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Malawi: Debt Relief at the Heavily Indebted Poor Countries Initiative Completion Point and Under the Multilateral Debt Relief Initiative

This paper was prepared by staff of the International Monetary Fund and the World Bank in connection with the Executive Board's consideration of Malawi's Completion Point under the Enhanced Initiative for Heavily Indebted Poor Countries and debt relief under the Multilateral Debt Relief Initiative. It is based on the information available at the time it was completed on August 11, 2006. The views expressed in this document are those of the staff team and do not necessarily reflect the views of the government of Malawi or the Executive Board of the IMF.

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REPUBLIC OF MALAWI

Debt Relief at the Heavily Indebted Poor Countries (HIPC) Initiative Completion Point and Under the Multilateral Debt Relief Initiative (MDRI)

Prepared by the Staffs of the World Bank
and the International Monetary Fund

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August 16, 2006

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EXECUTIVE SUMMARY

- **The staffs of the International Development Association (IDA) and the International Monetary Fund (IMF) are of the view that Malawi has met the requirements for reaching the completion point under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative.** Malawi has made satisfactory progress in implementing its Poverty Reduction Strategy Paper (PRSP) for at least one year, and maintained satisfactory macroeconomic policies as evidenced by its performance under a program supported by the Poverty Reduction and Growth Facility (PRGF) over the last fiscal year 2005/06 (July-June). Malawi has also met all the completion point targets in the area of economic governance and public expenditure management, safety nets, and microfinance. In the social sectors, it has met all but two of the completion point targets. As a result of implementing the completion point requirements, Malawi is now poised to accelerate its pace of growth and poverty reduction. The new strategy that is being prepared to succeed the Malawi Poverty Reduction Strategy (MPRS), will be implemented within the context of a stable macroeconomic environment, significantly improved public expenditure management system, and a conducive framework for improving health and education outcomes, as well as for protecting the most vulnerable in society.

- **The two triggers that were not met required government to ensure that the share of health expenditure reached at least 13 percent of discretionary recurrent budget and that at least 6,000 students enrolled annually for teacher training.** Although these targets were not met during the interim period, the authorities made some efforts towards achieving them. With regard to the health expenditure share, the average between 2001/02 and 2004/05 was 12 percent. Following approval of a prioritized program of policies for the health sector that is supported through a Sector Wide Approach in 2004, preliminary actual figures show that the health sector's share of discretionary recurrent spending for 2005/06 increased to 18 percent. With regard to annual enrolment of 6,000 students for teacher training, an attempt was made to increase enrolment through a crash course but this resulted in a deterioration of quality of trained teachers. A new program has now been introduced which should help increase the number of properly trained teachers deployed in schools. Further, with support from donors, the government is implementing construction projects that will increase the enrollment capacity in Teacher Training Colleges (TTCs). However, even with these efforts, the target of 6,000 is unlikely to be met in the near future and staffs now believe that this target was overly ambitious.

- The progress made to-date in implementing a broader strategy for raising the quality of education and improving health outcomes justifies the government's request for waivers **for the non-observance of the two completion point conditions relating to the share of health sector expenditure and teacher training.**

- **At the decision point in December 2000, the Executive Directors agreed that Malawi had met all the criteria to become eligible for debt relief under the enhanced HIPC Initiative.** The analysis undertaken at the decision point indicated that HIPC assistance in the amount of US$643 million in 1999 NPV terms was required to lower Malawi's NPV of debt-to-exports ratio to the HIPC threshold of 150 percent. IDA and IMF commitments to this debt relief were US$331 million and US$30 million, respectively, in NPV terms of which US$99.9 million and US$14.2 million, respectively were delivered as interim assistance as of August 2006. Information from creditors and a downward revision in exports lead to an upward revision of HIPC assistance at the completion point to US$646 million in 1999 NPV terms.

