

Malawi: Sixth and Final Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, and Request for Waiver of Nonobservance of Performance Criteria and Augmentation Access—Staff Report; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Malawi

In the context of the sixth and final reviews under the three-year arrangement under the Poverty Reduction and Growth Facility, and request for waiver of nonobservance of performance criteria and augmentation of access, the following documents have been released and are included in this package:

- The staff report for the Sixth and Final Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, and Request for Waivers of Nonobservance of Performance Criteria and Augmentation of Access, prepared by a staff team of the IMF, following discussions that ended on March 20, 2008, with the officials of Malawi on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 27, 2008. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- A Press Release summarizing the views of the Executive Board as expressed during its July 14, 2008 discussion of the staff report that completed the request and/or review.
- A statement by the Executive Director for Malawi.

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

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MALAWI

Sixth and Final Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, and Requests for Waiver of Nonobservance of Performance Criterion and Augmentation of Access

(In consultation with the Finance, Fiscal Affairs, Legal, Monetary and Capital Markets, Policy Development and Review, and Statistics Departments)

Approved by Robert Corker and Matthew Fisher

June 27, 2008

Discussions: Discussions were held in Lilongwe March 9–20, 2008 with Minister of Finance Goodall Gondwe, Governor of the Reserve Bank of Malawi Victor Mbewe, other senior government officials, and donors and civil society representatives. The staff team comprised Andrew Berg (head), Nils Maehle, Haimanot Teferra (all AFR), Gösta Ljungman, (FAD), Armine Khachatryan (PDR), and the Fund’s resident representative, Maitland MacFarlan.

Current PRGF arrangement: The arrangement (SDR 38.2 million, 55 percent of quota) was approved on August 5, 2005; SDR 33.4 million has been disbursed. The Malawi Growth and Development Strategy (MGDS) was issued to the Executive Board on December 22, 2006. The authorities are requesting the seventh and last disbursement under the current PRGF arrangement (SDR 4.8 million) and an augmentation of SDR 10.41 million (15 percent of quota) to help meet a larger balance of payments need.

Future relationships with the Fund: Completion of discussions of a new PRGF arrangement is expected in the fall of 2008.

Safeguards assessment: The Reserve Bank of Malawi is subject to an update of the safeguards assessment in the context of the proposed augmentation of the current PRGF arrangement. An update assessment is currently in progress.

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EXECUTIVE SUMMARY

Performance remained generally strong in the period under review. The authorities met most program targets for end-December 2007, and domestic debt fell as a share of GDP, but the domestic borrowing performance criterion was missed. The government aims—ambitiously, given the outturn to date and the substantial increase in cost of the fertilizer program—to meet the 2007/08 domestic borrowing target. The 2008/09 budget targets a further domestic debt reduction.

Structural reforms progressed. The Reserve Bank of Malawi (RBM) has been recapitalized and is restructuring its operations. Intensified efforts to reinforce public financial management (PFM) have not yet had their full impact, but revenue collection and expenditure controls have improved.

Economic risks have risen with increased political turmoil and global turbulence. Higher fuel and fertilizer prices are putting pressure on international reserves, which are down from an already inadequate level, and monetary expansion has been excessive. The RBM has begun addressing the monetary overhang and has adopted policies to raise reserves. To help smooth the needed adjustment, the authorities are requesting that the current PRGF arrangement be augmented by SDR 10.41 million (15 percent of quota).

Discussions on policies for the next 12 months centered on preserving financial stability and growth despite the severe terms of trade shock, and on improving the budget process.

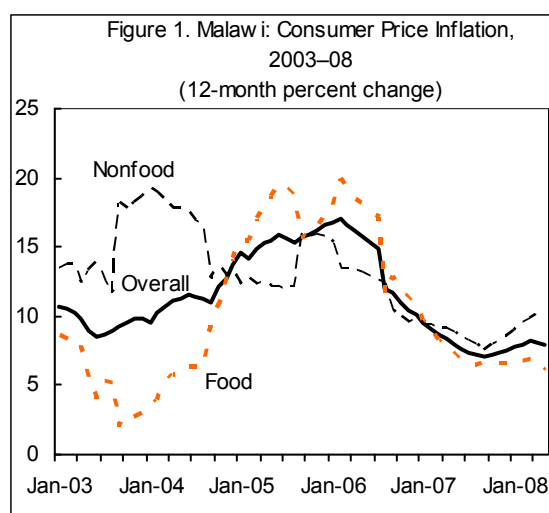
Staff supports completion of the sixth review and the requests for a waiver for the missed PC on domestic borrowing and an augmentation of access. The request for an augmentation is justified by the immediacy of the balance of payments need and potential catalytic effect; low outstanding use of Fund credit; Malawi's sound track record of repayment; the strength of the program, notably tightening of monetary policy and continued efforts to contain fiscal policy; and solid program performance to date.

I. BACKGROUND

1. **Performance under the current PRGF arrangement has been generally good, in sharp contrast to previous programs.** The current reform program, helped by favorable weather and debt relief, has produced

- Robust economic growth, reduced poverty, and declining inflation (Figure 1), despite a sizable worsening of the terms of trade (Figure 2);
- Reduced debt and improved debt sustainability (Figure 3);
- Lower interest rates (Figure 4); and
- A crowding in of credit to the private sector after a major fiscal consolidation.

However, poverty remains high and the economy depends heavily on drought-prone agriculture and on aid, which finances 44 percent of central government expenditures.



	2004	2005	2006	2007
GDP growth	5.0	2.3	8.2	7.9
Agriculture	1.0	-3.0	4.1	2.9
Mining & quarrying	0.2	0.6	-0.4	0.0
Manufacturing	0.3	0.8	0.6	0.9
Electricity & water	0.2	0.2	0.1	0.1
Construction	0.1	0.5	0.6	0.7
Ownership of dwellings	0.1	0.2	0.2	0.1
Services	3.0	2.9	3.0	3.2

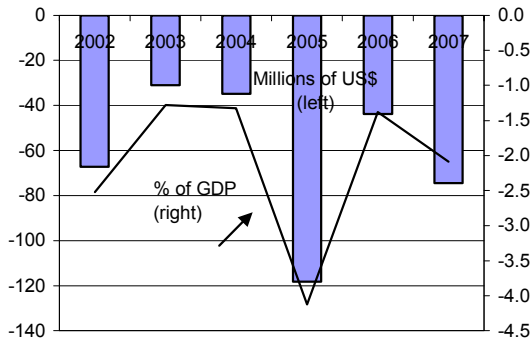
Sources: Malawi authorities and IMF staff calculations.

II. RECENT DEVELOPMENTS AND PERFORMANCE DURING THE REVIEW PERIOD

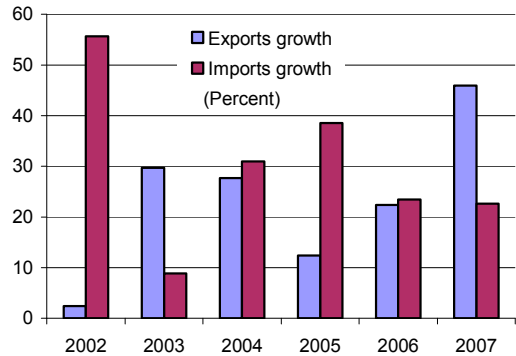
2. **Malawi's generally strong performance continued, but there were again expenditure overruns and pressures on the balance of payments from continued declines in the term of trade.** The authorities met all structural benchmarks (one with a slight delay) and most quantitative targets for end-December 2007. Expenditures for the year are likely to be substantially higher than budgeted (the indicative ceiling on discretionary spending was missed). Revenues are also substantially above budget. The performance criterion (PC) on government domestic borrowing was missed by a small amount (0.3 percent of GDP), largely because of higher domestically financed development

Figure 2. Malawi: External Developments, 2001–07

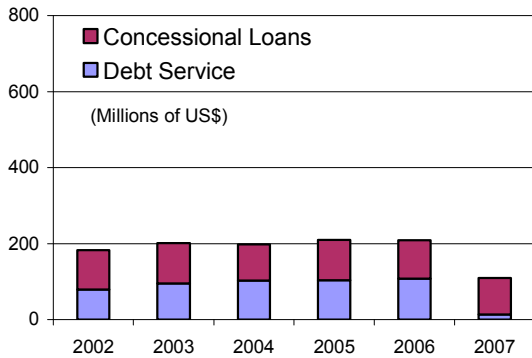
Terms of trade shocks put pressure on the balance of payments...



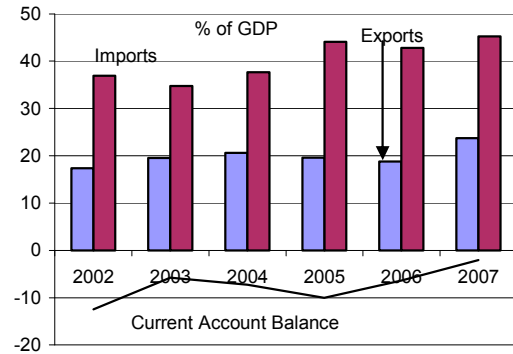
... but were offset in 2006 and 2007 by strong export growth and an import growth slowdown...



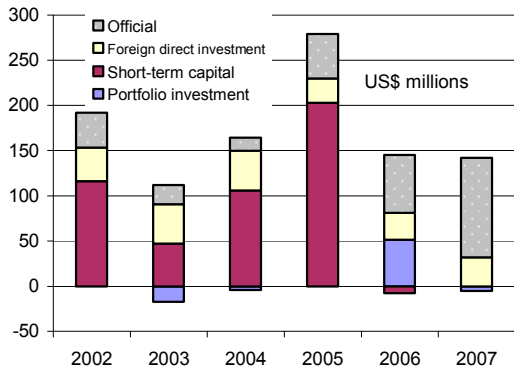
... and strong growth in official and private transfers ...



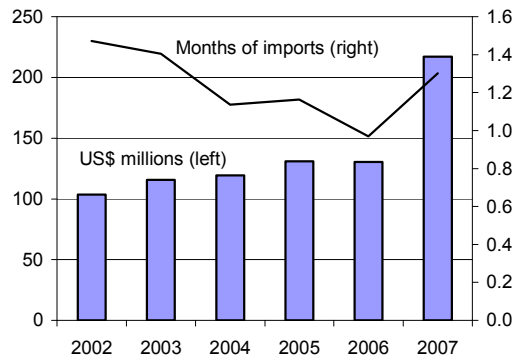
... that resulted in a narrowing of the current account balance.



This, along with continued capital inflows, ...

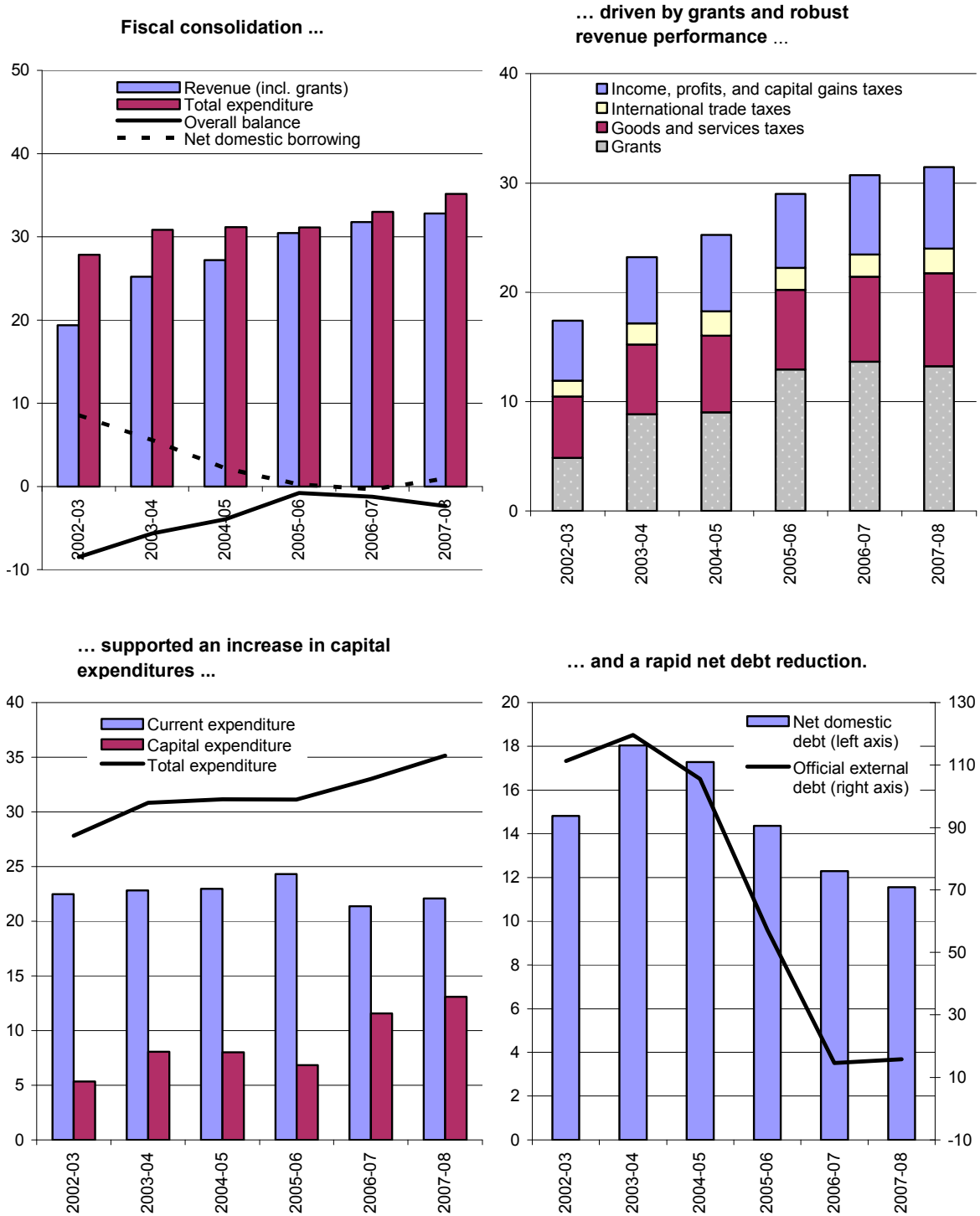


... led to a temporary improvement in the reserve coverage in 2007.



