to achieve higher, more resilient, and broad-based medium-term growth and governance reforms while preserving macroeconomic stability and debt sustainability.

**Staff supports the authorities request.** The accelerating spread of the pandemic and continued adverse spillovers have created an urgent balance of payments need. Staff considers a second RCF drawing appropriate given the authorities' strong interest, as contained in the attached Letter of Intent, to transition to a new ECF once they have finalized their medium-term development strategy and pandemic-related uncertainty subsides. The authorities have requested debt servicing relief from bilateral creditors under the G20 Debt Service Suspension Initiative (DSSI) and discussions are ongoing. The catalytic role of the Fund, which has already contributed to closing the 2020 external needs, will remain essential given a projected financing gap for next year.

| Approved By | |
|---|---|
| **David Robinson (AFR) and Björn Rother (SPR)** | A staff team comprised of Ms. Mitra (head), Ms. Gwenhamo, Ms. Yoon, Ms. Fabo (all AFR), Mr. Lee (SPR), Mr. Swistak (FAD), Mr. Banda (local economist), and Mr. Anderson (FAD long-term expert) exchanged information and held discussions with the Hon. Felix Mlusu (Minister of Finance), Dr. Wilson T. Banda (Governor of the Reserve Bank of Malawi), and other senior officials by videoconference on August 26-September 2, 2020. Mr. Sitima-wina (OED) joined in the discussions. Ms. Kumar assisted in the preparation of the staff report. |

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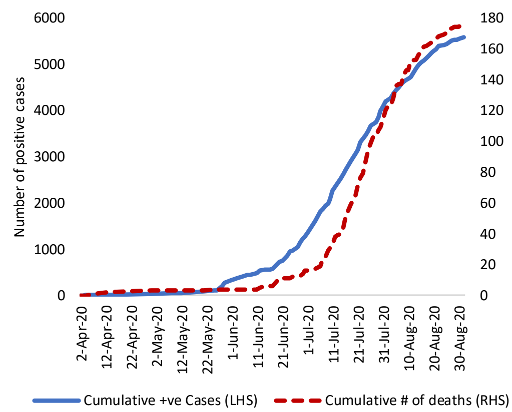
# CONTEXT

1. **The COVID-19 pandemic's economic impact has deepened against a backdrop of rapidly accelerating cases since June.** As of September 16, there were around 5700 confirmed cases and 178 deaths (Text Figure 1). The authorities, with the support of the World Health Organization and other development partners, continue to strengthen the health system and implement a response plan. A partial lockdown[1] was instituted after the first confirmed cases in April, but the number of cases accelerated during June-August. The effects of the partial lockdown and a considerably worsened global and regional economic situation (compared to IMF Country Report 20/168) are intensifying already hefty economic pressures.

**Text Figure 1. Malawi: COVID-19: Cumulative Cases and Deaths**




Sources: Malawian authorities; IMF staff estimates.

2. **The authorities have requested emergency Fund financial assistance under the Rapid Credit Facility (RCF) to help address urgent balance of payments needs.** This facility would supplement an RCF for 47.9 percent of quota (SDR 66.44 million) approved by the Board on May 1, 2020 (IMF Country Report 20/168); and debt relief under the IMF's Catastrophe Containment and Relief Trust (CCRT) covering up to two years' debt service to the Fund (SDR 32.842 million) approved on April 13, 2020.[2] The new government cancelled the existing Extended Credit Facility (ECF) on September 24, 2020 and expressed interest in discussing a new ECF arrangement once a broader reform agenda is in place and the impact of COVID-19 subsides. The authorities have requested debt servicing relief from bilateral creditors under the G20 Debt Service Suspension Initiative (DSSI) and discussions are ongoing. The projections in this report assumes the full amount of the DSSI is received from all creditors in line with agreed term sheets.

3. **In June 2020, Lazarus Chakwera won the Presidential election, securing 59 percent of the vote.** This election followed the Constitutional Court's February 2020 ruling nullifying the May 2019 presidential election results—won by incumbent Peter Mutharika—given their finding of systematic irregularities in the election proceedings. President Chakwera has appointed a new Cabinet, including Felix Mlusu as Minister of Finance and Vice President Saulos Chilima as Minister for Economic Planning, Development and Public Sector Reforms. Wilson Banda was appointed the

[1] Containment measures include suspension of all commercial air flights (until September 1), closure of schools (with phased re-opening from September 7), rotation of work shifts in the public sector, closure of all land borders, except three, and suspension of large gatherings.

[2] An initial tranche of SDR 7.202 million was provided covering debt service to the IMF during April-October 2020; and a second tranche of SDR 7.202 million will be discussed by the Board on October 5, 2020.

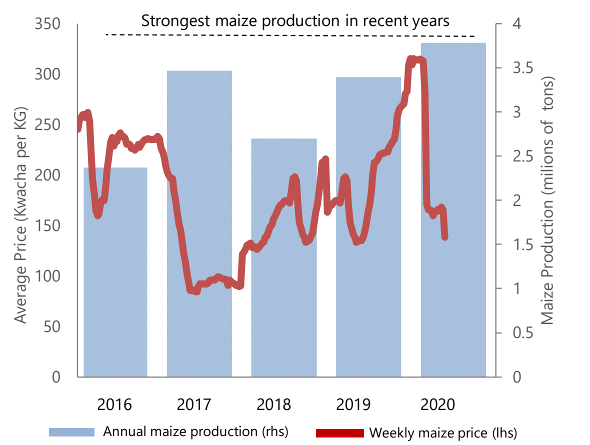
new Governor of the Reserve Bank of Malawi (RBM) and heads of several agencies and board members of major state-owned enterprises were replaced.

# RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

**4. A good harvest and an acceleration in domestically-financed government spending more than offset the pandemic's economic effects and a slower execution in foreign-financed capital spending in 2020H1.**

- Prior to the pandemic's acceleration in June, domestic economic activity benefitted from the strongest maize harvests in recent years (Text Figure 2)—agricultural trade markets in Malawi remained open through the partial lockdown—stepped-up implementation of domestically-financed development projects (including post-cyclone reconstruction), clearance of domestic arrears, and spending to hold elections. Nevertheless, the partial lockdown, political uncertainties, and continued electricity outages have weighed on manufacturing and wholesale and retail trade.

**Text Figure 2. Malawi: Maize Production and Prices**




Sources: Malawian authorities; IMF staff estimates.

- Exports, mainly agricultural products (including tobacco and tea), struggled due to reduced global demand, border closures, and heightened trade transit costs resulting from economic disruptions in neighboring countries—despite the U.S. partially lifting its suspension of tobacco imports from Malawi.[3]

- Import declines due to lower international fuel prices and reduced private sector and foreign-financed project imports (see next bullet) were partly curbed by increased public sector imports (including in health care).

- The global economic slowdown, amplified in the region by border closures and halting of activity by lockdowns, weighed on remittances, tourism, and foreign direct investment. Project-related inflows slowed in line with lower execution of foreign-financed development projects

[3]Customs and Border Protection (CBP) modified a withhold release order (WRO) such that tobacco imported from Malawi by Alliance One International, LLC will be admissible at all U.S. ports of entry effective June 3, 2020 and tobacco imported from Limbe Leaf Tobacco Company Ltd. (LLTC) will be admissible at all U.S. ports of entry effective July 31, 2020.

due to disruptions related to the COVID pandemic. This slowdown was broadly balanced by inflows of COVID-19 related aid from development partners.

- Inflation declined to 7.6 percent in August 2020 reflecting the good harvest and lower international fuel prices. Non-food inflation remained under 5 percent, where a broadly stable exchange rate against the U.S. dollar helped contain rising non-fuel import costs. With inflation within the RBM's target band, the RBM maintained its policy rate at 13.5 percent.

- The banking system remains well capitalized, liquid, and profitable but non-performing loans (NPLs) have risen recently from 4.8 percent at end-June 2019 to 6.6 percent at end-June 2020. Private sector credit growth has been subdued (2 percent in 2020H1) due to low credit demand. To ease banking system liquidity constraints during the pandemic, the RBM has implemented several measures (detailed in IMF Country Report 20/168)—including lowering reserve requirements and a moratorium on debt service for small and medium enterprises (SMEs) until end-2020. The government's payment of domestic arrears (0.9 percent of GDP) has also helped. The June 2020 stress test showed that overall, the banking system is resilient to interest rate and income risk shocks but vulnerable to shocks from concentration risk.

- The domestic primary deficit expanded to 2.5 percent of GDP in FY 2019/20 (3.4 percent of GDP deterioration relative to pre-pandemic expectations, Text Table 1). Although revenue performance was better than anticipated in IMF Country Report 20/168, there were significant shortfalls relative to pre-pandemic expectations—especially in domestic, customs, and VAT import revenues attributed to lower activity from border closures, the lockdown, political uncertainties, and delays in ITAS implementation. Spending on health care (including wages for new medical staff and risk allowances) and maize purchases were stepped-up in response to the pandemic. However, the bulk of the spending overruns relative to the

### Text Table 1. Central Government Operations, FY 2019/20 (Percent of GDP)[1,2]

| | FY 2018/19 | FY 2019/20 | | | |
|---|---|---|---|---|---|
| | Est. | Pre-COVID | RCF I | Est. | Est. vs. Pre-COVID |
| **Revenue** | **21.1** | **22.0** | **20.4** | **21.2** | **-0.8** |
| Tax | 17.4 | 18.0 | 16.0 | 16.5 | -1.5 |
| Non-tax revenue | 1.7 | 1.8 | 2.2 | 2.6 | 0.8 |
| Grants | 2.0 | 2.2 | 2.3 | 2.1 | -0.1 |
| Budget support | 0.6 | 0.0 | 0.4 | 0.4 | 0.4 |
| Project | 1.5 | 2.2 | 1.9 | 1.8 | -0.4 |
| **Spending** | **28.2** | **26.8** | **29.7** | **30.6** | **3.8** |
| Wages | 7.2 | 7.3 | 7.6 | 7.7 | 0.4 |
| COVID-19 related | 0.0 | 0.0 | 0.1 | 0.1 | 0.1 |
| Generic goods and services | 2.5 | 2.7 | 3.3 | 3.7 | 1.0 |
| Health and social spending | 1.6 | 1.7 | 1.9 | 1.9 | 0.2 |
| COVID-19 related | 0.0 | 0.0 | 0.2 | 0.2 | 0.2 |
| Rural electrification and road maintenance | 1.2 | 0.7 | 1.2 | 1.4 | 0.6 |
| Elections | 1.2 | 0.0 | 0.5 | 0.5 | 0.5 |
| FISP | 0.7 | 0.6 | 0.6 | 0.6 | 0.0 |
| Universities, SOEs, social assistance | 3.5 | 3.6 | 3.8 | 3.8 | 0.2 |
| Interest | 4.2 | 4.1 | 4.3 | 4.4 | 0.3 |
| Development spending | 5.7 | 5.8 | 5.8 | 5.4 | -0.3 |
| Foreign financed | 3.5 | 3.9 | 3.9 | 3.5 | -0.3 |
| Domestically financed | 2.2 | 1.9 | 1.9 | 1.9 | 0.0 |
| Arrears | 0.1 | 0.1 | 0.5 | 0.9 | 0.8 |
| Other | 0.4 | 0.3 | 0.3 | 0.3 | 0.0 |
| Discrepancy[3] | 0.1 | 0.0 | 0.0 | 1.1 | 1.1 |
| Overall Balance | -6.9 | -4.9 | -9.3 | -8.3 | -3.4 |
| **Domestic Primary Balance** | **-1.2** | **0.9** | **-3.4** | **-2.5** | **-3.4** |

Sources: Malawian authorities; IMF staff estimates.

[1]The fiscal year starts in July and ends in June.

[2]Pre-COVID refers to projections under the 2nd and 3rd reviews of the 2018-21 ECF arrangement (IMF Country Report 19/361); RCF I refers to projections in IMF Country Report 20/168; RCF II refers to projections in this report.

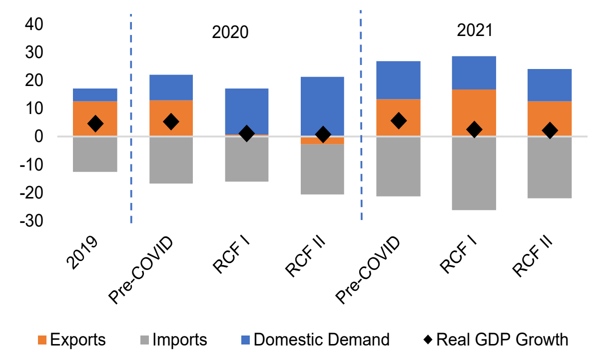
[3]The discrepancy (under-financing) is due to payment of June salaries and invoices for development projects in July 2020.

pre-pandemic budget were on clearing domestic arrears payments, preparations to hold new elections (including on security equipment reflected in generic goods and services), and higher salaries for striking university staff. The deficit was financed with development partners' support (mainly budget support from the World Bank) and domestic sources (large banks, pension funds, and insurance companies).

**5. The macroeconomic outlook, however, has deteriorated (compared to IMF Country Report 20/168) in line with a global and domestic intensification of COVID-19.**

- Growth is expected to fall to 0.6 percent in 2020 and to 2.2 percent in 2021 (0.4 and 0.3 percentage points below projections in IMF Country Report 20/168). Following a robust performance in 2020H1—owing to a strong harvest and substantial government spending—economic activity in 2020H2 is suffering from a further deterioration of the global outlook—resulting in substantially lower exports—a worsening economic impact of the pandemic, and a longer persistence of the shock (Text Figure 3). These factors are also expected to take a toll on domestic balance sheets with a continued rise in non-performing loans. A gradual economic recovery is expected during 2022-25 with growth averaging 6.4 percent.

**Text Figure 3. Malawi: Contributions to Real GDP Growth, 2020-21 (Percent)[1]**




Sources: Malawian authorities; IMF staff estimates.

[1] Pre-COVID refers to projections under the 2nd and 3rd reviews of the 2018-21 ECF arrangement (IMF Country Report 19/361); RCF I refers to projections in IMF Country Report 20/168; RCF II refers to projections in this report.

- The rapid rise in unemployment and loss of incomes and purchasing power will increase poverty and food insecurity—especially for non-farm lower income households. Real per capita income in 2020 will be more than 2 percent lower than in 2019.

- Inflation is anticipated to remain in single digits at 9.1 percent in 2020—reflecting contained food inflation—and 9.5 percent in 2021 (assuming an average harvest next year and higher international oil prices); and moderate towards 5 percent over the medium-term. Non-food inflation is expected to remain around 5 percent in the near term—with pressures from higher import costs offset by substantially reduced activity in transportation and services—and moderate towards 3-4 percent over the medium-term.

- The current account deficit (excluding official transfers) is anticipated to widen, reaching 20.5 and 20.3 percent of GDP—a deterioration of 2.4 and 2.3 percentage points relative to IMF Country Report 20/168. This reflects expectations of higher COVID-19 related imports, lower remittances, exports, and tourism given reduced global growth. Import contraction, due to a slowdown in domestic economic activity, will only partially mitigate these effects.

- The domestic primary deficit is projected to be 4.4 percent of GDP in FY 2020/21. Staff's projections of pandemic-related revenue shortfalls (Text Table 2) are 0.9 percent of GDP larger than in the draft budget due to the authorities' more optimistic revenue projections (largely based on a faster resumption of economic activity in 2021); and they are 0.3 percent of GDP less than in IMF Country Report 20/168, reflecting a base effect from larger than expected FY 2019/20 revenues. The projections of pandemic-related revenue shortfalls in Text Table 2 (for RCF I, RCF II, and the draft budget) do not include non-pandemic revenue measures that will result in additional revenue losses—including a doubling of the personal income tax (PIT) threshold (costing 0.8 percent of GDP and included in the budget and staff's projections). On the spending side, social spending has increased by 2.4 percent of GDP—mainly due to the new Agricultural Input Program (AIP, detailed in ¶8). Consequently, public debt is projected to reach 78 percent of GDP in 2021.

- Financing a larger fiscal deficit will be challenging. Domestic liquidity is expected to be mainly channeled towards financing the government (given waning private sector credit demand). However, liquidity is expected to tighten as households and businesses use their savings to compensate for reduced incomes during the pandemic and banks' cope with rising NPLs; while increased donor financing will mainly finance imports (particularly in health care). Consequently, foreign financing will play a larger role, especially health care and broader social spending-related project grants from development partners (including the World Bank and the EU), budget support from the African Development Bank, and part of the RCF financing.

**Text Table 2. Malawi: COVID-19 Fiscal Financing Needs, FY 2020/21 (Percent of GDP)[1,2]**

| | RCF I | RCF II | Draft Budget |
|---|---|---|---|
| Revenue shortfalls[3] | 2.1 | 1.8 | 0.9 |
| Spending | 0.6 | 3.2 | 3.2 |
| Health care (incl. wages) | 0.3 | 0.6 | 0.6 |
| Education | 0.0 | 0.2 | 0.2 |
| Social assistance | 0.2 | 0.5 | 0.5 |
| AIP (formerly FISP) | 0.0 | 1.9 | 1.9 |
| Other (incl. on-budget maize purchases) | 0.1 | 0.0 | 0.0 |
| Financing Needs | 2.7 | 5.0 | 4.1 |
| Financing Sources | 2.7 | 5.0 | 4.1 |
| Foreign | 0.2 | 1.8 | 1.8 |
| Budget suppport | 0.0 | 0.9 | 0.9 |
| Grants | 0.0 | 0.2 | 0.2 |
| Loans | 0.0 | 0.6 | 0.6 |
| o/w RCF II | 0.0 | 0.3 | 0.3 |
| Project and dedicated grants | 0.2 | 0.9 | 0.9 |
| Domestic | 2.5 | 3.2 | 2.3 |

Sources: Malawian authorities; IMF staff estimates.
[1]RCF I refers to projections in IMF Country Report 20/168; RCF II refers to projections in this report.
[2]Financing needs are in comparison to pre-pandemic projections in IMF Country Report 19/361.
[3]Revenue shortfall excludes losses from non-pandemic polices—including losses from doubling of the PIT threshold (0.8 percent of GDP) and reduced transfers from the off-budget fund holding the rural electrification levy (0.3 percent of GDP).

6. **Compared to IMF Country Report 20/168, an additional external financing gap projected at $243 million (2.9 percent of GDP) has emerged in 2020 (Text Table 3),** after taking into account 0.1 percent of GDP in CCRT debt relief (until mid-October 2020); an absence of ECF disbursements in the remainder of 2020; the full amount of the DSSI is received from all creditors in line with agreed term sheets; and assuming reserves in months of imports declines to 3.1. The overall balance of payments deteriorates from a previously projected deficit of 2.0 percent of GDP to a deficit of 4.5 percent of GDP. This mainly reflects a projected current account deficit of 20.5 percent of GDP (described above). Together, the two RCF disbursements are expected to fill 46 percent of the financing gap in 2020 with the rest covered by financial support from other development partners including the World Bank, African Development Bank and the European Union. $30 million of financing under this RCF will be provided directly to the Treasury as direct budget support.

Notably, large balance of payments needs, related to the pandemic are expected to persist in 2021, with the external financing gap for 2020-21 totaling 7.7 percent of GDP or about $655 million.

**Text Table 3. Malawi: COVID-19 External Financing Needs, 2020**
**(Millions of U.S. dollars)[1]**

| | RCF I | | RCF II | |
|---|---|---|---|---|
| | U.S. Dollars | Percent GDP | U.S. Dollars | Percent GDP |
| Financing needs from COVID-19 pandemic (A) | 308 | 3.7 | 512 | 6.1 |
| Widening of current account deficit, excluding official current transfers | 103 | 1.2 | 297 | 3.5 |
| Widening of trade and service account deficit | -2 | 0.0 | 155 | 1.8 |
| Decline in private transfers | 105 | 1.2 | 142 | 1.7 |
| Deterioration in capital and financial account | 205 | 2.4 | 216 | 2.6 |
| Decline in FDI | 122 | 1.4 | 130 | 1.5 |
| Decline in medium and long term loans | 3 | 0.0 | 31 | 0.4 |
| Undisbursed funds from incomplete 4th and 5th reviews under ECF arrangement[2] | 0 | 0.0 | 57 | 0.7 |
| Policy adjustment (lower accumulation of gross reserves) (B) | 132 | 1.6 | 93 | 1.1 |
| **External financing gap (A-B)** | **176** | **2.1** | **419** | **5.0** |
| Additional financing: | 176 | 2.1 | 419 | 5.0 |
| Grants for debt relief under IMF CCRT[3] | 5 | 0.1 | 5 | 0.1 |
| Financial support from other donors | 43 | 0.5 | 204 | 2.4 |
| (incl. AfDB, WB, EU, UN, GAVI, DFID, Irish Aid, GIZ, KfW, USAID) | | | | |
| Of which: World Bank | 37 | 0.4 | 76 | 0.9 |
| Of which: African Development Bank | 0 | 0.0 | 45 | 0.5 |
| Of which: EU | 0 | 0.0 | 61 | 0.7 |
| G20 DSSI | 0 | 0.0 | 18 | 0.2 |
| Disbursement under IMF RCF I | 93 | 1.1 | 91 | 1.1 |
| Disbursement under IMF RCF II | 0 | 0.0 | 102 | 1.2 |
| Residual gap | 35 | 0.4 | 0 | 0.0 |

Sources: Malawian authorities; IMF staff estimates.

[1]Financing needs from the pandemic are estimated relative to projections under the 2nd and 3rd reviews of the 2018-21 ECF arrangement (IMF Country Report 19/361).

[2]Scheduled disbursements in 2020 totaled SDR 40.81 million (US$57.4 million or 0.7 percent of GDP). The accelerating spread of the pandemic and urgent nature of the current balance of payments needs makes it difficult to conclude any ECF reviews and the authorities have asked to cancel the existing ECF. In May, when RCF I was approved by the Board, staff assumed the spread of the pandemic would be limited in 2020H2, which would have permitted discussions on the combined 4th and 5th reviews under the ECF arrangement.

[3]This reflects financial support from the second tranche of debt relief under the IMF CCRT. The first tranche is recorded as a grant in the balance of payments table and corresponds to the amount of SDR 7.202 million for the period April 14-October 13, 2020.

7. **The outlook remains highly uncertain and subject to considerable downside risks.** Some of the downside risks mentioned in IMF Country Report 20/168 have started to materialize, such as a more significant spread of COVID-19 within Malawi and slower than envisaged global and regional economic recovery. Further delays in economic normalization, beyond 2021, would result in longer disruptions to international trade and related transit costs as well as inflows from tourism, remittances, and FDI. Rapidly rising inequalities and food insecurity could lead to social discontent. A climate shock could further aggravate the situation, including through reduced agricultural production that would depress economic activity and raise inflation.