- **The completion point analysis of Malawi's external debt shows a substantial worsening in debt burden indicators compared to the projections made at the decision point.** At decision point, the NPV of debt-to-exports ratio at end-2005 was projected to amount to 169 percent assuming full delivery of the assistance committed under the HIPC Initiative at decision point. The completion point analysis shows the actual outturn to be 245 percent of exports. After additional voluntary bilateral debt relief, this ratio declines to 229 percent of exports.

- **The substantial deterioration in Malawi's NPV of debt-to-exports ratio since the decision point is primarily attributable to exogenous factors, which have led to a fundamental change in the country's economic circumstances.** These exogenous factors include:

    - lower-than-projected export receipts, which explains a third of the higher NPV of debt-to-exports ratio; the price of Malawi's main export commodity, tobacco, fell by 13.6 percent due to declining demand in international markets;
    - a lower discount rate, which explains about half of the unanticipated increase in Malawi's NPV of debt-to-exports ratio; while international interest rates have declined since the decision point, the nominal debt service burden facing Malawi has remained broadly unchanged as interest rates on external debt are mostly fixed;
    - a depreciation of the US dollar against the Euro and SDR, although this was a relatively minor factor;
    - unanticipated new borrowing, which only lead to a small increase in Malawi's NPV of debt to exports ratio of 3.8 percent.

    Finally, unanticipated increases in international oil prices since the decision point have also contributed to the deterioration in Malawi's debt servicing capacity.

- **In circumstances where exogenous factors lead to a significant deterioration in debt ratios after the decision point, the enhanced HIPC framework allows for additional debt relief (topping-up) at the completion point beyond the relief already committed at the decision point.** The staffs consider that Malawi's case meets the requirements for topping-up at the completion point. Staffs therefore recommend that additional assistance under the enhanced HIPC Initiative of US$411 million be granted to bring Malawi's NPV of debt-to-export ratio from 229 percent at end-2005, to the 150 percent HIPC threshold, after the application of bilateral debt relief beyond HIPC assistance.

- **Reaching the completion point under the enhanced HIPC Initiative, Malawi will also qualify for additional debt cancellation under the Multilateral Debt Relief Initiative (MDRI).** As debt relief under the MDRI would cover all remaining debt service obligations on eligible credit balances to IDA, the IMF and the African Development Fund (AfDF) after any debt service relief available under the HIPC Initiative, the amount of relief under MDRI depends on the Executive Directors' approval of topping-up. MDRI debt relief (net of HIPC assistance) would lead to debt service savings on debt owed to IDA, the IMF and the AfDF of US$1.9 billion without topping-up and of US$1.4 billion, if topping-up were to be approved.

- **After HIPC debt relief, topping-up of HIPC assistance, and MDRI debt relief, Malawi's external debt burden indicators fall to levels significantly lower than the average of low-income countries.** In the long-term, the NPV of debt-to-exports ratio is expected to increase gradually, but will remain below the HIPC threshold of 150 percent. This projection is based on the assumptions that government maintains prudent fiscal policies, implements measures to insulate the economy from the debilitating impact of periodic droughts and keeps new borrowing to modest levels and on concessional terms.

- **The staffs of IDA and the IMF recommend that the Executive Directors of IDA and the IMF approve that Malawi has reached the completion point under the enhanced HIPC Initiative and that Malawi be considered for topping-up under the enhanced HIPC Initiative.**

I. INTRODUCTION

1. **This paper presents an assessment of Malawi's progress in meeting the completion point triggers determined at the decision point under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative.** It seeks approval from the Executive Boards of the International Development Association (IDA) and the International Monetary Fund (IMF) of Malawi's completion point under the Initiative, including waivers for two of the completion point triggers, revision and topping-up of HIPC assistance.