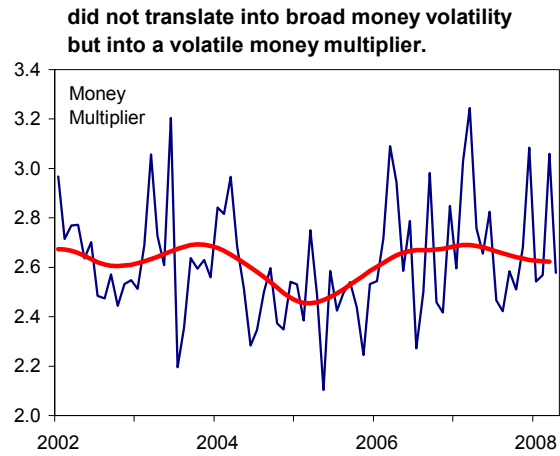
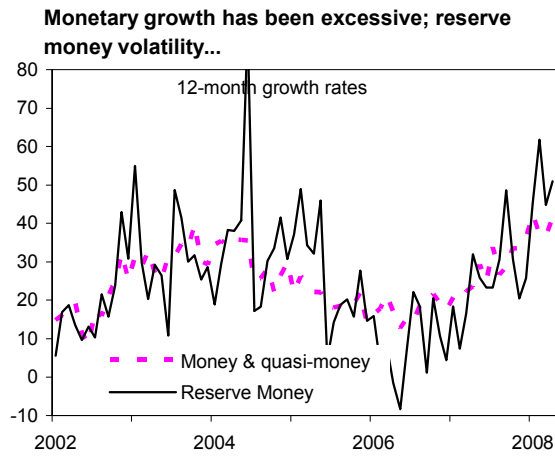
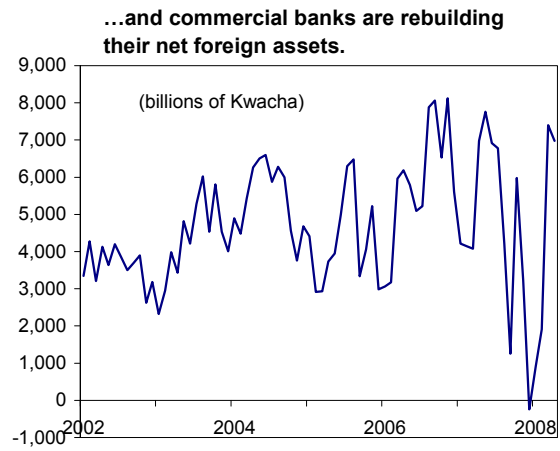
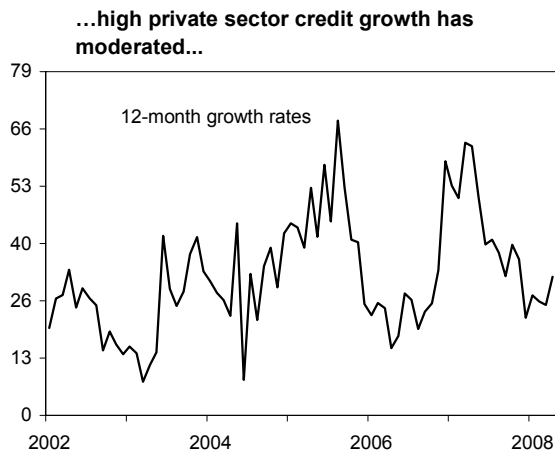
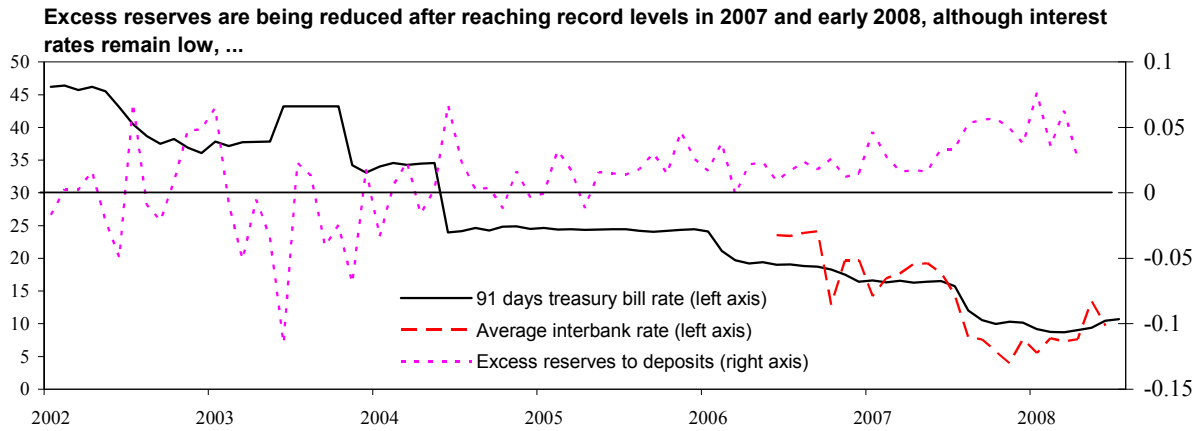
Source: Malawi authorities and IMF staff estimates.

Figure 3. Malawi: Fiscal Developments, 2002/03–2007/08
(Percent of GDP)



Source: Malawi authorities and IMF staff estimates.

Figure 4. Malawi: Monetary Developments, 2002–April 2008

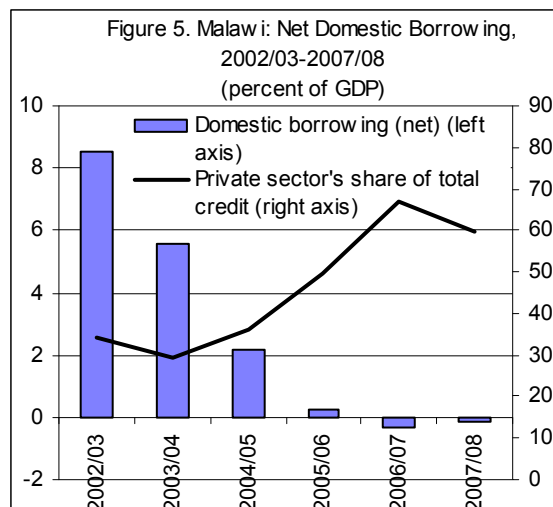


Source: Malawi authorities and IMF staff estimates.

expenditures. This is the fourth consecutive breach of this PC. However, the overarching PRGF objective of major fiscal consolidation and crowding in of the private sector was still met: the private sector's share of total credit roughly doubled during the program period. (Figure 5).

3. Staff supports the request for a waiver for this missed PC because of the generally solid performance and mitigating measures taken.

In addition to steps taken on PFM reforms (paragraph 4), the government is preparing additional PFM reforms to address budget forecasting and costing difficulties that contributed to the spending overruns. It also intends to meet the end-of-fiscal year domestic borrowing target. This will be very challenging, however, partly because of the added pressure on the budget from higher fertilizer prices (0.7 percent of GDP), and will require *inter alia* delaying some development projects. Meanwhile:



- Real GDP growth in 2007 was almost 8 percent, supported by another bumper harvest.
- The harvest and a stable exchange rate helped reduce 12-month inflation from 15 percent in June 2006 to 7.5 percent in December 2007, though higher fuel prices are raising inflation pressures—the CPI increased by 7.9 percent in the 12 months to May 2008 (Figure 1).
- The domestic debt ratio fell further.
- International reserves rose to US\$217.1 million at the end of 2007 (target: US\$210.5 million). Maize exports (after years of maize imports), solid services and tobacco exports, and increased aid outweighed the impact of portfolio outflows and worsening the terms of trade.
- The RBM has been recapitalized and is restructuring its operations.

4. The authorities have intensified efforts to improve PFM. Although the reforms have not yet had their full impact, revenue collection and expenditure controls have improved, including with regard to the wage bill and utilities. The 2008 Public Expenditure and Financial Accountability (PEFA) assessment found progress since the 2006 assessment and that Malawi compares well with neighboring countries. Completing rollout of the Integrated Financial Information System (IFMIS) should also help improve budget execution. Other measures taken include:

- Establishing a PFM secretariat in the Ministry of Finance, supervised by the Secretary of the Treasury.
- Establishing a cash management unit in the Accountant General Office.
- Starting the 2008/09 budget process early: The budget circular was issued in January 2008 and sectoral ceilings in February 2008, much earlier than before. The early start should promote better integration of line ministry planning with the budget.

III. POLICY DISCUSSIONS

5. **The discussions on policies for the next 12 months centered on:**

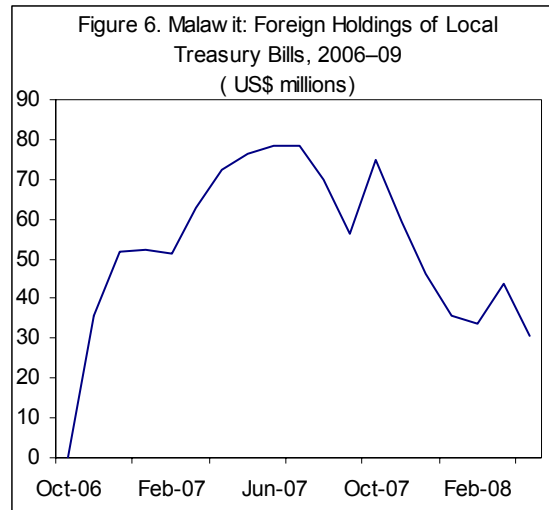
- Preserving growth and financial stability despite a severe terms of trade shock; and
- Promoting broad-based PFM reform.

6. **The discussions took place against a backdrop of a favorable growth outlook but also growing macroeconomic pressures and structural weaknesses that require policy attention.**

- **Strong growth should continue and spread beyond agriculture.** Growth is projected at about 7½ percent in 2008. The authorities expect the input subsidy program to bring further growth to agriculture: the tobacco harvest is sharply up and another good maize harvest is expected, though 14 percent lower than the record 2007 harvest. Over the medium term, growth could average about 7 percent, although rising fuel and fertilizer prices are increasing the downside risk. The Kayelekera uranium mine will open in 2009; at its peak it should raise GDP by 10 percent and exports by 25 percent.
- **Inflation should stay contained.** Near-term fuel price pressure is likely to continue. Fuel prices were increased in January and June to preserve pass through of international prices. Malawi seems to be relatively insulated from the current worldwide increases in food prices, however. Good weather and the fertilizer subsidy have made it a net exporter of maize, although whether these favorable developments will persist is uncertain. The recent increase in world food prices has prompted government to tighten enforcement of maize import and export license requirements. Food price inflation has held steady in recent months at 6-7 percent.
- **Monetary tightening has begun.** Excess reserves in the banking system rose to unprecedented levels in 2007 and early 2008. Broad money grew by 41 percent and credit to the private sector by 32 percent in the 12 months to April 2008. The rapid reduction in real interest rates on interbank lending and treasury bills suggests that the expansion is driven mostly by supply. The RBM has relied on extensive open-market operations in the last days before the test dates to achieve the end-of-period reserve

money targets, because cost considerations impaired its ability to meet the monetary targets continuously. In recent weeks, since the RBM was recapitalized, excess reserves have begun to come down and interest rates to rise.

- The international environment is substantially less benign.** With rising oil and fertilizer prices—only partly offset by higher tobacco exports—worsening terms of trade imply an increase in the trade deficit of some US\$188 million (4½ percent of GDP) at constant volumes, equivalent to four-fifths of end-2007 gross international reserves.¹ Malawi is among the sub-Saharan African countries hardest hit by worsening terms of trade. The impact could be significantly higher than these estimates suggest: further increases in fertilizer prices are likely, and oil spot prices are currently above assumption. Significant foreign holdings of Malawi treasury bills add to near-term vulnerabilities (Figure 6).

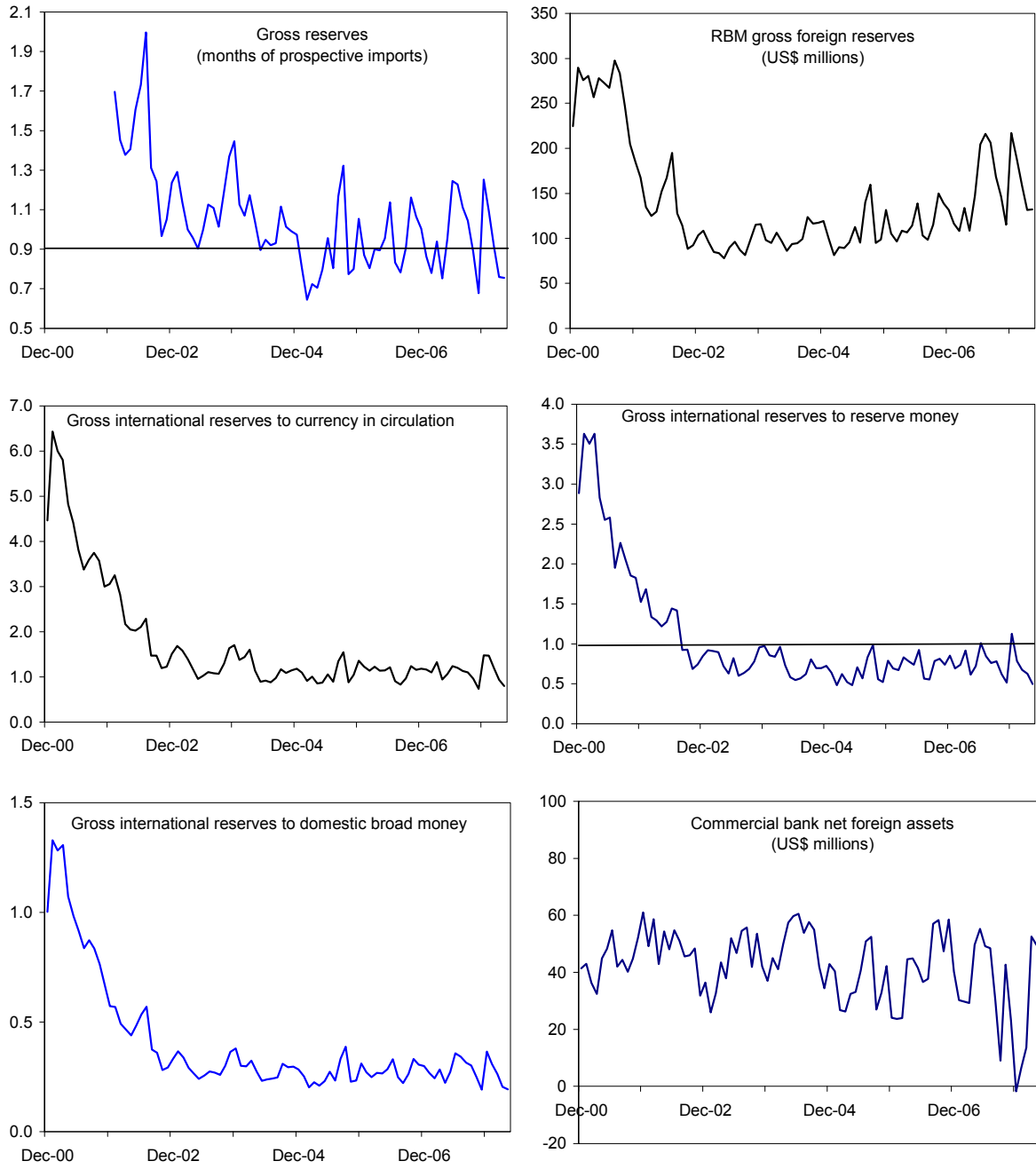


¹ The 2008 estimates are based on February-March WEO commodity price assumptions and a revised oil baseline of \$116.5 in 2008 and 125 in 2009

Malawi: Impact of the Change in Terms of Trade on the Trade Balance, 2004-09 ¹						
	2004	2005	2006	2007	2008	2009
In millions of US dollars	-34.8	-118.1	-43.8	-74.4	-188.4	-45.5
In percent of GDP	-1.3	-4.1	-1.4	-2.1	-4.6	-1.0
<i>Of which due to</i>						
Oil prices						
In millions of US dollars	-25.9	-36.1	-23.5	-14.6	-103.0	-20.6
In percent of GDP	-1.0	-1.3	-0.7	-0.4	-2.5	-0.4
Fertilizer prices						
In millions of US dollars	-16.1	-27.1	9.6	-65.6	-26.6	-15.6
In percent of GDP	-0.6	-0.9	0.3	-1.8	-0.6	-0.3
Food prices						
In millions of US dollars	1.3	2.4	-8.5	6.2	-28.4	5.2
In percent of GDP	0.0	0.1	-0.3	0.2	-0.7	0.1
Tobacco prices						
In millions of US dollars	45.4	-24.7	5.5	80.7	80.6	0.0
In percent of GDP	1.7	-0.9	0.2	2.3	1.9	0.0
Memo:						
Oil price assumption	37.8	53.4	64.3	71.1	116.5	125.0
Gross reserves						
in millions of US dollars	119.3	131.2	130.3	217.1	156.1	209.2
in percent of GDP	4.5	4.6	4.1	6.1	3.8	4.5
1/ Assumes unchanged quantities.						