# POLICY ISSUES

*The new government has prioritized limiting the pandemic's social and economic impact and preserving macroeconomic stability—including debt sustainability—while developing a long-term growth strategy founded on improved governance, resilience, and broad-based economic growth.*

8. **The authorities continue actively implementing measures to mitigate the impact of the pandemic and preserve macroeconomic stability.** These measures include:

- **Strengthening the health system.** Key investments already underway include developing testing capabilities, equipping treatment centers, importing medical equipment and supplies, continued payment of risk allowances and salaries for additional medical staff, and raising public awareness—requiring at least 0.4 percent of GDP in FY 2020/21. Development partners, who finance and administer nearly half of total health care provision in Malawi (mostly off-budget), have also increased their outlays (Text Table 4).

- **Stepping-up social spending.**

  - Social assistance under the social cash transfer program (SCTP) has been increased to help the most vulnerable. This program—administered by the government—is financed by development partners (on-budget) except for one district that is financed by the government.

  - The new Affordable Input Program (AIP, a key element in the FY 2020/21 budget), replacing the Farm Input Subsidy Program (FISP), is expected to reach four times as many smallholder farmers. This measure is intended to provide additional support for rural households (especially given the high incidence of poverty in rural areas) and to ensure future food security (where the likelihood of climate shocks is very high), which will in turn help contain inflation.

**Text Table 4. Malawi: Major COVID-Related Fiscal Measures, FY 2019/20-20/21 (Percent of GDP)[1]**

| | FY19/20 | FY20/21 | |
|---|---|---|---|
| | Est. | RCF I | RCF II |
| Health care | 0.6 | 0.5 | 0.8 |
| On-Budget | 0.4 | 0.3 | 0.6 |
| Additional health care workers/risk allowances | 0.1 | 0.1 | 0.3 |
| Goods and services | 0.3 | 0.2 | 0.3 |
| Government-financed | 0.2 | 0.2 | 0.1 |
| Development partner-financed | 0.1 | 0.0 | 0.2 |
| Off-Budget | 0.2 | 0.2 | 0.2 |
| Goods and services, development partner-financed | 0.2 | 0.2 | 0.2 |
| Education (on-budget) | 0.0 | 0.0 | 0.2 |
| Government-financed | 0.0 | 0.0 | 0.2 |
| Social spending (all on-budget)[2] | 0.1 | 0.3 | 2.4 |
| Social Assistance (SCTP) | 0.0 | 0.2 | 0.5 |
| Government-financed[3] | 0.0 | 0.0 | 0.0 |
| Development partner-financed | 0.0 | 0.2 | 0.5 |
| AIP (formerly FISP) | 0.0 | 0.0 | 1.9 |
| Other (incl. on-budget maize purchases) | 0.1 | 0.1 | 0.0 |
| Tax waivers[4] | 0.0 | 0.0 | 0.1 |
| Total | 0.7 | 0.8 | 3.5 |
| Government-financed | 0.4 | 0.4 | 2.6 |

Sources: Malawian authorities; IMF staff estimates.

[1]RCF I refers to projections in IMF Country Report 20/168; RCF II refers to projects in this report.

[2]Reduced waiting time for pension gratuity payments is an administrative measure that is costless.

[3]The government-financed increase in SCTP related to mitigating the impact of the pandemic is zero in FY 2019/20 and MK 6 billion in FY 2020/21. In FY 2020/21, each SCTP recipient's transfer will be permanently raised by 29 percent (for both the government and foreign-financed portions).

[4]Waivers on import duties of personal protective equipment and disinfectants; income tax on salaries on non-resident medical personnel; and tourism levy.

- Education outlays and transfers to universities have been increased (in the FY 2020/21 budget) to facilitate their re-opening—largely providing access to clean water (for washing hands) and facilitating e-learning—recognizing the fundamental role productive youth will play in the near and long term economic recovery from the pandemic.

- **Supporting the private sector.** Measures to provide relief to households and businesses (all in place since Spring 2020 and relevant items reflected in the FY 2020/21 budget), include certain tax waivers, reduced waiting time for pension gratuity payments, loan restructuring, a moratorium on debt service for SMEs (until end-2020, IMF Country Report 20/168 provides details)—the RBM is not providing provisioning relief to banks with these restructured or on-moratorium loans—and waiving fees on mobile money transactions to encourage cashless transactions.

**9. Staff and the authorities agreed on a temporary relaxation of the FY 2020/21 stance to accommodate the deteriorated economic outlook as well as the need for fiscal consolidation over the medium-term.** The new government is still formulating medium-term measures that would be consistent with the new long-term growth strategy under development (¶14). For FY 2020/21, the draft budget (presented in mid-September) continues to be discussed by Parliament. Until the budget is approved, a provisional budget (approved by Parliament on June 30, 2020), which allows for essential spending, is in effect. The targeted domestic primary deficit (4.4 percent of GDP) is 3.1 percent of GDP larger than in IMF Country Report 20/168; and 6.4 percent of GDP larger than prior to the pandemic (IMF Country Report 19/361)—the widening deficit is largely the result of revenue shortfalls and the measures outlined above (¶5 and ¶8) as the government seeks to respond to the intensification of the COVID-19 crisis. In fiscal policy discussions centered around:

- Doubling of the PIT threshold. Staff strongly advised against this regressive measure, which disproportionately benefits the wealthy; and encouraged the authorities to consider (i) adjustments to the PIT rate schedule that increase progressivity of income taxation and partially recoup the intended revenue loss and (ii) broader use of tax deferrals and less frequent filing with a view to support businesses.

- VAT refunds. To help provide liquidity to the private sector, staff recommended paying VAT refunds soon after their approval (0.3 percent of GDP)—substantial payment lags of approved refunds have occurred in recent years—and clearing the stock of unpaid refunds (0.1 percent of GDP as of end-June 2020). Balancing revenue constraints and spending priorities, the authorities have budgeted to pay 0.2 percent of GDP.

- Improving non-tax revenue collection. As pandemic conditions permit, fees and charges will be increased, collections digitalized, and tolling fees implemented through new toll plazas. Tight control of fees and charges are needed to limit corruption vulnerabilities and prevent fragmentation of the budget.

- Continuing to develop revenue administration measures that ensure business continuity during the pandemic. Implemented measures include use of e-payment platforms; specific teams engaging remotely with large taxpayers to assess the impact of COVID-19 on their operations;

continuing desk review for audits already in progress and completing the full audit as soon as conditions permit; for the largest importers, applying documentary customs checks; use of pre-clearance facilities for imports; and remote monitoring usage of exempted and duty suspended goods.

- Rolling-out the Integrated Tax Administration System (ITAS, four modules). Progress has been slowed by capacity constraints resulting from the pandemic but the authorities are working towards finalizing its remaining modules by early 2021.

- Implementing the AIP. Staff supports the objective of supporting vulnerable rural households to alleviate poverty and food insecurity. Administration of the AIP using e-vouchers based on a farmer registry that is linked to the National ID system provides a transparent targeting mechanism and measures to ensure good governance of the program are elaborated in ¶13. However, staff stressed that targeted cash transfers (e.g., the SCTP) are more effective in supporting rural households. Staff also expressed concerns over the narrow focus of the program on maize as opposed to the FISP which also supported other crops; risks if the farmer registry and the National ID system are not sufficiently linked; and literacy constraints of beneficiaries that could affect the functioning of the e-voucher system. The authorities agreed to consider future reforms to improve the program's efficiency and effectiveness.

- Rationalizing the wage bill. Progress is being made in reviewing the existing payroll with a view to eliminating ghost workers and other fraudulent claims (while safeguarding the jobs of recently hired health care and education employees) by early 2021. Staff supports these measures but noted that the resultant savings are unlikely to offset the wage bill impact from the substantial FY 2020/21 public sector salary increase (0.9 percent of GDP) that will likely be permanent. The increase appears generous, where public sector employees are already benefitting from the doubling of the PIT threshold (which reduces their effective PIT rate). The benefit to economic growth and development from this salary increase is also likely to be more limited than if the resources were used to further boost targeted cash transfers to the more vulnerable (who have a higher marginal propensity to consume domestically).

- Reprioritizing non-essential spending on goods and services and development projects in non-health areas. This process is being guided by placing less priority on projects with historically lower implementation rates and low efficiency in line with staff's advice.

- Further reprioritizing non-essential spending would be applied as a contingency measure, should COVID-19 related revenue shortfalls and spending exceed the approved budget.

**10. The RBM stands ready to provide additional liquidity if needed to preserve financial stability.** The RBM intends to maintain the policy rate, reserve requirements, and Lombard rate at their current levels. However, should liquidity pressures increase, the RBM will carefully consider further easing of monetary policy taking into account inflation developments. The RBM is prepared to use existing facilities to provide liquidity to commercial banks as needed to limit potential disruptions in the financial sector. Emergency Liquidity Assistance (ELA), if needed, is anticipated to be used by small banks; large banks maintain sufficient liquidity and capital buffers. Staff and the

RBM agreed that any extensions of the moratorium on debt service will be considered on a case-by-case basis (rather than a blanket extension). Banking supervision has been intensified with daily liquidity risk monitoring and enhanced offsite monitoring (involving regular preliminary risk assessment summaries, bilateral meetings and supervisory letters where needed). To contain credit risks, the RBM has stepped up collection and virtual discussions with banks of relevant information; and banks and supervisors are collecting information about the borrowers and exposures subject to the moratorium (¶8).

**11. Staff and the authorities agreed that greater exchange rate flexibility should be gradually pursued—keeping in mind its limited near-term benefit to exports and risks to inflation.** The bilateral exchange rate against the U.S. dollar has been broadly stable in recent months, although it has depreciated by 2 percent since July. The depreciation has helped reduce the premium between rates offered by the RBM and forex bureaus, which rose as the pandemic began and foreign exchange flows from tourism collapsed. While greater exchange rate flexibility would normally help buffer shocks,, in the current pandemic environment (including border closures and heightened trade transit costs), a depreciation of the exchange rate will not boost exports or tourism but it could substantially raise the import bill for essentials goods and services—subsequently raising inflation and eroding purchasing power against a backdrop of declining incomes. In the meantime, the RBM is studying obstacles to FX market development and developing an action plan to deepen the market and channel the RBM's role to dampening excess volatility and accumulating reserves (IMF Country Report No. 18/336).

**12. The authorities are committed to ensuring that all government spending to manage and contain the impact of the COVID-19 pandemic is transparent and efficient—in line with their commitments in IMF Country Report 20/168 (Text Table 5).** Regular publication of procurement documentation (tenders, bids, and names of awarded companies, products or services procured and their costs) on the Public Procurement and Disposal of Assets (PPDA) website (https://www.ppda.mw/#) has been expanded to include the names of the beneficial owners of the awarded companies. The PPDA conducts and publishes an ex-post validation of delivery on a contract-by-contract basis. The Ministry of Finance is on-track to (i) publish quarterly statements on commitments and payments of COVID-19 related activities within 90 days after the end of each quarter, beginning with FY 2019/20Q4; (ii) publish specifics of COVID-19 related salary costs in the monthly salary report (within 3 weeks after the end of each month, beginning with the September 2020 report, includes costs of hiring additional medical staff and risk allowances); (iii) include COVID-related spending in their budget funding and cash management analysis; and (iv) publish funding earmarked for COVID-19 related spending, including revenues from any new taxes and disbursements of development partner grants and loans (within 3 weeks after the end of each month, beginning with revenues for September). The National Audit Office (NAO) is preparing for its first quarterly audit of COVID-19 related spending (to be completed within 180 days after the end of each quarter, beginning with FY 2019/20Q4), which will be provided to the Minister of Finance for submission to Cabinet. The NAO also plans to conduct a comprehensive post-COVID-19 audit of relevant spending by the government and the Agricultural Development and Marketing Corporation (ADMARC) that will be published and submitted to Parliament (within 180 days of the pandemic's conclusion). Concurrent to these COVID-19-related measures, the authorities continue to advance improvements in broader fiscal oversight such as budgeting processes, cash management, financial reporting, bank account reconciliation, and SOE oversight.

### Text Table 5. Malawi: Enhanced Transparency Measures Related to COVID-19 Spending

| COVID-19 Related Governance Measures | Target Date |
|---|---|
| **Procurement** | |
| Publish procurement documentation—including tenders, bids, and names of awarded companies, products or services procured and their costs, and names of beneficial owners of awarded companies—on the Public Procurement and Disposal of Assets (PPDA) website (https://www.ppda.mw/#) | On contract-by-contract basis |
| Publish the results of a thorough ex-post validation of delivery on the PPDA website (https://www.ppda.mw/#) | On contract-by-contract basis |
| **Budget Transparency** | |
| Publish quarterly statements on commitments and payments of COVID-19 related activities (in all MDAs) on the Ministry of Finance website. | Within 90 days after the end of each quarter, beginning with FY 2019/20Q4 |
| Publish specifics of COVID-19 related costs as part of the summary monthly salary report that is published on the Ministry of Finance website (e.g., costs of hiring additional medical staff, risk allowances). | Within 3 weeks after the end of each month, beginning with the September 2020 report |
| Include specifics of COVID-19 related costs in our budget funding and cash management analysis. | Monthly |
| Publish funding earmarked for COVID-19 related spending, including revenues from any new taxes and disbursements of development partner grants and loans, on the Ministry of Finance website. | Within 3 weeks after the end of each month, beginning with revenues for September |
| **Audit** | |
| Submit quarterly audits of COVID-19 related spending (across all MDAs) performed by the National Audit Office (NAO) to the Minister of Finance (for submission to Cabinet) | Within 180 days after the end of each quarter, beginning with FY 2019/20Q4 |
| Publish and submit to Parliament a comprehensive audit of COVID-19-related spending (across all MDAs and ADMARC) performed by the NAO. | Within 180 days after the end of the pandemic |

Sources: Malawian authorities; IMF staff estimates.

**13. Broader measures to strengthen transparency and governance are also underway**. The Accountant General's office is committed to regularly posting on the Ministry of Finance website the consolidated annual financial statements and monthly bank reconciliation compliance reports (LOI ¶5). To ensure the AIP's success, independent teams (e.g., Farmers Union of Malawi) will monitor the AIP's implementation and the National Audit Office will perform quarterly audits of the program.

**14. The new government is in the process of formulating their long-term economic reform strategy, which will seek to enhance poverty-reducing and resilient growth while maintaining macroeconomic stability.** The authorities have indicated that the strategy will include the following priorities:

- Ensuring sufficient fiscal space for critical resilience building and social and development spending, while lowering debt vulnerabilities. To this end, continued improvements are being made in spending efficiency and a domestic revenue mobilization strategy is being finalized, for implementation from FY 2021/22. The strategy is expected to include implementing income tax on a worldwide basis, addressing BEPS issues and strengthening withholding taxes, rationalizing income tax exemptions, adopting comprehensive VAT reforms and property taxation, modernizing excise taxes, strengthening taxation of the informal sector and implementing a wide array of tax administration measures aimed at improving tax compliance. It also aims to substantially increase non-tax revenue and improve own-revenue generation capacity by SOEs and statutory bodies by rationalizing service delivery and improving costing.

- Improving governance, with a focus on addressing corruption and increasing transparency and accountability. Fiscal reforms span tax administration, procurement, public financial management (including implementation of a new IFMIS drawing on FAD advice), public investment management, oversight of state-owned enterprises, and debt management. In agriculture, reforms will target improving productivity (including through the AIP and allowing exports of maize) and the efficiency of ADMARC.

- The RBM will continue gradually transitioning towards an inflation targeting framework by 2025; and, once the crisis abates, study and address obstacles to FX market development in order to implement greater exchange rate flexibility to buffer shocks while keeping reserves at an adequate level.

- Strengthening resilience to climate change and promoting more broad-based private sector development and export diversification. This includes implementing priority resilience building projects; improving healthcare, gender equality, and education; enhancing the business environment; improving agricultural productivity and reforming agricultural regulations and market intervention systems; and raising access to finance by addressing structural challenges such as improving property rights.

# ACCESS, MODALITIES, AND CAPACITY TO REPAY

**15. The authorities are requesting a disbursement under the RCF "exogenous shock" window equivalent to 52.1 percent of quota (SDR 72.31 million or US$101.8 million).** This request is based on additional urgent balance of payments needs caused by the sudden exogenous shock stemming from an intensification of the COVID-19 pandemic. The disbursement would help the authorities weather the shock while safeguarding macroeconomic stability and catalyzing additional budget support. The RCF disbursement will bolster international reserves—where 30 percent of the disbursement will be made available as budget support to finance the authorities' response to the COVID-19 pandemic. In particular, the authorities have expressed their intent to use this budget support for purchases of urgent health supplies and efforts to protect the most vulnerable. A memorandum of understanding has been signed between the Ministry of Finance and the RBM that clarifies the responsibilities for repaying Fund resources. The authorities have expressed a strong interest in discussions on a new Extended Credit Facility.

**16. The authorities are actively seeking additional support from development partners**, beyond what has already been disbursed or committed (including $204 million in 2020 from the World Bank, African Development Bank, EU, DFID, and GAVI, UN, Irish Aid, GIZ, and KfW). Absent additional support in 2020 or a widening of the financing gap should downside risks materialize, the rest of the external financing gap will be closed with a further drawdown of international reserves, leaving reserves coverage under 3.1 months of imports—below the staff assessed adequate level of 3.6. Discussions are underway with development partners, including the World Bank, to meet the financing gap in 2021, and the Fund's engagement is expected to have an important catalytic role in this regard.

**17. Malawi's capacity to repay the Fund remains strong.** With this RCF disbursement and cancellation of the current ECF arrangement, outstanding PRGT credit would reach 221 percent of quota and total PRGT disbursements over a twelve month-period would reach 123 percent of quota. These are all below allowable limits based on the IMF Executive Board decisions to temporarily: (i) double the annual access on emergency financing under the "exogenous shock" window of the RCF to 100 percent of quota on April 6, 2020; and to (ii) increase the limit for PRGT disbursements over a twelve month period from 100 to 150 percent of quota on July 13, 2020. Malawi has a strong track record in meeting its obligations to the Fund and debt servicing risks are mitigated by the country's low indebtedness and the availability of concessional financing. Support under the CCRT will also ease the near-term burden.

**18. Malawi is at moderate risk of external debt distress and high overall risk of debt distress** (Annex I) based on an update of the April 2020 Debt Sustainability Analysis (IMF Country Report No. 20/168)—staff assess Malawi's debt to be sustainable. The present value of external debt to exports is projected to breach the benchmark under the most extreme shock scenario (which assumes a 6 percent decline in exports in 2021 should recovery from the COVID-19 shock be slower than expected)—all other indicators remain below the relevant benchmarks in the baseline scenario. The present value of total public debt to GDP is projected to remain above the benchmark over the projected period. This mainly reflects increases in domestic debt due to significantly larger primary deficits on current policies, especially during FY 2020/21-FY 2021/22. The main reasons behind this development are the revenue shortfalls and higher health and social spending as a result of the intensification of COVID-19 across Malawi, doubling of the PIT threshold, a substantial increase in the public sector wage bill, and introduction of the AIP—all of which raise risks to debt sustainability compared to the April 2020 Debt Sustainability Analysis.

**19. The authorities are committed to undergo an updated safeguards assessment** before Board approval of any subsequent arrangement to which the safeguards policy applies. This would include an authorization for Fund staff to hold discussions with the RBM's external auditors, and to have access to the RBM's most recent external audit reports. The last safeguards assessment was undertaken in July 2018. Most safeguards recommendations have been implemented, including enactment of a new RBM Act in 2019 that strengthens the RBM's governance and autonomy as well as progress towards implementation of a comprehensive ELA framework but limited progress has been made in addressing concerns over the RBM's reserve management practices.

# STAFF APPRAISAL

**20. The accelerated spread of the pandemic in Malawi and deteriorated global and regional economic situation has created additional external financing needs since the RCF disbursement approved on May 1, 2020.** These additional urgent balance of payments needs are estimated at 2.9 percent of GDP, bringing the total external financing gap in 2020 to 5.0 percent of GDP. Economic growth is expected to decline from 4.5 percent in 2019 to 0.6 percent in 2020—with real per capita income falling by 2 percent. The resulting shortfall in tax revenues and increased spending to contain and manage the spread of the pandemic are contributing to a widening of the FY 2020/21 domestic primary deficit to 4.4 percent of GDP (whereas a 2 percent of GDP surplus was targeted prior to the pandemic). Tightening domestic liquidity has created a fiscal financing gap, which has been partially filled with budget support from the African Development Bank.

**21. Staff welcomes the authorities' continued efforts to contain and manage the spread of the pandemic.** The relaxation of the FY 2020/21 stance is appropriate to accommodate the deteriorated economic outlook and critical measures to address the impact of the pandemic—including increased spending on health care, social assistance, and measures to ensure future food security. While the risk of external debt distress remains moderate, with high overall risk of debt distress, the new government is committed to formulating medium-term measures—including strengthening domestic debt management and implementation of a comprehensive domestic revenue mobilization strategy soon after the pandemic passes—to preserve debt sustainability and reduce debt over time. These measures will be aligned with the new long-term growth strategy under development. This said, staff is concerned about the recent decision to grant a large public sector salary increase that will likely be permanent and could constrain the fiscal space available going forward for important development initiatives. Measures to support financial stability (including support for SMEs) appear to be effective and should be continued, while further strengthening banking supervision remains key to enabling the early identification of potential risks. The authorities are undertaking the necessary steps to fulfill the commitments in IMF Country Report 20/168, including in ensuring that all government spending to manage and contain the impact of the COVID-19 pandemic is transparent and efficient.

**22. Staff supports the authorities' request for a disbursement under the Rapid Credit Facility in the amount of SDR 72.31 million (52.1 percent of quota).** Staff's support is based on the urgent balance of payments needs arising from a sudden exogenous shock stemming from the intensification of the COVID-19 pandemic in Malawi, a worsened global and regional outlook, and the authorities' existing and prospective policies to address this external shock and the balance of payments difficulties, and the additional financing secured from other development partners since the first RCF disbursement. The proposed second disbursement under the RCF will close the immediate external and fiscal financing needs with a limited drawdown in international reserves. While there is significant uncertainty surrounding the outlook, Malawi is assessed to be at moderate risk of external debt distress and its capacity to repay the Fund remains strong. The authorities are committed to pursuing reforms in support of higher, more resilient, and broad-based medium-term growth and governance reforms while preserving macroeconomic stability; and have expressed their intent to request a new multi-year ECF arrangement that is aligned with their new long-term economic reform program. However, the accelerating spread of the pandemic and urgent nature of the current balance of payments needs makes it difficult to discuss design of a new ECF arrangement at this time.