2. **Malawi reached the enhanced HIPC Initiative decision point in December 2000.**[1] At the decision point, HIPC assistance required to lower Malawi's net present value (NPV) of debt-to-exports ratio to the HIPC threshold of 150 percent was estimated at US$643 million in NPV terms based on end-1999 debt data. Employing the principle of equal burden sharing, all creditors were expected to reduce the NPV of their claims on Malawi by a common reduction factor of 43.7 percent, after full use of traditional debt-relief mechanisms. For the IDA and the IMF, the resulting commitments amounted to US$331 and US$30 million in NPV terms, respectively. During the interim period between the decision point and completion points, the IMF provided debt relief of US$14 million in NPV terms, while IDA provided relief of US$100 million. Malawi has also benefited from interim assistance granted by the African Development Bank, a number of other smaller multilateral creditors and Paris Club creditors. Total interim assistance to Malawi was about $151 million in NPV terms.[2]

3. **The paper is organized as follows:** Section II assesses Malawi's performance in meeting the requirements for reaching the completion point under the enhanced HIPC initiative, as set out in the decision point document. Section III reviews the status of creditor participation and the delivery of debt relief to Malawi under the enhanced HIPC Initiative and presents the results of the debt sustainability analysis (DSA) based on end-2005 debt data and parameters. This section also assesses the sensitivity of debt indicators to changes in key economic variables. Section IV discusses the case for a topping-up of HIPC assistance. Sections V and VI present the conclusions and issues for discussion by the Boards, respectively.

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[1] See IDA and IMF, "Malawi. Decision Point Document for the Enhanced Heavily Indebted Poor Countries Initiative', December 2000, http://siteresources.worldbank.org/INTDEBTDEPT/DecisionPointDocuments/20250615/Malawi-E-DP.pdf and http://www.imf.org/external/np/hipc/2000/mwi/malawidp.pdf

[2] Paris Club creditors have provided additional interim relief beyond HIPC Initiative assistance.

II. ASSESSMENT OF COMPLIANCE WITH REQUIREMENTS FOR REACHING COMPLETION POINT

4. **The decision point document sets out the conditions for reaching the completion point.** These include: (i) preparation of a full Poverty Reduction Strategy Paper (PRSP) and its satisfactory implementation for one year; (ii) maintenance of macroeconomic stability and satisfactory implementation of a PRGF-supported program; and (iii) implementation of key structural and governance triggers aimed at strengthening public expenditure management, raising the quality of education, improving health outcomes, fighting HIV/AIDS, strengthening land and credit markets, and creating an effective safety net system. This section assesses the progress in the implementation of these completion point requirements. In addition, it also presents how Malawi has used the budgetary savings from interim relief.

5. **In the view of the staffs of IDA and the IMF, Malawi has made satisfactory progress in meeting the conditions for the completion point.** All but two of the completion point triggers have been implemented (Box 1). The first of these two triggers required the share of health expenditure to be at least 13 percent of the discretionary recurrent budget. The second trigger required ensuring a yearly enrolment of 6,000 students for teacher training. Based on progress in implementing a broader strategy for raising the quality of education and improving health outcomes, as discussed below, **it is recommended that Executive Directors accept the government's request for granting waivers for the non-observance of these two completion point triggers.**

A. Implementation of Poverty Reduction Strategy

6. **The preparation of Malawi's first PRSP in 2001 reflected a highly participatory process that helped in identifying the key development challenges that faced the country and its implementation provided a good basis on which to improve poverty outcomes.** The government is now in the process of finalizing its second-generation strategy - the Malawi Growth and Development Strategy (MGDS) which places much greater emphasis on growth as a basis for poverty reduction (Box 2).