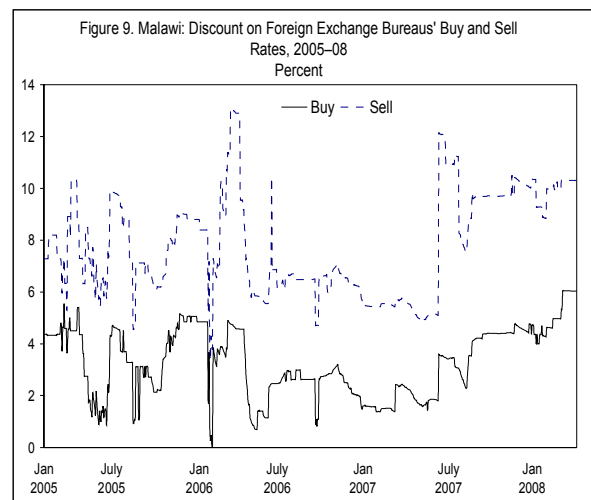
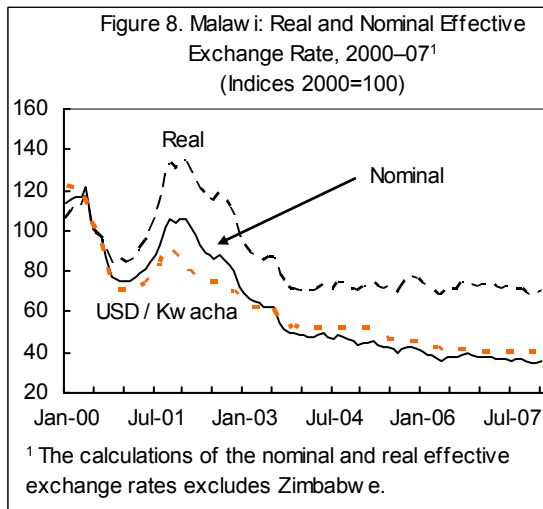
- Partly as a result, international reserves plunged in the first months of 2008 (Figure 7).** In the first quarter, gross reserves declined by more than US\$85 million to \$131.7 million (0.8 months of prospective imports). While seasonal factors contributed—with no tobacco exports, November-March is a lean period—terms of trade worsening, and to a lesser degree a portfolio outflow, had a major impact. Increased imports caused by rapid monetary expansion probably added to pressure on reserves.
- Pressure on reserves is likely to continue for the next year.** Budget support in 2008 is likely to be US\$28 million lower than in 2007, though donors are considering increased assistance in light of the fuel and fertilizer price shock. A political impasse for most of 2007 and the first quarter of 2008 slowed progress with some reforms, causing some donors to reduce or postpone support. Meanwhile, higher fuel and fertilizer prices continue to outweigh good tobacco prices.

Figure 7. Malawi: International Reserves, 2000–2008



Source: Malawi authorities and IMF staff estimates.

- There have been clear signs of foreign exchange market tensions.** The market is heavily regulated, and the nominal U.S. dollar exchange rate has been kept stable since mid-2006 (Figure 8).² The real effective exchange rate has been relatively stable for the last four years. During this period, rising aid and productivity supported the real exchange rate, but declining terms of trade have outweighed these factors, as slow reserve accumulation indicates. Moreover, in response to the monetary expansion and limited RBM supply of foreign exchange to the market, the spreads between rates offered by commercial banks and foreign exchange bureaus rose substantially in June 2007 and remain high (Figure 9). A forward commercial bank foreign exchange market has emerged that has at times traded at a depreciated rate.³ With the beginning of the tobacco export season, the forward market spread has largely disappeared.



A. Policies to Preserve Financial Stability and Growth

7. **Achieving the government's objective of increasing reserves and sustaining growth and food security will be challenging; demand will need to adjust to absorb the external shock.** Bringing reserves in line with regional averages for coverage of aid shocks, terms of trade shocks, or imports would mean a substantial increase to about 2.5–3 months of prospective imports. That would require an annual average accumulation of more than 2 percent of GDP and a corresponding increase in the saving–investment balance, adjusted for external concessional borrowing.

² The next Article IV consultation will fully assess the exchange rate.

³ The emergence of the forward market is not due to any new government actions. Therefore, the spreads between the forward market and other segments of exchange market is not a modification of the existing multiple currency practice (MCP) or a new MCP.

Malawi: Saving-Investment balances and Reserve Accumulation, 2003-11 (in percent of GDP)									
	2003	2004	2005	2006	2007	2008	2009	2010	2011
1 Saving-investment balance (=CA balance)	-5.8	-7.3	-10.1	-6.4	-2.1	-8.2	-5.7	-6.6	-5.4
2 Government	-4.7	-4.8	-1.1	-1.2	-3.1	-3.8	-3.3	-2.6	-2.7
3 Private	-1.1	-2.5	-9.1	-5.2	1.0	-4.5	-2.3	-4.1	-2.7
4 Foreign financing (excluding reserves)	5.9	7.9	11.8	7.5	3.9	5.5	6.7	7.1	7.4
5 Government	-0.2	1.3	0.2	-0.1	2.2	2.4	3.6	3.7	4.0
6 Private (incl. short term/error and omissions)	6.0	6.5	11.6	7.6	1.8	3.1	3.1	3.5	3.4
Domestic financing¹									
7 Government	4.7	3.5	0.8	1.3	0.9	1.4	-0.3	-1.1	-1.3
Reserve accumulation (1+4)	0.1	0.6	1.7	1.1	1.8	-2.8	1.0	0.5	2.1
Contribution from:									
Government (7=2+5)	-4.7	-3.5	-0.8	-1.3	-0.9	-1.4	0.3	1.1	1.3
Private (3+6)	5.0	4.1	2.4	2.3	2.8	-1.4	0.8	-0.6	0.7
Memorandum items:									
Usable gross official reserves	5.3	4.5	4.8	4.2	6.1	3.9	4.7	5.1	6.9
in months of prospective imports	1.4	1.1	1.2	1.0	1.3	0.9	1.1	1.3	1.7
Net domestic debt (central government)	16.3	16.4	15.9	12.6	11.9	16.7	13.1	8.4	2.6

1/ Differ from table 1a in that privatization proceeds, securitization of arrears, and unaccounted floats are included.

8. Substantial policy tightening could dampen growth and force a scaling-back of critical government programs. To help smooth the needed adjustment, the authorities are requesting a PRGF augmentation of SDR 10.41 million (15 percent of the quota), which would also help mobilize additional donor financing. Monetary tightening, together with continued fiscal discipline, the 25 percent increase in domestic petroleum prices in June,⁴ and strong growth in tobacco exports, should help restore some of the recent loss of reserves. Still, without additional donor support, year-end reserves are projected at only US\$156 million (0.9 months of imports), down by US\$ 61 million since year-end 2007.

Monetary and exchange rate policies

9. The RBM has begun to reduce excess bank reserves and unwind the monetary overhang, and short-term interest rates are starting to reverse (Figure 4). The authorities stand ready to reduce money supply further if the envisaged increase in interest rates does not materialize or other indications suggest that inflation expectations fail to stay contained.

10. Over the medium term, monetary and exchange rate policies will continue to aim at keeping inflation moderate. While reserve money will continue to be a key intermediate target, the authorities also place weight on stabilizing the nominal exchange rate against the U.S. dollar, given its role in the transmission mechanism in Malawi. A traditional pegged exchange rate regime would not be appropriate for Malawi, however, because of its precariously low reserves coverage and vulnerability to exogenous shocks. Thus, the authorities agreed that enhanced exchange rate flexibility is needed, particularly given the large terms of trade shock. For its policy framework to be effective and consistent with growth, inflation, and reserve accumulation targets, the RBM should

⁴ The price increase is equivalent to a 1½-2 percent decline in households' real disposable income and a 1½-3 percent depreciation of the real effective exchange rate measured as the price of traded goods (including fuel) to non-traded goods.

- Avoid committing to a specific exchange rate and encourage the private sector to adopt foreign exchange hedging strategies.
- Provide enough foreign exchange to clear the market while ensuring that over the medium term net purchases are sufficient to meet the reserve accumulation target.
- Be ready to adjust monetary and exchange rate targets as needed.

Fiscal policies

11. **The FY2008/09 budget aims to reduce public debt while increasing critical expenditures.** The goal is to reduce net domestic debt by about 0.3 percent of GDP, despite domestically funded share of one-off election costs (0.2 percent of GDP), no further revenues from maize exports, and spending pressure from higher fertilizer prices and the last stage of the authorities' multiyear civil service pay reform. The revenue effects of an increase in the tax brackets and a 1-percentage point reduction in the value-added tax rate are largely offset by a new 10 percent excise tax on cell phone use. The risks to the budget are substantial: the full effect of the proposed tax measures are unknown; fertilizer prices are rising rapidly; and substantial spending pressure is likely in the run up to the 2009 elections.

B. Policies to Strengthen Public Financial Management and the Financial Sector

12. **The authorities are updating their three-year PFM action plan in close cooperation with budget support partners.** Repeated overruns indicate a need for enhanced measures to strengthen budget preparation, monitoring, and execution. Recognizing this, the authorities intend to improve (i) revenue and expenditure forecasting; (ii) development project evaluation and costing; (iii) monthly in-year monitoring of budget execution and reconciliation with RBM banking data; and (iv) financial controls and audits.

13. **Based on the 2008 Financial System Stability Assessment, the authorities are preparing a medium-term financial sector reform program (Box 1).** The FSSA recommends improving the money and foreign exchange markets to reduce impediments to growth and exports, and to improve the efficiency of monetary policy.

Box 1. Malawi 2008 Financial System Stability Assessment

The 2008 FSSA found that

- The predominantly private banking system, though small, is well capitalized, highly profitable, and liquid. Smaller banks tend to have less robust financial soundness indicators than larger banks.
- The anticompetitive clause in the foreign exchange market regulation is the main source of banking sector profit; its removal could bring some consolidation.
- The system suffers from high spreads, low productivity, and high costs, resulting in limited outreach and product variety. Structural measures to reduce costs are needed. Some consolidation may help create economies of scale.
- Supervision of the insurance sector is ineffective, and pension sector supervision is largely absent, despite the significant size of these sectors.

C. Augmentation of Access and Capacity to Repay the Fund

14. **The requested augmentation would provide a small but helpful cushion to reserves and would help unlock additional donor support, which likely would be significantly higher than additional PRGF access.** Together with currently approved access of 6 percent of quota, the augmentation would provide about 0.7 percent of GDP in balance of payments support. Malawi's debt to the Fund would remain low and future repayment to the Fund would remain negligible (Table 6b). By helping avert a disruptive adjustment and catalyzing donor financing, the augmentation would support Malawi's capacity to repay the Fund.

IV. STAFF APPRAISAL

15. **Strong economic performance has continued since the last review.** Growth remained high, inflation has been contained, and all but one of the program targets were met.

16. **The authorities have moved decisively to resolve the RBM's financial situation.**

17. **Repeated expenditure overruns and resulting missed borrowing targets remain a concern, however.** Despite moves to accelerate PFM reforms, capacity constraints remain serious. Staff welcomes the authorities' plans to reinforce budget preparation, execution, and control. Firm fiscal discipline and a strong political commitment are required to meet the 2008/09 budget targets.

18. **Malawi's precariously low international reserves are a threat to financial stability and food security.** Further consolidation of government net domestic debt will facilitate accumulation of international reserves without jeopardizing growth and crowding out the private sector.

19. **Further decisive action is needed to reduce the monetary overhang and excess reserves in the banking sector.** This should help protect international reserves, lower the spreads between official and parallel market exchange rates, and reduce money market volatility and ultimately interest rate spreads and risk premiums. Exchange rate policy needs to remain under continuous review in the face of the external shocks and resulting balance of payments pressures.

20. **Staff recommends completion of the sixth review of the PRGF and supports the request for a waiver of the missed PC on domestic borrowing and an augmentation of access.** The request for an augmentation is justified by the immediacy of the balance of payments need and potential catalytic effect; low outstanding use of Fund credit; Malawi's sound track record of repayment; the strength of the program, notably tightening of monetary policy and continued efforts to contain fiscal policy; and solid program performance to date.

Table 1a. Malawi: Selected Economic Indicators, 2006–11

	2006	2007		2008	2009	2010	2011
	Act.	CR 08/3	Prel.	Proj.	Proj.	Proj.	Proj.
National accounts and prices (percent change unless otherwise specified)							
GDP at constant market prices	8.2	7.4	7.9	7.4	7.8	7.0	6.3
Nominal GDP (MK billions)	430.3	497.1	498.6	581.5	679.1	777.4	883.1
Nominal GDP per capita (US\$)	241.1	350.1	266.1	299.9	325.9	348.6	371.3
GDP deflator	18.2	7.6	7.3	8.6	8.3	7.0	6.8
Consumer prices end of period)	10.1	7.5	7.5	8.2	7.0	6.9	6.8
Food	10.6	6.6	6.7	7.1	6.9	7.1	7.0
Nonfood	9.6	8.5	8.5	9.4	7.1	6.8	6.6
Consumer prices (annual average)	13.9	8.1	7.9	8.3	7.9	7.0	6.9
Investment and savings (percent of GDP)							
National savings	14.3	22.0	22.0	22.8	22.1	22.2	24.7
Government	6.5	...	10.9	6.0	7.8	8.2	7.5
Private	7.8	...	11.1	16.8	14.4	14.1	17.1
Gross investment	20.7	28.1	24.1	31.1	27.8	28.9	30.1
Government	7.7	...	14.0	9.8	11.4	11.5	11.6
Private	13.0	...	10.1	21.3	16.4	17.3	18.5
Saving-investment balance	-6.4	-6.0	-2.1	-8.2	-5.7	-6.6	-5.4
Government	-1.2	...	-3.1	-3.8	-3.7	-3.3	-4.1
Private	-5.2	...	1.0	-4.5	-2.0	-3.3	-1.3
Central government (percent of GDP)							
Revenue (excluding grants)	17.5	19.1	19.0	18.9	19.1	19.3	19.2
Grants	12.8	...	14.1	11.9	14.3	13.1	13.3
Expenditure and net lending	31.6	35.3	36.1	34.6	36.0	33.0	31.8
Overall balance (excluding grants)	-14.8	-16.1	-17.1	-15.6	-16.9	-13.7	-12.5
Overall balance	-1.3	-2.8	-3.1	-3.8	-3.3	-2.6	-2.7
Foreign financing	-0.1	...	2.2	2.4	3.6	3.7	4.0
Domestic financing	1.4	...	0.4	1.6	-0.3	-1.1	-1.3
Money and credit (contribution to M2 growth)							
Money and quasi money	17.4	22.5	36.1	15.4	13.9	11.5	10.9
Net foreign assets	21.5	14.5	7.1	-10.3	8.3	-2.1	11.7
Net domestic assets	-4.0	8.0	29.0	25.7	5.6	13.6	-0.8
Credit to the government	-8.1	5.1	1.7	9.7	18.6	-11.5	-17.1
Credit to the rest of the economy	21.8	5.7	12.9	10.6	11.6	18.7	18.9
Velocity	6.8	6.6	5.8	5.9	6.1	6.1	6.1
Money and credit (percent change)							
Money and quasi money	17.4	...	36.1	15.4	13.9	11.5	10.9
Net foreign assets	113.0	...	20.7	-33.8	47.3	-7.6	48.9
Net domestic assets	-5.0	...	44.2	37.1	6.8	18.8	-1.0
Credit to the government	-18.2	...	5.5	40.4	31.2	-19.0	-36.5
Credit to the rest of the economy	71.1	...	28.8	25.0	25.2	37.1	31.4
Velocity	6.8	...	5.8	5.9	6.1	6.1	6.1
External sector (US\$ millions)							
Exports, f.o.b.	543.8	631.0	721.4	858.7	996.7	1,107.7	1,130.9
Imports, c.i.f.	-1,103.3	-1,157.0	-1,322.5	-1,673.5	-1,826.2	-1,950.9	-1,996.4
Usable gross official reserves	130.3	210.5	217.1	156.1	209.2	247.7	363.4
(months of imports)	1.0	1.6	1.3	0.9	1.1	1.3	1.7
Current account	-6.4	...	-2.1	-8.2	-5.7	-6.6	-5.4
Current account (excluding official transfers)	-19.7	-21.5	-16.1	-20.1	-19.9	-19.7	-18.7
Nominal effective exchange rate	-5.5	...	...	...	...	...	...
Real effective exchange rate	0.5	...	...	...	...	...	...
Impact of change in terms of trade on trade balance (percent of GDP)	-1.4	...	-2.1	-6.0	-1.1	...	...
Debt stock and service (percent of GDP)							
External debt (public sector)	14.3	22.6	14.5	17.0	18.6	20.9	23.2
NPV of debt (percent of avg. exports)	40.9	31.7	41.6	51.5	62.6	72.4	81.4
External debt service (percent of exports)	14.1	2.7	3.2	2.9	3.3	3.7	1.9
Net domestic debt (central government)	12.6	12.5	11.9	16.7	13.1	8.4	2.6
Of which Excluding recapitalization of RBM	12.6	12.5	11.9	11.6	8.7	4.6	-0.8
Net consolidated domestic debt (central bank and central government)	12.8	...	14.9	9.5	6.7	2.1	-2.1
Domestic interest payment	-0.1	2.5	2.2	2.4	3.6	3.7	4.0
Treasury bill rate (period average)	20.0	...	13.9	...	...	...	...