## Table 1. Malawi: Selected Economic Indicators, 2018–25

| | 2018 | 2019 | 2020[3] | | | 2021 | | | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Est. | Est. | 2nd & 3rd Review | RCF I | RCF II | 2nd & 3rd Review | RCF I | RCF II | Proj. | | | |
| **National accounts and prices** (percent change, unless otherwise indicated) | | | | | | | | | | | | |
| GDP at constant market prices | 3.2 | 4.5 | 5.1 | 1.0 | 0.6 | 5.5 | 2.5 | 2.2 | 6.5 | 6.5 | 6.3 | 6.3 |
| Nominal GDP (billions of Kwacha) | 5,060 | 5,711 | 6,466 | 6,528 | 6,252 | 7,279 | 7,326 | 6,933 | 7,884 | 8,816 | 9,790 | 10,856 |
| GDP deflator | 7.8 | 8.0 | 7.9 | 13.2 | 8.8 | 6.7 | 9.5 | 8.5 | 6.8 | 5.0 | 4.5 | 4.4 |
| Consumer prices (end of period) | 9.9 | 11.5 | 7.9 | 15.7 | 9.0 | 7.0 | 7.8 | 9.5 | 6.6 | 5.0 | 5.0 | 5.0 |
| Consumer prices (annual average) | 9.2 | 9.4 | 8.7 | 14.0 | 9.1 | 7.4 | 10.7 | 9.5 | 7.7 | 5.5 | 5.0 | 5.0 |
| **Investment and savings** (percent of GDP) | | | | | | | | | | | | |
| National savings | -7.2 | -4.7 | -4.6 | -6.2 | -8.5 | -3.6 | -4.3 | -5.9 | -4.6 | -3.3 | -2.5 | -1.9 |
| Gross investment | 13.3 | 12.4 | 12.6 | 11.6 | 11.3 | 13.3 | 13.7 | 14.4 | 14.3 | 15.0 | 15.1 | 15.0 |
| Government | 5.0 | 5.6 | 5.8 | 5.4 | 5.3 | 6.3 | 7.5 | 8.1 | 7.6 | 8.1 | 8.0 | 7.9 |
| Private | 8.3 | 6.8 | 6.8 | 6.2 | 6.0 | 6.9 | 6.2 | 6.4 | 6.7 | 6.9 | 7.1 | 7.1 |
| Saving-investment balance | -20.5 | -17.1 | -17.2 | -17.8 | -19.9 | -16.8 | -18.0 | -20.3 | -18.9 | -18.3 | -17.6 | -16.8 |
| **Central government** (percent of GDP on a fiscal year basis)[1] | | | | | | | | | | | | |
| Revenue | 21.0 | 21.1 | 22.0 | 20.4 | 21.2 | 22.5 | 20.4 | 20.0 | 21.3 | 22.9 | 24.1 | 25.5 |
| Tax and nontax revenue | 19.6 | 19.1 | 19.8 | 18.2 | 19.1 | 20.3 | 18.2 | 17.4 | 18.6 | 20.2 | 21.3 | 22.9 |
| Grants | 1.5 | 2.0 | 2.2 | 2.3 | 2.1 | 2.2 | 2.2 | 2.6 | 2.6 | 2.8 | 2.7 | 2.6 |
| Expenditure and net lending | 28.9 | 28.2 | 26.8 | 29.7 | 30.6 | 25.7 | 27.7 | 33.0 | 32.6 | 31.9 | 32.1 | 31.2 |
| Overall balance (excluding grants) | -9.3 | -9.1 | -7.0 | -11.6 | -11.5 | -5.4 | -9.5 | -15.6 | -14.0 | -11.7 | -10.7 | -8.4 |
| Overall balance (including grants) | -7.9 | -7.0 | -4.9 | -9.3 | -9.4 | -3.2 | -7.3 | -13.0 | -11.4 | -9.0 | -8.0 | -5.8 |
| Foreign financing | 2.6 | 1.5 | 0.9 | 1.3 | 1.2 | 1.1 | 1.4 | 3.2 | 1.7 | 1.6 | 1.6 | 1.6 |
| Total domestic financing | 7.8 | 6.8 | 4.3 | 8.3 | 7.4 | 2.1 | 5.9 | 9.8 | 9.6 | 7.4 | 6.4 | 4.2 |
| Discrepancy | -0.4 | 0.1 | 0.0 | 0.0 | 1.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Primary balance | -4.3 | -2.7 | -0.8 | -5.0 | -3.9 | 0.2 | -3.3 | -7.2 | -6.0 | -5.0 | -3.8 | -2.2 |
| Domestic primary balance[2] | -2.6 | -1.2 | 0.9 | -3.4 | -2.5 | 2.0 | -1.3 | -4.4 | -3.5 | -2.5 | -1.4 | 0.3 |
| **Money and credit** (change in percent of broad money at the beginning of the period, unless otherwise indicated) | | | | | | | | | | | | |
| Money and quasi money | 11.4 | 8.1 | 13.4 | 14.3 | 9.5 | 12.8 | 12.2 | 10.9 | 13.7 | 11.8 | 11.1 | 10.9 |
| Net foreign assets | -11.6 | 5.8 | 10.1 | -2.2 | -11.3 | 10.8 | 5.9 | 4.7 | 4.3 | 4.4 | 5.9 | 8.9 |
| Net domestic assets | 22.9 | 2.3 | 3.3 | 16.5 | 20.8 | 2.0 | 6.3 | 6.2 | 9.4 | 7.4 | 5.1 | 2.0 |
| Credit to the government | 7.3 | 1.8 | 2.3 | 9.0 | 25.8 | 1.8 | 5.7 | 14.5 | 8.1 | 6.4 | 5.6 | 4.1 |
| Credit to the private sector (percent change) | 11.5 | 21.3 | 14.8 | 7.8 | 6.0 | 15.2 | 7.2 | 11.7 | 14.0 | 13.4 | 12.9 | 12.0 |
| **External sector** (US$ millions, unless otherwise indicated) | | | | | | | | | | | | |
| Exports (goods and services) | 1,112 | 1,250 | 1,365 | 1,167 | 1,132 | 1,482 | 1,264 | 1,245 | 1,331 | 1,438 | 1,563 | 1,694 |
| Imports (goods and services) | 2,927 | 3,014 | 3,270 | 3,075 | 3,204 | 3,486 | 3,205 | 3,402 | 3,460 | 3,606 | 3,759 | 3,921 |
| Gross official reserves | 750 | 815 | 950 | 861 | 873 | 1,097 | 900 | 958 | 993 | 1,044 | 1,114 | 1,210 |
| (months of imports) | 3.0 | 3.1 | 3.3 | 3.2 | 3.1 | 3.6 | 3.3 | 3.3 | 3.3 | 3.3 | 3.4 | 3.5 |
| Current account (percent of GDP) | -20.5 | -17.1 | -17.2 | -17.8 | -19.9 | -16.8 | -18.0 | -20.3 | -18.9 | -18.3 | -17.6 | -16.8 |
| Current account, excl. official transfers (percent of GDP) | -20.5 | -17.6 | -17.2 | -18.1 | -20.5 | -16.8 | -18.0 | -20.3 | -18.9 | -18.3 | -17.6 | -16.8 |
| Current account, excl. project related imports (percent of GDP) | -18.6 | -14.6 | -14.9 | -15.5 | -17.3 | -14.3 | -15.0 | -16.9 | -15.7 | -15.0 | -14.3 | -13.7 |
| Current account, excl. official transfers and project related imports (percent of GDP) | -18.6 | -15.1 | -14.9 | -15.8 | -17.9 | -14.3 | -15.0 | -16.8 | -15.6 | -15.0 | -14.3 | -13.7 |
| Current account (percent of GDP, assuming financing gap is not closed) | -20.5 | -17.1 | … | -18.1 | -20.5 | -16.8 | -18.0 | -20.3 | -18.9 | -18.3 | -17.6 | -16.8 |
| Real effective exchange rate (percent change) | 7.6 | 13.9 | … | … | … | … | … | … | … | … | … | … |
| Overall balance (percent of GDP) | -0.2 | 0.6 | 1.7 | -2.0 | -4.5 | 1.8 | -0.1 | -1.4 | 0.3 | 0.6 | 0.9 | 1.4 |
| **Financing gap** | 0.0 | 0.0 | 0.0 | 175.9 | 418.8 | 0.0 | 65.2 | 236.6 | 48.8 | 37.0 | 18.7 | 0.0 |
| *Of which: Grants for debt relief under IMF CCRT* | … | … | … | … | 4.5 | … | … | 5.5 | … | … | … | … |
| *Prospective grants for debt relief under IMF CCRT* | … | … | … | 4.5 | … | … | 26.1 | 20.6 | 5.3 | … | … | … |
| *Financial support from other donors (incl. AfDB, WB, EU, UN, GAVI, DFID, Irish Aid, GIZ, K)* | … | … | … | 43.4 | 203.6 | … | … | … | … | … | … | … |
| *Of which: African Development Bank* | … | … | … | … | 45.1 | … | … | … | … | … | … | … |
| *Of which: World Bank* | … | … | … | 37.0 | 76.0 | … | … | 23.0 | … | … | … | … |
| *Of which: EU* | … | … | … | … | 60.8 | … | … | … | … | … | … | … |
| *G20 DSSI* | … | … | … | … | 17.9 | … | … | … | … | … | … | … |
| *Disbursement under IMF RCF I* | … | … | … | 93.0 | 91.0 | … | … | … | … | … | … | … |
| *Disbursement under IMF RCF II* | … | … | … | … | 101.8 | … | … | … | … | … | … | … |
| *Residual gap* | … | … | … | 35.0 | 0.0 | … | 40.0 | 187.5 | 43.5 | 37.0 | 18.7 | … |
| Terms of trade (percent change) | -4.9 | 0.3 | 0.5 | 6.3 | 7.0 | 0.6 | -1.8 | -1.0 | -2.8 | -1.5 | -1.7 | -1.0 |
| **Debt stock and service** (percent of GDP, unless otherwise indicated) | | | | | | | | | | | | |
| External debt (public sector) | 31.2 | 29.5 | 29.5 | 31.4 | 31.8 | 29.1 | 33.0 | 34.4 | 34.7 | 34.9 | 34.9 | 34.7 |
| NPV of public external debt (percent of exports) | 123.3 | 117.4 | 110.8 | 136.3 | 150.5 | 107.7 | 132.1 | 148.6 | 145.5 | 141.2 | 152.7 | 145.9 |
| Domestic public debt | 28.2 | 30.0 | 30.5 | 35.1 | 37.3 | 29.0 | 36.8 | 43.8 | 46.5 | 48.1 | 48.9 | 48.3 |
| Total public debt | 59.4 | 59.5 | 60.0 | 66.5 | 69.1 | 58.1 | 69.9 | 78.2 | 81.3 | 83.0 | 83.8 | 83.0 |
| External debt service (percent of exports) | 9.8 | 6.5 | 6.9 | 8.3 | 8.3 | 7.2 | 8.8 | 8.8 | 10.4 | 9.8 | 9.6 | 8.8 |
| External debt service (percent of revenue excl. grants) | 9.7 | 5.7 | 5.5 | 6.6 | 5.3 | 5.9 | 6.9 | 6.6 | 7.9 | 7.3 | 7.0 | 6.5 |
| 91-day treasury bill rate (end of period) | 11.4 | 6.2 | … | … | … | … | … | … | … | … | … | … |

Sources: Malawian authorities and IMF staff estimates and projections.

[1] The fiscal year starts in July and ends in June. The current financial year, 2020, runs from July 1, 2019 to June 30, 2020.

[2] Domestic primary balance is calculated by subtracting current expenditures (except interest payment) and domestically-financed development expenditures from tax and nontax revenues.

[3] The 2nd and 3rd Reviews under the Extended Credit Facility (ECF) Review were completed on November 22, 2019. The first Rapid Credit Facility (RCF) disbursement was approved by the Board on May 1, 2020; and the second disbursement is scheduled for Board discussion on October 2, 2020.

## Table 2a. Malawi: Central Government Operations, 2018/2019–2024/2025

(Billions of Kwacha)

| | 2018/19 | 2019/20 | | | | 2020/21 | | | 2021/22 | 2022/23 | 2023/24 | 2024/25 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Est. | Approved Budget | 2nd & 3rd Review | RCF I | RCF II | Proposed Budget | RCF I | RCF II | Proj. | | | |
| Revenue | 1,133 | 1,564 | 1,330 | 1,245 | 1,264 | 1,377 | 1,409 | 1,313 | 1,567 | 1,908 | 2,230 | 2,618 |
| Tax and nontax revenue | 1,023 | 1,389 | 1,198 | 1,106 | 1,137 | 1,201 | 1,256 | 1,141 | 1,373 | 1,677 | 1,978 | 2,350 |
| Tax Revenue | 931 | 1,235 | 1,087 | 971 | 983 | 1,064 | 1,110 | 1,006 | 1,196 | 1,470 | 1,738 | 2,084 |
| Taxes on income and profits | 456 | 603 | 531 | 486 | 501 | 524 | 550 | 494 | 558 | 670 | 799 | 969 |
| Taxes on goods and services | 408 | 529 | 470 | 407 | 409 | 453 | 475 | 432 | 538 | 681 | 797 | 950 |
| Taxes on international trade | 88 | 111 | 115 | 87 | 85 | 92 | 101 | 85 | 106 | 121 | 139 | 161 |
| Other taxes | -22 | -7 | -28 | -9 | -12 | -6 | -16 | -6 | -6 | -3 | 4 | 4 |
| Nontax revenue | 92 | 154 | 111 | 135 | 154 | 137 | 146 | 135 | 177 | 207 | 240 | 266 |
| Grants | 109 | 175 | 132 | 139 | 127 | 176 | 153 | 172 | 194 | 231 | 252 | 268 |
| Budget support grants | 31 | 0 | 0 | 22 | 22 | 15 | 0 | 15 | 0 | 0 | 0 | 0 |
| Project grants | 52 | 110 | 77 | 86 | 86 | 115 | 101 | 113 | 120 | 151 | 171 | 183 |
| Dedicated grants | 27 | 65 | 55 | 30 | 19 | 46 | 52 | 44 | 73 | 80 | 81 | 85 |
| Expenditure and net lending | 1,509 | 1,870 | 1,624 | 1,810 | 1,823 | 2,211 | 1,914 | 2,167 | 2,404 | 2,652 | 2,973 | 3,211 |
| Current expenditure | 1,196 | 1,390 | 1,266 | 1,450 | 1,490 | 1,691 | 1,487 | 1,707 | 1,867 | 1,974 | 2,216 | 2,381 |
| Wages and salaries | 387 | 466 | 443 | 464 | 461 | 524 | 521 | 524 | 571 | 627 | 699 | 776 |
| *Of which*: COVID-19 related | ... | ... | ... | 2 | 2 | 20 | 8 | 20 | 0 | 0 | 0 | 0 |
| Interest payments | 224 | 244 | 246 | 260 | 262 | 376 | 279 | 384 | 396 | 330 | 390 | 367 |
| Domestic | 209 | 229 | 230 | 243 | 246 | 364 | 255 | 369 | 376 | 306 | 362 | 337 |
| Foreign | 16 | 15 | 15 | 16 | 15 | 12 | 23 | 15 | 20 | 24 | 27 | 30 |
| Goods and services | 354 | 407 | 318 | 428 | 451 | 374 | 384 | 380 | 429 | 500 | 559 | 613 |
| Generic goods and services | 131 | 203 | 164 | 202 | 220 | 185 | 181 | 185 | 207 | 242 | 270 | 299 |
| Census | 6 | 1 | 1 | 1 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Road maintenance and storage levey expenses | 23 | 37 | 27 | 37 | 42 | 41 | 27 | 46 | 51 | 57 | 64 | 71 |
| Agricultural sector | 6 | 9 | 9 | 8 | 9 | 8 | 10 | 8 | 9 | 10 | 12 | 13 |
| Health sector | 43 | 54 | 54 | 67 | 64 | 60 | 80 | 60 | 65 | 80 | 90 | 100 |
| *Of which*: COVID-19 related | ... | ... | ... | 13 | 8 | 4 | 13 | 4 | 0 | 0 | 0 | 0 |
| Education sector | 27 | 30 | 30 | 30 | 28 | 35 | 34 | 35 | 35 | 44 | 49 | 54 |
| *Of which*: COVID-19 related | ... | ... | ... | ... | ... | 7 | 0 | 7 | 0 | 0 | 0 | 0 |
| National / local elections | 63 | 30 | 1 | 29 | 30 | 1 | 1 | 1 | 0 | 0 | 0 | 0 |
| Statutory expenditures | 6 | 5 | 8 | 7 | 10 | 13 | 4 | 14 | 8 | 4 | 5 | 5 |
| Maize purchases and winter cropping program | 9 | 10 | 8 | 10 | 10 | 10 | 10 | 10 | 11 | 13 | 14 | 16 |
| Rural electrification | 39 | 28 | 16 | 38 | 39 | 21 | 39 | 21 | 43 | 48 | 54 | 54 |
| Subsidies and other current transfers | 225 | 267 | 252 | 267 | 262 | 410 | 285 | 408 | 462 | 507 | 558 | 613 |
| Pension and gratuities | 84 | 98 | 95 | 107 | 99 | 117 | 110 | 117 | 128 | 136 | 151 | 168 |
| Transfers to road and revenue authorities | 29 | 38 | 34 | 30 | 31 | 32 | 33 | 30 | 36 | 44 | 52 | 63 |
| Transfers to public entities and households | 74 | 95 | 88 | 95 | 96 | 100 | 107 | 101 | 125 | 141 | 157 | 174 |
| *Of which*: COVID-19 related | ... | ... | ... | 0 | 0 | 7 | 1 | 7 | 0 | 0 | 0 | 0 |
| Agricultural Input Program[1] | 39 | 36 | 36 | 35 | 35 | 160 | 34 | 160 | 174 | 186 | 197 | 208 |
| Arrears payments[2] | 5 | 7 | 7 | 31 | 54 | 7 | 19 | 11 | 8 | 10 | 11 | 12 |
| Development expenditure | 305 | 471 | 349 | 351 | 323 | 511 | 416 | 451 | 533 | 674 | 753 | 826 |
| Foreign financed | 189 | 333 | 233 | 236 | 210 | 410 | 291 | 354 | 379 | 435 | 480 | 521 |
| *Of which*: related to climate resilience building | ... | ... | ... | ... | ... | 77 | 10 | 77 | 22 | 25 | 28 | 31 |
| Domestically financed | 116 | 137 | 115 | 115 | 113 | 101 | 125 | 97 | 153 | 239 | 273 | 305 |
| *Of which*: related to climate resilience building | ... | ... | ... | ... | ... | 59 | 7 | 59 | 26 | 54 | 32 | 5 |
| Net lending | 8 | 9 | 9 | 9 | 9 | 9 | 10 | 9 | 4 | 4 | 4 | 4 |
| Discrepancy | 5 | 0 | 0 | 0 | 65 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Overall balance (incl. grants and discrepancy) | -371 | -305 | -294 | -565 | -494 | -834 | -505 | -854 | -837 | -744 | -743 | -593 |
| Total financing (net) | 371 | 305 | 294 | 565 | 494 | 834 | 505 | 854 | 837 | 744 | 743 | 593 |
| Foreign financing (net) | 80 | 112 | 55 | 81 | 71 | 248 | 95 | 213 | 128 | 132 | 146 | 166 |
| Borrowing | 111 | 158 | 102 | 120 | 106 | 290 | 138 | 251 | 186 | 204 | 228 | 253 |
| Budget support loans | 0 | 0 | 0 | 0 | 0 | 41 | 0 | 41 | 0 | 0 | 0 | 0 |
| *Of which*: exeptional financing - RCF | 0 | 0 | 0 | 0 | 0 | 23 | 0 | 23 | 0 | 0 | 0 | 0 |
| Project loans | 100 | 152 | 96 | 119 | 105 | 244 | 131 | 190 | 177 | 194 | 217 | 241 |
| Other external loans[3] | 11 | 7 | 6 | 2 | 0 | 5 | 7 | 21 | 8 | 10 | 11 | 13 |
| Amortization | -31 | -47 | -47 | -39 | -35 | -43 | -43 | -38 | -57 | -72 | -82 | -88 |
| Sale of non-financial assets (privatization proceeds) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net issuance of promissory notes for securitizing domestic arrears | -75 | 0 | -9 | -9 | -9 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net domestic financing (NDF) | 367 | 194 | 249 | 493 | 433 | 587 | 410 | 641 | 709 | 612 | 597 | 428 |
| *Of which*: RBM financing of central government | -79 | 0 | 0 | -50 | 92 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Financing gap | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| *Memorandum items:* | | | | | | | | | | | | |
| Issuance of promissory notes for securitizing domestic arrears | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Primary balance (including grants and discrepancy) | -147 | -61 | -49 | -305 | -233 | -458 | -226 | -470 | -441 | -415 | -354 | -226 |
| Domestic primary balance[4] | -67 | 97 | 53 | -208 | -149 | -224 | -88 | -288 | -255 | -211 | -125 | 28 |
| Maturing promissory notes for domestic arrears | 75 | 0 | 9 | 9 | 9 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| NDF adjusted for payment of arrears | 292 | 194 | 239 | 484 | 423 | 587 | 410 | 641 | 709 | 612 | 597 | 428 |
| Nominal GDP (fiscal year) | 5,360 | 5,961 | 6,055 | 6,088 | 5,961 | 6,566 | 6,896 | 6,566 | 7,372 | 8,314 | 9,266 | 10,282 |

Sources: Malawi Ministry of Finance and IMF staff projections.

[1] Farm Input Subsidy Program prior to FY20/21

[2] This includes promissory notes issued for the repayment of domestic arrears accumulated before FY2014/15.

[3] Other external loans include program loans other than budgetary support and G20 DSSI debt relief.

[4] Domestic primary balance is calculated by subtracting current expenditures (except interest payment) and domestically-financed development expenditures from tax and nontax revenues.