Box 1: Summary Assessment of Malawi's Progress in Implementing the Completion Point Triggers [3]	
Theme and specific triggers	**Assessment**
Implementation of Poverty Reduction Strategies	
The full PRSP has been prepared and satisfactorily implemented for one year, as evidenced by the joint staff assessment of the country's progress report.	**Implemented.** A full PRSP, the Malawi Poverty Reduction Strategy Paper (MPRSP), was prepared by the government and was adopted in April 2002. The first Annual Progress Report in October 2003 indicated that MPRSP implementation was limited. The second APR and JSAN (looking at the period July 2003-June 2004) indicated that MPRSP implementation was still limited. The third APR (looking at the period July 2004-June 2005) and corresponding JSAN (submitted together with this document) show that implementation covering the period 2004-05 was broadly satisfactory.
Macroeconomic Performance	
Maintenance of macroeconomic stability and satisfactory implementation of the PRGF-supported program.	**Implemented.** Macroeconomic stability has been maintained since mid-2004, initially under an IMF SMP and then under a PRGF-supported program. A new three year PRGF was approved on August 5, 2005. The first review, completed in February 2006, concluded that performance through to end-September 2005 was satisfactory. The second review, covering performance through end-December 2005, will be discussed by the IMF Executive Board concurrently with this document.
Improving Economic Governance	
Separation of fiscal management and audit functions under new legislation.	**Implemented.** Legislation was passed in 2003 to separate the financial management and audit functions of government.
Quarterly expenditure reporting as per format jointly developed by MOF/IDA.	**Implemented.** A format was developed jointly between the Ministry of Finance and the World Bank and pro-poor expenditures are published on the government web site and in the press on a quarterly basis.
Implement Integrated Financial Management Information System (IFMIS) in four pilot ministries.	**Implemented.** Implementation of the system in all ministries commenced in November 2005.
Raising the Quality of Education	
Share of education sector expenditure in discretionary recurrent budget of at least 23 percent.	**Implemented.** The sector's share of discretionary recurrent budget has on average been 29 percent for the period 2001/02 to 2004/05, which is above the required threshold of 23 percent.
Reallocate budgetary resources from secondary school boarding to teaching and learning materials.	**Implemented.** Expenditure on teaching and learning materials has been increasing on a sustained basis (in real terms) over the past few years, and government subvention to secondary school boarding has decreased.

[3] The triggers have been originally specified in Malawi's decision point document. (See IDA and IMF, "Malawi. Decision Point Document for the Enhanced Heavily Indebted Poor Countries Initiative," December 2000, http://siteresources.worldbank.org/INTDEBTDEPT/DecisionPointDocuments/20250615/Malawi-E-DP.pdf. and http://www.imf.org/external/np/hipc/2000/mwi/malawidp.pdf

Box 1: Summary Assessment of Malawi's Progress in Implementing the Completion Point Triggers (continued)	
Theme and specific triggers	**Assessment**
Raising the Quality of Education (Continued)	
Pre-packaging of donor-supplied primary textbooks for each school and direct supply from the supplier to the schools.	**Implemented.** Since 2002, donor-supplied primary textbooks are pre-packed and directly supplied to schools.
Yearly enrolment of 6,000 students for teacher training and institution of in-service training for primary teachers (at least once each year).	**Not implemented. (a)** ***Yearly enrolment*** was *3,000* in 2000. It has not been possible to increase yearly enrolment with the existing number of Teacher Training Colleges (TTCs), and the government has been unable to allocate resources for the construction of additional training institutions. Earlier attempts to increase enrolment through a crash course were not successful. Government has now put in place other measures to increase enrolment **(b)** ***In-service training*** for primary teachers was institutionalized in 2001 in the form of a continuous professional development program following the phasing out of the Malawi Schools Support Program (MSSP).
Improving Health Outcomes	
Recruitment, training and deployment of at least 200 nurse technicians, 50 new medical assistants and 20 radiography technicians per annum.	**Implemented.** Over the implementation period, the sector has on an annual basis been training over 300 nurse technicians, over 60 medical assistants and 20 radiography technicians.
Completion of 'phase one' reforms of the Central Medical Stores (CMS) and a budget for drugs and medical supplies in line with Better Health for Africa (BHA) standard (US$1.25 per capita).	**Implemented. (a) With regard to** ***completion of phase one reforms of the CMS,*** sufficient progress was made which included reviewing the essential drugs list and undertaking the necessary actions towards the transformation of the CMS into an autonomous body. **(b)** ***The average budget for drugs and medical supplies*** over the period is US$1.36 per capita which is above the BHA standard.
Share of health expenditure of at least 13 percent of discretionary recurrent budget.	**Not Implemented.** The sector's share of discretionary recurrent budget has on average been 12 percent for the period 2001/02 and 2004/05, which is below the required threshold of 13 percent. However, the implementation of the health SWAp has resulted in the share for 2005/06 rising to 18 percent, based on preliminary actual expenditure figures as of July 2006.
Fighting HIV/AIDS	
Fully staffed, functional and autonomous National AIDS Control Secretariat.	**Implemented.** National AIDS Commission (NAC) and its secretariat was set up in July 2001 as an autonomous body run and managed by a board of trustees. The secretariat is also fully staffed.
75 percent of all condom outlet points with condoms in stock at any given time.	**Implemented.** There is over 75 percent of condom availability in the groceries, shops, and entertainment clubs, verified through NAC's monitoring system.