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

Table 1b. Malawi: Selected Economic Indicators on a Fiscal Year Basis, 2005/06 – 2010/11

	2005/06	2006/07	2007/08		2008/09	2009/10	2010/11
	Act.	Est.	CR 08/3	Proj.	Proj.	Proj.	Proj.
	(percent change unless otherwise specified)						
National accounts and prices							
GDP at constant market prices	5.3	8.1	7.3	7.6	7.6	7.4	6.7
Nominal GDP (MK billions)	384.2	464.5	526.3	540.1	630.3	728.3	830.2
Nominal GDP per capita (US\$)	229.9	251.9	275.8	284.7	313.9	337.7	360.4
GDP deflator	16.7	12.3	5.9	8.0	8.5	7.6	6.9
Consumer prices end of period)	15.3	7.6	7.0	8.7	8.0	7.0	6.9
Food	17.5	6.8	6.2	6.2	7.9	7.0	7.0
Nonfood	12.8	8.6	7.9	11.5	8.2	6.9	6.7
Consumer prices (annual average)	16.1	10.0	7.3	7.7	8.2	7.4	6.9
Investment and savings (percent of GDP)							
National savings	11.8	20.4	20.3	23.7	21.1	22.8	23.2
Government	6.1	10.4	...	10.7	6.0	8.8	7.8
Private	5.7	10.0	...	12.9	15.2	13.9	15.4
Gross investment	20.0	23.0	26.8	29.0	28.0	28.9	29.2
Government	6.8	11.6	...	12.9	9.3	12.0	11.3
Private	13.2	11.5	...	16.2	18.6	16.9	17.9
Saving-investment balance	-8.2	-2.6	-6.5	-5.4	-6.9	-6.2	-6.0
Government	-0.7	-1.1	...	-2.2	-3.4	-3.2	-3.4
Private	-7.5	-1.5	...	-3.2	-3.5	-3.0	-2.5
Central government (percent of GDP)							
Revenue (excluding grants)	17.5	18.1	19.2	19.6	18.7	19.0	19.3
Grants	12.9	13.6	...	13.2	14.8	13.0	13.2
Expenditure and net lending	31.1	33.0	33.4	34.9	36.9	33.2	32.7
Overall balance (excluding grants)	-14.4	-14.9	-14.2	-15.3	-18.2	-14.2	-13.4
Overall balance	-0.8	-1.2	-1.1	-2.1	-3.4	-2.6	-2.5
Foreign financing	0.3	0.8	...	1.5	3.7	3.6	3.5
Domestic financing	0.5	0.4	...	0.7	-0.3	-1.0	-1.0
Money and credit (contribution to M2 growth)							
Money and quasi money	15.2	25.0	15.9	31.3	12.8	14.8	14.4
Net foreign assets	9.2	25.0	10.3	-12.1	9.2	6.4	3.7
Net domestic assets	6.0	0.0	5.6	43.3	3.7	8.4	10.7
Credit to the government	-15.7	-14.1	12.8	21.9	2.0	-1.8	-5.6
Credit to the rest of the economy	9.1	16.9	2.4	19.1	8.9	17.0	15.5
Velocity	6.8	6.4	6.5	5.8	6.0	6.1	6.0
Money and credit (percent change)							
Money and quasi money	15.2	25.0	...	31.3	12.8	14.8	14.4
Net foreign assets	51.5	106.4	...	-31.1	45.0	24.6	13.0
Net domestic assets	7.3	0.0	...	70.8	4.6	11.3	14.9
Credit to the government	-26.4	-37.2	...	115.0	3.2	-3.3	-11.7
Credit to the rest of the economy	29.3	48.5	...	46.2	19.3	34.9	27.1
External sector (US\$ millions)							
Exports, f.o.b.	516.8	608.4	676.9	773.0	913.0	1,035.9	1,116.3
Imports, c.i.f.	-1,055.8	-1,215.5	-1,175.3	-1,454.0	-1,738.9	-1,884.4	-1,970.4
Usable gross official reserves	141.2	181.3	253.5	135.0	213.8	277.5	317.2
(months of imports)	1.1	1.1	1.7	0.7	1.1	1.4	1.5
Current account	-8.2	-2.6	...	-5.4	-6.9	-6.2	-6.0
Current account (excluding official transfers)	-19.7	-16.3	-20.2	-18.2	-20.0	-19.8	-19.2
Nominal effective exchange rate	-8.0	-0.02	...	...	...	...	...
Real effective exchange rate	1.9	3.5	...	...	...	...	...
Domestic debt (percent of GDP)							
Net domestic debt (central government)	14.4	12.3	10.2	16.8	13.6	9.3	4.8
<i>Of which</i> Excluding recapitalization of RBM	14.4	12.3	...	11.3	8.8	5.2	1.3
Net consolidated domestic debt (central bank and central government)	13.6	14.7	...	10.3	7.5	4.0	-0.5
Domestic interest payment	3.9	3.1	2.4	2.0	2.4	1.5	0.9
Treasury bill rate (period average)	24.4	20.9	...	...	...	...	...

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

Table 2a: Malawi: Central Government Operations 2007/08
(MK millions)

	2007/08 Program, 4th and 5th reviews					2007/08 projections			
	H1 prog.	H2 Proj.	Annual Proj.	Budget	Percent of GDP	H1 Est.	H2 Proj.	Annual Proj.	Percent of GDP
Total revenue and grants	88,081	81,943	170,023	163,864	32.3	91,608	85,285	176,894	32.8
Revenue	50,226	50,590	100,816	98,209	19.2	49,681	56,060	105,741	19.6
Tax revenue	43,489	45,113	88,602	86,202	16.8	45,257	50,843	96,100	17.8
Nontax revenue	6,737	5,477	12,214	12,007	2.3	4,424	5,217	9,641	1.8
Of which : sales receipts for maize	2,000	0	2,000	2,000	0.4	0	1,141	1,141	0.2
Grants	37,855	31,352	69,207	65,655	13.2	41,927	29,225	71,153	13.2
Budget/ program support	9,502	3,320	12,821	11,120	2.4	12,349	2,012	14,360	2.7
Project	15,658	15,675	31,333	31,190	6.0	17,221	14,378	31,599	5.9
Dedicated grants	12,182	12,358	24,540	23,345	4.7	12,358	12,835	25,193	4.7
of which : DFID/EU	1,677	907	2,584	1,500	0.5	899	1,604	2,504	0.5
National Aids Commission (NAC)	5,127	5,170	10,297	10,280	2.0	7,368	5,234	12,602	2.3
Health SWAp	5,379	6,281	11,659	11,565	2.2	4,091	5,997	10,088	1.9
HIPC debt relief	513	0	513	0	0.1	0	0	0	0.0
Total expenditure and net lending	95,129	80,483	175,612	173,595	33.4	99,919	88,560	188,479	34.9
Current expenditure	60,791	51,611	112,402	110,434	21.4	62,775	56,411	119,186	22.1
Wages and salaries	14,590	15,797	30,386	30,386	5.8	14,817	15,183	30,000	5.6
Of which : Health SWAp	591	592	1,183	1,183	0.2	591	865	1,456	0.3
Interest payments	6,604	6,524	13,128	12,684	2.5	6,224	5,545	11,768	2.2
Domestic	6,354	6,150	12,504	11,959	2.4	6,001	4,999	11,000	2.0
Foreign	251	373	624	725	0.1	222	546	768	0.1
Other current expenditure	39,597	29,291	68,888	67,364	13.1	41,735	35,683	77,418	14.3
Purchases of goods and services	20,272	19,618	39,890	39,796	7.6	22,999	22,001	45,000	8.3
Maize	2,000	0	2,000	2,000	0.4	200	0	200	0.0
National / local elections	0	1,100	1,100	1,100	0.2	8	592	600	0.1
Health SWAp	3,488	4,388	7,876	7,782	1.5	7,332	5,769	13,100	2.4
Other goods and services	14,784	14,130	28,914	28,914	5.5	15,459	15,641	31,100	5.8
Subsidies and transfers	19,074	9,423	28,497	27,068	5.4	17,922	13,296	31,218	5.8
Pension and gratuities	2,750	2,750	5,500	5,500	1.0	2,750	2,850	5,600	1.0
Transfer to NRA and MRA	1,685	1,773	3,458	2,150	0.7	1,394	1,506	2,900	0.5
Transfers to public entities	3,772	3,772	7,544	7,544	1.4	4,136	3,564	7,700	1.4
Fertilizer and maize seed subsidy	10,681	940	11,621	11,500	2.2	9,642	5,376	15,018	2.8
Other subsidies and transfers	187	187	374	374	0.1	0	0	0	0.0
Arrears repayment	250	250	500	500	0.1	814	386	1,200	0.2
Development expenditure	34,447	28,872	63,318	63,269	12.0	37,198	32,203	69,400	12.9
Part I (foreign financed)	27,733	25,197	52,929	52,880	10.1	27,195	25,606	52,800	9.8
Part II (domestically financed)	6,714	3,675	10,389	10,389	2.0	10,003	6,597	16,600	3.1
Net lending	-108	0	-108	-108	0.0	-54	-54	-108	0.0
Overall balance (including grants)	-7,048	1,460	-5,589	-9,731	-1.1	-8,311	-3,274	-11,585	-2.1
Total financing	7,048	-1,460	5,589	9,731	1.1	7,078	4,507	11,585	2.1
Foreign (net)	4,887	6,692	11,579	11,278	2.2	4,671	3,161	7,832	1.5
Borrowing	5,620	7,183	12,802	12,847	2.4	5,132	3,557	8,690	1.6
Program	1,272	2,831	4,103	4,187	0.8	0	0	0	0.0
Project	4,348	4,352	8,700	8,660	1.7	5,132	3,557	8,690	1.6
Amortization	-733	-490	-1,223	-1,569	-0.2	-461	-396	-857	-0.2
Domestic (net)	2,161	-8,152	-5,991	-1,547	-1.1	2,407	1,345	3,753	0.7
Other financing (IMF MDRI relief, securitization etc.)	0	0	0	0	0.0	0	0	0	0.0
Discrepancy	0	0	0	0	0.0	1,232	-1,232	0	0.0
<i>Memorandum items:</i>									
Nominal GDP	526,253	526,253	526,253	526,253	100.0	540,053	540,053	540,053	100.0
Net domestic debt	59,255	51,103	51,103 ...		10.2	59,501	60,399	60,399	11.2
RBM capitalization/securitization ¹	2,800						29,648	29,648	5.5

Sources: Malawian authorities; and IMF staff estimates.

¹ Excluding recapitalization of the RBM.

Table 2b: Malawi: Central Government Operations 2008/09
(MK millions)

	Q1 Prog.	Q2 Prog.	Q3 Proj.	Q4 Proj.	Annual Proj.	Percent of GDP
Total revenue and grants	42,568	51,201	57,879	59,776	211,425	33.5
Revenue	26,601	27,394	29,323	34,848	118,167	18.7
Tax revenue	24,167	24,805	26,529	31,800	107,300	17.0
Pension contributions, employees	0	0	0	0	0	0.0
Nontax revenue	2,434	2,590	2,794	3,048	10,867	1.7
Unspecified revenue measures for 08/09						
Grants	15,968	23,806	28,556	24,928	93,258	14.8
Budget/ program support	972	6,152	7,458	5,052	19,634	3.1
Project	7,170	7,283	8,971	9,088	32,511	5.2
Dedicated grants	7,826	10,371	12,127	10,788	41,113	6.5
<i>of which</i> : DFID/EU	0	374	3,313	0	3,687	0.6
National Aids Commission (NAC)	4,425	4,258	4,484	5,936	19,102	3.0
Health SWAp	3,401	5,740	4,331	3,852	17,324	2.7
Insurance premium	0	0	0	1,000	1,000	
Total expenditure and net lending	54,844	57,568	62,513	57,693	232,618	36.9
Current expenditure	42,642	45,183	46,805	39,078	173,708	27.6
Wages and salaries	9,015	9,238	9,387	9,611	37,250	5.9
<i>Of which</i> : Health Swap	438	445	452	458	1,793	0.3
Interest payments	5,856	2,269	5,073	3,001	16,199	2.6
Domestic	5,664	2,020	4,890	2,793	15,368	2.4
Foreign	191	249	183	208	831	0.1
Other current expenditure	27,771	33,676	32,345	26,467	120,260	19.1
Purchases of goods and services	17,104	19,376	21,026	20,627	78,133	12.4
Maize	544	544	88	1,000	2,175	0.3
National / local elections	0	500	3,500	1,000	5,000	0.8
Health SWAp	2,327	4,649	3,224	2,730	12,931	2.1
Other goods and services	14,233	13,683	14,215	15,896	58,026	9.2
Subsidies and transfers	10,542	14,176	11,194	5,715	41,627	6.6
Pension and gratuities	1,613	1,613	1,613	1,613	6,450	1.0
Transfer to NRA and MRA	1,503	1,522	1,574	1,732	6,331	1.0
Transfers to public entities	2,371	2,371	2,371	2,371	9,482	1.5
Fertilizer and maize seed subsidy	5,056	8,671	5,637	0	19,364	3.1
Arrears repayment	125	125	125	125	500	0.1
Development expenditure	12,203	12,385	15,708	18,614	58,910	9.3
Part I (foreign financed)	9,016	9,198	12,456	15,232	45,903	7.3
Part II (domestically financed)	3,187	3,187	3,252	3,382	13,007	2.1
Net lending	0	0	0	0	0	0.0
Overall balance (including grants)	-12,276	-6,368	-4,634	2,084	-21,194	-3.4
Total financing	12,276	6,368	4,634	-2,084	21,194	3.4
Foreign (net)	6,854	3,729	8,574	4,228	23,385	3.7
Borrowing	7,399	4,452	8,926	4,581	25,358	4.0
Program	3,017	0	4,404	0	7,421	1.2
Project	4,383	4,452	4,522	4,581	17,937	2.8
Amortization	-545	-723	-352	-353	-1,973	-0.3
Domestic (net)	5,422	2,639	-3,940	-6,312	-2,191	-0.3
Discrepancy	0	0	0	0	0	0.0
<i>Memorandum items:</i>						
Nominal GDP	630,316	630,316	630,316	630,316	630,316	100.0
Net domestic debt	95,468	98,107	94,167	87,855	87,855	13.9
RBM capitalization/securitization	0	0	29,648	0	29,648	

Sources: Malawian authorities; and IMF staff estimates.