## Table 2b. Malawi: Central Government Operations, 2018/2019–2024/2025

(Percent of GDP)

| | 2018/19 | 2019/20 | | | | 2020/21 | | | 2021/22 | 2022/23 | 2023/24 | 2024/25 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Est. | Approved Budget | 2nd & 3rd Review | RCF I | RCF II | Proposed Budget | RCF I | RCF II | Proj. | | | |
| Revenue | 21.1 | 26.2 | 22.0 | 20.4 | 21.2 | 21.0 | 20.4 | 20.0 | 21.3 | 22.9 | 24.1 | 25.5 |
| Tax and nontax revenue | 19.1 | 23.3 | 19.8 | 18.2 | 19.1 | 18.3 | 18.2 | 17.4 | 18.6 | 20.2 | 21.3 | 22.9 |
| Tax Revenue | 17.4 | 20.7 | 18.0 | 16.0 | 16.5 | 16.2 | 16.1 | 15.3 | 16.2 | 17.7 | 18.8 | 20.3 |
| Taxes on income and profits | 8.5 | 10.1 | 8.8 | 8.0 | 8.4 | 8.0 | 8.0 | 7.5 | 7.6 | 8.1 | 8.6 | 9.4 |
| Taxes on goods and services | 7.6 | 8.9 | 7.8 | 6.7 | 6.9 | 6.9 | 6.9 | 6.6 | 7.3 | 8.2 | 8.6 | 9.2 |
| Taxes on international trade | 1.6 | 1.9 | 1.9 | 1.4 | 1.4 | 1.4 | 1.5 | 1.3 | 1.4 | 1.5 | 1.5 | 1.6 |
| Other taxes | -0.4 | -0.1 | -0.5 | -0.1 | -0.2 | -0.1 | -0.2 | -0.1 | -0.1 | 0.0 | 0.0 | 0.0 |
| Nontax revenue | 1.7 | 2.6 | 1.8 | 2.2 | 2.6 | 2.1 | 2.1 | 2.1 | 2.4 | 2.5 | 2.6 | 2.6 |
| Grants | 2.0 | 2.9 | 2.2 | 2.3 | 2.1 | 2.7 | 2.2 | 2.6 | 2.6 | 2.8 | 2.7 | 2.6 |
| Budget support grants | 0.6 | 0.0 | 0.0 | 0.4 | 0.4 | 0.2 | 0.0 | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 |
| Project grants | 1.0 | 1.8 | 1.3 | 1.4 | 1.4 | 1.8 | 1.5 | 1.7 | 1.6 | 1.8 | 1.8 | 1.8 |
| Dedicated grants | 0.5 | 1.1 | 0.9 | 0.5 | 0.3 | 0.7 | 0.8 | 0.7 | 1.0 | 1.0 | 0.9 | 0.8 |
| Expenditure and net lending | 28.2 | 31.4 | 26.8 | 29.7 | 30.6 | 33.7 | 27.7 | 33.0 | 32.6 | 31.9 | 32.1 | 31.2 |
| Current expenditure | 22.3 | 23.3 | 20.9 | 23.8 | 25.0 | 25.8 | 21.6 | 26.0 | 25.3 | 23.7 | 23.9 | 23.2 |
| Wages and salaries | 7.2 | 7.8 | 7.3 | 7.6 | 7.7 | 8.0 | 7.6 | 8.0 | 7.7 | 7.5 | 7.5 | 7.5 |
| *Of which*: COVID-19 related | … | … | … | 0.0 | 0.0 | 0.3 | 0.1 | 0.3 | 0.0 | 0.0 | 0.0 | 0.0 |
| Interest payments | 4.2 | 4.1 | 4.1 | 4.3 | 4.4 | 5.7 | 4.0 | 5.8 | 5.4 | 4.0 | 4.2 | 3.6 |
| Domestic | 3.9 | 3.8 | 3.8 | 4.0 | 4.1 | 5.5 | 3.7 | 5.6 | 5.1 | 3.7 | 3.9 | 3.3 |
| Foreign | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.2 | 0.3 | 0.2 | 0.3 | 0.3 | 0.3 | 0.3 |
| Goods and services | 6.6 | 6.8 | 5.2 | 7.0 | 7.6 | 5.7 | 5.6 | 5.8 | 5.8 | 6.0 | 6.0 | 6.0 |
| Generic goods and services | 2.5 | 3.4 | 2.7 | 3.3 | 3.7 | 2.8 | 2.6 | 2.8 | 2.8 | 2.9 | 2.9 | 2.9 |
| Road maintenance and storage levy expenses | 0.4 | 0.6 | 0.5 | 0.6 | 0.7 | 0.6 | 0.4 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 |
| Agricultural sector | 0.1 | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Health sector | 0.8 | 0.9 | 0.9 | 1.1 | 1.1 | 0.9 | 1.2 | 0.9 | 0.9 | 1.0 | 1.0 | 1.0 |
| *Of which:* COVID-19 related | … | … | … | 0.2 | 0.1 | 0.1 | 0.2 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| Education sector | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 |
| *Of which:* COVID-19 related | … | … | … | … | …. | 0.1 | 1.5 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| National / local elections | 1.2 | 0.5 | 0.0 | 0.5 | 0.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Statutory expenditures | 0.1 | 0.1 | 0.1 | 0.1 | 0.2 | 0.2 | 0.1 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 |
| Maize purchases and winter cropping programs | 0.2 | 0.2 | 0.1 | 0.2 | 0.2 | 0.2 | 0.1 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| Rural electrification | 0.7 | 0.5 | 0.3 | 0.6 | 0.6 | 0.3 | 0.6 | 0.3 | 0.6 | 0.6 | 0.6 | 0.5 |
| Subsidies and other current transfers | 4.2 | 4.5 | 4.2 | 4.4 | 4.4 | 6.2 | 4.1 | 6.2 | 6.3 | 6.1 | 6.0 | 6.0 |
| Pension and gratuities | 1.6 | 1.6 | 1.6 | 1.7 | 1.7 | 1.8 | 1.6 | 1.8 | 1.7 | 1.6 | 1.6 | 1.6 |
| Transfers to road and revenue authorities | 0.5 | 0.6 | 0.6 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.6 | 0.6 |
| Transfers to public entities and households | 1.4 | 1.6 | 1.5 | 1.6 | 1.6 | 1.5 | 1.6 | 1.5 | 1.7 | 1.7 | 1.7 | 1.7 |
| *Of which*: COVID-19 related | … | … | … | 0.0 | 0.0 | 0.1 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| Agricultural Input Program[1] | 0.7 | 0.6 | 0.6 | 0.6 | 0.6 | 2.4 | 0.5 | 2.4 | 2.4 | 2.2 | 2.1 | 2.0 |
| Arrears payments[2] | 0.1 | 0.1 | 0.1 | 0.5 | 0.9 | 0.1 | 0.3 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 |
| Development expenditure | 5.7 | 7.9 | 5.8 | 5.8 | 5.4 | 7.8 | 6.0 | 6.9 | 7.2 | 8.1 | 8.1 | 8.0 |
| Foreign financed | 3.5 | 5.6 | 3.9 | 3.9 | 3.5 | 6.2 | 4.2 | 5.4 | 5.1 | 5.2 | 5.2 | 5.1 |
| *Of which*: related to climate resilience building | … | … | … | … | … | 1.2 | 0.2 | 1.2 | 0.3 | 0.3 | 0.3 | 0.3 |
| Domestically financed | 2.2 | 2.3 | 1.9 | 1.9 | 1.9 | 1.5 | 1.8 | 1.5 | 2.1 | 2.9 | 2.9 | 3.0 |
| *Of which*: related to climate resilience building | … | … | … | … | … | 0.9 | 0.1 | 0.9 | 0.3 | 0.7 | 0.3 | 0.0 |
| Net lending | 0.1 | 0.2 | 0.1 | 0.1 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 |
| Discrepancy | 0.1 | 0.0 | 0.0 | 0.0 | 1.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Overall balance (including grants and discrepancy) | -6.9 | -5.1 | -4.9 | -9.3 | -8.3 | -12.7 | -7.3 | -13.0 | -11.4 | -9.0 | -8.0 | -5.8 |
| Total financing (net) | 6.9 | 5.1 | 4.9 | 9.3 | 8.3 | 12.7 | 7.3 | 13.0 | 11.4 | 9.0 | 8.0 | 5.8 |
| Foreign financing (net) | 1.5 | 1.9 | 0.9 | 1.3 | 1.2 | 3.8 | 1.4 | 3.2 | 1.7 | 1.6 | 1.6 | 1.6 |
| Borrowing | 2.1 | 2.7 | 1.7 | 2.0 | 1.8 | 4.4 | 2.0 | 3.8 | 2.5 | 2.5 | 2.5 | 2.5 |
| Budget support loans | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.6 | 0.0 | 0.6 | 0.0 | 0.0 | 0.0 | 0.0 |
| *Of which*: exeptional financing - RCF | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.3 | 0.0 | 0.3 | 0.0 | 0.0 | 0.0 | 0.0 |
| Project loans | 1.9 | 2.5 | 1.6 | 1.9 | 1.8 | 3.7 | 1.9 | 2.9 | 2.4 | 2.3 | 2.3 | 2.3 |
| Other external loans[3] | 0.2 | 0.1 | 0.1 | 0.0 | 0.0 | 0.1 | 0.1 | 0.3 | 0.1 | 0.1 | 0.1 | 0.1 |
| Amortization | -0.6 | -0.8 | -0.8 | -0.6 | -0.6 | -0.7 | -0.6 | -0.6 | -0.8 | -0.9 | -0.9 | -0.9 |
| Sale of non-financial assets (privatization proceeds) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net issuance of promissory notes for securitizing domestic arr | -1.4 | 0.0 | -0.2 | -0.2 | -0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net domestic financing (NDF) | 6.8 | 3.3 | 4.1 | 8.1 | 7.3 | 8.9 | 5.9 | 9.8 | 9.6 | 7.4 | 6.4 | 4.2 |
| *Of which*: RBM financing of central government | -1.5 | 0.0 | 0.0 | -0.8 | 1.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Financing gap | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| *Memorandum items:* | | | | | | | | | | | | |
| Primary balance (including grants and discrepancy) | -2.7 | -1.0 | -0.8 | -5.0 | -3.9 | -7.0 | -3.3 | -7.2 | -6.0 | -5.0 | -3.8 | -2.2 |
| Domestic primary balance[4] | -1.2 | 1.6 | 0.9 | -3.4 | -2.5 | -3.4 | -1.3 | -4.4 | -3.5 | -2.5 | -1.4 | 0.3 |
| Maturing promissory notes for domestic arrears | 1.4 | 0.0 | 0.2 | 0.2 | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| NDF adjusted for payment of arrears | 5.4 | 3.3 | 4.0 | 7.9 | 7.1 | 8.9 | 5.9 | 9.8 | 9.6 | 7.4 | 6.4 | 4.2 |
| Nominal GDP (fiscal year) | 5,360 | 5,961 | 6,055 | 6,088 | 5,961 | 6,566 | 6,896 | 6,566 | 7,372 | 8,314 | 9,266 | 10,282 |

Sources: Malawi Ministry of Finance and IMF staff projections.

[1] Farm Input Subsidy Program prior to FY20/21

[2] This includes promissory notes issued for the repayment of domestic arrears accumulated before FY2014/15.

[3] Other external loans include program loans other than budgetary support and G20 DSSI debt relief.

[4] Domestic primary balance is calculated by subtracting current expenditures (except interest payment) and domestically-financed development expenditures from tax and nontax revenues.

## Table 3a. Malawi: Monetary Authorities' Balance Sheet, 2018–20

(Billions of Kwacha, unless otherwise indicated)

| | 2018 | | | | 2019 | | | | 2020 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Mar. | June | Sept. | Dec. | Mar. | June | Sept. | Dec. | Mar. | June | Sept. | Dec. |
| | | | | | | | | Est. | Est. | | Proj. | |
| Reserve Money | 255 | 301 | 299 | 289 | 274 | 309 | 330 | 278 | 289 | 314 | 313 | 316 |
| Currency outside banks | 147 | 207 | 192 | 189 | 165 | 217 | 208 | 202 | 182 | 235 | ... | ... |
| Cash in vault | 27 | 24 | 25 | 40 | 26 | 28 | 36 | 50 | 35 | 43 | ... | ... |
| Commercial bank deposits with RBM | 81 | 70 | 81 | 60 | 83 | 64 | 86 | 26 | 72 | 45 | ... | ... |
| | | | | | | | | | | | | |
| Net foreign assets (NFA) | 248 | 315 | 274 | 313 | 329 | 338 | 246 | 354 | 272 | 128 | 130 | 206 |
| Foreign assets | 481 | 546 | 501 | 547 | 562 | 582 | 467 | 605 | 519 | 485 | 484 | 663 |
| Foreign liabilities | -234 | -231 | -228 | -234 | -233 | -244 | -221 | -252 | -247 | -358 | -354 | -457 |
| | | | | | | | | | | | | |
| Net domestic assets | 7 | -15 | 65 | 17 | -15 | 14 | 125 | -75 | 58 | 186 | 184 | 110 |
| Credit to government (net) | 419 | 295 | 280 | 320 | 145 | 215 | 303 | 167 | 195 | 308 | 308 | 308 |
| Credit to domestic banks | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other items (net) | -411 | -309 | -215 | -303 | -160 | -201 | -178 | -242 | -137 | -121 | -124 | -197 |
| Open market operations | -395 | -283 | -201 | -214 | -91 | -120 | -140 | -169 | -153 | -97 | ... | ... |
| Others | -16 | -26 | -14 | -90 | -68 | -81 | -38 | -73 | 16 | -24 | ... | ... |
| *Memorandum items:* | | | | | | | | | | | | |
| Money multiplier | 4.0 | 3.8 | 3.8 | 4.1 | 4.3 | 4.1 | 3.9 | 4.6 | 4.5 | 4.5 | 4.5 | 4.5 |
| Annual growth of reserve money (percent) | 18.7 | 14.2 | 17.1 | 3.8 | 7.4 | 2.8 | 10.6 | -3.9 | 5.5 | 1.5 | -5.1 | 13.6 |
| 91-day treasury bill rate | 14.0 | 14.1 | 14.0 | 11.4 | 9.7 | 9.0 | 9.1 | 6.2 | 7.5 | 7.6 | ... | ... |
| NFA of the central bank (US$ millions) | 434 | 434 | 376 | 428 | 444 | 423 | 330 | 476 | 365 | 224 | 174 | 271 |
| Foreign assets (US$ millions) | 753 | 753 | 689 | 750 | 761 | 741 | 632 | 819 | 700 | 653 | 650 | 873 |
| Foreign liabilities (US$ millions) | -318 | -318 | -313 | -322 | -316 | -318 | -301 | -343 | -335 | -429 | -476 | -602 |

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

## Table 3b. Malawi: Monetary Survey, 2018–20

(Billions of Kwacha, unless otherwise indicated)

| | 2018 | | | | 2019 | | | | 2020 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Mar. | Jun. | Sept. | Dec. | Mar. | June. | Sept. | Dec. | Mar. | June. | Sept. | Dec. |
| | | | | | | | | Est. | Est. | | Proj. | |
| Money and quasi-money | 1,021 | 1,142 | 1,141 | 1,196 | 1,174 | 1,263 | 1,273 | 1,293 | 1,294 | 1,405 | 1,404 | 1,415 |
| Money | 477 | 551 | 502 | 555 | 532 | 596 | 588 | 629 | 627 | 706 | … | … |
| Quasi-money | 544 | 591 | 638 | 642 | 642 | 667 | 685 | 664 | 667 | 699 | … | … |
| *Of which:* foreign currency deposits | 184 | 211 | 228 | 200 | 196 | 218 | 188 | 187 | 186 | 199 | … | … |
| Net foreign assets (NFA) | 344 | 408 | 330 | 371 | 413 | 421 | 281 | 400 | 297 | 219 | 222 | 254 |
| Monetary authorities | 248 | 315 | 274 | 313 | 329 | 338 | 246 | 354 | 272 | 128 | 130 | 206 |
| Gross foreign assets | 481 | 546 | 501 | 547 | 562 | 582 | 467 | 605 | 519 | 485 | 484 | 663 |
| Foreign liabilities | -234 | -231 | -228 | -234 | -233 | -244 | -221 | -252 | -247 | -358 | -354 | -457 |
| Commercial banks (net) | 96 | 92 | 56 | 59 | 84 | 82 | 35 | 47 | 26 | 92 | 92 | 49 |
| Net domestic assets | 677 | 734 | 850 | 865 | 801 | 886 | 1,032 | 893 | 1,038 | 1,186 | 1,183 | 1,161 |
| Credit to government (net) | 583 | 510 | 546 | 607 | 547 | 616 | 707 | 629 | 735 | 947 | 956 | 963 |
| Credit to statutory bodies (net) | 4 | 12 | 34 | 34 | 45 | 49 | 58 | 56 | 55 | 62 | 65 | 68 |
| Credit to private sector | 398 | 428 | 447 | 457 | 442 | 502 | 527 | 554 | 548 | 566 | 645 | 588 |
| Other items (net) | -308 | -216 | -217 | -273 | -273 | -323 | -299 | -347 | -340 | -430 | -483 | -458 |
| *Memorandum items:* | | | | | | | | | | | | |
| Velocity of money (annualized GDP divided by broad money) | 4.6 | 4.2 | 4.3 | 4.2 | 4.4 | 4.2 | 4.3 | 4.4 | 4.5 | 4.2 | 4.3 | 4.4 |
| Annual growth of broad money (percent) | 17.0 | 14.6 | 6.2 | 11.4 | 15.0 | 10.7 | 11.6 | 8.1 | 10.2 | 11.2 | 10.3 | 9.5 |
| Annual growth of credit to the private sector (percent) | 0.4 | 2.1 | 9.1 | 11.5 | 11.1 | 17.1 | 17.7 | 21.3 | 23.8 | 12.8 | 22.4 | 6.0 |
| NFA of the commercial banks (US$ millions) | 132.9 | 127.1 | 77.6 | 80.3 | 105.0 | 47.8 | 63.9 | 63.9 | 34.7 | 123.6 | 123.6 | 63.9 |
| Gross foreign assets (US$ millions) | 163.8 | 187.2 | 145.0 | 153.4 | 156.7 | 105.5 | 128.8 | 128.8 | 86.5 | 164.4 | 164.4 | 115.7 |
| Foreign liabilities (US$ millions) | -30.9 | -60.2 | -67.5 | -73.1 | -51.7 | -57.7 | -64.9 | -64.9 | -51.8 | -40.7 | -40.7 | -51.8 |
| Foreign currency deposits(US$ millions) | 251.6 | 289.3 | 311.7 | 272.3 | 266.2 | 279.2 | 254.2 | 252.5 | 250.7 | 268.8 | … | … |
| Nominal GDP (billions of Kwacha) | 4,655 | 4,785 | 4,919 | 5,060 | 5,194 | 5,360 | 5,531 | 5,711 | 5,830 | 6,022 | 6,216 | 6,252 |

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

# Table 4a. Malawi: Balance of Payments, 2018–25

(Millions of USD, unless otherwise indicated)

| | 2018 | 2019 | 2020 | | | 2021 | | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Est. | Est. | 2nd & 3rd Review | RCF I | RCF II | RCF I | RCF II | Proj. | | | |
| Current account balance | -1,418.6 | -1,310.5 | -1,426.6 | -1,529.5 | -1,723.4 | -1,522.8 | -1,766.2 | -1,705.0 | -1,710.3 | -1,708.9 | -1,708.0 |
| Merchandise trade balance | -1,663.5 | -1,613.8 | -1,802.5 | -1,734.6 | -1,889.2 | -1,808.2 | -2,008.4 | -1,989.4 | -2,023.8 | -2,060.1 | -2,114.2 |
| Exports | 929.8 | 1,050.7 | 1,144.6 | 985.4 | 951.2 | 1,067.5 | 1,050.7 | 1,113.4 | 1,196.2 | 1,296.2 | 1,405.2 |
| Of which: Tobacco | 426.4 | 397.1 | 444.2 | 353.5 | 329.1 | 370.6 | 345.1 | 351.8 | 364.0 | 381.1 | 400.1 |
| Imports | -2,593.3 | -2,664.4 | -2,947.1 | -2,720.1 | -2,840.4 | -2,875.7 | -3,059.1 | -3,102.8 | -3,220.1 | -3,356.3 | -3,519.5 |
| Of which: Petroleum products | -342.6 | -344.9 | -341.4 | -233.6 | -270.2 | -265.8 | -323.8 | -356.8 | -390.6 | -426.4 | -460.8 |
| Project related | -131.5 | -195.3 | -189.3 | -194.3 | -219.1 | -258.5 | -300.3 | -293.3 | -312.1 | -316.1 | -316.2 |
| Services balance | -315.4 | -331.3 | -291.7 | -357.6 | -360.1 | -333.5 | -335.6 | -340.3 | -359.1 | -364.0 | -353.7 |
| Interest public sector | -10.1 | -20.1 | -20.0 | -21.4 | -14.8 | -32.9 | -21.4 | -24.0 | -25.9 | -27.7 | -27.6 |
| Other factor payments (net) | -153.9 | -161.0 | -169.3 | -162.8 | -162.2 | -167.1 | -166.0 | -176.9 | -188.4 | -200.4 | -213.0 |
| Nonfactor (net) | -151.4 | -150.2 | -102.4 | -173.3 | -183.1 | -133.6 | -148.2 | -139.5 | -144.8 | -135.8 | -113.0 |
| Receipts | 182.4 | 199.5 | 220.8 | 181.5 | 180.7 | 196.0 | 194.6 | 217.3 | 241.4 | 266.6 | 288.3 |
| Payments | -333.8 | -349.7 | -323.2 | -354.8 | -363.7 | -329.6 | -342.8 | -356.8 | -386.2 | -402.5 | -401.3 |
| Unrequited transfers (net) | 560.3 | 634.5 | 667.6 | 562.7 | 525.9 | 618.9 | 577.8 | 624.7 | 672.7 | 715.1 | 759.9 |
| Private (net) | 561.4 | 595.7 | 668.7 | 563.7 | 527.0 | 620.0 | 579.0 | 625.8 | 673.8 | 716.3 | 761.0 |
| Official (net) | -1.1 | 38.9 | -1.1 | -1.0 | -1.1 | -1.1 | -1.1 | -1.1 | -1.1 | -1.1 | -1.1 |
| Receipts | 0.0 | 40.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Budget support | 0.0 | 40.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Payments | -1.1 | -1.1 | -1.1 | -1.1 | -1.1 | -1.1 | -1.1 | -1.1 | -1.1 | -1.1 | -1.1 |
| Capital account balance[1] | 806.8 | 938.0 | 404.5 | 1,015.7 | 989.6 | 1,089.6 | 1,176.9 | 1,296.0 | 1,332.9 | 1,348.8 | 1,372.4 |
| Project and dedicated grants | 92.4 | 143.8 | 166.5 | 161.4 | 132.1 | 199.4 | 198.1 | 242.1 | 263.0 | 259.4 | 249.2 |
| Off-budget project support[2] and others | 714.3 | 794.1 | 238.0 | 854.3 | 857.6 | 890.2 | 978.8 | 1,053.9 | 1,069.9 | 1,089.4 | 1,123.2 |
| Financial account balance | 437.8 | 417.0 | 1,160.2 | 347.5 | 359.5 | 422.0 | 468.9 | 439.1 | 430.3 | 445.2 | 480.6 |
| Medium- and long-term flows (net) | 68.9 | 115.6 | 79.4 | 82.4 | 109.3 | 155.8 | 189.9 | 143.4 | 147.6 | 152.3 | 177.5 |
| Disbursements | 127.0 | 159.5 | 133.1 | 137.0 | 163.9 | 207.4 | 250.8 | 219.7 | 228.4 | 239.1 | 249.1 |
| Budget support and other program loans | 3.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Project support loans | 109.8 | 156.7 | 124.6 | 130.5 | 159.0 | 198.2 | 240.9 | 209.2 | 217.1 | 226.9 | 237.2 |
| Other medium-term loans | 14.2 | 2.9 | 8.5 | 6.5 | 5.0 | 9.1 | 9.9 | 10.5 | 11.3 | 12.3 | 11.9 |
| Amortization | -58.1 | -43.9 | -53.7 | -54.6 | -54.7 | -51.6 | -60.9 | -76.3 | -80.8 | -86.9 | -71.7 |
| SDR allocation | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Foreign direct investment and other inflows | 107.1 | 104.8 | 224.3 | 102.2 | 94.2 | 124.3 | 119.4 | 138.8 | 143.7 | 159.1 | 180.9 |
| Short-term capital and other inflows | 153.5 | 180.7 | 856.5 | 162.8 | 156.1 | 141.9 | 159.5 | 156.9 | 139.1 | 133.8 | 122.2 |
| Commercial banks net foreign assets | 108.3 | 15.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Errors and omissions | 161.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Overall balance** | -12.7 | 44.5 | 138.0 | -166.3 | -374.3 | -11.2 | -120.3 | 30.1 | 53.0 | 85.1 | 144.9 |
| **Financing** | 12.7 | -44.5 | -138.0 | -9.6 | -44.6 | -54.0 | -116.3 | -78.9 | -90.0 | -103.8 | -144.9 |
| Gross reserves (- increase) | 7.8 | -65.4 | -173.0 | -41.5 | -57.8 | -39.3 | -84.6 | -35.3 | -50.6 | -70.0 | -95.9 |
| Liabilities | 4.9 | 20.9 | 34.9 | 31.9 | 13.3 | -14.7 | -31.7 | -43.6 | -39.3 | -33.8 | -49.0 |
| *Of which:* IMF ECF (net) | 2.5 | 27.0 | 37.9 | 38.0 | -19.3 | -10.3 | -26.2 | -37.1 | -32.5 | -33.8 | -49.0 |
| Purchases/drawings | 31.4 | 43.4 | 57.3 | 57.3 | 0.0 | 15.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Repurchases/repayments[3] | 28.9 | 16.4 | 19.3 | 19.3 | 19.3 | 26.1 | 26.1 | 37.1 | 32.6 | 33.8 | 49.0 |
| **Financing gap** | 0.0 | 0.0 | 0.0 | 175.9 | 418.8 | 65.2 | 236.6 | 48.8 | 37.0 | 18.7 | 0.0 |
| *Of which: Grants for debt relief under IMF CCRT* | … | … | … | … | 4.5 | … | 5.5 | … | … | … | … |
| *Prospective grants for debt relief under IMF CCRT* | … | … | … | 4.5 | … | 26.1 | 20.6 | 5.3 | … | … | … |
| *Financial support from other donors (incl. AfDB, WB, EU, UN, GAVI, DFID, Irish Aid, GIZ, KfW, USAID)* | … | … | … | 43.4 | 203.6 | … | … | … | … | … | … |
| *Of which: African Development Bank* | … | … | … | … | 45.1 | … | … | … | … | … | … |
| *Of which: World Bank* | … | … | … | 37.0 | 76.0 | … | 23.0 | … | … | … | … |
| *Of which: EU* | … | … | … | … | 60.8 | … | … | … | … | … | … |
| *G20 DSSI* | … | … | … | … | 17.9 | … | … | … | … | … | … |
| *Disbursement under IMF RCF I* | … | … | … | 93.0 | 91.0 | … | … | … | … | … | … |
| *Disbursement under IMF RCF II* | … | … | … | … | 101.8 | … | … | … | … | … | … |
| *Residual gap* | … | … | … | 35.0 | 0.0 | 40.0 | 187.5 | 43.5 | 37.0 | 18.7 | … |
| *Memorandum items:* | | | | | | | | | | | |
| Gross official reserves | 750.1 | 815.5 | 950.0 | 860.9 | 873.3 | 900.2 | 958.0 | 993.2 | 1,043.9 | 1,113.8 | 1,209.8 |
| Months of imports[4] | 3.0 | 3.1 | 3.3 | 3.2 | 3.1 | 3.3 | 3.3 | 3.3 | 3.3 | 3.4 | 3.5 |
| Net International Reserves | 486.2 | 534.7 | 624.7 | 451.0 | 382.5 | 505.0 | 431.3 | 473.6 | 526.6 | 611.7 | 756.6 |
| Current account balance (percent of GDP) | | | -17.2 | | | | | | | | |
| Excluding official transfers | -20.5 | -17.6 | -17.2 | -18.1 | -20.5 | -18.0 | -20.3 | -18.9 | -18.3 | -17.6 | -16.8 |
| Excluding project related imports | -18.6 | -14.6 | -14.9 | -15.8 | -17.9 | -15.0 | -16.9 | -15.7 | -15.0 | -14.3 | -13.7 |
| Excluding official transfers and project related imports | -18.6 | -15.1 | -14.9 | -15.8 | -17.9 | -15.0 | -16.8 | -15.6 | -15.0 | -14.3 | -13.7 |
| Import price index (2005 = 100) | 114.2 | 113.4 | 120.8 | 102.9 | 104.3 | 103.8 | 106.4 | 107.9 | 109.2 | 111.0 | 112.1 |
| Import volume (percent change) | 9.8 | 3.4 | 7.4 | 12.2 | 15.9 | 4.8 | 5.6 | 0.0 | 2.5 | 2.5 | 3.8 |
| REER (percent change) | 7.6 | 13.9 | … | … | … | … | … | … | … | … | … |
| Terms of trade (percent change) | -4.9 | 0.3 | 0.5 | 6.3 | 7.0 | -1.8 | -1.0 | -2.8 | -1.5 | -1.7 | -1.0 |
| Nominal GDP (millions of U.S. dollars) | 6,911.0 | 7,663.5 | 8,289.7 | 8,432.2 | 8,406.0 | 8,441.4 | 8,698.1 | 9,017.9 | 9,333.5 | 9,721.6 | 10,141.5 |