Box 1: Summary Assessment of Malawi's Progress in Implementing the Completion Point Triggers (continued)	
Theme and specific triggers	**Assessment**
Fighting HIV/AIDS (Continued)	
Continuous availability of testing kits at all blood transfusion sites by increasing blood testing kits (each allowing 100 tests to be done) from 1,500 to 2,500.	**Implemented.** The number of blood testing kits increased from 1,500 in 2001 to 4,000 in 2005.
Implementation of an effective Behavior Change Communication Strategy.	**Implemented.** The Behavior Change Interventions (BCI) Strategy was developed in 2003 and is the guiding framework for all HIV/AIDS behavior change interventions in Malawi.
Syndromic Management of sexually transmitted infections (STI) in all Central, District and major CHAM hospitals.	**Implemented.** All central hospitals, district hospitals, major CHAM hospitals and in some districts even health centers are using Syndromic Management of STIs.
Improving Access to Land and Credit	
Submission of draft Land Law to parliament.	**Implemented:** A draft Land Law was submitted to parliament on the June 13, 2006.
Approval by cabinet of the 'Micro-finance Policy.'	**Implemented.** cabinet approved the policy in October 2002.
Increase number of micro-finance clients by 20 percent.	**Implemented.** Statistics covering 20 microfinance institutions and initiatives show an increase of 79 percent in the number of clients between 2000 and December 2005.
Establishment of a monitoring system covering all micro-finance institutions.	**Implemented.** The Reserve Bank of Malawi established a monitoring system covering all microfinance institutions in 2003 under the SADC microfinance observatory initiative.
Creating an Effective Safety Net System	
Transform universal starter-pack distribution into a Targeted Input Program (TIP) for 2001/02.	**Implemented.** The universal starter-pack was transformed into a TIP in the year 2000/01 reducing the number of farmers targeted from 2.86 million to 1.5 million. The program has now been changed to operate as a fertilizer price subsidy program, targeting 2 million households.
Rationalization and prioritization of existing and new programs, under the National Safety Net Strategy (NSNS).	**Implemented.** The government has made attempts to rationalize and prioritize the various donor-managed safety nets interventions, although co-ordination remains a challenge. Government is now in the process of developing a social protection policy to help improve coordination.
Establishment of a monitoring and evaluation (M&E) system of the National Safety Net Strategy.	**Implemented.** An M&E system has been set up in the National Safety Nets Unit (NSU).

Box 2: Enhancing Growth in the Malawi Growth and Development Strategy

Malawi Growth and Development Strategy (MGDS) reflects the authorities policy framework to reduce poverty through economic growth and empowerment of the poor. There are five strategic themes proposed: (i) achieving sustainable economic growth and economic empowerment, (ii) protection of the most vulnerable and enabling them to contribute to the economy, (iii) creating a healthy educated and well nourished productive population, (iv) infrastructure development as a pre-requisite for achieving the objectives of economic growth and social development, and (v) good governance including sound economic environment, high quality service delivery, effective institutions and rule of law, an efficient and effective public sector, and reduction in corruption.