Table 2c: Malawi: Central Government Operations, 2004/05 – 2010/11
(Millions of Malawi kwacha)

	2004/05	2005/06	2006/07	2007/08		2008/09	2009/10	2010/11
	Act.	Act.	Prel.	CR/08/3	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	84,925	116,986	147,632	170,023	176,853	211,425	233,384	270,069
Revenue	56,809	67,316	84,295	100,816	105,700	118,167	138,552	160,104
Tax revenue	49,798	59,884	77,321	88,602	96,100	107,300	122,881	140,084
Nontax revenue	7,011	7,431	6,974	12,214	9,600	10,867	15,671	17,878
Of which : sales receipts for maize	468	1,175	0	2,000	1,100	0	2,000	2,000
Grants	28,117	49,670	63,337	69,207	71,153	93,258	94,833	109,965
Budget/ Program support	5,085	13,930	9,079	12,821	14,360	19,634	19,544	26,573
Project	11,020	11,089	23,853	31,333	31,599	32,511	46,253	44,871
Dedicated grants	6,933	17,210	19,807	24,540	25,193	41,113	29,036	38,521
HIPC debt relief	5,078	7,442	2,459	513	0	0	0	0
MDRI debt relief from IMF	0	0	8,138	0	0	0	0	0
Total expenditure and net lending	97,215	120,010	153,580	175,612	188,479	232,618	242,192	271,715
Current expenditure	71,657	93,746	99,464	112,402	119,186	173,708	159,202	185,697
Wages and salaries	17,056	20,209	23,778	30,386	30,000	37,250	40,078	42,837
Of which : Health SWAp	94	602	1,019	1,183	1,456	1,793	1,226	1,284
Interest payments	19,612	18,209	16,378	13,128	11,768	16,199	11,980	8,790
Domestic	16,650	15,017	14,470	12,504	11,000	15,368	11,066	7,828
Foreign	2,962	3,192	1,908	624	768	831	914	961
Other current expenditure	34,989	55,328	59,307	68,888	77,418	120,260	107,143	134,071
Purchases of goods and services	19,968	32,968	30,441	39,890	45,000	78,133	60,777	87,430
Maize	2,447	9,123	2,049	2,000	200	2,175	2,000	2,000
Pulses and oils	0	1,260	0	0	0	0	0	0
Health SWAp	984	5,077	6,544	7,876	13,100	12,931	13,858	17,977
Elections	63	60	14	1,100	600	5,000	728	3,321
Other goods and services	16,474	17,448	21,834	28,914	31,100	58,026	44,191	64,133
Subsidies and other current transfers	13,555	19,183	23,209	28,497	31,218	41,627	45,866	46,141
Pension and gratuities	2,106	3,209	4,763	5,500	5,600	6,450	7,444	8,537
Fertilizer/seeds subsidy	4,328	6,937	8,824	11,621	15,018	19,364	20,834	22,268
Other subsidies and transfers	7,121	9,036	9,622	11,376	10,600	15,813	17,588	15,336
Arrears repayment	1,467	3,177	5,657	500	1,200	500	500	500
Development expenditure	24,969	26,263	53,665	63,318	69,400	58,910	82,990	86,017
Part I (foreign financed)	22,556	22,342	42,218	52,929	52,800	45,903	68,995	71,060
Part II (domestically financed)	2,413	3,921	11,447	10,389	16,600	13,007	13,995	14,958
Unidentified (fiscal Space)	...	...	...	...	...	...	10,214	19,280
Net lending	589	0	452	-108	-108	0	0	0
Overall balance (including grants)	-12,289	-3,024	-5,948	-5,589	-11,626	-21,194	-8,807	-1,646
Spending directly related to privatization 1/	0	2,841	0	0	0	0	0	0
Augmented balance (incl. privatization)	-12,289	-5,865	-5,948	-5,589	-11,626	-21,194	-8,807	-1,646
Total financing	12,920	6,233	5,672	5,589	11,585	21,194	18,611	20,926
Foreign (net)	6,102	982	3,761	11,579	7,832	23,385	26,020	29,210
Borrowing	11,588	11,142	11,073	12,802	8,690	25,358	28,298	30,546
Program	5,182	3,373	0	4,103	0	7,421	5,556	4,358
Project	6,406	7,770	11,073	8,700	8,690	17,937	22,743	26,189
Dedicated loans	0	0	0	0	0	0	0	0
Amortization	-8,210	-10,161	-7,312	-1,223	-857	-1,973	-2,279	-1,336
Special loans (net)	1,116	0	0	0	0	0	0	0
Foreign bank accounts	1,609	0	0	0	0	0	0	0
Domestic (net)	6,818	905	-1,453	-5,991	3,753	-2,191	-7,409	-8,284
Financial instruments	6,818	905	-1,453	-5,991	3,753	-2,191	-7,409	-8,284
Banking system	4,018	-7,955	-8,221	...	...	...	...	...
Nonbanks	2,800	8,861	6,768	...	...	...	...	...
Other financing (privatization, IMF MDRI, securitization etc.)	0	4,346	3,364	0	0	0	0	0
Discrepancy (- is overfinancing)	-631	-368	76	0	0	0	0	0
<i>Memorandum items:</i>								
Nominal GDP	311,954	384,174	464,464	526,253	540,053	630,316	728,290	830,249
Net domestic debt	53,923	55,183	57,094	53,903	90,047	87,855	80,447	72,163
PN/Capitalization/Securitization of RBM			923	2,800	29,200	0	0	0
Underlying balance 2/	4,189	2,731	3,500	321	-4,554	-35,451	-17,384	-31,781
Overall balance (excluding grants)	-40,406	-52,339	-69,085	-74,796	-82,738	-114,452	-103,230	-111,611
Pro-poor spending	20,317	31,298	36,426	43,136	46,984	57,542	61,100	69,907
Arrears (stock)	10,037	...	...	...	...	...	...	...
MDRI/HIPC debt service relief, total 1/	...	...	20,280	19,114	19,015	...	...	...
Debt service payable	...	...	6,761	1,334	1,626	...	...	...
Net program aid	4,173	15,737	10,456	15,590	12,734	24,252	21,907	28,633
Gross debt of state owned enterprises 2/	28,652	34,727	...	...	...	...	...	...

Sources: Malawian authorities; and IMF staff estimates.

1/ Includes relief through debt cancellation and transfers.

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

Table 2d: Malawi: Central Government Operations, 2004/05–2010/11
(Percent of GDP)

	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
	Act.	Act	Proj.	CR/08/3	Proj.	Proj.	Proj.
Total revenue and grants	27.2	30.5	31.8	32.3	32.7	33.5	32.5
Revenue	18.2	17.5	18.1	19.2	19.6	18.7	19.3
Tax revenue	16.0	15.6	16.6	16.8	17.8	17.0	16.9
Nontax revenue	2.2	1.9	1.5	2.3	1.8	1.7	2.2
Of which : Sales receipts for maize	0.1	0.3	0.0	0.4	0.2	0.0	0.2
Grants	9.0	12.9	13.6	13.2	13.2	14.8	13.2
Budget/ program support	1.6	3.6	2.0	2.4	2.7	3.1	3.2
Project	3.5	2.9	5.1	6.0	5.9	5.2	5.4
Dedicated grants	2.2	4.5	4.3	4.7	4.7	6.5	4.6
HIPC debt relief	1.6	1.9	0.5	0.1	0.0	0.0	0.0
MDRI debt relief from IMF	0.0	0.0	1.8	0.0	0.0	0.0	0.0
Total expenditure and net lending	31.2	31.2	33.1	33.4	34.9	36.9	32.7
Current expenditure	23.0	24.4	21.4	21.4	22.1	27.6	22.4
Wages and salaries	5.5	5.3	5.1	5.8	5.6	5.9	5.2
Of which : Health SWAp	0.0	0.2	0.2	0.2	0.3	0.3	0.2
Interest payments	6.3	4.7	3.5	2.5	2.2	2.6	1.1
Domestic	5.3	3.9	3.1	2.4	2.0	2.4	0.9
Foreign	0.9	0.8	0.4	0.1	0.1	0.1	0.1
Other current expenditure	11.2	14.4	12.8	13.1	14.3	19.1	16.1
Purchases of goods and services	6.4	8.6	6.6	7.6	8.3	12.4	10.5
Maize purchases	0.8	2.4	0.4	0.4	0.0	0.3	0.2
Pulses and oils	0.0	0.3	0.0	0.0	0.0	0.0	0.0
Health SWAp	0.3	1.3	1.4	1.5	2.4	2.1	2.2
Elections	0.0	0.0	0.0	0.2	0.1	0.8	0.4
Other goods and services	5.3	4.5	4.7	5.5	5.8	9.2	7.7
Subsidies and other current transfers	4.3	5.0	5.0	5.4	5.8	6.6	5.6
Pension and gratuities	0.7	0.8	1.0	1.0	1.0	1.0	1.0
Fertilizer/seeds subsidy	1.4	1.8	1.9	2.2	2.8	3.1	2.7
Other subsidies and transfers	2.3	2.4	2.1	2.2	2.0	2.5	1.8
Arrears repayment	0.5	0.8	1.2	0.1	0.2	0.1	0.1
Development expenditure	8.0	6.8	11.6	12.0	12.9	9.3	10.4
Part I (foreign financed)	7.2	5.8	9.1	10.1	9.8	7.3	8.6
Part II (domestically financed)	0.8	1.0	2.5	2.0	3.1	2.1	1.8
Unspecified (fiscal space)	...	...	...	...	...	...	2.3
Net lending	0.2	0.0	0.1	0.0	0.0	0.0	0.0
Overall balance (including grants)	-3.9	-0.8	-1.3	-1.1	-2.2	-3.4	-0.2
Total financing	4.1	1.6	1.2	1.1	2.1	3.4	2.5
Foreign (net)	2.0	0.3	0.8	2.2	1.5	3.7	3.5
Borrowing	3.7	2.9	2.4	2.4	1.6	4.0	3.7
Program	1.7	0.9	0.0	0.8	0.0	1.2	0.5
Project	2.1	2.0	2.4	1.7	1.6	2.8	3.2
Amortization	-2.6	-2.6	-1.6	-0.2	-0.2	-0.3	-0.2
Domestic (net)	2.2	0.2	-0.3	-1.1	0.7	-0.3	-1.0
Other financing (privatization, IMF MDRI, securitization etc.)	0.0	1.1	0.7	0.0	0.0	0.0	0.0
Discrepancy (- is overfinancing)	-0.2	-0.1	0.0	0.0	0.0	0.0	0.0
<i>Memorandum items:</i>							
Net domestic debt	17.3	14.4	12.3	10.2	16.7	13.9	8.7
PN/Capitalization/Securitization of RBM			0.2	0.5	5.4	...	...
Overall balance (excluding grants)	-13.0	-13.6	-14.9	-14.2	-15.3	-18.2	-13.4
Pro-poor spending	6.5	8.1	7.8	8.2	8.7	9.1	8.4
Arrears (stock)	3.2	...	...	...	...	...	...
MDRI/HIPC debt service relief, total ¹	...	...	4.4	3.6	3.5	...	...
Net program aid	1.3	4.1	2.3	3.0	2.4	3.8	3.4
Liabilities of state owned enterprises ²	9.2	9.0	...	...	...	...	...

Sources: Malawian authorities; and IMF staff estimates.

¹ Includes relief through debt cancellation and transfers.² Include ADMARC, ESCOM, the Waterboards, Air Malawi and MHC.

Table 3a. Malawi : Monetary Authorities' Balance Sheet, 2006–11
(MK millions, unless otherwise indicated)

	2006		2007			2008		2009		2010		2011	
	Q4		Q3		Q2		Q4		Q4		Q4		
	Act.	Proj.	Act.	CR/08/3	Act.	Act.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	
Reserve money	21,522	20,391	30,231	27,442	27,058	31,378	33,012	37,537	43,035	48,956			
Currency outside banks	15,471	14,085	21,470	...	20,588	...	...	...	...	...	...	...
Cash in vault	2,562	2,154	2,141	...	3,615	...	...	...	...	...	...	...
Commercial bank deposits with RBM	3,489	4,314	6,620	...	2,855	...	...	...	...	...	...	...
Net foreign assets (NFA)	15,543	13,932	18,920	23,787	25,769	11,920	10,164	17,899	22,938	42,556			
NFA (US\$ millions)	111.5	99.8	135	167.8	184	84	70	117	143	254			
Gross foreign assets	131.3	133.9	169	210.5	217.1	135	156	209	248	363			
Foreign liabilities	-19.8	-34.1	-33	-42.7	-33	-51	-86	-93	-105	-109			
Net domestic assets	5,979	6,459	11,311	3,655	1,289	19,459	22,848	19,638	20,096	6,400			
Credit to government (net) ¹	7,460	8,503	5,903	9,450	-822	40,626	38,349	46,841	45,129	50,317			
Credit to statutory bodies (net)	0	0	1,249	164	1,266	-31	-33	-37	-43	-48			
Credit to domestic banks	22	2	2,655	675	109	1	0	0	0	0			
Other items (net) ¹	-1,502	-2,046	4,157	-6,635	736	-21,138	-15,468	-27,166	-24,990	-43,870			
Revaluation accounts	0	37	94	0	-58	0	0	0	0	0			
Open market operations	-8,054	-9,136	-9,881	-14,551	-13,965	-5,659	3,229	-3,324	4,102	-8,875			
Encumbered reserves	415	416	4,673	1,984	4,959	1,412	0	0	0	0			
IMF MDRI Relief													
Others	6,137	6,637	9,271	5,931	9,800	-16,891	-18,697	-23,842	-29,092	-34,994			
Of which: Excluding recapitalization bonds		6,637	9,271		9,800	12,309	10,503	5,358	108	-5,794			
<i>Memorandum items:</i>													
Seasonally adjusted reserve money	22,163	24,371	29,871	27,508	28,123	32,442	34,311	39,015	44,729	50,884			
Quarterly change	10.3	10.0	12.0	-3.5	-5.9	-7.9	2.8	3.7	3.3	3.1			
Annual change	5.7	16.0	48.6	27.9	26.9	21.6	22.0	13.7	14.6	13.8			
Seasonally adjusted currency outside banks	27,099	28,394	19,954	...	21,344	...	...	...	...	...
Quarterly change	20.3	4.8	6.0	...	7.0	...	...	...	...	...
Annual change	58.5	62.8	30.6	...	33.0	...	...	...	...	...
Net foreign assets at program exchange rate	15,543	13,932	16,646	23,589	25,814	11,862	9,801	16,402	20,082	35,702			
Net domestic assets at program exchange rate	5,979	6,459	13,584	3,853	1,244	19,516	23,211	21,135	22,953	13,254			
Money multiplier													
Money multiplier	2.85	3.24	2.83	2.74	3.1	3.0	2.9	2.9	2.9	2.9			
Seasonally adjusted	2.75	2.79	2.70	2.74	2.8	2.9	2.9	2.9	2.9	2.9			
Net sales ²													
Quarterly change	3,117	15,185	775	2,608	4,590	-14,003	-2,019	-1,848	-166	-3,127			
Annual change	14,630	25,868	28,670	6,073	22,162	-13,018	-19,204	-10,276	-29,065	-34,774			

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

¹ Includes recapitalization of RBM with a transfer of T-bills in the amount of MK29.3 billion in January 2008

² Defined as the increase in holdings at cost value of both treasury and RBM bills in the private sector.

Table 3b. Malawi : Monetary Survey, 2006–11
(MK millions, unless otherwise indicated)

	2006		2007			2008		2009		2010		2011	
	Act.	Q1 Act.	Q2 Act.	Q3 Act.	CR/08/3 Q4	Act.	Q2 Proj.	Q4 Proj.	Q4 Proj.	Q4 Proj.	Q4 Proj.	Q4 Proj.	Q4 Proj.
Money and quasi-money	61,317	66,163	72,901	78,127	75,130	83,457	95,701	96,325	109,725	126,020	143,616		
Money	35,008	35,849	42,808	46,110	...	49,089	...	...	...	...	...	...	...
Quasi money	26,309	30,314	30,093	32,017	...	34,368	...	...	...	...	...	...	...
Of which: foreign currency deposits	9,909	12,056	10,711	10,068	...	11,092	...	...	...	...	...	...	...
Net foreign assets (NFA)	21,149	18,006	28,302	20,173	30,066	25,529	19,504	16,912	24,909	28,670	46,024		
NFA (US\$ millions)	151.8	129.0	220.7	144	212.1	182	138	116	162	179	275		
Gross foreign assets	190.5	182.6	267.3	208	265.5	257	198	217	272	305	413		
Foreign liabilities	-38.7	-53.6	-46.5	-64	-53.4	-75	-60	-101	-109	-127	-138		
Monetary authorities	15,543	13,932	21,391	18,920	23,787	25,769	10,507	10,164	17,899	22,938	42,556		
NFA of the monetary authorities (US\$ millions)	111.5	99.8	171.6	135	167.8	184	74	70	117	143	254		
Gross foreign assets	131.3	133.9	204.4	169	210.5	217	125	156	209	248	363		
Foreign liabilities	-19.8	-34.1	-32.8	-33	-42.7	-33	-51	-86	-93	-105	-109		
Commercial banks	5,607	4,075	6,910	1,254	6,279	-240	8,997	6,749	7,010	5,732	3,468		
NFA of the commercial banks (US\$ millions)	40.2	29.2	49.1	9	44.3	-2	64	46	46	36	21		
Gross foreign assets	59.1	48.7	62.9	40	55.0	40	73	61	62	57	49		
Foreign liabilities	-18.9	-19.6	-13.8	-31	-10.7	-42	-10	-15	-17	-22	-29		
Net domestic assets	40,167	48,157	44,600	57,954	45,064	57,928	76,197	79,412	84,816	97,350	97,592		
Credit to government (net)	19,049	25,102	13,901	24,723	22,171	20,093	59,090	57,418	66,210	59,171	48,240		
Credit to statutory bodies (net)	-332	575	740	858	791	1,333	88	93	106	122	139		
Credit to private sector	27,747	26,862	29,453	29,783	30,128	33,988	44,040	44,061	55,178	75,679	99,470		
Other items (net)	-6,296	-4,382	506	2,589	-8,026	2,514	-27,021	-22,159	-36,678	-37,621	-50,257		
RBM's revaluation accounts	0	37	0	94	0	-58	0	0	0	0	0		
Open market operations	-4,584	-1,662	-5,031	-4,876	-8,891	-7,369	-5,002	3,079	-6,294	-1,988	-8,722		
Encumbered reserves	415	416	2,798	4,673	1,984	4,959	1,412	0	0	0	0		
IMF MDRI relief													
Others	-2,127	-3,174	2,739	2,698	-1,119	4,983	-23,432	-25,239	-30,383	-35,634	-41,536		
<i>Memorandum items:</i>													
Seasonally adjusted broad money	62,346	68,133	70,582	77,361	75,892	84,980	92,657	98,083	111,728	128,321	146,238		
Quarterly change	4.0	9.3	3.6	7.5	1.1	9.7	0.1	2.8	3.7	3.3	3.2		
Annual change	17.8	21.5	25.3	29.4	22.8	35.9	31.3	15.4	13.9	14.9	14.0		
Seasonally adjusted credit to private sector	27,099	28,394	29,528	29,782	29,383	33,122	44,152	42,938	53,772	73,751	96,936		
Quarterly change	20.3	4.8	4.0	3.7	-3.2	8.7	24.5	1.9	4.7	1.4	2.4		
Annual change	58.5	62.8	38.8	36.7	7.0	31.5	49.5	29.6	25.2	37.2	31.4		
Velocity of money (annual GDP divided by seasonally adjusted trend-smoothed end-period broad money)	6.90	6.57	6.58	6.2	6.55	5.8	5.8	5.9	6.1	6.1	6.0		