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

[1]The IMF has adopted the Malawi National Statistics Office (NSO)'s capital and financial account data following adoption of the NSO's current account data in 2019. Previously, the IMF's reported series was based on staff estimates. Consequently, the IMF's reported capital account balance increased from 3.8 percent of GDP to 11.7 percent of GDP in 2018 while financial account balance including net errors and omission decreased from 16.5 percent of GDP to 8.6 percent of GDP.

[2]Includes estimate for project grants not channeled through the budget.

[3]Financial support from the first tranche of debt relief under IMF CCRT is recorded as a grant and corresponds to the amount of SDR 7.202 million for the period April 14-October 13, 2020.

[4]In months of imports of goods and nonfactor services in the following year.

## Table 4b. Malawi: Balance of Payments, 2018–25

(Percent of GDP)

| | 2018 | 2019 | 2020 | | | 2021 | | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Est. | Est. | 2nd & 3rd Review | RCF I | RCF II | RCF I | RCF II | Proj. | | | |
| Current account balance | -20.5 | -17.1 | -17.2 | -18.1 | -20.5 | -18.0 | -20.3 | -18.9 | -18.3 | -17.6 | -16.8 |
| Merchandise trade balance | -24.1 | -21.1 | -21.7 | -20.6 | -22.5 | -21.4 | -23.1 | -22.1 | -21.7 | -21.2 | -20.8 |
| Exports | 13.5 | 13.7 | 13.8 | 11.7 | 11.3 | 12.6 | 12.1 | 12.3 | 12.8 | 13.3 | 13.9 |
| *Of which:* Tobacco | 6.2 | 5.2 | 5.4 | 4.2 | 3.9 | 4.4 | 4.0 | 3.9 | 3.9 | 3.9 | 3.9 |
| Imports | -37.5 | -34.8 | -35.6 | -32.3 | -33.8 | -34.1 | -35.2 | -34.4 | -34.5 | -34.5 | -34.7 |
| Of which: Petroleum products | -5.0 | -4.5 | -4.1 | -2.8 | -3.2 | -3.1 | -3.7 | -4.0 | -4.2 | -4.4 | -4.5 |
| Project related | -1.9 | -2.5 | -2.3 | -2.3 | -2.6 | -3.1 | -3.5 | -3.3 | -3.3 | -3.3 | -3.1 |
| Services balance | -4.6 | -4.3 | -3.5 | -4.2 | -4.3 | -4.0 | -3.9 | -3.8 | -3.8 | -3.7 | -3.5 |
| Interest public sector (net) | -0.1 | -0.3 | -0.2 | -0.3 | -0.2 | -0.4 | -0.2 | -0.3 | -0.3 | -0.3 | -0.3 |
| Other factor payments (net) | -2.2 | -2.1 | -2.0 | -1.9 | -1.9 | -2.0 | -1.9 | -2.0 | -2.0 | -2.1 | -2.1 |
| Nonfactor (net) | -2.2 | -2.0 | -1.2 | -2.1 | -2.2 | -1.6 | -1.7 | -1.5 | -1.6 | -1.4 | -1.1 |
| Receipts | 2.6 | 2.6 | 2.7 | 2.2 | 2.1 | 2.3 | 2.2 | 2.4 | 2.6 | 2.7 | 2.8 |
| Payments | -4.8 | -4.6 | -3.9 | -4.2 | -4.3 | -3.9 | -3.9 | -4.0 | -4.1 | -4.1 | -4.0 |
| Unrequited transfers (net) | 8.1 | 8.3 | 8.1 | 6.7 | 6.3 | 7.3 | 6.6 | 6.9 | 7.2 | 7.4 | 7.5 |
| Private (net) | 8.1 | 7.8 | 8.1 | 6.7 | 6.3 | 7.3 | 6.7 | 6.9 | 7.2 | 7.4 | 7.5 |
| Official (net) | 0.0 | 0.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Receipts | 0.0 | 0.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Budget support | 0.0 | 0.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Payments | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Capital account balance[1] | 11.7 | 12.2 | 4.9 | 12.0 | 11.8 | 12.9 | 13.5 | 14.4 | 14.3 | 13.9 | 13.5 |
| Project and dedicated grants | 1.3 | 1.9 | 2.0 | 1.9 | 1.6 | 2.4 | 2.3 | 2.7 | 2.8 | 2.7 | 2.5 |
| Off-budget project support[2] | 10.3 | 10.4 | 2.9 | 10.1 | 10.2 | 10.5 | 11.3 | 11.7 | 11.5 | 11.2 | 11.1 |
| Financial account balance | 6.3 | 5.4 | 14.0 | 4.1 | 4.3 | 5.0 | 5.4 | 4.9 | 4.6 | 4.6 | 4.7 |
| Medium- and long-term flows (net) | 1.0 | 1.5 | 1.0 | 1.0 | 1.3 | 1.8 | 2.2 | 1.6 | 1.6 | 1.6 | 1.7 |
| Disbursements | 1.8 | 2.1 | 1.6 | 1.6 | 2.0 | 2.5 | 2.9 | 2.4 | 2.4 | 2.5 | 2.5 |
| Budget support and other program loans | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Project support loans | 1.6 | 2.0 | 1.5 | 1.5 | 1.9 | 2.3 | 2.8 | 2.3 | 2.3 | 2.3 | 2.3 |
| Other medium-term loans | 0.2 | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Amortization | -0.8 | -0.6 | -0.6 | -0.6 | -0.7 | -0.6 | -0.7 | -0.8 | -0.9 | -0.9 | -0.7 |
| SDR allocation | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Foreign direct investment and other inflows | 1.6 | 1.4 | 2.7 | 1.2 | 1.1 | 1.5 | 1.4 | 1.5 | 1.5 | 1.6 | 1.8 |
| Short-term capital and other inflows | 2.2 | 2.4 | 10.3 | 1.9 | 1.9 | 1.7 | 1.8 | 1.7 | 1.5 | 1.4 | 1.2 |
| Commercial banks net foreign assets | 1.6 | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Errors and omissions | 2.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Overall balance** | -0.2 | 0.6 | 1.7 | -2.0 | -4.5 | -0.1 | -1.4 | 0.3 | 0.6 | 0.9 | 1.4 |
| **Financing** | 0.2 | -0.6 | -1.7 | -0.1 | -0.5 | -0.6 | -1.3 | -0.9 | -1.0 | -0.9 | -1.4 |
| Gross reserves (- increase) | 0.1 | -0.9 | -2.1 | -0.5 | -0.7 | -0.5 | -1.0 | -0.4 | -0.5 | -0.7 | -0.9 |
| Liabilities | 0.1 | 0.3 | 0.4 | 0.4 | 0.2 | -0.2 | -0.4 | -0.5 | -0.4 | -0.2 | -0.5 |
| *Of which:* IMF ECF (net) | 0.0 | 0.4 | 0.5 | 0.5 | -0.2 | -0.1 | -0.3 | -0.4 | -0.3 | -0.2 | -0.5 |
| Purchases/drawings | 0.5 | 0.6 | 0.7 | 0.7 | 0.0 | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Repurchases/repayments[3] | 0.4 | 0.2 | 0.2 | 0.2 | 0.2 | 0.3 | 0.3 | 0.4 | 0.3 | 0.3 | 0.5 |
| **Financing gap** | 0.0 | 0.0 | 0.0 | 2.1 | 5.0 | 0.8 | 2.7 | 0.5 | 0.4 | 0.2 | 0.0 |
| *Of which: Grants for debt relief under IMF CCRT* | … | … | … | … | 0.1 | … | 0.1 | … | … | … | … |
| *Prospective grants for debt relief under IMF CCRT* | … | … | … | 0.1 | … | 0.3 | 0.2 | 0.1 | … | … | … |
| *Financial support from other donors (incl. AfDB, WB, EU, UN, GAVI, DFID, Irish Aid, GIZ, KfW, USAID)* | … | … | … | 0.5 | 2.4 | … | … | … | … | … | … |
| *Of which: African Development Bank* | … | … | … | … | 0.5 | … | … | … | … | … | … |
| *Of which: World Bank* | … | … | … | 0.4 | 0.9 | … | 0.3 | … | … | … | … |
| *Of which: EU* | … | … | … | … | 0.7 | … | … | … | … | … | … |
| *G20 DSSI* | … | … | … | … | 0.2 | … | … | … | … | … | … |
| *Disbursement under IMF RCF I* | … | … | … | 1.1 | 1.1 | … | … | … | … | … | … |
| *Disbursement under IMF RCF II* | … | … | … | … | 1.2 | … | … | … | … | … | … |
| *Residual gap* | … | … | … | 0.4 | 0.0 | 0.5 | 2.2 | 0.5 | 0.4 | 0.2 | … |
| *Memorandum items:* | | | | | | | | | | | |
| Gross official reserves | 10.9 | 10.6 | 11.5 | 10.2 | 10.4 | 10.7 | 11.0 | 11.0 | 11.2 | 11.5 | 11.9 |
| Months of imports[4] | 3.0 | 3.1 | 3.3 | 3.2 | 3.1 | 3.3 | 3.3 | 3.3 | 3.3 | 3.4 | 3.5 |
| Current account balance (percent of GDP) | | | | | | | | | | | |
| Excluding official transfers | -20.5 | -17.6 | -17.2 | -18.1 | -20.5 | -18.0 | -20.3 | -18.9 | -18.3 | -17.6 | -16.8 |
| Excluding project related imports | -18.6 | -14.6 | -14.9 | -15.8 | -17.9 | -15.0 | -16.9 | -15.7 | -15.0 | -14.3 | -13.7 |
| Excluding official transfers and project related imports | -18.6 | -15.1 | -14.9 | -15.8 | -17.9 | -15.0 | -16.8 | -15.6 | -15.0 | -14.3 | -13.7 |
| Value of exports of GNFs (percent change) | 5.6 | 12.4 | 10.2 | -6.7 | -9.5 | 8.3 | 10.0 | 6.9 | 8.0 | 8.7 | 8.4 |
| Value of imports of GNFs (percent change) | 6.2 | 3.0 | 5.2 | 1.8 | 6.3 | 4.2 | 6.2 | 1.7 | 4.2 | 4.2 | 4.3 |

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

[1]The IMF has adopted the Malawi National Statistics Office (NSO)'s capital and financial account data following adoption of the NSO's current account data in 2019. Previously, the IMF's reported series was based on staff estimates. Consequently, the IMF's reported capital account balance increased from 3.8 percent of GDP to 11.7 percent of GDP in 2018 while financial account balance including net errors and omission decreased from 16.5 percent of GDP to 8.6 percent of GDP.

[2]Includes estimate for project grants not channeled through the budget.

[3]Financial support from the first tranche of debt relief under IMF CCRT is recorded as a grant and corresponds to the amount of SDR 7.202 million for the period April 14-October 13, 2020.

[4]In months of imports of goods and nonfactor services in the following year.

**Table 5. Malawi: Selected Banking Soundness Indicators, 2015–20**

| Key ratios | Dec-15 | Dec-16 | Dec-17 | Dec-18 | Dec-19 | Jun-20 |
|---|---|---|---|---|---|---|
| **Capital Adequacy** | | | | | | |
| 1. Regulatory Tier 1 capital to risk weighted assets | 12.4 | 13.8 | 15.3 | 15.5 | 17.0 | 18.8 |
| 2. Total regulatory capital to risk weighted assets | 15.8 | 17.0 | 19.4 | 19.0 | 21.0 | 22.0 |
| 3. Total capital to total assets[1] | 17.1 | 16.7 | 15.9 | 14.7 | 16.4 | 16.0 |
| **Asset composition and quality** | | | | | | |
| 1. Non-performing loans to gross loans and advances | 10.6 | 17.0 | 15.7 | 6.1 | 6.3 | 6.6 |
| 2. Provisions to non-performing loans | 25.7 | 25.5 | 34.5 | 42.4 | 38.6 | 35.6 |
| 3. Total loans and advances to total assets | 40.0 | 34.8 | 28.06 | 30.5 | 33.2 | 31.7 |
| 4. Foreign currency loans to total loans and advances | 28.6 | 21.8 | 27.9 | 24.3 | 20.9 | 35.4 |
| **Earnings and profitability** | | | | | | |
| 1. Return on assets (ROA) | 3.1 | 2.7 | 2.3 | 2.2 | 2.7 | 3.2 |
| 2. Return on equity (ROE) | 19.2 | 18.4 | 15.7 | 16.6 | 20.5 | 23.6 |
| 3. Non-interest expenses to gross income | 51.4 | 50.0 | 49.7 | 52.1 | 51.8 | 48.6 |
| 4. Interest margin to gross income | 50.2 | 47.8 | 50.8 | 46.5 | 59.6 | 48.6 |
| 5. Non-interest income to revenue | 30.5 | 28.0 | 27.3 | 34.2 | 33.6 | 34.9 |
| 6. Net interest income to assets | 9.7 | 9.7 | 8.7 | 7.9 | 8.4 | 4.2 |
| 7. Personnel expenses to non-interest expenses | 45.3 | 43.8 | 46.5 | 42.9 | 43.0 | 42.2 |
| **Liquidity** | | | | | | |
| 1. Liquid assets to deposits and short-term liabilities | 59.0 | 72.3 | 77.0 | 63.3 | 58.9 | 58.2 |
| 2. Total loans to total deposits | 58.5 | 54.2 | 45.1 | 47.4 | 54.2 | 52.4 |
| 3. Liquid Assets to total assets | 43.3 | 50.4 | 55.0 | 44.8 | 39.8 | 40.0 |
| 4. Foreign exchange liabilities to total liabilities | 26.1 | 19.7 | 19.8 | 13.8 | 15.8 | 13.5 |

Source: Reserve Bank of Malawi.

[1]In the total capital to total assets series, total capital refers to regulatory capital.

## Table 6. Malawi: External Financing Requirement and Source, 2018–25

(Millions of USD)

| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|---|---|---|---|
| Total requirement | -1468 | -1459 | -1835 | -1911 | -1815 | -1841 | -1865 | -1874 |
| Current account, excluding official transfers | -1418 | -1349 | -1722 | -1765 | -1704 | -1709 | -1708 | -1707 |
| Debt amortization | -58 | -44 | -55 | -61 | -76 | -81 | -87 | -72 |
| Gross reserves accumulation (- increase) | 8 | -65 | -58 | -85 | -35 | -51 | -70 | -96 |
| Total sources | 1468 | 1459 | 1416 | 1674 | 1767 | 1804 | 1846 | 1874 |
| Expected disbursements (official) | 933 | 1136 | 1152 | 1427 | 1515 | 1560 | 1587 | 1620 |
| Grants | 806 | 977 | 989 | 1176 | 1295 | 1332 | 1348 | 1371 |
| Medium- and long-term loans | 127 | 160 | 164 | 251 | 220 | 228 | 239 | 249 |
| Private sector (net) | 533 | 295 | 283 | 273 | 289 | 276 | 293 | 303 |
| SDR Allocation | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| IMF ECF (net) | 2 | 27 | -19 | -26 | -37 | -33 | -34 | -49 |
| Drawings | 31 | 43 | 0 | 0 | 0 | 0 | 0 | 0 |
| Repayments | 29 | 16 | 19 | 26 | 37 | 33 | 34 | 49 |
| Financing gap | 0 | 0 | 419 | 237 | 49 | 37 | 19 | 0 |
| *Grants for debt relief under IMF CCRT* | | | 5 | 6 | | | | |
| *Prospective grants for debt relief under IMF CCRT* | ... | ... | | 21 | 5 | ... | ... | ... |
| *Financial support from other donors (incl. AfDB, WB, EU, UN, GAVI, DFID, Irish Aid, GIZ, KfW, USAID)* | ... | ... | 204 | ... | ... | ... | ... | ... |
| *Of which: African Development Bank* | ... | ... | 45 | ... | ... | ... | ... | ... |
| *Of which: World Bank* | ... | ... | 76 | 23 | ... | ... | ... | ... |
| *Of which: EU* | ... | ... | 61 | ... | ... | ... | ... | ... |
| *G20 DSSI* | ... | ... | 18 | ... | ... | ... | ... | ... |
| *Disbursement under IMF RCF I* | ... | ... | 91 | ... | ... | ... | ... | ... |
| *Disbursement under IMF RCF II* | ... | ... | 102 | ... | ... | ... | ... | ... |
| *Residual gap* | ... | ... | 0 | 188 | 44 | 37 | 19 | ... |
| Gross official reserves | 750 | 815 | 873 | 958 | 993 | 1044 | 1114 | 1210 |
| Months of imports | 3.0 | 3.1 | 3.1 | 3.3 | 3.3 | 3.3 | 3.4 | 3.5 |

Source: IMF staff estimates.