The authorities plan to enhance growth by focusing on sectors that are identified as key for the medium and long term growth. In the medium term, the driving force behind growth is the agriculturally-based core sectors of the economy (tea, tobacco and sugar) by way of further integration of these sectors and smallholders into agro-processing to meet domestic and foreign demand. The authorities envision expanding and diversifying output and exports to meet demand in the region through irrigation, large scale farming, infrastructure expansion and rationalizing fees and tax policy toward cash crops and eliminating food insecurities. To enable private-sector led growth in these sectors, the authorities plan to improve access to financing (micro-finance schemes) and secure land registration.

In the long-term the strategy identifies tourism, mining, garment/cotton, and manufacturing as sources of high growth sectors and employment generators in the medium term. To enhance the *tourism* sector and attract FDI in the sector, the authorities plan to improve infrastructure and communication, enforce the regulatory framework for quality, standard and land access for tourism development. To increase *mining* output and value added the strategy aims at improving the technology and infrastructure to help create market outlet, and review of tax policy. While in the *garment* sector, the goal is to increase local content of production, develop local textile industry geared toward exports and negotiating trade opportunities. In *manufacturing*, the goal is to improve quality and productivity through training of workers, better infrastructure, investment incentives and build capacity to evaluate own standards.

7. **Malawi's full PRSP was adopted in April 2002 with implementation planned to cover the period 2002/03 – 2004/05.** The Malawi Poverty Reduction Strategy (MPRS) was prepared by the government through a participatory process that involved a wide range of stakeholders including government officials, non-governmental organizations (NGOs), civil society, the private sector, development partners, and members of parliament. The MPRS was built around four strategic pillars as follows: (i) sustainable pro-poor growth; (ii) human capital development; (iii) improving the quality of life of the most vulnerable; and (iv) good governance and cross cutting issues. These pillars represented the main strategic grouping of the various policies and activities that are believed to provide a coherent framework for poverty reduction in Malawi.

8. **The government has established an institutional framework for participatory monitoring and evaluation of the implementation of its poverty reduction strategy.** An MPRS monitoring committee was established soon after the strategy was adopted. The committee was served by a broad-based Technical Working Committee (TWC) whose role was to co-ordinate monitoring and evaluation efforts. The committee has since produced and published three annual progress reports (APRs) and one comprehensive review report covering three years of MPRS implementation.

9. **The first two APRs and accompanying Joint Staff Advisory Notes (JSAN) noted that implementation of the MPRS during the first two years was limited.** The first APR (covering the period July 2002 – June 2003) and the accompanying JSA were submitted to the boards of IDA and the Fund in October 2003. The JSA concluded that despite initiating some of the reforms anticipated in the MPRS, progress had been limited. Performance was also poor with regard to maintaining macroeconomic stability. The second APR and JSAN (covering July 2003-June 2004) were submitted to the Boards in June-2005 and indicated that MPRS implementation was still limited.

10. **Staffs consider implementation of the MPRS in its third year to have been broadly satisfactory.** The third APR covers implementation of the MPRS from July 2004 to December 2005. As indicated earlier, macroeconomic performance during this period has been satisfactory. Further, as outlined in the APR (and noted in the JSAN), progress has been made in implementing the MPRS priority activities in agriculture, education, health, public expenditure management, public sector reform, and corruption prevention. **Based on this performance, IDA and IMF staffs therefore conclude that the trigger on satisfactory implementation of the MPRS for at least one year has been fully met.**

11. **Even before the MPRS expired, the government started to prepare a successor strategy.** The new strategy, the Malawi Growth and Development Strategy (MGDS) takes into account new information about poverty in Malawi from the poverty and vulnerability

assessment (PVA)[4] and incorporates improvements based on lessons drawn from the comprehensive review of the MPRS implementation.[5] Covering the period 2006/07 – 2010/11, the MGDS, which includes an explicit results framework, has been prepared through a participatory process and was discussed at cabinet on May 30, 2006. Cabinet adopted the strategy in principle, subject to the finalization of a human resource and capital needs assessment. Government intends to formally adopt the strategy soon.