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

Table 4a. Malawi: Balance of Payments, 2005–11
(US\$ millions, unless otherwise indicated)

	2005	2006	2007		2008	2009	2010	2011
	Act.	Act.	CR/08/3	Prel.	Proj.	Proj.	Proj.	Proj.
Current account balance (including grants)	-287.8	-202.7	-112.6	-74.8	-337.4	-257.0	-327.7	-289.9
Current account balance excluding grants	-549.7	-622.9	-577.5	-573.2	-822.2	-902.7	-975.2	-1007.6
Merchandise trade balance	-496.7	-559.5	-528.7	-601.0	-814.8	-829.5	-843.2	-865.5
Exports	508.9	543.8	628.3	721.4	858.7	996.7	1107.7	1130.9
Of which: Tobacco	278.2	289.7	279.0	365.2	564.4	510.0	525.3	541.1
Uranium			0.0	0.0	0.0	170.1	251.5	249.8
Imports	-1005.6	-1103.3	-1157.0	-1322.5	-1673.5	-1826.2	-1950.9	-1996.4
Of which: Petroleum	-137.3	-167.8	-178.6	-196.0	-337.5	-435.4	-501.3	-573.6
Services balance	-244.7	-236.3	-235.8	-189.0	-225.6	-312.2	-371.8	-382.8
Interest public sector (net)	-25.9	-21.4	-4.2	-4.5	-6.2	6.4	5.4	1.3
Receipts	0.7	0.6	1.1	0.6	1.3	12.7	11.9	7.8
Payments ¹	-26.6	-22.0	-5.3	-5.1	-7.5	-6.3	-6.5	-6.5
Other factor payments (net)	-15.7	-17.0	-18.2	-18.3	-19.7	-106.2	-162.7	-173.0
Nonfactor (net)	-203.1	-197.9	-213.5	-166.2	-199.8	-212.4	-214.5	-211.1
Receipts	50.0	51.7	60.2	123.0	128.4	133.9	140.4	147.3
Payments	-253.1	-249.6	-273.7	-289.2	-328.2	-346.3	-354.9	-358.5
Unrequited transfers (net)	453.6	593.0	652.0	715.3	703.1	884.7	887.3	958.4
Private (net)	191.7	172.9	187.0	216.9	218.3	239.0	239.8	240.7
Receipts	203.6	185.0	199.4	229.3	230.9	252.0	253.1	254.2
Payments	-11.8	-12.1	-12.4	-12.4	-12.7	-13.0	-13.3	-13.5
Official (net)	261.9	420.1	464.9	498.4	484.8	645.7	647.5	717.7
Budget support	97.2	72.0	82.8	103.8	63.7	133.9	134.7	191.6
Project related	150.6	348.1	382.2	394.6	421.1	511.8	512.8	526.2
Capital account balance (incl. errors and omissions)	260.1	153.6	171.6	95.1	271.3	303.3	343.9	386.0
Medium- and long-term flows	30.4	72.9	142.0	63.0	51.5	163.1	236.6	280.7
Disbursements	107.5	137.9	155.6	74.5	63.1	176.6	246.3	289.3
Budget support	18.1	24.5	9.0	0.0	21.2	45.0	34.7	54.7
Project support	79.4	62.0	79.6	85.4	86.9	131.6	156.6	169.6
Other medium-term loans	10.0	0.0	0.0	-5.8	0.0	0.0	55.0	65.0
Other investment assets	0.0	51.4	67.0	-5.1	-45.0	0.0	0.0	0.0
Amortization ¹	-77.1	-65.0	-13.6	-11.4	-11.7	-13.5	-9.7	-8.6
Foreign direct investment and other inflows	26.5	29.7	31.8	32.1	220.0	140.0	107.0	105.0
MDRI debt forgiveness on debt due after current year		1864.0	383.0	383.0				
Other liabilities (MDRI-IDA, IMF and ADF loans)		-1864.0	-383.0	-383.0				
Short-term capital and errors and omissions	203.2	50.9	0	0	0	0	0	0
Overall balance	-27.7	-49.2	59.0	20	-66.1	46.3	16.2	96.1
Financing (- increase in reserves)	27.8	49.2	-59.0	-20	66.1	-46.4	-16.2	-96.1
Central bank	-48.6	-34.5	-63.0	-64.6	114.1	-47.0	-26.2	-111.1
Gross reserves (- increase)	-30.6	24.9	-90.6	-82.8	61.1	-53.1	-38.5	-115.7
Liabilities	-18.0	-59.4	27.6	18.2	53.0	6.2	12.4	4.5
Of which: IMF (net)	-10.6	-59.5	27.6	10.1	53.0	6.2	6.2	10.7
Purchases/drawings	8.3	14.4	27.6	10.1	53.0	6.2	6.2	12.4
Repurchases/repayments	-18.9	-73.9	0.0	0.0	0.0	0.0	0.0	-1.7
Commercial banks	18.8	-16.1	-4.1	41.9	-48.0	0.6	10.0	15.0
Arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt relief	57.6	99.9	5.9	2.3	0.0	0.0	0.0	0.0
Residual financing gap (+ underfinanced)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Memorandum items:</i>								
Usable gross official reserves								
US\$ Millions ²	131.2	130.3	210.5	217.1	156.1	209.2	247.7	363.4
Months of imports ³	1.2	1.0	1.6	1.28	0.84	1.07	1.24	1.69
Current account balance (percent of GDP)								
Excluding official transfers	-19.3	-19.7	-16.3	-16.1	-20.1	-19.9	-19.7	-18.7
Including official transfers	-10.1	-6.4	-3.2	-2.1	-8.2	-5.7	-6.6	-5.4

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

1 For years before 2007 debt service due before HIPC debt relief

2 Excludes, open letter of credit, blocked deposits and encumbered reserves

3 Months of prospective imports of goods and services.

Table 4b. Malawi: Gross financing requirements and sources of financing, 2005–11
(US\$ millions)

	2005	2006	2007		2008	2009	2010	2011
	Act.	Act.	CR/08/3	Prel.	Proj.	Proj.	Proj.	Proj.
Gross financing requirements	-665.0	-2616.9	-1071.0	-1000.3	-820.8	-968.7	-1007.3	-1124.7
Gross financing requirements(excluding HIPC/MDRI)	-665.0	-752.9	-685.8	-617.3	-820.8	-968.7	-1007.3	-1124.7
External current account deficit (excl. official transfers)	-549.7	-622.9	-577.5	-573.2	-822.2	-902.7	-975.2	-1007.6
<i>Of which:</i> trade balance on goods and services	-699.8	-757.4	-742.2	-767.2	-1014.6	-1041.9	-1057.8	-1076.6
Official debt amortization	-96.0	-2002.9	-398.8	-394.4	-11.7	-13.5	-9.7	-10.3
<i>Of which:</i> IMF repurchases and repayments	-18.9	-73.9	0.0	0.0	0.0	0.0	0.0	-1.7
MDRI debt repayment		-1864.0	-385.2	-383.0	0.0	0.0	0.0	0.0
Other, including reserves	-19.2	8.8	-94.7	-32.7	13.0	-52.6	-22.4	-106.8
Gross reserves (after terms of trade shock)	-30.6	24.9	-90.6	-82.8	61.1	-53.1	-38.5	-115.7
Gross liabilities (excluding IMF)	-7.4	0.1	0.0	8.1	0.0	0.0	6.2	-6.2
Change in n.f.a. of commercial banks	18.8	-16.1	-4.1	41.9	-48.0	0.6	10.0	15.0
Sources of financing	665.0	2616.9	1071.0	1000.3	820.8	968.7	1007.3	1124.7
Private capital (net)	229.7	132.0	98.8	27.0	174.8	140.2	107.3	105.3
FDI	26.5	29.7	32.1	32.1	220.0	140.0	107.0	105.0
<i>Of which:</i> short term capital errors and omissions	203.2	50.9	0.0	0.0	-0.2	0.2	0.3	0.3
Gross official assistance	377.7	521.0	581.1	588.0	646.0	828.5	900.0	1019.4
Official grants	261.9	420.1	464.9	498.4	484.8	645.7	647.5	717.7
Balance of payments support	97.2	72.0	82.8	103.8	63.7	133.9	134.7	191.6
Other	164.7	348.1	382.2	394.6	421.1	511.8	512.8	526.2
Loan disbursements	115.8	100.9	116.2	89.7	161.1	182.8	252.5	301.7
IMF	8.3	14.4	27.6	10.1	53.0	6.2	6.2	12.4
Balance of payments support	18.1	24.5	9.0	0.0	21.2	45.0	34.7	54.7
Project support	79.4	62.0	79.6	85.4	86.9	131.6	156.6	169.6
Accumulation of arrears (exceptional)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt relief (including MDRI)	57.6	1963.9	391.1	385.3	0.0	0.0	0.0	0.0
Financing gap (surplus +/-deficit -)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items (percent of GDP)								
Gross financing requirements	-23.2	-82.7	-30.3	-28.1	-20.0	-21.3	-20.3	-20.9
Current account balance, excluding official transfers	-19.2	-19.7	-16.3	-16.1	-20.1	-19.9	-19.7	-18.7
Trade balance on goods and services	-24.5	-23.9	-21.0	-21.5	-24.8	-22.9	-21.4	-20.0
Gross official assistance	13.2	16.5	16.4	16.5	15.8	18.2	18.2	18.9
Gross official assistance, net of amortization after debt relief	11.9	15.2	16.2	16.3	15.5	17.9	18.0	18.7
Balance of payments assistance (including IMF)	4.3	3.5	3.4	3.2	3.4	4.1	3.5	4.8
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

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

Table 5a. Malawi: Quantitative Performance Criteria and Indicative Targets, 2007–08¹

Criteria	Jun. 2005		Jun. 2007		End-Sept 2007	End-December 2007: Test Date		End-March 2008	End-Jun 2008
	Stock Actual	Stock Actual	Stock Actual	Stock Actual	Proj.	CR/08/3	Adjusted Target	Est.	Est.
I. Monetary Targets (MK millions)									
1. Ceiling on net domestic assets of the monetary authorities ⁴	15,520	1,883	-3,732	-11,088	-1,687	-12,774	-13,696	3,295	-14,494
2. Ceiling on reserve money	19,580	25,797	10,650	7,861	...	7,861	7,477	9,944	10,489
II. Fiscal Targets (MK millions)									
3. Ceiling on central government's net domestic borrowing ^{4, a, o}	53,923	57,094	8,486	2,161	-1,687	474	2,407	14,554	-1,547
4. Ceiling on central government discretionary expenditures ⁴	...	...	23,982	46,203	3,843	50,046	51,684	77,450	79,169
III. External Targets (US\$ Millions)									
5. Floor on net foreign assets of the monetary authorities ⁴	33.0	171.6	102	135	12.0	146.8	150.6	47	178
6. Ceiling on the accumulation of external payments arrears ^o	...	...	0.0	0.0	...	0.0	0.0	0.0	0.0
7. Ceiling on new nonconcessional external debt maturing in one year or more ^o	...	...	0.0	0.0	...	0.0	0.0	0.0	0.0
8. Ceiling on new nonconcessional external debt maturing in less than one year ^o	...	...	0.0	0.0	...	0.0	0.0	0.0	0.0
Memorandum items:									
For fiscal Targets									
Balance of payments support (US\$ millions)			5.0	76.2	12.0		88.2	88.2	119.7
Balance of payments support (MK millions)			697	10,774	1,574.7		12,349	12,349	16,924
Debt service payments to the WB and the ADB (US\$ millions)			0.4	0.9	0		0.9	0.9	0.9
Debt service payments to the WB and ADB (MK millions)			57.2	124.4	-1		123.5	123.5	124.4
IMF debt relief transfers from the RBM to the CG (US\$ millions)			0.0	0.0	0.0		0.0	0.0	0.0
IMF debt relief transfers from the RBM to the CG (MK millions)			0.0	0.0	0		0.0	0.0	0.0
Health SWAp wage expenditures (MK millions)			295	591	0		591	887	1,183
Health SWAp ORT expenditures (MK millions)			2,815	3,488	3,843		7,332	9,827	7,876
Health SWAp wage expenditures (MK millions)			-1,576	699	112		-1,189	-7,491	0
Net movement in NAC account			2,471	2,591	4,847		2,651	8,037	0
NAC receipts			-3,164	-2,591	-2,196		-4,787	-8,897	2,542
NAC payments			0	0	0		0	0	0
Maize revenue			-882	-1,301	-2,539		-3,840	-6,631	0
Net SWAp related budget flows			2,228	5,379	-1,296		4,082.6	4,083	9,327
SWAp receipts			-3,110	-6,680	-1,243		-7,923	-10,714	-9,059
SWAp payments			590	250	0		814	762	375
Cash payment of arrears (MK millions)			0	0	0		0	0	0
Securitization of domestic arrears			0	2,800	-2,800		0	29,648	2,800
RBM securitization/capitalization			15.5	15.5	0		15.5	15.5	15.5
Liquidity reserve requirement (percent)									
For Monetary Targets									
Balance of payments support (US\$ millions)			205.4	276.7	12.0		288.7	288.7	320.2
Debt service payments to the WB and the ADB (US\$ millions)			13.8	14.3	0		14.3	14.3	14.3
Program exchange rate			123	139	141		141	141	141

PC - performance criteria; IT - indicative target

1/ Targets are defined in the technical memorandum of understanding (TMU). Up to the third PRGF review (EBS/07/11), all targets were set cumulative from end-June 2005. Henceforth, the fiscal targets are set cumulative from the end of the previous fiscal year. Fiscal targets from July 1, 2007 to end-June 2008 are therefore cumulative from end-June 2007. The adjuster on the balance of payment support is \$40 million, cumulative from end-June 2007.

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

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

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

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

7/ Evaluated continuously.