## Table 7. Malawi: Indicators of Capacity to Repay the Fund, 2020–33[1]

| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Projected Payments based on Existing Drawings:** | | | | | | | | | | | | | | |
| (SDR millions) | | | | | | | | | | | | | | |
| Principal | 3.3 | 18.4 | 25.8 | 22.4 | 23.1 | 33.5 | 33.4 | 26.0 | 22.9 | 19.6 | 6.6 | 0.0 | 0.0 | 0.0 |
| Charges and interest | 0.01 | 0.06 | 0.06 | 0.06 | 0.06 | 0.06 | 0.06 | 0.06 | 0.06 | 0.06 | 0.06 | 0.06 | 0.06 | 0.06 |
| **Projected Payments based on Prospective Drawings:** | | | | | | | | | | | | | | |
| (SDR millions) | | | | | | | | | | | | | | |
| Principal | 0 | 0 | 0 | 0 | 0 | 0 | 14 | 14 | 14 | 14 | 14 | 0 | 0 | 0 |
| Charges and interest | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Projected Payments based on Existing and Prospective Drawings:** | | | | | | | | | | | | | | |
| SDR millions | 3.31 | 18.50 | 25.87 | 22.43 | 23.17 | 33.52 | 47.90 | 40.53 | 37.46 | 34.12 | 21.16 | 0.06 | 0.06 | 0.06 |
| US$ Millions | 4.57 | 25.67 | 36.02 | 31.31 | 32.43 | 47.09 | 67.30 | 56.94 | 52.63 | 47.94 | 29.73 | 0.08 | 0.08 | 0.08 |
| Percent of exports of goods and services | 0.37 | 2.27 | 2.89 | 2.35 | 2.26 | 3.01 | 3.97 | 3.11 | 2.67 | 2.25 | 1.30 | 0.00 | 0.00 | 0.00 |
| Percent of debt service | 5.60 | 27.02 | 32.86 | 23.88 | 24.45 | 33.28 | 45.02 | 31.24 | 27.30 | 23.33 | 13.79 | 0.04 | 0.05 | 0.05 |
| Percent of quota | 2.38 | 13.33 | 18.64 | 16.16 | 16.69 | 24.15 | 34.51 | 29.20 | 26.99 | 24.58 | 15.24 | 0.04 | 0.04 | 0.04 |
| Percent of gross official reserves | 0.56 | 3.00 | 3.83 | 3.19 | 3.12 | 4.21 | 5.54 | 4.35 | 3.81 | 3.35 | 2.04 | 0.01 | 0.01 | 0.01 |
| Percent of GDP | 0.06 | 0.31 | 0.41 | 0.35 | 0.35 | 0.48 | 0.66 | 0.53 | 0.46 | 0.39 | 0.23 | 0.00 | 0.00 | 0.00 |
| **Projected Level of Credit Outstanding based on Existing and Prospective Drawings:** | | | | | | | | | | | | | | |
| SDR millions | 304.1 | 285.6 | 259.8 | 237.5 | 214.3 | 180.9 | 133.0 | 92.6 | 55.2 | 21.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| US$ Millions | 421.0 | 396.9 | 362.2 | 331.8 | 300.5 | 254.5 | 187.2 | 130.3 | 77.6 | 29.7 | 0.0 | 0.0 | 0.0 | 0.0 |
| Percent of exports of goods and services | 33.7 | 35.1 | 29.1 | 24.9 | 20.9 | 16.3 | 11.1 | 7.1 | 3.9 | 1.4 | 0.0 | 0.0 | 0.0 | 0.0 |
| Percent of debt service | 516.1 | 417.7 | 330.5 | 253.1 | 226.6 | 179.9 | 125.2 | 71.5 | 40.3 | 14.5 | 0.0 | 0.0 | 0.0 | 0.0 |
| Percent of quota | 219.1 | 205.8 | 187.2 | 171.1 | 154.4 | 130.3 | 95.9 | 66.7 | 39.7 | 15.2 | 0.0 | 0.0 | 0.0 | 0.0 |
| Percent of gross official reserves | 51.6 | 46.4 | 38.5 | 33.8 | 28.9 | 22.8 | 15.4 | 10.0 | 5.6 | 2.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| Percent of GDP | 5.5 | 4.7 | 4.2 | 3.7 | 3.2 | 2.6 | 1.8 | 1.2 | 0.7 | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 |
| *Memorandum items:* | | | | | | | | | | | | | | |
| Exports of goods and services (millions of U.S. dollars) | 1,250 | 1,132 | 1,245 | 1,331 | 1,438 | 1,563 | 1,694 | 1,829 | 1,974 | 2,127 | 2,292 | 2,470 | 2,662 | 2,869 |
| Debt service (millions of U.S. dollars) | 81.6 | 95.0 | 109.6 | 131.1 | 132.6 | 141.5 | 149.5 | 182.3 | 192.8 | 205.5 | 215.6 | 212.8 | 181.1 | 176.7 |
| Quota (SDR millions) | 138.8 | 138.8 | 138.8 | 138.8 | 138.8 | 138.8 | 138.8 | 138.8 | 138.8 | 138.8 | 138.8 | 138.8 | 138.8 | 138.8 |
| Gross official reserves (millions of U.S. dollars) | 815 | 855 | 940 | 982 | 1,041 | 1,118 | 1,214 | 1,308 | 1,383 | 1,431 | 1,458 | 1,473 | 1,584 | 1,656 |
| GDP (millions of U.S. dollars) | 7,663 | 8,406 | 8,698 | 9,018 | 9,333 | 9,722 | 10,141 | 10,727 | 11,468 | 12,245 | 13,083 | 13,955 | 14,854 | 15,834 |

Source: IMF staff projections.

[1]Financing support from the IMF CCRT is recorded as a grant for debt relief. Malawi is receiving SDR 32.842 million under the CCRT grants from the IMF to cover scheduled debt service to the IMF from April 14, 2020 to October 13, 2022.

# Appendix I. Draft Letter of Intent

Lilongwe, Malawi

September 24, 2020

Ms. Kristalina Georgieva

Managing Director

International Monetary Fund

Washington, D.C. 20431

Dear Ms. Georgieva,

1. On behalf of the Malawian authorities, we would like to express our deep appreciation to the International Monetary Fund (IMF) for supporting our request under the Rapid Credit Facility (RCF) that the Board approved on May 1, 2020 and for support approved on April 13, 2020 under the Catastrophe Containment and Relief Trust (CCRT). Early support from the IMF helped fill an urgent balance of payments need—including enabling imports of essential health care items to mitigate the impact of the COVID-19 pandemic—and helped catalyze additional resources from development partners.

2. In our Letter of Intent dated April 27, 2020, we noted that, notwithstanding the mitigating measures we are undertaking, the near-term economic impact of the pandemic is expected to be severe—largely due to spillovers from the global recession and border closures in neighboring countries which have reduced exports, raised trade transit costs, and weighed on remittances, tourism, and foreign direct investment. Since then, the economic outlook of our main trade partners (Europe, South Africa, United States) has further deteriorated, oil prices have risen, and COVID-19 cases have accelerated in Malawi. As a result, there have been additional adverse effects on our economy, bringing anticipated growth in 2020 down to 0.6 percent—a major downward revision compared to pre-pandemic projections of 5.1 percent. This has opened an urgent financing gap in the balance of payments, the amount of which is now estimated at about US$419 million in 2020 compared to US$176 million previously.

3. Our fiscal situation is also being affected by additional shortfalls in tax revenues due to the worsened economic outlook and significant critical spending needs, including in health care (in line with the response plan developed with the support of the World Health Organization (WHO) and other development partners), social assistance to the most vulnerable, and to ensure future food security. The FY 2020/21 budget, which is currently being discussed in Parliament, reflects these revenue and spending projections.

4. While continuing to implement the measures outlined in our April 27, 2020 Letter of Intent, we reiterate our strong commitment to an effective and transparent use of public funds, and to ensure that the aid received, including from the RCF disbursement, and the freed resources from the CCRT and DSSI, are efficiently spent on addressing the crisis. Specifically, we are regularly publishing procurement documentation—including tenders, bids, and names of awarded companies, products or services procured and their costs, and names of the beneficial owners of the awarded companies—on the Public Procurement and Disposal of Assets (PPDA) website (https://www.ppda.mw/#). This applies to all COVID-19 related competitive bids and direct procurement by all Ministries, Agencies and Departments (MDAs). To ensure enhanced transparency and accountability, we are also publishing on the PPDA website the results of ex-post validation of delivery on a contract-by-contract basis; we will publish (on the Ministry of Finance website and in the press) quarterly statements on commitments and payments of COVID-19 related activities (in all MDAs, within 90 days after the end of each quarter, beginning with FY 2019/20Q4); we will specify COVID-19 related costs in our published monthly salary report (costs of hiring additional medical staff, risk allowances, all within 3 weeks after the end of each month, beginning with the September 2020 report) as well as in our monthly budget funding and cash management analysis; and we will publish funding earmarked for COVID-19 related spending, including revenues from any new taxes and disbursements of development partner grants and loans (within 3 weeks after the end of each month, beginning with revenues for September 2020). The National Audit Office will submit quarterly audits of COVID-19 related spending (across all MDAs) to the Minister of Finance (within 180 days after the end of each quarter, beginning with FY 2019/20Q4) for submission to Cabinet and, once the pandemic abates, will publish and submit to Parliament a comprehensive audit of COVID-19-related spending (across all MDAs and the Agricultural Development and Marketing Corporation (ADMARC), within 180 days after the end of the pandemic).

5. We are also taking broader measures to strengthen transparency and governance. The Accountant General's office is committed to posting on the Ministry of Finance website the consolidated annual financial statements (Summary Volume I, including the audit opinion, within 7 months after the close of the fiscal year)—the statements for FY2017/18 and FY2018/19 will be posted by September 30; and monthly bank reconciliation compliance reports (within 6 weeks after the end of each month, beginning with the reports for October)—the reports for FY 2019/20 and the first three months of FY 2020/21 will be posted by end-October. The new Affordable Input Program (AIP), intended to provide additional support for rural households (smallholder farmers) and to ensure future food security across the country, will be administered through e-vouchers based on a farmer registry that is linked to the National ID system. Independent teams (e.g., Farmers Union of Malawi) will monitor the AIP's implementation; and the National Audit Office will perform quarterly audits of the program.

6. Against the backdrop outlined above, we are experiencing an additional urgent balance of payments need arising from the intensification of the COVID-19 pandemic's economic impact in Malawi. To help fill the resulting additional external financing gap, estimated at 2.9 percent of GDP

(US$243 million) in 2020, we request as additional disbursement of 52.1 percent of quota (SDR 72.31 million) under the "exogenous shock" window of the RCF.

7. We have secured at least 0.5 percent of GDP (US$45 million) in additional budget support commitments since the approval of the first RCF disbursement. However, large budget financing needs remain, especially given deteriorating domestic liquidity. Consequently, we request that US$30 million of the requested RCF disbursement be made available to the National Treasury account at the RBM as budget support. To this end, and in line with IMF safeguards policy, a Memorandum of Understanding (MoU) between the RBM and the Ministry of Finance has been signed that clarifies the responsibilities for timely servicing of financial obligations to the IMF. Our capacity to repay the Fund remains strong and Malawi's external risk of debt distress remains moderate. In addition, we have requested the temporary debt service suspension from our official bilateral creditors, in line with the G-20 Debt Service Suspension Initiative (DSSI), and we are committed to adhere to its requirements. We will use freed resources under the DSSI for COVID-19 health spending and mitigating measures to provide economic relief from the crisis and we will closely monitor and report on the use of the COVID-19 resources (¶4). We have also disclosed the debt of public sector borrowing entities (per GFSM 2014) to the IMF and the World Bank. We are confident that IMF involvement in the international effort to assist Malawi in dealing with the global pandemic will continue to play a catalytic role in securing additional support from our development partners.

8. To strengthen medium-term public debt sustainability and ensure sufficient fiscal space for critical resilience building and social and development spending, we plan to implement our comprehensive revenue mobilization strategy (including VAT reforms) in FY 2021/22. To support these objectives and improve governance, we will continue to progress in reforms in tax administration, procurement, public financial management (including implementation of a new IFMIS), public investment management, oversight of state-owned enterprises, and debt management. The RBM will continue to gradually transition towards an inflation targeting framework by 2025 and study and address obstacles to FX market development.

9. As a newly formed government, we would like to align our newly developed long-term growth strategy (Vision 2063) with any multi-year arrangement we pursue with the IMF. In this context, we request cancellation of the previous Extended Credit Facility (ECF), approved in April 2018, as of September 24, 2020. The accelerating spread of the pandemic and the urgent nature of the current balance of payments need make it very difficult for us to discuss and implement a new upper credit tranche-quality economic program in the near term. That said, we value our continued engagement with the IMF and confirm our strong interest in discussing a new multi-year ECF as soon as conditions permit.

10. In line with IMF safeguards policy, we commit to undergo an update of the 2018 safeguards assessment before IMF Board approval of any subsequent arrangement to which the safeguards policy applies, provide IMF staff with the RBM's most recently completed external audit reports, and authorize the RBM's external auditors to hold discussions with IMF staff.

11. We value our cooperation with the IMF and do not intend to introduce measures or policies that would exacerbate balance of payments difficulties. We do not intend to impose new or intensify existing restrictions on the making of payments and transfers for current international transactions, trade restrictions, or multiple currency practices, or to enter into bilateral payments agreements which are inconsistent with Article VIII of the Fund's Articles of Agreement.

12. We authorize the IMF to publish this Letter, the staff report and associated documents related to the request for disbursement under the RCF.

Sincerely yours,

| | |
|---|---|
| /s/ | /s/ |
| Hon. Felix Mlusu<br>Minister of Finance | Dr. Wilson Banda<br>Governor of the Reserve Bank of Malawi |

INTERNATIONAL MONETARY FUND

# MALAWI

September 24, 2020

## REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY—SUMMARY OF DEBT SUSTAINABILITY ANALYSIS[1]

Approved By
**David Robinson and Björn Rother (IMF) and Marcello Estevão (IDA)**

Prepared by the staffs of International Monetary Fund and the International Development Association (IDA)

| Malawi: Joint Bank-Fund Debt Sustainability Analysis | |
|---|---|
| **Risk of external debt distress** | *Moderate*[1] |
| **Overall risk of debt distress** | *High* |
| **Granularity in the risk rating** | *Limited space to absorb shocks* |
| **Application of judgement** | *No* |
| **Macroeconomic projections** | Growth is expected to fall to 0.6 percent in 2020 and to 2.2 percent in 2021 (0.4 and 0.3 percentage points below projections in IMF Country Report 20/168)—due to a considerably worsened global and regional economic outlook amid the COVID-19 pandemic and resultant slowdown in domestic activity exacerbated by continued social distancing measures. Economic recovery is expected during 2022-25 with growth averaging 6.4 percent. Over the |

[1] The analysis presented in this document is based on the debt sustainability framework for low-income countries approved by the Boards of both the International Monetary Fund and the International Development Association. It has been prepared in the context of the September 2020 request for emergency financing under the IMF's Rapid Credit Facility. The macroeconomic framework underlying this DSA update is the same as that included in the staff report of the September 2020 RCF request which reflects currently available information, including recent global and domestic developments. However, updates with respect to the economic impact and policy response to the COVID-19 pandemic are rapidly evolving and risks are heavily tilted to the downside.

| | |
|---|---|
| | long-term, growth is expected to stabilize around 5.5 percent. |
| **Financing strategy** | External financing in the form of concessional project loans is expected to gradually increase. There is a risk that the pace of this increase may accelerate if the economy's absorption capacity increases faster than expected. The grant element of project loans will remain relatively high over the forecast period, with no access to market financing.<br>Given increased risk to public debt sustainability mainly driven by higher domestic primary deficits, fiscal consolidation efforts should be accompanied by strengthening domestic debt management, including the gradual lengthening of the maturity of debt portfolio as market conditions allow. |
| **Mechanical risk rating under the external DSA** | Moderate |
| **Mechanical risk rating under the public DSA** | High |
| [1] Malawi's debt carrying capacity is classified as "medium" according to the composite indicator (CI) score. Malawi's CI score based on the current vintage (2019 CPIA and 2020 April WEO) is 2.72 and remains unchanged from the previous DSA (April 2020)—both above the threshold value of 2.69 for weak debt carrying capacity. | |

*Malawi is at moderate risk of external debt distress with limited space to absorb shocks and high risk of overall debt distress. Under the baseline scenario reflecting the negative macroeconomic impact and rise in fiscal borrowing in 2020 related to the COVID-19 pandemic and a gradual increase in project loans over the medium term, a moderate rating is maintained for external debt distress. However, the present value of external debt-to-exports ratio is projected to deteriorate, reflecting a slower export recovery—as a result, the country's capacity to absorb shocks is expected to narrow.*

*While debt remains sustainable, Malawi is at high overall risk of debt distress. The present value of total public debt-to-GDP is projected to remain above the benchmark over the projected* *period under the baseline scenario. This mainly reflects materially larger domestic primary deficits financed through domestic debt contracted at high interest rates, especially during FY 2020/21—FY 2021/22. The larger primary deficits during the projected period are mainly due to revenue shortfalls and higher health and social spending as a result of the intensification of COVID-19 across Malawi; and the doubling of the PIT threshold, a substantial increase in the public sector wage bill, and introduction of the Agricultural Input Program (replacing the Farm Input Subsidy Program)—all introduced in the FY 2020/21 draft budget that is currently under discussion in the Parliament—which increase risks to debt sustainability compared to the April 2020 DSA. While domestic liquidity is expected to be mainly channeled towards financing the government given waning private sector credit demand (resulting from the pandemic), recent increases in domestic debt yields, particularly on shorter maturities, warrant further strengthening of debt management such as gradually lengthening the maturity of the domestic debt portfolio (as market conditions allow) as well as fiscal consolidation efforts.*

*This DSA incorporates current projections of the impact from the COVID-19 pandemic: (i) GDP growth is expected to fall to 0.6 percent in 2020 and to 2.2 percent in 2021 as a considerably worsened global and regional economic situation, compared to the outlook under the April 2020 DSA, are intensifying already hefty pressures on exports, remittances, and foreign direct investment (FDI) and continued social distancing measures against a backdrop of rapidly accelerating cases since June substantially slows down domestic activity, especially in domestic manufacturing and wholesale and retail trade, and; (ii) the domestic primary balance is expected to deteriorate (relative to pre-pandemic projections) to -2.5 percent of GDP in FY 2019/20, -4.4 percent of GDP in FY 2020/21 and -3.5 percent of GDP in FY 2021/22; (iii) the current account deficit, excluding official transfers, is expected to widen to 20.5 percent of GDP in 2020 and 20.3 percent of GDP in 2021. However, the outlook remains highly uncertain as the impact of the COVID-19 pandemic and policy responses are rapidly evolving and subject to considerable downside risks, which could lead to a faster-than-expected deterioration in external and public debt indicators. The Malawian government continues implementing measures to mitigate the impact of the pandemic and preserve macroeconomic stability and are actively seeking support from development partners including the World Bank, AfDB and EU*[2]*. To strengthen medium-term public debt sustainability and ensure sufficient fiscal space for critical resilience building and social and development spending, the Malawian government plans to implement a*

[2] The authorities welcome and are participating in the DSSI. They have requested assistance from bilateral creditors, and discussions are ongoing. This DSA assumes the full amount of the DSSI is received from all creditors in line with agreed term sheets. This assessment assumes debt relief from the IMF under the Catastrophe Containment window of the CCRT through April 2022.

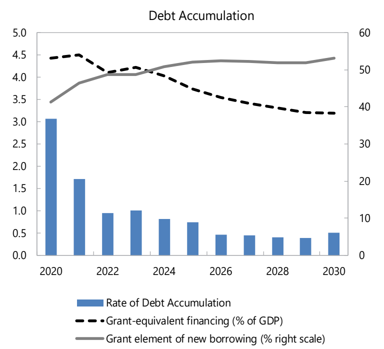
*comprehensive revenue mobilization strategy (including VAT reforms) in FY 2021/22 and continue to progress in reforms in tax administration, procurement, public financial management (including implementation of a new IFMIS), public investment management, oversight of state-owned enterprises, and debt management.*

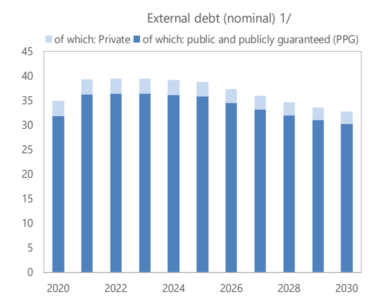
# Table 1. Malawi: External Debt Sustainability Framework, Baseline Scenario, 2017–2040