12. **There has also been improved participation by various stakeholders in monitoring implementation of the MPRS, the preparation of its successor strategy, and in the budget process.** Although the MPRS was prepared through a participatory process, there were concerns after the production of the first progress report that the monitoring of MPRS implementation did not involve all the relevant stakeholders, in particular, the private sector. The latter years of implementation have seen greater participation of civil society and the private sector in the monitoring of the MPRS. Similarly, there has been greater participation in the formulation of the successor strategy. A significant improvement over participation in the preparation and monitoring of the MPRS is that members of parliament have been more widely consulted in the preparation of the MGDS.

B. Macroeconomic Performance during 2001-05

13. **After a period of uneven macroeconomic performance following the decision point in 2000, macroeconomic stability has been maintained since mid-2004, initially under an IMF SMP and then under a PRGF-supported program.** In particular, all the quantitative targets under these programs have been met since mid-2004, and with the restoration of fiscal discipline, domestic debt has started to decline. Similarly, once the economy has fully recovered from the effects of last year's drought induced food crisis, inflation is projected to decline to single digits.

14. **The decision point in December 2000 coincided with the approval of a new PRGF arrangement**. Policy implementation under the arrangement was poor and it expired in June 2004, with only the first review being successfully completed. This delayed the completion point being reached in late 2003 as originally envisaged.

15. **Policy implementation deteriorated quickly under the PRGF-supported program following the decision point**. During the two fiscal years 2000/01 and 2001/02, fiscal slippages occurred principally on account of repeated bailouts of public enterprises, a sharp increase in interest rates associated with rising domestic public borrowing, overruns on

[4] The PVA was based on data from the second integrated household survey (IHS) carried out by the National Statistical Office (NSO) covering the period March 2004-February 2005.

[5] Some of the key lessons include the need to improve linkages between policy strategies and the budget, and to improve the use of M&E as a management tool.

the wage bill, and overspending on other current expenditures. The policy slippages and consequent delay in completion of the first PRGF review resulted in shortfalls of external budgetary support. This set up a vicious cycle of greater recourse to domestic financing, crowding out of the private sector, rising interest rates, widening overall fiscal deficits, and worsening public debt dynamics. These trends were exacerbated in 2002 by a food crisis and the need for the importation of maize and fertilizers that added some 4½ percent of GDP to fiscal expenditures and halved external reserves. By the end of 2003/04, domestic debt approached 25 percent of GDP and domestic interest payments absorbed one quarter of the budget.

16. **Performance improved significantly following the election of a new government in mid-2004.** The new government demonstrated commitment to restoring macroeconomic stability by containing the spiral of domestic debt. This strategy was implemented through sharply reduced domestic borrowing in 2004/05 and a general restoration of fiscal discipline, such that by the end of 2005/06, the domestic debt is estimated to have declined to below 20 percent of GDP. Attaining this objective was helped by donor support, but was also the result of a fiscal effort that tightened the underlying balance (a barometer of the domestic fiscal effort) since 2003/04 by 1½ percent of GDP. This objective was accomplished despite a severe food crisis in 2005/06, which necessitated substantial government food security spending. Although donor support was significant, the net cost to the budget of the food security operations was 1.7 percent of GDP. Policy implementation in 2005, however, was marred by weak exchange rate management. The government pegged the exchange rate which, because of Malawi’s low reserves, resulted in the accumulation of private external payment arrears on delivered imports of goods and services. The exchange rate was allowed to depreciate in early 2006 and the backlog has been cleared end-July 2006.

17. **Despite these challenges, Malawi met almost all the quantitative targets over the 18 months from mid-2004 to end-2005.** These include all the quantitative performance criteria during the six months under the PRGF arrangement through end-December 2005. The outlook for performance through the end of 2005/06 is favorable. Under the program for 2006/07, a strong crop is expected to sustain a rebound in real GDP growth to 7 percent and will support a deceleration in inflation to single digits. The government remains committed to policy implementation and a strong fiscal effort that will further reduce domestic debt to about 16 percent of GDP.