Table 5b. Malawi: Structural Benchmarks
June 2007–June 2008

Number	Description	Date	Status
Structural Benchmarks			
1	Submit legislation to Cabinet governing the microfinance sector.	End-June 2007	pending
2	Form a cash management unit within the Accountant General's office and establish a cash management committee.	End-Dec. 2007	Implemented
3	Review the existing Treasury Funds and present information on their financial performance for auditing by the office of the Accountant General.	End-Dec. 2007	
4	Complete onsite inspections of the three largest banks.	End-Dec. 2007	Implemented
5	Issue the first circulars to ministries and assemblies communicating 2008/09 ceilings.	End-Jan. 2008	Implemented with delay

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

Amount	Date	Conditions Necessary for Disbursement
5.4190	Aug-05	Executive Board approval of three-year PRGF arrangement
4.9245	Mar-06	Completion of 1st review and observance of end-Sep. 2005 PCs
4.9245	Sep-06	Completion of 2nd review and observance of end-Dec. 2005 PCs
6.6800	Mar-07	Completion of 3rd review and observance of end-Jun. 2006 PCs
11.4510	Nov-07	Completion of 4th review and 5th review; observance of end-Dec. 2006 PCs and end-Jun. 2007 PCs
15.1810 ¹	Jul-08	Completion of 6th review and observance of end-Dec. 2007 PCs
48.5800 ²		

¹ Includes the proposed augmentation of 15 percent of quota (10.41 SDR)

² Equivalent to 70 percent of Malawi's quota (SDR 69.4 million).

Table 6b: Malawi Indicators of Capacity to Repay the Fund, 2006-16

	Projections									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Fund obligations based on existing credit										
(SDR millions)										
Principal	-	-	-	-	0.5	2.6	5.4	6.7	6.7	5.1
Charges and interest	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.4	0.4	0.4
Fund obligations based on existing and prospective credit¹										
(SDR millions)										
Principal	-	-	-	-	0.5	2.6	5.4	9.7	9.7	8.1
Charges and interest	0.5	0.5	0.6	0.6	0.6	0.6	0.5	0.5	0.4	0.4
Total obligations based on existing and prospective credit¹										
SDR millions	0.5	0.5	0.6	0.6	1.1	3.2	5.9	10.2	10.2	8.5
US\$ millions	0.8	0.8	0.9	0.9	1.7	5.2	9.5	16.5	16.4	13.8
Percent of exports of goods and services	0.1	0.1	0.1	0.1	0.1	0.4	0.7	1.2	1.3	1.0
Percent of quota	4.7	4.2	3.4	2.5	7.5	13.3	14.9	19.5	16.0	11.2
Percent of gross international reserves	0.8	0.8	0.8	0.8	1.5	4.6	8.5	14.7	14.6	12.3
	0.4	0.6	0.5	0.4	0.5	-	-	-	-	-
Outstanding Fund credit										
SDR millions	19.6	46.3	46.3	46.3	45.8	43.1	37.8	28.0	18.3	10.2
US\$ millions	30.0	74.8	75.6	70.7	74.0	69.7	61.1	45.3	29.6	16.5
Percent of exports of goods and services	3.6	7.6	6.7	5.7	5.8	5.3	4.5	3.3	2.4	1.2
Percent of debt service	174.7	370.8	280.3	206.0	324.7	179.2	95.4	53.7	28.9	13.4
Percent of quota	28.3	66.6	66.6	66.6	65.9	62.1	54.4	40.4	26.4	14.7
Percent of gross international reserves	13.8	53.8	39.3	30.8	21.4	-	-	-	-	-
Memorandum items:										
Exports of goods and services (US\$ millions)	844.4	987.1	1,130.6	1,248.1	1,278.3	1,307.0	1,342.2	1,378.7	1,253.1	1,320.3
Debt service (US\$ millions)	17.2	20.2	27.0	34.3	22.8	38.9	64.0	84.5	102.5	123.1
Quota (SDR millions)	69.4	69.4	69.4	69.4	69.4	69.4	69.4	69.4	69.4	69.4
Gross international reserves (US\$ millions)	217.1	139.1	192.2	229.9	345.1	-	-	-	-	-
GDP (US\$ millions)	3,561.5	4,094.9	4,528.8	4,937.8	5,361.9	5,990.3	6,465.2	6,779.2	7,122.4	7,541.2

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

¹ Assumes augmentation of SDR 10.41 million is disbursed in July 2008.

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MINISTER OF FINANCE

Ministry of Finance
P.O. Box 30049
Lilongwe 3
MALAWI

Ref. No. MF/4/1/1

25th June, 2008

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

Dear Mr. Strauss-Kahn,

The Executive Board of the International Fund (IMF) approved a three-year arrangement under the PRGF on August 5, 2005, for a total amount of SDR 38.17 million to support the government's economic program for 2005-08. On December 17, 2007 the Board completed the fourth and fifth reviews under this arrangement.

All quantitative performance criteria were met at the test date for the sixth review (end-December 2007), except for the criterion on central government domestic borrowing. In this connection, the Government requests the IMF Executive Board to grant a waiver for the nonobservance of this performance criterion on the basis of overall excellent outcomes, corrective actions taken, and the strength of our policies, including intensified efforts with regard to public finance management.

Thus, the government of Malawi hereby requests completion of the sixth and final review under the three-year PRGF arrangement and disbursement of the seventh and final loan.

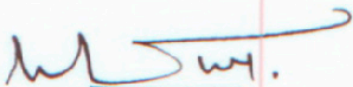
In addition, the higher world oil and fertilizer prices have considerably weakened Malawi's external position and caused a loss of external reserves. The government of Malawi is determined to forcefully address these challenges. To facilitate the adjustment and address the temporary additional balance of payments needs, we request an augmentation of access under the current PRGF arrangement in an amount equivalent

to SDR 10.41 million (15 percent of quota) and the disbursement of this amount upon the completion of the sixth review. The augmentation will bring the final disbursement to SDR 15.181 million.

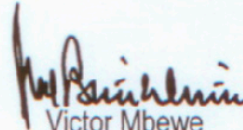
The government intends to request a new PRGF arrangement later in 2008.

The government consents to publication of this letter and the report of Fund staff on the sixth review of the program.

Yours sincerely,



Goodall E. Gondwe, M.P.
MINISTER OF FINANCE



Victor Mbewe
GOVERNOR
RESERVE BANK OF MALAWI

INTERNATIONAL MONETARY FUND

MALAWI

Sixth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility (PRGF), and Requests for Waiver of Nonobservance of Performance Criterion and Augmentation of Access

Informational Annex

Prepared by the African Department

June 26, 2008

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III.	Statistical Issues	14

APPENDIX I—MALAWI: RELATIONS WITH THE FUND
(As of May 31, 2008)

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

II. General Resources Account:	<u>SDR million</u>	<u>Percent Quota</u>
Quota	69.40	100.0
Fund holdings of currency	67.08	96.66
Reserve position in Fund	2.32	3.35

III. SDR Department:	<u>SDR million</u>	<u>Percent Allocation</u>
Net cumulative allocation	10.98	100.0
Holdings	0.10	0.90

IV. Outstanding Purchases and Loans:	<u>SDR million</u>	<u>Percent Quota</u>
PRGF arrangements	31.07	44.77

V. **Financial Arrangements:**

<u>Type</u>	<u>Approval Date</u>	<u>Expiration Date</u>	<u>Amount Approved (SDR million)</u>	<u>Amount Drawn (SDR million)</u>
PRGF	8/5/2005	8/4/2008	38.17	33.40
PRGF	12/21/2000	12/20/2004	45.11	12.88
PRGF	10/18/1995	12/16/1999	50.96	50.96

VI. **Projected Obligations to Fund¹**

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

	<u>Forthcoming</u>				
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Principal				0.49	2.64
Charges/Interest	<u>0.32</u>	<u>0.48</u>	<u>0.48</u>	<u>0.48</u>	<u>0.47</u>
Total	<u>0.32</u>	<u>0.48</u>	<u>0.48</u>	<u>0.97</u>	<u>3.11</u>

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

VII. Implementation of HIPC Initiative:

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

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

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

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

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

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

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

IX. Safeguards Assessments:

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

X. Exchange Arrangements:

Since mid 2006, the authorities have kept the exchange rate stable. During the second review of the PRGF arrangement in August 2006 a multiple currency practice (MCP) under Article VIII (as evident by the significant spread between the commercial bank exchange rate and the rates at foreign exchange bureaus) was identified. More recently, a forward commercial bank foreign exchange market has emerged that has at times traded at a depreciated rate. The emergence of the forward market was not due to any new government actions, therefore, the spreads between the forward market and other segments of exchange market does not represent a modification of the existing MCP or a new MCP. Malawi also maintains restrictions on capital account. On June 23, 2008, the exchange rate was MK 140.5= US\$1.00.

XI. Article IV Consultation:

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

XII. Technical Assistance:

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

03/08	1 weeks	FAD	Ministry of Finance	Formulation Assesment of the TA needs in the area of PFM Reform	Mission
03/08	1 weeks	FAD	Ministry of Finance	Tax and Customs Administration	Mission
03/08	2 weeks	FAD	Ministry of Finance	Revenue Administration Reform	Mission
03/08	2 weeks	MCM	RBM	Foreign Exchange Operations	Mission
04/08	1 weeks		Ministry of Finance	access TA requirements of the MOF & draw up a workplan of activities for 2008/09	Mission
05/08	2 weeks	STA	RBM	DFID: Monetary and Financial Statistics	Mission

XIII. Resident Representative:

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

APPENDIX II—MALAWI: RELATIONS WITH THE WORLD BANK GROUP

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

A. World Bank Country Assistance Strategy (CAS)

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

B. Financial Relations with the World Bank Group

5. The World Bank has been active in Malawi since 1966. Total lending and grants to Malawi from the World Bank as of April, 2008 is US\$2.7 billion, of which over US\$2.4, billion has been disbursed. As of March 2008, there are 12 active projects in Malawi with a net commitment of US\$329 million and an undisbursed balance of US\$204. million. Sectoral breakdown is as follows: Human Development sectors at 27 percent; agriculture at 20 percent; infrastructure at 32 percent; private sector at 8 percent, Budget Support at 6 percent and public sector at 7 percent.

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

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

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

C. Areas in Which the Bank Leads

Education and HIV/AIDS

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

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

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

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

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

Social Protection and Community Development

13. The Malawi Social Action Fund (MASAF) is a long-term, wide-ranging poverty-reduction project that supports decentralization and community capacity building. The first phase of the project concluded in December 2007, with the second phase to start in June 2008. The project aims to empower individuals, households, communities, and their development partners in the implementation of measures that can assist them in better managing risks associated with health, education, sanitation, water, transportation, energy

and food insecurity, and to provide support to critically vulnerable populations through a variety of sustainable interventions. The project encourages communities to develop social safety nets for their most vulnerable members (such as skills training for AIDS orphans), facilitates delivery of the most needed social services, and stimulates communities to save and invest.

Infrastructure

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

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

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

Private Sector

17. Parastatal reform continues to be an urgent need in Malawi. In the past few years, progress has been made with Bank assistance through the Privatization and Utility Reform Project which closed in December 2007, and now with the Business Environment Strengthening Technical Assistance Project (US\$15 million) which was approved on May 24, 2007. The project aims to support acceleration of economic growth by reducing the cost of doing business, improving service delivery to the private sector and providing targeted support to small and medium enterprises.

18. Malawi also participates in the Regional Trade Facilitation Project, which principally aims to contribute to poverty alleviation through private sector-led growth in participating countries by improving access to financing for productive transactions and cross-border trade. The project brings together a group of countries by setting up a credible insurance mechanism against losses caused by political risks. The governments of these countries would agree to be the ultimate risk takers in the insurance mechanism, thus creating a strong disincentive to bring claims. The private market currently does not offer this type of insurance, particularly for medium-term transactions (over one year). The project will thus widen the scope for private sector activity by extending the maturities at which credit is available. It will also create a more stable business environment by extending consistent and

predictable coverage. Finally, through better risk management, the project will lower the risk premium.

Agriculture

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

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

21. Given that the agriculture sector is key to development in Malawi, two pipeline projects are planned in the CAS; an Agriculture Sector/ Food Security SWAp, followed by a MASAF3 APL2 Project.

Environment

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

Poverty Monitoring

23. Through the PRSP Trust Fund, the Bank assisted the government (and specifically, the National Statistical Office) in conducting the Second Integrated Household Survey,

including design, collection, processing, and dissemination of data covering not only household characteristics, but also community level indicators. Following completion of the survey in 2005, the Poverty and Vulnerability Assessment, which provides in-depth analysis of the new household data, was prepared in 2006 jointly by the Ministry of Economic Planning and Development, the National Statistical Office, and the World Bank.

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

Poverty Reduction Strategy

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

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

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

26. Following the HIPC Completion Point, the World Bank and IMF have continued to collaborate in assisting the Government of Malawi in the area of public debt management. Firstly, the Bank and Fund collaborated in the Global Debt Management Partnership (GDMP) to undertake more structured assessments in debt management capacity in low income countries. Under this initiative, a pilot of the Government Debt Management Performance Assessment (DeMPA) tool was undertaken, with the World Bank leading when it came to the assessment itself. Secondly, the Bank, Fund, and the Government of Malawi worked closely in preparing a chapter on Public Debt Sustainability and Debt Management Reforms as part of the Public Expenditure Review. Thirdly, the Bank, Fund and the Government also collaborated in identifying a reform program in the area of improved debt management that could be supported by the Bank’s PRSC. The main elements of the reform program are the cabinet approval of a Debt Management Policy and implementation of mechanisms for effective coordination between MoF and the RBM. Fourthly, the Bank and Fund are collaborating in supporting the Government’s debt management reforms within the context of the Lipsky-Daboub initiative. Under the Lipsky-Daboub initiative, the Bank and

Fund has been discussing with the Government and donors to identify support gaps within the Public Financial and Economic Management (PFEM) action plan. Lastly, another full LIC-DSA is being planned for the fall in 2008 to be undertaken jointly between the Fund and the Bank, but with the Fund leading the exercise.

Budgetary Planning, Revenues Administration, and Public Expenditure Reforms

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

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

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

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

Civil Service and Wage Reform

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

E. Areas in Which the Fund Leads

Macroeconomic Stability, Fiscal Policy, and Monetary Policy

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

APPENDIX III—MALAWI: STATISTICAL ISSUES

1. Economic statistics are broadly adequate for surveillance and program monitoring purposes, but serious deficiencies remain. The data module of the Report on the Observance of Standards and Codes (data ROSC), published February 17, 2005, found that, while the legal and institutional framework for the production of macroeconomic statistics was broadly adequate, there were shortcomings in the scope, accuracy, and reliability of data. Scope was also found for strengthening the Statistics Act to formally assign the responsibility for the compilation of government finance statistics to the Ministry of Finance and responsibility for the compilation of monetary statistics to the Reserve Bank of Malawi (RBM).
2. The authorities are making efforts to improve the quality and timeliness of economic and financial data through participation in the Fund's General Data Dissemination System (GDSS) and the GDSS Project for Anglophone African Countries. Malawi is participating in the GDSS/PRSP and the monetary and financial statistics modules of the project. GDSS metadata have been posted on the Fund's Dissemination Standards Bulletin Board (DSBB) since December 2002 and most recently updated in February 2007.

A. Real Sector Statistics

3. Real sector statistics, including the national accounts, prices, and trade statistics, need substantial improvement. Only a limited set of source data are available, and there is significant scope for improvement of timeliness, accuracy and reliability. The National Statistics Office (NSO) needs additional resources to meet, in particular, the required quality standard of national accounts. A long-term technical assistance program in the area of national accounts is being provided under a project by Statistics Norway.

National accounts

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

Prices

5. A consumer price index (CPI) is available on a timely basis. The CPI is based on the 1997/98 household survey, and data are collected on a monthly basis by regional price collectors. The authorities are in the process of revising the CPI weights using the 2004 Integrated Household Survey.

Trade

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

B. Government Finance Statistics

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

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

activities-based budget classification (ABB) is used for the presentation of the budget. However, **pro-poor expenditures** that have been protected in line with the PRSP are only identified in the ABB classification. As no bridge table exists to map the ABB classification into the program classification used for expenditure reporting and accounting, pro-poor expenditures cannot be monitored.

- **Financing estimates** are based on monetary and debt data, rather than on government records of financing. Reporting on treasury bills directly issued to the RBM at times has been slow.

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

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

C. Monetary and Financial Statistics

10. The Reserve Bank of Malawi reports monetary and financial statistics (MFS) to STA on a regular basis. The April-May 2004 and May 2008 missions noted that significant progress had been achieved in implementing technical assistance recommendations. Coverage of the monthly depository corporations' survey now accounts for more than 90 percent of deposits collected by the deposit-taking financial institutions. However, the data collection from credit cooperatives and pension funds could not be accomplished because the RBM had not yet been granted the authority to require reporting from these institutions. Pending legislation would give this authority to the RBM. The missions also noted that some important recommendations were yet to be implemented, such as the sectorization of the domestic economy, and classification of financial instruments to ensure that the RBM adheres fully to the methodology of the *Monetary and Financial Statistics Manual*.