## (in percent of GDP, unless otherwise indicated)

| | Actual | | | Projections | | | | | | | | Average 8/ | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2030 | 2040 | Historical | Projections |
| **External debt (nominal) 1/** | **36.5** | **34.6** | **32.7** | **34.9** | **39.4** | **39.5** | **39.4** | **39.1** | **38.8** | **32.7** | **31.3** | **30.5** | **36.8** |
| ***of which: public and publicly guaranteed (PPG)*** | **32.8** | **31.2** | **29.5** | **31.9** | **36.3** | **36.4** | **36.4** | **36.1** | **35.9** | **30.2** | **29.6** | **26.9** | **34.0** |
| | | | | | | | | | | | | | |
| Change in external debt | 0.7 | -1.9 | -1.9 | 2.2 | 4.5 | 0.1 | -0.1 | -0.3 | -0.3 | -0.8 | 0.1 | | |
| **Identified net debt-creating flows** | **16.5** | **15.4** | **12.3** | **18.8** | **20.5** | **16.5** | **15.9** | **15.2** | **14.4** | **13.0** | **10.5** | **11.4** | **15.4** |
| **Non-interest current account deficit** | **22.0** | **20.2** | **16.8** | **19.8** | **21.8** | **20.2** | **19.6** | **18.8** | **18.0** | **16.7** | **14.1** | **13.6** | **18.5** |
| Deficit in balance of goods and services | 27.3 | 26.3 | 23.0 | 24.8 | 26.4 | 25.1 | 24.8 | 24.1 | 23.5 | 22.0 | 19.7 | **22.4** | **23.7** |
| Exports | 16.9 | 16.1 | 16.3 | 13.3 | 14.0 | 14.8 | 15.5 | 16.1 | 16.7 | 17.8 | 20.1 | | |
| Imports | 44.2 | 42.4 | 39.3 | 38.1 | 40.4 | 39.9 | 40.2 | 40.2 | 40.2 | 39.7 | 39.8 | | |
| Net current transfers (negative = inflow) | -7.5 | -8.1 | -8.3 | -6.9 | -6.6 | -7.0 | -7.3 | -7.4 | -7.6 | -7.4 | -7.3 | **-6.5** | **-7.3** |
| *of which: official* | -0.2 | 0.0 | -0.5 | -0.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | |
| Other current account flows (negative = net inflow) | 2.2 | 2.1 | 2.1 | 1.9 | 1.9 | 2.0 | 2.1 | 2.1 | 2.2 | 2.1 | 1.8 | **-2.2** | **2.1** |
| **Net FDI (negative = inflow)** | **-1.5** | **-1.6** | **-1.4** | **-1.1** | **-1.2** | **-1.4** | **-1.4** | **-1.5** | **-1.6** | **-2.2** | **-2.3** | **-1.8** | **-1.6** |
| **Endogenous debt dynamics 2/** | **-4.0** | **-3.3** | **-3.1** | **0.1** | **0.0** | **-2.3** | **-2.3** | **-2.1** | **-2.1** | **-1.5** | **-1.3** | | |
| Contribution from nominal interest rate | 0.3 | 0.3 | 0.3 | 0.2 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | | |
| Contribution from real GDP growth | -1.3 | -1.0 | -1.4 | -0.1 | -0.3 | -2.6 | -2.6 | -2.5 | -2.3 | -1.7 | -1.6 | | |
| Contribution from price and exchange rate changes | -3.0 | -2.6 | -2.0 | ... | ... | ... | ... | ... | ... | ... | ... | | |
| **Residual 3/** | **-15.8** | **-17.3** | **-14.2** | **-16.6** | **-16.0** | **-16.3** | **-16.0** | **-15.4** | **-14.7** | **-13.9** | **-10.5** | **-9.7** | **-15.4** |
| *of which: exceptional financing* | 0.0 | 0.0 | 0.0 | -0.2 | -0.3 | -0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | |
| *CCRT Debt Relief* | | | | -0.2 | -0.3 | -0.1 | | | | | | | |
| **Sustainability indicators** | | | | | | | | | | | | | |
| **PV of PPG external debt-to-GDP ratio** | **...** | **...** | **19.2** | **20.3** | **21.9** | **22.5** | **22.7** | **22.5** | **22.3** | **18.1** | **17.6** | | |
| **PV of PPG external debt-to-exports ratio** | **...** | **...** | **117.4** | **152.2** | **156.2** | **152.1** | **146.8** | **139.7** | **133.1** | **101.7** | **87.5** | | |
| **PPG debt service-to-exports ratio** | **9.3** | **12.1** | **6.5** | **6.8** | **9.3** | **10.9** | **10.2** | **10.0** | **9.2** | **8.9** | **4.9** | | |
| **PPG debt service-to-revenue ratio** | **8.0** | **9.7** | **5.7** | **5.4** | **7.1** | **8.9** | **8.1** | **7.7** | **7.1** | **7.1** | **5.9** | | |
| Gross external financing need (Billion of U.S. dollars) | 1.4 | 1.4 | 1.3 | 1.7 | 1.9 | 1.8 | 1.8 | 1.8 | 1.8 | 2.2 | 3.3 | | |
| | | | | | | | | | | | | | |
| **Key macroeconomic assumptions** | | | | | | | | | | | | | |
| Real GDP growth (in percent) | 4.0 | 3.2 | 4.5 | 0.4 | 0.9 | 6.8 | 6.8 | 6.5 | 6.3 | 5.5 | 5.5 | **4.1** | **5.1** |
| GDP deflator in US dollar terms (change in percent) | 9.1 | 7.5 | 6.1 | 9.0 | -0.5 | -4.7 | -3.0 | -2.0 | -1.8 | 1.1 | 1.7 | **-1.1** | **0.1** |
| Effective interest rate (percent) 4/ | 0.9 | 0.9 | 0.9 | 0.7 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 | 0.9 | **0.8** | **0.8** |
| Growth of exports of G&S (US dollar terms, in percent) | -10.7 | 5.6 | 12.4 | -10.5 | 5.6 | 7.1 | 8.3 | 8.9 | 8.4 | 7.8 | 8.7 | **5.8** | **6.1** |
| Growth of imports of G&S (US dollar terms, in percent) | 13.0 | 6.2 | 2.9 | 6.2 | 6.4 | 0.5 | 4.4 | 4.4 | 4.3 | 6.5 | 7.4 | **4.7** | **5.3** |
| Grant element of new public sector borrowing (in percent) | ... | ... | ... | 41.3 | 46.4 | 48.8 | 48.8 | 50.9 | 52.0 | 53.1 | 49.5 | **...** | **50.0** |
| Government revenues (excluding grants, in percent of GDP) | 19.5 | 20.2 | 18.8 | 16.6 | 18.3 | 18.1 | 19.5 | 20.9 | 21.6 | 22.1 | 16.5 | **18.4** | **20.5** |
| Aid flows (in Billion of US dollars) 5/ | 0.4 | 0.2 | 0.3 | 0.4 | 0.4 | 0.4 | 0.4 | 0.5 | 0.5 | 0.6 | 0.7 | | |
| Grant-equivalent financing (in percent of GDP) 6/ | ... | ... | ... | 4.4 | 4.5 | 4.1 | 4.2 | 4.0 | 3.7 | 3.2 | 2.1 | **...** | **3.8** |
| Grant-equivalent financing (in percent of external financing) 6/ | ... | ... | ... | 61.0 | 69.2 | 73.6 | 74.2 | 75.5 | 76.0 | 73.0 | 60.1 | **...** | **72.7** |
| Nominal GDP (Billion of US dollars) | 6.2 | 6.9 | 7.7 | 8.4 | 8.4 | 8.6 | 8.9 | 9.3 | 9.7 | 13.3 | 25.7 | | |
| Nominal dollar GDP growth | 13.4 | 10.9 | 10.9 | 9.5 | 0.4 | 1.8 | 3.6 | 4.4 | 4.4 | 6.7 | 7.2 | **3.1** | **5.2** |
| | | | | | | | | | | | | | |
| **Memorandum items:** | | | | | | | | | | | | | |
| PV of external debt 7/ | ... | ... | 22.3 | 23.3 | 25.0 | 25.6 | 25.7 | 25.5 | 25.2 | 20.5 | 19.3 | | |
| In percent of exports | ... | ... | 136.9 | 174.5 | 178.0 | 173.0 | 166.5 | 158.3 | 150.8 | 115.6 | 95.8 | | |
| Total external debt service-to-exports ratio | 9.3 | 12.1 | 8.6 | 9.1 | 11.5 | 13.0 | 12.1 | 11.7 | 10.8 | 10.0 | 5.4 | | |
| PV of PPG external debt (in Billion of US dollars) | | | 1.5 | 1.7 | 1.8 | 1.9 | 2.0 | 2.1 | 2.2 | 2.4 | 4.5 | | |
| (PVt-PVt-1)/GDPt-1 (in percent) | | | | 3.1 | 1.7 | 0.9 | 1.0 | 0.8 | 0.7 | 0.5 | 1.4 | | |
| Non-interest current account deficit that stabilizes debt ratio | 21.3 | 22.1 | 18.7 | 17.6 | 17.3 | 20.0 | 19.6 | 19.0 | 18.4 | 17.5 | 14.0 | | |

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




Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

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

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

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

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

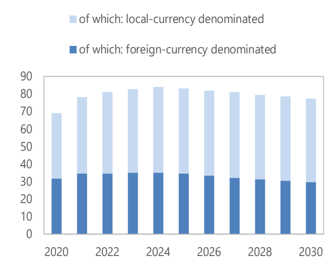
## Table 2. Malawi: Public Sector Debt Sustainability Framework, Baseline Scenario, 2017–2040

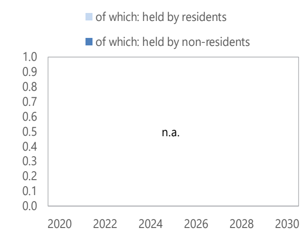
(in percent of GDP, unless otherwise indicated)

| | Actual | | | Projections | | | | | | | | Average 6/ | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2030 | 2040 | Historical | Projections |
| **Public sector debt 1/** | **57.1** | **59.7** | **59.5** | **69.1** | **78.2** | **81.3** | **83.0** | **83.8** | **83.0** | **77.5** | **69.3** | **48.0** | **79.7** |
| **of which: external debt** | **32.8** | **31.2** | **29.5** | **31.8** | **34.4** | **34.7** | **34.9** | **34.9** | **34.7** | **29.7** | **29.5** | **26.9** | **32.9** |
| Change in public sector debt | 2.0 | 2.6 | -0.2 | 9.6 | 9.1 | 3.0 | 1.7 | 0.8 | -0.8 | -1.1 | -0.3 | | |
| **Identified debt-creating flows** | **0.3** | **0.3** | **-0.4** | **7.5** | **8.6** | **3.0** | **1.6** | **1.0** | **-0.4** | **-0.6** | **-0.3** | **0.4** | **1.7** |
| **Primary deficit** | **3.5** | **2.1** | **2.0** | **7.1** | **7.2** | **5.4** | **4.1** | **3.1** | **1.9** | **0.0** | **0.7** | **1.5** | **2.9** |
| Revenue and grants | 22.7 | 21.5 | 21.3 | 19.5 | 21.6 | 22.0 | 23.5 | 24.8 | 25.3 | 25.2 | 17.7 | **22.6** | **23.9** |
| *of which: grants* | 3.3 | 1.3 | 2.4 | 2.4 | 2.5 | 2.7 | 2.8 | 2.7 | 2.5 | 1.9 | 0.8 | | |
| Primary (noninterest) expenditure | 26.3 | 23.6 | 23.3 | 26.6 | 28.9 | 27.4 | 27.6 | 27.9 | 27.1 | 25.2 | 18.5 | **24.1** | **26.8** |
| **Automatic debt dynamics** | **-3.2** | **-1.8** | **-2.4** | **0.3** | **1.3** | **-2.4** | **-2.4** | **-2.1** | **-2.3** | **-0.6** | **-1.0** | | |
| Contribution from interest rate/growth differential | -0.8 | -0.2 | -1.2 | 1.4 | 0.2 | -3.8 | -3.7 | -3.3 | -3.5 | -0.9 | -1.1 | | |
| *of which: contribution from average real interest rate* | 1.3 | 1.5 | 1.4 | 1.8 | 1.7 | 1.0 | 1.3 | 1.6 | 1.4 | 3.2 | 2.5 | | |
| *of which: contribution from real GDP growth* | -2.1 | -1.8 | -2.6 | -0.4 | -1.5 | -4.8 | -5.0 | -4.9 | -4.9 | -4.1 | -3.6 | | |
| Contribution from real exchange rate depreciation | -2.4 | -1.6 | -1.3 | ... | ... | ... | ... | ... | ... | ... | ... | | |
| **Other identified debt-creating flows** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** |
| Privatization receipts (negative) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | |
| Recognition of contingent liabilities (e.g., bank recapitalization) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | |
| Debt relief (HIPC and other) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | |
| Other debt creating or reducing flow (please specify) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | |
| **Residual** | **1.7** | **2.3** | **0.2** | **1.0** | **1.7** | **1.4** | **1.3** | **1.1** | **0.9** | **-0.3** | **0.1** | **2.2** | **0.5** |
| **Sustainability indicators** | | | | | | | | | | | | | |
| **PV of public debt-to-GDP ratio 2/** | **...** | **...** | **49.0** | **57.9** | **66.1** | **69.0** | **70.5** | **71.3** | **70.5** | **65.8** | **57.6** | | |
| **PV of public debt-to-revenue and grants ratio** | **...** | **...** | **230.6** | **297.7** | **305.9** | **313.0** | **299.6** | **287.8** | **278.9** | **261.3** | **324.8** | | |
| **Debt service-to-revenue and grants ratio 3/** | **35.6** | **25.3** | **27.0** | **33.2** | **63.9** | **89.7** | **101.7** | **109.7** | **115.1** | **140.9** | **180.7** | | |
| Gross financing need 4/ | 7.6 | 3.6 | 7.7 | 13.6 | 21.0 | 25.1 | 28.0 | 30.2 | 30.9 | 35.5 | 32.8 | | |
| **Key macroeconomic and fiscal assumptions** | | | | | | | | | | | | | |
| Real GDP growth (in percent) | 4.0 | 3.2 | 4.5 | 0.6 | 2.2 | 6.5 | 6.5 | 6.3 | 6.2 | 5.5 | 5.5 | **4.1** | **5.1** |
| Average nominal interest rate on external debt (in percent) | 1.0 | 1.1 | 1.0 | 0.8 | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 | 1.0 | **1.0** | **0.9** |
| Average real interest rate on domestic debt (in percent) | 6.6 | 8.2 | 6.6 | 7.4 | 5.6 | 3.3 | 3.7 | 4.2 | 3.9 | 7.8 | 7.3 | **2.6** | **5.9** |
| Real exchange rate depreciation (in percent, + indicates depreciation) | -8.0 | -4.9 | -4.3 | ... | ... | ... | ... | ... | ... | ... | ... | **5.4** | **...** |
| Inflation rate (GDP deflator, in percent) | 10.9 | 7.8 | 8.0 | 8.8 | 8.5 | 6.8 | 5.0 | 4.5 | 4.4 | 4.4 | 4.8 | **16.0** | **5.5** |
| Growth of real primary spending (deflated by GDP deflator, in percent) | 16.2 | -7.2 | 2.9 | 15.0 | 10.9 | 1.2 | 7.3 | 7.3 | 3.5 | 2.9 | -4.1 | **3.5** | **6.0** |
| Primary deficit that stabilizes the debt-to-GDP ratio 5/ | 1.5 | -0.5 | 2.2 | -2.5 | -1.9 | 2.3 | 2.4 | 2.2 | 2.6 | 1.1 | 1.0 | **1.1** | **1.2** |
| PV of contingent liabilities (not included in public sector debt) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | |

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

Public sector debt 1/




Sources: Country authorities; and staff estimates and projections.

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

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

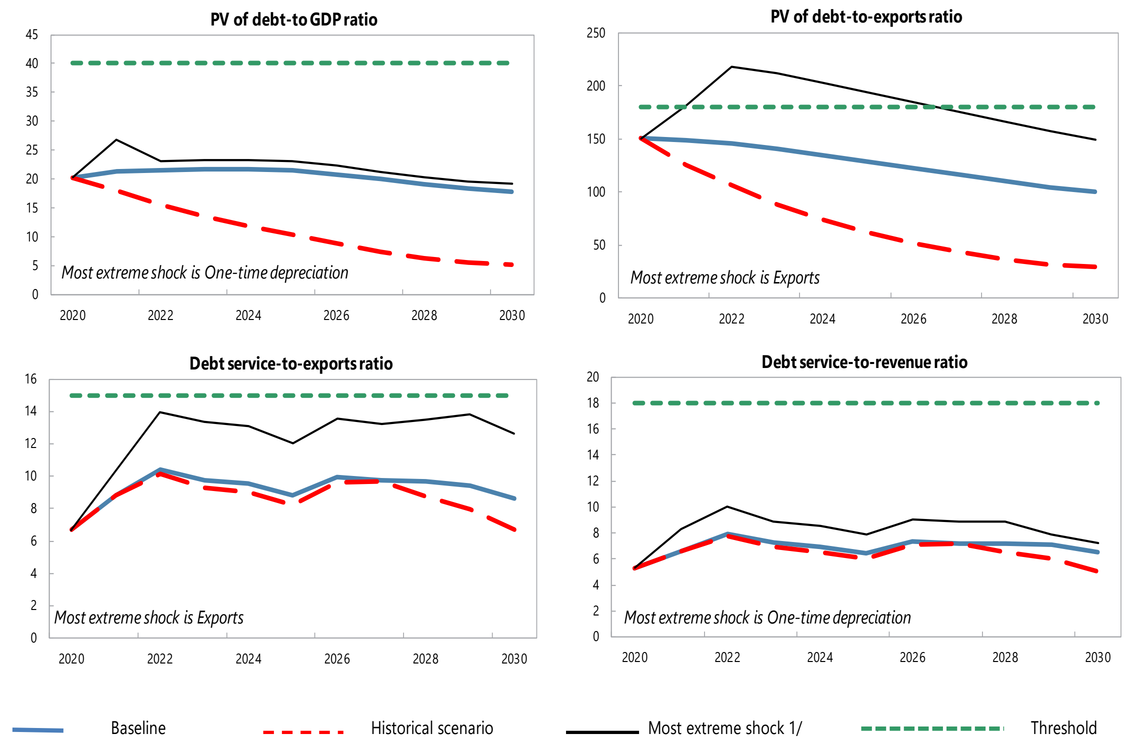
3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

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

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

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

## Figure 1. Malawi: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2020–2030




| Customization of Default Settings | | |
|---|---|---|
| | Size | Interactions |
| **Tailored Tests** | | |
| Combined CLs | Yes | |
| Natural Disasters | No | No |
| Commodity Prices [2/] | n.a. | n.a. |
| Market Financing | n.a. | n.a. |

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

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

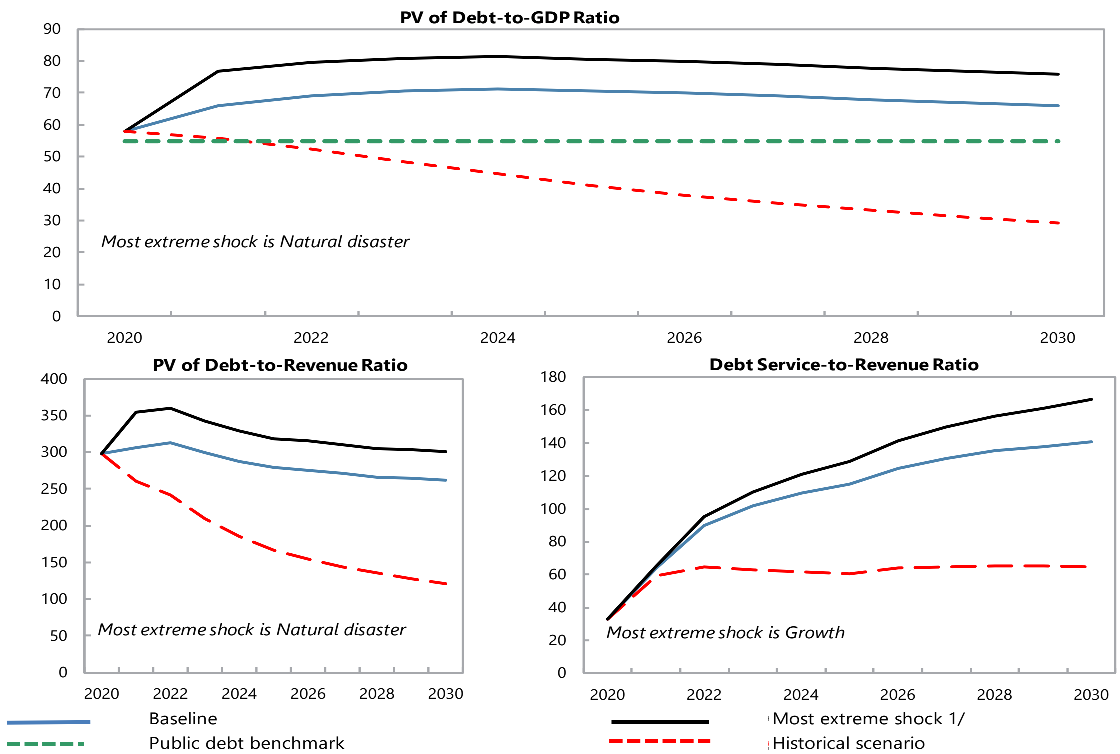
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2030. Stress tests with one-off breaches are also presented (if any), while these one-off breaches are deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

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

## Figure 2. Malawi: Indicators of Public Debt Under Alternative Scenarios, 2020–2030




| Borrowing Assumptions for Stress Tests* | Default | User defined |
|---|---|---|
| **Shares of marginal debt** | | |
| **External PPG medium and long-term** | 11% | 11% |
| **Domestic medium and long-term** | 27% | 27% |
| **Domestic short-term** | 62% | 62% |
| **Terms of marginal debt** | | |
| **External MLT debt** | | |
| **Avg. nominal interest rate on new borrowing in USD** | 0.8% | 0.8% |
| **Avg. maturity (incl. grace period)** | 34 | 34 |
| **Avg. grace period** | 6 | 6 |
| **Domestic MLT debt** | | |
| **Avg. real interest rate on new borrowing** | 7.4% | 7.4% |
| **Avg. maturity (incl. grace period)** | 2 | 2 |
| **Avg. grace period** | 1 | 1 |
| **Domestic short-term debt** | | |
| **Avg. real interest rate** | 4% | 4.0% |

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

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2030. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