11. Also, the May 2008 mission assisted RBM staff in developing the standardized report forms (SRFs) for the central bank accounts and monetary aggregates and initiated work on the SRF for reporting the data of other depository corporations (ODCs). The mission

also updated the SRF on monetary aggregates with the national definitions of money, and used the central bank data to initiate the development of an integrated monetary database (IMD) that will become effective only when the RBM reports data on the SRFs for the ODCs and other financial corporations. The mission revised the coverage of interest rates in *International Financial Statistics* to ensure that the most representative rates are published.

D. External Sector Statistics

Concepts and definitions used to compile the balance of payments statistics are in broad conformity with the guidelines presented in the fourth edition of the *Balance of Payments Manual (BPM4)*, although there has been some progress in the transition to the methodology of *BPM5*. Since the liberalization of exchange controls, the compilation of data relies on surveys as the source of information for major components in the balance of payments, such as services, direct investment flows, and other financial transactions of the private sector. Data from primary sources (surveys and/or International Transaction Reporting System reports) are supplemented with information from secondary data sources, such as foreign trade statistics collected by the Malawi Revenue Authority through customs declarations, debt statistics from the MOF, net foreign assets of depository corporations from the RBM, and information on grants collected from main donors. Following a number of technical assistance missions, compilers have introduced some new data sources and have revised several components of the balance of payments. No international investment position statement is prepared.

**MALAWI: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE
(AS OF JUNE 9, 2008)**

	Date of Latest Observation	Date Received	Frequency of Data ⁷	Frequency of Reporting ⁷	Frequency of Publication ⁷	Memo Items:	
						Data Quality – Methodological Soundness ⁸	Data Quality – Accuracy and Reliability ⁹
Exchange Rates	03/08	5/12/08	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	04/08	5/28/08	M	M	M		
Reserve/Base Money	03/08	5/12/08	M	M	M	LO, LO, LO, LO	LO, O, O, O, O
Broad Money	03/08	5/12/08	M	M	M		
Central Bank Balance Sheet	03/08	5/12/08	M	M	M		
Consolidated Balance Sheet of the Banking System	03/08	5/12/08	M	M	M		
Interest Rates ²	03/08	5/12/08	M	M	M		
Consumer Price Index	03/08	5/15/08	M	M	M	O, LO, O, O	LO, LO, LNO, LO, LO
Revenue, Expenditure, Balance and Composition of Financing ³ – General Government ⁴	NA	NA	NA	NA	NA	LO, LNO, LNO, LO	LNO, O, LO, O, LO
Revenue, Expenditure, Balance and Composition of Financing ³ – Central Government	09/07	10/31/07	M	M	I		
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	09/07	10/31/07	M	M	M		
External Current Account Balance	2006	04/07	A	Q	A	LO, LO, LNO, LO	LNO, LNO, LO, LO, LO
Exports and Imports of Goods and Services	2006	06/07	A	A	A		
GDP/GNP	2006	06/07	A	A	A	LO, LO, LNO, LO	LNO, LNO, LNO, LO, LO
Gross External Debt	12/05	05/06	M	NA	NA		
International Investment Position ⁶							

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

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

³ Foreign, domestic bank, and domestic nonbank financing.

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

⁵ Including currency and maturity composition.

⁶ Includes external gross financial asset and liability positions vis a vis nonresidents.

⁷ Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).

⁸ Reflects the assessment provided in the data ROSC, published February 17, 2005, and based on the findings of the mission that took place September 1–16, 2003 for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O); largely observed (LO); largely not observed (LNO); not observed (NO); and not available (NA).

⁹ Same as footnote 7, except referring to international standards concerning (respectively) source data, assessment of source data, statistical techniques, assessment and validation of intermediate data and statistical outputs, and revision studies.



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IMF Executive Board Completes Sixth and Final Review Under PRGF Arrangement for Malawi, Increases Financial Assistance to Mitigate the Impact of Fertilizer and Fuel Prices, and Approves US\$ 24.7 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) has completed the sixth and final review of Malawi's economic performance under a three-year Poverty Reduction and Growth Facility (PRGF) arrangement.

In the context of this review the Executive Board decided to increase access under the program by SDR 10.41 million (about US\$16.9 million) to SDR 48.58 million (about US\$ 79.0 million), to help meet a larger balance of payments need brought about by higher fuel and fertilizer prices. The Executive Board also waived the non-observance of the end-December 2007 performance criterion on central government domestic borrowing. The completion of the review enables the release of SDR 15.18 million (about US\$ 24.7 million), which will fully disburse the total amount available under the arrangement.

The three-year PRGF arrangement for Malawi was approved on August 5, 2005 (see [Press Release No 05/188](#)), originally for a total amount of SDR 38.2 million (about US\$ 62.1 million) to support the government's economic program for 2005-2007.

Following the Executive Board's discussion, Mr. Takatoshi Kato, Deputy Managing Director and Acting Chair, said:

“The Malawi authorities are to be commended for the performance under the PRGF-supported program. Helped by favorable weather and debt relief, growth has been robust, poverty has been reduced, inflation has fallen to single digits, and the debt situation has improved. A major fiscal consolidation supported a decline in interest rates and a large expansion in credit to the private sector.

“The strong growth is expected to continue and spread beyond agriculture, although rising fuel and fertilizer prices are increasing the downside risk and adding inflation pressure. Further efforts to improve the business environment would help support growth.

“Strong revenue performance helped fiscal policy implementation. However, repeated expenditure overruns remain a concern. Despite efforts to accelerate public financial management reforms, capacity constraints remain serious, and budget preparation,

execution, and control need to be further strengthened. Firm fiscal discipline and continued strong political commitment will be required to meet the 2008/09 budget targets.

“Malawi has been hit hard by a large increase in the price of key imports in 2007 and 2008, notably of fuel and fertilizers. In this light, Malawi’s low level of international reserves is a concern for financial stability and food security, and against that background, the Board agreed to Malawi’s request for augmentation of access under the PRGF. Further consolidation of government net domestic debt will facilitate the further accumulation of international reserves without jeopardizing growth and crowding out the private sector. Additional donor support would help greatly in smoothing the needed adjustment.

“The monetary overhang and excess reserves in the banking sector need to be reduced. This will make monetary policy more effective in helping Malawi adjust to the external price shocks and prevent a reemergence of inflation,” Mr. Kato said.

The PRGF is the IMF's concessional facility for low-income countries. PRGF loans carry an annual interest rate of 0.5 percent and are repayable over 10 years with a 5½-year grace period on principal payments.

**Statement by Mr. Peter Gakunu, Executive Director for Malawi
and Mr. Gebreselassie Y. Tesfamichael, Advisor to the Executive Director
July 10, 2008**

Malawi has registered an impressive economic performance during the current PRGF program. The authorities' commitment to and implementation of comprehensive reform and the support of the Fund and the international community has helped sustain robust growth, strengthen macroeconomic stability, advance poverty reduction and the attainment of MDGs. This strong performance reverses an earlier trend and stands in stark contrast to the predecessor PRGF arrangement which went off track and lapsed in 2003. The Malawian authorities appreciate the constructive engagement and support of the Fund and other development partners and thank management and staff for their candid dialogue and advice.

The authorities consider the staff report to be informative and balanced and are in broad agreement with the staff assessment. They request the completion of the 6th and final review and a waiver on the nonobservance of the performance criteria (PC) on central government domestic borrowing on the basis of overall excellent outcomes, strong performance, corrective action taken and the strength of their policies, including intensified efforts on public financial management. In addition they request an augmentation of access under the PRGF arrangement to support their effort to mitigate the initial impact of the current exogenous shocks and relieve the pressures on growth and external reserves arising from the fuel and fertilizer price increases, while adjustment measures are being designed and implemented.

Recent economic developments and program performance

The authorities' commitment to the reform program and strong policy execution have produced good outcomes. It is noteworthy that these considerable accomplishments were achieved in a complex political environment characterized by a government facing an opposition majority in parliament and constitutional challenges in the chamber. The committed strong pursuit of fiscal consolidation since 2005 has supported macroeconomic stability, lowered domestic debt and interest rates, and enhanced growth. Reflecting these improvements, Malawi has experienced sizable external debt relief and increasing inflows of aid and private capital. Growth has been solid and broad based, averaging 5.8 percent a year for 2004-07, propelled by agriculture, distribution, manufacturing, mining and financial services. In 2007 inflation declined to around 7 percent, the lowest level in a decade. Increased revenue mobilization and aid inflows, improved public financial management and domestic debt dynamics as well as benign weather have created a more favorable development environment. These have enabled increased outlays for poverty-reducing and social expenditures, and progress toward meeting many of the MDGs. In the circumstances of the current global food crises, the authorities' astute strategy of food security through proactive development of domestic agriculture has served Malawi well, protecting the population from hunger and even positioning the country to be a food exporter. Nevertheless, the insulation has not been total as speculative hoarding by some traders of maize stocks has led to a significant increase in domestic prices.

On the fiscal front, the authorities' strong mobilization effort resulted in revenues that were higher than budgeted for end-December 2007. However, there was a slight expenditure overrun due to higher domestically financed development expenditure for rehabilitation and road construction. Moreover, there were delayed disbursements of significant amounts of donor support at critical times in the farm input subsidy program which required the government to resort to borrowing to cover the expenditure upfront. Consequently, the PC on government domestic borrowing was missed by a small margin. The government repaid this debt immediately after the donor funds were disbursed during the second half of the financial year.

Furthermore, the authorities have continued to address weaknesses in expenditure control through the implementation of their PFM Action Plan as indicated in the staff report. Also improved domestic revenue, as well as the lower domestically financed development expenditure in the second half for projects that were implemented ahead of time in the first half, will guarantee that end-June 2008 targets are comfortably met.

The authorities' pursuit of macroeconomic stability continues to bear results. The inflation rate which had steadily decline to 7.5 percent in December 2007, climbed to 8.1 percent in May and then fell to 7.9 percent reflecting the shock from fuel and food prices. The strong and prudent fiscal performance and exports of agricultural products in FY 2006/2007 and in the first half of the current fiscal year enabled a rise in international reserves to around 1.5 months of import cover, exceeding the program target. The kwacha remained stable against the dollar. Although the target for government domestic borrowing was missed, government net domestic debt declined from 12.6 percent of GDP at end of 2006 to 12.0 percent at the end of 2007 in line with program targets. Moreover credit to the private sector remained buoyant.

The authorities have made considerable progress in their structural reform agenda. A public financial management unit under the Secretary of the Treasury has been established to promote and coordinate public financial and economic management. Similarly, a cash management unit has been formed in the Accountant General Office to improve cash flow planning. The roll-out of the Integrated Financial Management and Information System (IFMIS) is progressing.

The financial sector continues to develop and make considerable progress, although weaknesses remain. As the FSAP mission has reported, the banking system is very well capitalized, highly profitable and liquid. Supervision of banks has much improved, but that of the insurance and pension sectors requires additional attention and strengthening. The authorities have expeditiously addressed concerns raised by the FSAP regarding the RBM's balance sheet position by issuing MK 29.6 billion earlier this year to cover losses and recapitalization. This would enable the RBM to conduct its policy mandate without regard to the impact on its balance sheet. Moreover, the authorities have initiated a comprehensive operational restructuring of the Reserve Bank to enhance its competence and effectiveness. Overall, all of the program targets for end-December 2007 were met, with the exception of the PC on government net domestic borrowing discussed earlier.

Prospects and policies

Against the backdrop of global fuel crises the authorities' core medium- term strategy is centered on sustaining and enhancing robust growth, and consolidating progress in macroeconomic stability in the context of a revitalized economy.

The outlook for growth and inflation is favorable, benefiting from the macroeconomic and structural reforms, as well as the effective sectoral strategy in agriculture. The momentum towards broad- based growth, continued public investment in infrastructure, increasing levels of FDI, the opening of the Kayelekera uranium mine, as well as other prospective viable mineral findings provide the necessary impetus for sustained growth. Consequently, real GDP is expected to grow slightly above 7 percent in 2008, despite reduced maize production; and to average around 7 percent per annum over the medium-term as other sectors remain strong.

Inflation, which has continued on a declining path since early 2006, is expected to be contained at around 8 percent in spite of the increasing pressure of imported inflation through fuel and fertilizer prices. The authorities have for some time managed to mitigate the effects of rising oil prices by drawing down on the Fuel Stabilization Fund to compensate for losses incurred by fuel importers. However, they adjusted the pump price by an average of 25 percent which had the immediate impact of raising public transport prices by more than 10 percent. As international oil prices continue to rise, the authorities expect that further domestic price adjustments may be necessary, which could seriously impact domestic prices.

The rapid and substantial increase in fertilizer prices have so far created a short fall of about US\$ 83 million in the 2008/09 farm input subsidy program and the authorities hope that development partners will step in with the necessary funding to support this critically important food security and development program. The jump in fuel and fertilizer prices has put increasing pressure on foreign exchange reserves. As pointed out by staff, Malawi is one of the sub- Saharan countries hardest hit by the deteriorating terms of trade. This underscores the importance of the PRGF augmentation which my Malawian authorities have requested and that they expect to be supplemented by the generosity of development partners.

In addition to the import price shock, other factors pose serious risks and challenges to the sustenance of the current positive development trend. Malawi has been and still is susceptible to serious weather shocks given the rain fed nature of agriculture and the periodic occurrence of draught and erratic rainfall. With a per capita income of US 300 dollars, Malawi is still a poor country facing formidable poverty reduction challenges. Furthermore, the current political impasse and the imminent national elections may add to the complexity of the macroeconomic policy environment. The authorities have thus prudently accelerated measures to raise the level of foreign exchange reserves, improve public finance management capacity, and pursue financial sector reforms.

Fiscal Policies

The authorities intend to judiciously balance the demand for increased public spending, reserve accumulation and extension of credit to the private sector. Government net domestic debt will be reduced significantly so as to enable the accumulation of the necessary reserves (equivalent to 2-2.5 months of import cover) over the medium term. Furthermore, the enhanced government savings will reduce interest costs and create fiscal space for more pro-poor spending, while exercising expenditure restraint in line with the priorities of the Malawi Growth and Development Strategy.

Monetary and exchange rate policies.

The authorities' primary monetary policy objective is to achieve the inflation target while supporting growth and poverty reduction. The monetary authorities deem the recent substantial growth of money supply a cause of concern. In this regard, the RBM is issuing M K5 billion in long-dated bonds to the domestic market in order to mop up excess liquidity. This effort will be complemented by the sale of foreign exchange by the RBM as the demand for it increases with the end of the tobacco auction season.

With respect to the overall development of the financial sector, the authorities, benefiting from the FSAP findings and advice, have focused their medium term reform agenda on creating a more developed monetary and exchange rate policy framework and regulatory measures to enhance the efficiency of monetary policy and exchange markets. In the interim they intend to continue to use reserve money as the key operating target. The authorities describe their exchange rate regime as one of managed float and they are not committed to any specific exchange rate. They also stand ready to calibrate their open market operations to manage liquidity and allow the exchange rate to adjust as circumstances warrant.

Structural reforms

The authorities will build on the achievements of their PFM reform program and continue to implement the Action Plan, particularly in expenditure control and management as well as cash management. Moreover, they are moving forward with the preparation of a financial sector reform program for the medium-term on the basis of the recent Financial System Stability Assessment.

Conclusion

Over the last three years, the authorities have successfully and steadfastly implemented the PRGF program under very challenging circumstances. They have shown great determination and commitment to the reform agenda and, with the all round support of the Fund and development partners, created a stable macroeconomic environment conducive for robust growth and poverty reduction. They realize the considerable achievements under the program but also recognize the formidable challenges going forward, complicated by the current adverse global developments. My authorities are committed to the pursuit of reform and development and trust that they will continue to enjoy the support of the Fund in this endeavor. On the basis of the good performance during the period under review and the

remedial action taken, my authorities request a waiver of the missed PC on domestic borrowing, the completion of the sixth review of the PRGF and an augmentation of access.