## Table 3. Malawi: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2020–2030

| | Projections 1/ | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 |
| | **PV of debt-to GDP ratio** | | | | | | | | | | |
| **Baseline** | 20.3 | 21.3 | 21.5 | 21.7 | 21.7 | 21.5 | 20.9 | 20.0 | 19.2 | 18.4 | 17.7 |
| **A. Alternative Scenarios** | | | | | | | | | | | |
| A1. Key variables at their historical averages in 2020-2030 2/ | 20.3 | 18.0 | 15.7 | 13.6 | 11.8 | 10.3 | 8.9 | 7.5 | 6.4 | 5.5 | 5.1 |
| **B. Bound Tests** | | | | | | | | | | | |
| B1. Real GDP growth | 20.3 | 21.8 | 22.6 | 22.9 | 22.8 | 22.6 | 21.9 | 21.0 | 20.1 | 19.3 | 18.7 |
| B2. Primary balance | 20.3 | 21.4 | 21.7 | 22.1 | 22.2 | 22.2 | 21.6 | 20.8 | 20.0 | 19.3 | 18.7 |
| B3. Exports | 20.3 | 22.4 | 24.6 | 24.9 | 24.8 | 24.7 | 24.0 | 23.0 | 22.0 | 21.0 | 20.2 |
| B4. Other flows 3/ | 20.3 | 22.7 | 24.5 | 24.8 | 24.7 | 24.6 | 23.9 | 22.9 | 22.0 | 20.9 | 20.1 |
| B5. One-time 30 percent nominal depreciation | 20.3 | 26.8 | 23.1 | 23.4 | 23.3 | 23.1 | 22.3 | 21.3 | 20.4 | 19.6 | 19.1 |
| B6. Combination of B1-B5 | 20.3 | 23.7 | 24.4 | 24.7 | 24.6 | 24.4 | 23.7 | 22.7 | 21.7 | 20.8 | 20.0 |
| **C. Tailored Tests** | | | | | | | | | | | |
| C1. Combined contingent liabilities | 20.3 | 21.8 | 22.3 | 22.9 | 23.1 | 23.2 | 22.7 | 22.0 | 21.3 | 20.6 | 20.1 |
| C2. Natural disaster | 20.3 | 22.2 | 22.7 | 23.4 | 23.7 | 23.9 | 23.5 | 22.8 | 22.2 | 21.6 | 21.2 |
| C3. Commodity price | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| C4. Market Financing | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| **Threshold** | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 | 40 |
| | **PV of debt-to-exports ratio** | | | | | | | | | | |
| **Baseline** | 150.5 | 148.6 | 145.5 | 141.2 | 134.9 | 129.0 | 122.4 | 116.1 | 110.3 | 104.8 | 100.2 |
| **A. Alternative Scenarios** | | | | | | | | | | | |
| A1. Key variables at their historical averages in 2020-2030 2/ | 150.5 | 125.5 | 106.1 | 88.5 | 73.5 | 61.9 | 52.0 | 43.5 | 36.8 | 31.6 | 29.0 |
| **B. Bound Tests** | | | | | | | | | | | |
| B1. Real GDP growth | 150.5 | 148.6 | 145.5 | 141.2 | 134.9 | 129.0 | 122.4 | 116.1 | 110.3 | 104.8 | 100.2 |
| B2. Primary balance | 150.5 | 149.3 | 147.3 | 143.7 | 138.2 | 132.8 | 126.6 | 120.8 | 115.2 | 109.9 | 105.5 |
| B3. Exports | 150.5 | **182.1** | **218.6** | **211.9** | **202.6** | **193.9** | **184.3** | 175.3 | 166.5 | 157.4 | 149.8 |
| B4. Other flows 3/ | 150.5 | 158.7 | 166.1 | 161.0 | 153.9 | 147.3 | 140.0 | 133.2 | 126.4 | 119.5 | 113.7 |
| B5. One-time 30 percent nominal depreciation | 150.5 | 148.6 | 123.9 | 120.3 | 114.9 | 109.8 | 103.8 | 98.2 | 92.9 | 88.9 | 85.7 |
| B6. Combination of B1-B5 | 150.5 | 175.3 | 157.0 | 179.2 | 171.3 | 163.9 | 155.7 | 148.0 | 140.2 | 132.8 | 126.6 |
| **C. Tailored Tests** | | | | | | | | | | | |
| C1. Combined contingent liabilities | 150.5 | 152.1 | 151.0 | 148.5 | 143.7 | 139.0 | 133.3 | 127.9 | 122.7 | 117.8 | 113.7 |
| C2. Natural disaster | 150.5 | 157.5 | 156.8 | 154.7 | 150.1 | 145.6 | 140.2 | 135.1 | 130.3 | 125.7 | 121.9 |
| C3. Commodity price | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| C4. Market Financing | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| **Threshold** | 180 | 180 | 180 | 180 | 180 | 180 | 180 | 180 | 180 | 180 | 180 |
| | **Debt service-to-exports ratio** | | | | | | | | | | |
| **Baseline** | 6.7 | 8.8 | 10.4 | 9.8 | 9.6 | 8.8 | 10.0 | 9.8 | 9.7 | 9.4 | 8.6 |
| **A. Alternative Scenarios** | | | | | | | | | | | |
| A1. Key variables at their historical averages in 2020-2030 2/ | 6.7 | 8.8 | 10.2 | 9.3 | 9.0 | 8.2 | 9.6 | 9.7 | 8.8 | 8.0 | 6.7 |
| **B. Bound Tests** | | | | | | | | | | | |
| B1. Real GDP growth | 6.7 | 8.8 | 10.4 | 9.8 | 9.6 | 8.8 | 10.0 | 9.8 | 9.7 | 9.4 | 8.6 |
| B2. Primary balance | 6.7 | 8.8 | 10.4 | 9.8 | 9.6 | 8.9 | 10.0 | 9.8 | 9.8 | 9.5 | 8.8 |
| B3. Exports | 6.7 | 10.3 | 14.0 | 13.3 | 13.1 | 12.0 | 13.5 | 13.3 | 13.5 | 13.8 | 12.6 |
| B4. Other flows 3/ | 6.7 | 8.8 | 10.6 | 10.1 | 9.9 | 9.1 | 10.2 | 10.0 | 10.3 | 10.5 | 9.6 |
| B5. One-time 30 percent nominal depreciation | 6.7 | 8.8 | 10.4 | 9.4 | 9.3 | 8.5 | 9.7 | 9.5 | 9.4 | 8.3 | 7.6 |
| B6. Combination of B1-B5 | 6.7 | 9.7 | 12.4 | 11.7 | 11.5 | 10.6 | 11.9 | 11.7 | 12.0 | 11.8 | 10.8 |
| **C. Tailored Tests** | | | | | | | | | | | |
| C1. Combined contingent liabilities | 6.7 | 8.8 | 10.5 | 9.8 | 9.7 | 9.0 | 10.1 | 9.9 | 9.8 | 9.6 | 8.8 |
| C2. Natural disaster | 6.7 | 9.1 | 10.8 | 10.2 | 10.0 | 9.3 | 10.5 | 10.3 | 10.2 | 9.9 | 9.1 |
| C3. Commodity price | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| C4. Market Financing | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| **Threshold** | 15 | 15 | 15 | 15 | 15 | 15 | 15 | 15 | 15 | 15 | 15 |
| | **Debt service-to-revenue ratio** | | | | | | | | | | |
| **Baseline** | 5.3 | 6.6 | 7.9 | 7.3 | 7.0 | 6.5 | 7.4 | 7.2 | 7.2 | 7.1 | 6.5 |
| **A. Alternative Scenarios** | | | | | | | | | | | |
| A1. Key variables at their historical averages in 2020-2030 2/ | 5.3 | 6.6 | 7.7 | 6.9 | 6.6 | 6.0 | 7.1 | 7.2 | 6.5 | 6.0 | 5.1 |
| **B. Bound Tests** | | | | | | | | | | | |
| B1. Real GDP growth | 5.3 | 6.8 | 8.3 | 7.6 | 7.3 | 6.8 | 7.7 | 7.6 | 7.6 | 7.4 | 6.9 |
| B2. Primary balance | 5.3 | 6.6 | 8.0 | 7.3 | 7.0 | 6.5 | 7.4 | 7.3 | 7.3 | 7.2 | 6.7 |
| B3. Exports | 5.3 | 6.6 | 8.1 | 7.6 | 7.2 | 6.7 | 7.6 | 7.5 | 7.7 | 7.9 | 7.3 |
| B4. Other flows 3/ | 5.3 | 6.6 | 8.1 | 7.5 | 7.2 | 6.7 | 7.5 | 7.4 | 7.7 | 7.9 | 7.3 |
| B5. One-time 30 percent nominal depreciation | 5.3 | 8.3 | 10.0 | 8.8 | 8.5 | 7.9 | 9.0 | 8.9 | 8.9 | 7.9 | 7.2 |
| B6. Combination of B1-B5 | 5.3 | 6.9 | 8.5 | 7.8 | 7.4 | 6.9 | 7.8 | 7.7 | 8.0 | 7.9 | 7.3 |
| **C. Tailored Tests** | | | | | | | | | | | |
| C1. Combined contingent liabilities | 5.3 | 6.6 | 8.0 | 7.3 | 7.0 | 6.6 | 7.5 | 7.3 | 7.3 | 7.2 | 6.7 |
| C2. Natural disaster | 5.3 | 6.6 | 8.0 | 7.3 | 7.1 | 6.6 | 7.5 | 7.3 | 7.3 | 7.2 | 6.7 |
| C3. Commodity price | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| C4. Market Financing | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| **Threshold** | 18 | 18 | 18 | 18 | 18 | 18 | 18 | 18 | 18 | 18 | 18 |

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

## Table 4. Malawi: Sensitivity Analysis for Key Indicators of Public Debt, 2020–2030

| | Projections 1/ | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 |
| | | | | | | PV of Debt-to-GDP Ratio | | | | | |
| **Baseline** | **57.9** | **66.1** | **69.0** | **70.5** | **71.3** | **70.5** | **69.9** | **69.0** | **67.7** | **67.0** | **65.8** |
| **A. Alternative Scenarios** | | | | | | | | | | | |
| A1. Key variables at their historical averages in 2020-2030 2/ | **58** | **56** | 52 | 48 | 45 | 41 | 38 | 35 | 33 | 31 | 29 |
| **B. Bound Tests** | | | | | | | | | | | |
| B1. Real GDP growth | **58** | **68** | **74** | **76** | **78** | **78** | **78** | **78** | **78** | **78** | **77** |
| B2. Primary balance | **58** | **68** | **72** | **74** | **74** | **73** | **73** | **72** | **70** | **69** | **68** |
| B3. Exports | **58** | **67** | **72** | **73** | **74** | **73** | **73** | **72** | **70** | **69** | **68** |
| B4. Other flows 3/ | **58** | **68** | **72** | **74** | **74** | **74** | **73** | **72** | **71** | **70** | **68** |
| B5. One-time 30 percent nominal depreciation | **58** | **66** | **67** | **68** | **68** | **66** | **64** | **62** | **60** | **58** | **56** |
| B6. Combination of B1-B5 | **58** | **65** | **68** | **69** | **69** | **68** | **67** | **67** | **66** | **65** | **64** |
| **C. Tailored Tests** | | | | | | | | | | | |
| C1. Combined contingent liabilities | **58** | **75** | **77** | **78** | **79** | **77** | **77** | **75** | **74** | **73** | **72** |
| C2. Natural disaster | **58** | **77** | **79** | **81** | **82** | **81** | **80** | **79** | **78** | **77** | **76** |
| C3. Commodity price | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| C4. Market Financing | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| **Public debt benchmark** | 55 | 55 | 55 | 55 | 55 | 55 | 55 | 55 | 55 | 55 | 55 |
| | | | | | | PV of Debt-to-Revenue Ratio | | | | | |
| **Baseline** | 297.7 | 305.9 | 313.0 | 299.6 | 287.8 | 278.9 | 275.8 | 271.0 | 266.6 | 264.9 | 261.3 |
| **A. Alternative Scenarios** | | | | | | | | | | | |
| A1. Key variables at their historical averages in 2020-2030 2/ | 298 | 261 | 241 | 210 | 185 | 167 | 155 | 144 | 136 | 128 | 121 |
| **B. Bound Tests** | | | | | | | | | | | |
| B1. Real GDP growth | 298 | 315 | 333 | 322 | 313 | 307 | 308 | 306 | 305 | 307 | 306 |
| B2. Primary balance | 298 | 314 | 328 | 313 | 300 | 290 | 287 | 281 | 277 | 275 | 271 |
| B3. Exports | 298 | 311 | 326 | 312 | 300 | 291 | 287 | 282 | 277 | 275 | 270 |
| B4. Other flows 3/ | 298 | 313 | 327 | 313 | 301 | 291 | 288 | 283 | 278 | 275 | 271 |
| B5. One-time 30 percent nominal depreciation | 298 | 308 | 306 | 290 | 275 | 262 | 254 | 246 | 237 | 232 | 224 |
| B6. Combination of B1-B5 | 298 | 302 | 311 | 293 | 280 | 270 | 267 | 262 | 259 | 257 | 254 |
| **C. Tailored Tests** | | | | | | | | | | | |
| C1. Combined contingent liabilities | 298 | 345 | 349 | 332 | 317 | 306 | 302 | 296 | 291 | 288 | 284 |
| C2. Natural disaster | 298 | 355 | 360 | 343 | 328 | 319 | 315 | 310 | 305 | 304 | 300 |
| C3. Commodity price | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| C4. Market Financing | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| | | | | | | Debt Service-to-Revenue Ratio | | | | | |
| **Baseline** | 33.2 | 63.9 | 89.7 | 101.7 | 109.7 | 115.1 | 124.5 | 130.6 | 135.1 | 137.7 | 140.9 |
| **A. Alternative Scenarios** | | | | | | | | | | | |
| A1. Key variables at their historical averages in 2020-2030 2/ | 33 | 59 | 64 | 63 | 62 | 61 | 64 | 65 | 65 | 65 | 64 |
| **B. Bound Tests** | | | | | | | | | | | |
| B1. Real GDP growth | 33 | 65 | 95 | 110 | 121 | 129 | 141 | 150 | 157 | 161 | 167 |
| B2. Primary balance | 33 | 64 | 95 | 112 | 119 | 123 | 132 | 137 | 141 | 144 | 146 |
| B3. Exports | 33 | 64 | 90 | 102 | 110 | 115 | 125 | 131 | 135 | 138 | 142 |
| B4. Other flows 3/ | 33 | 64 | 90 | 102 | 110 | 115 | 125 | 131 | 136 | 138 | 142 |
| B5. One-time 30 percent nominal depreciation | 33 | 60 | 85 | 94 | 103 | 108 | 117 | 123 | 127 | 129 | 132 |
| B6. Combination of B1-B5 | 33 | 62 | 88 | 102 | 108 | 112 | 122 | 128 | 133 | 136 | 139 |
| **C. Tailored Tests** | | | | | | | | | | | |
| C1. Combined contingent liabilities | 33 | 64 | 116 | 126 | 130 | 134 | 141 | 146 | 149 | 151 | 153 |
| C2. Natural disaster | 33 | 65 | 121 | 132 | 136 | 140 | 148 | 154 | 158 | 159 | 162 |
| C3. Commodity price | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| C4. Market Financing | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |

Sources: Country authorities; and staff estimates and projections.

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

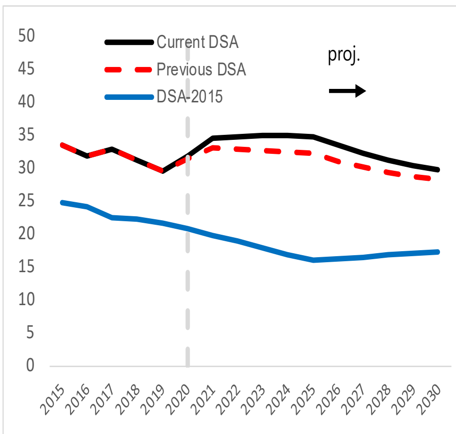
2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

3/ Includes official and private transfers and FDI.

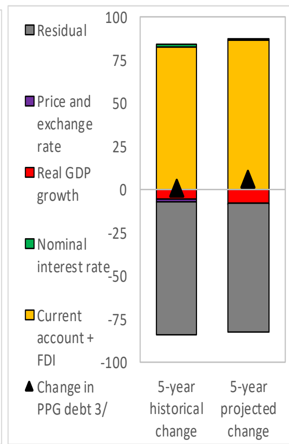
## Figure 3. Malawi: Drivers of Debt Dynamics—Baseline Scenario

### External debt

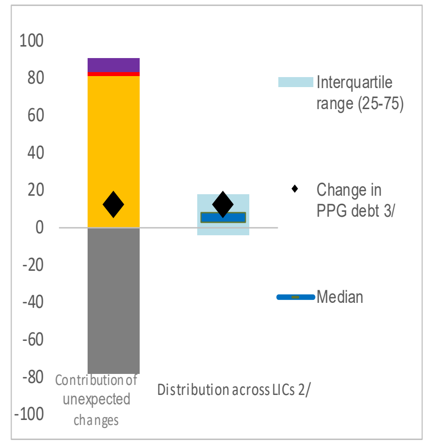
Gross Nominal PPG External Debt
(in percent of GDP; DSA vintages)




Debt-creating flows
(percent of GDP)

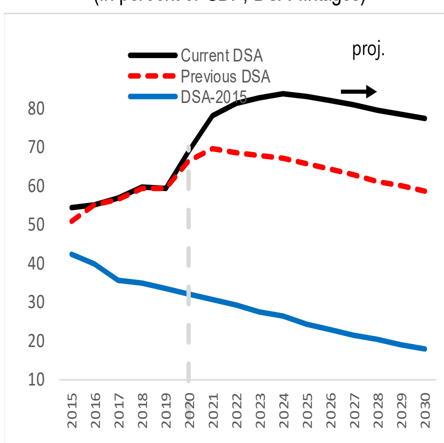



Unexpected Changes in Debt 1/
(past 5 years, percent of GDP)

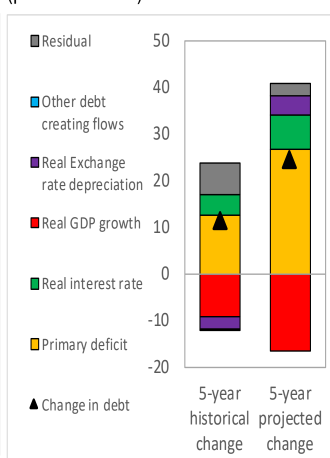



### Public debt

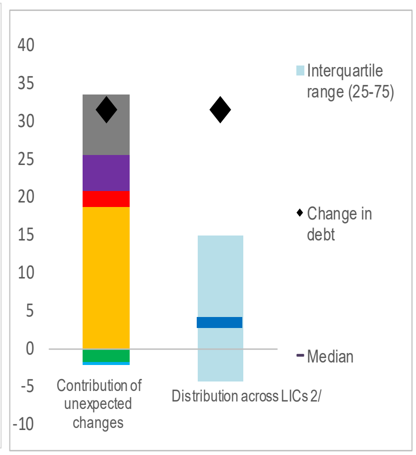
Gross Nominal Public Debt
(in percent of GDP; DSA vintages)




Debt-creating flows
(percent of GDP)




Unexpected Changes in Debt 1/
(past 5 years, percent of GDP)




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

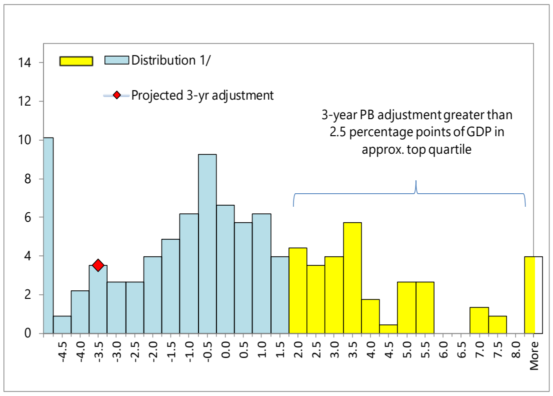
2/ Distribution across LICs for which LIC DSAs were produced.

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

## Figure 4. Malawi: Realism Tools

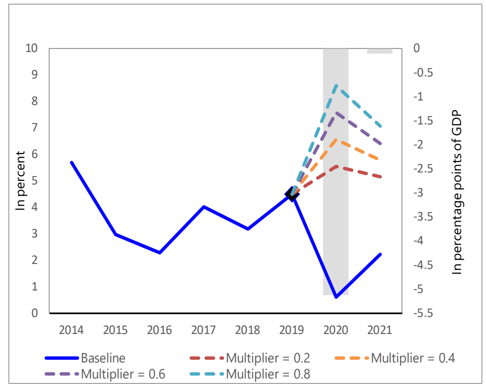
**3-Year Adjustment in Primary Balance**

(Percentage points of GDP)




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

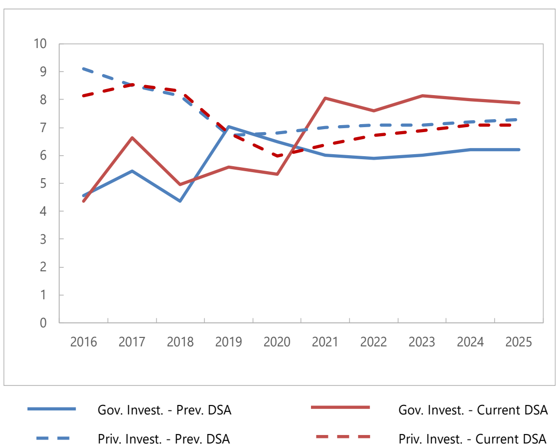
**Fiscal Adjustment and Possible Growth Paths 1/**




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

**Public and Private Investment Rates**

(% of GDP)




**Contribution to Real GDP growth**

(percent, 5-year average)

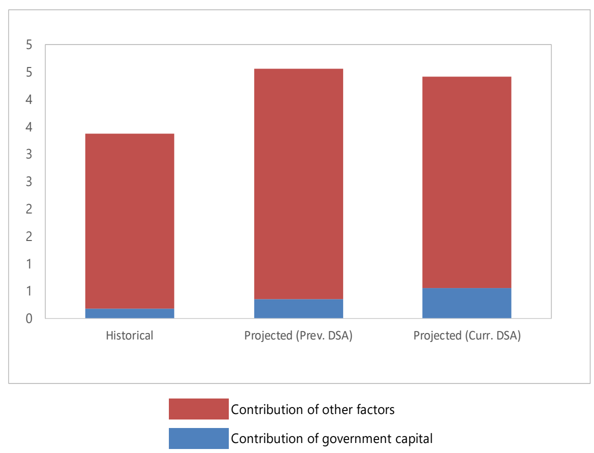
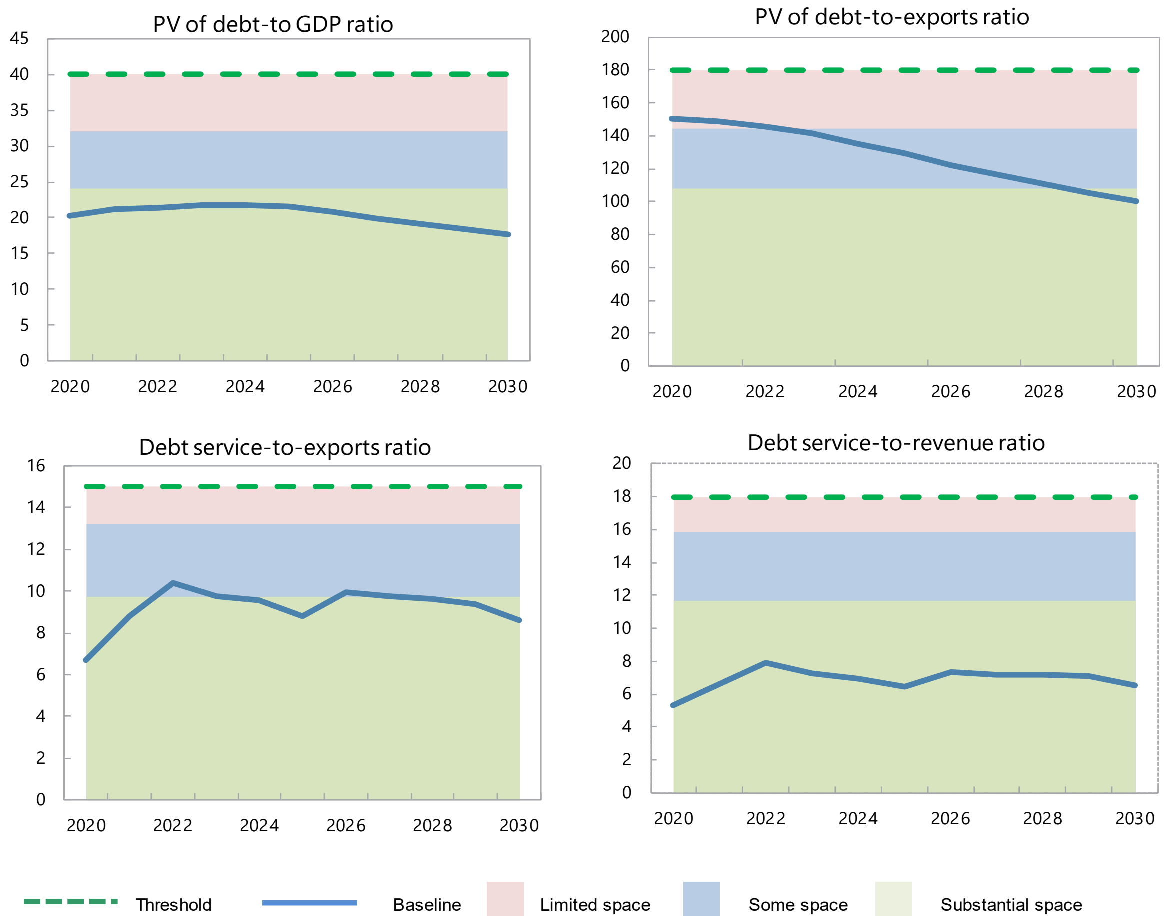


**Figure 5. Malawi: Qualification of the Moderate Category, 2020–2030 1/**




Sources: Country authorities; and staff estimates and projections.

1/ For the PV debt/GDP and PV debt/exports thresholds, x is 20 percent and y is 40 percent. For debt service/Exports and debt service/revenue thresholds, x is 12 percent and y is 35 percent.

**Statement by Mr. Dumisani Mahlinza, Executive Director for Malawi, and Mr. Ted Sitima-wina, Senior Advisor to the Executive Director**
**September 24, 2020**

## I. Introduction

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

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

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

## II. Impact of the COVID-19 Pandemic

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

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

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

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

## III. Policy Responses to the Pandemic

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

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

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

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

## IV. Post-crisis Measures

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

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

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

## V. Conclusion

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