18. **The staffs of IDA and the IMF conclude that Malawi has met the trigger on the maintenance of macroeconomic stability and satisfactory implementation of the PRGF program.** Though initially weak during the interim period, macroeconomic stability has improved significantly over the past two years, as evidenced by decelerating inflation and the falling domestic debt burden.

Box 3: Performance under IMF Programs, 2001-05

PRGF-supported program, 2001/02-2003/04:

The IMF Executive Board approved a new three-year PRGF arrangement in December 2000. The program aimed to restore macroeconomic stability by strengthening fiscal discipline in order to reduce inflation from over 30 percent in 2000 to 10 percent in 2001 and to single digits thereafter. To reduce monetary expansion and make room for private sector growth, the program targeted domestic debt repayments. Inflation was successfully reduced, though by not as much as envisaged, and largely at the expense of credit to the private sector and by depleting official external reserves. The government was not able to meet the ambitious fiscal targets and domestic financing increased to over 7 percent of GDP in each of the first two years of the program. In 2002/03, the demands imposed on the budget by the food crisis raised domestic financing to over 12 percent of GDP and domestic debt to about 25 percent of GDP by the end of 2003/04. Poor program implementation delayed the first review to late 2003. Large fiscal slippages subsequently pushed the program irrevocably off track in early 2004 and the arrangement expired in late 2004.

Staff Monitored Program, 2004/05:

The newly elected government implemented its 2004/05 budget in the context of an IMF Staff-Monitored Program. The program aimed to maintain real GDP growth around 4 percent and reduce core (non-food) inflation to about 11 percent. The inflation target was met, but output growth was weaker than expected because of the drought that reduced agricultural production in 2005. The cornerstone of the fiscal program was to curtail domestic borrowing to reduce the stock of domestic debt by 2 percent of GDP. This was to be achieved through higher donor support as well as a domestic fiscal effort to improve the underlying balance by 2 percent of GDP. Virtually all the quantitative targets, including for domestic financing, were met. Further, as part of the Bank's FIMAG credit, the government implemented a major civil service wage reform in October 2004 that realigned pay grades and monetized in-kind benefits.

PRGF-supported program, 2005/06:

The IMF Executive Board approved a new three-year PRGF arrangement in August 2005. The 2005/06 program objectives for real GDP growth and inflation were met. The cornerstone of the fiscal program was the repayment of domestic debt that would reduce the stock to below 20 percent of GDP. The program also provided for spending on maize and fertilizer on account of the emerging food crisis. The program included structural measures to strengthen public expenditure management and financial sector management. The program also included a ceiling on the civil service wage bill and a revision of the civil service pension formula to offset the sharp increase in benefits resulting from the wage reforms in late 2004.

Malawi met all the end-September 2005 performance criteria for the first program review, which was approved by the IMF Board in February 2006. However, performance was marred by weak management of the exchange system and the use of informal administrative restrictions to control the exchange rate, which resulted in a backlog of unpaid import invoices. As the food crisis deepened, the revised program incorporated additional food security spending that received significant donor support. In a companion staff report, IMF staff has determined that Malawi met all the end-December 2005 quantitative performance criteria for the second program review. The government has acted on its commitment to improve exchange rate management by allowing the Kwacha to depreciate since early 2006 and eliminating the stock of unpaid import invoices. The prospects for the end-June 2006 targets are favorable.

C. Implementation of Structural Triggers

Improving economic governance

19. **Malawi has taken significant steps that will go a long way to ensuring that public resources are used for their intended purposes, and with greater efficiency.** At decision point, Malawi's legal framework for the management of public finances and for curbing corruption had a number of weaknesses. Similarly, the public expenditure management system was beset with problems of expenditure laxity and lack of fiscal transparency. During the interim period, the government made significant strides in improving the public expenditure management system and the governance framework in general. Boxes 4 and 5 provide additional details of specific measures the government has undertaken to improve the public expenditure management system and to fight corruption, respectively.

20. **In order to strengthen the legal framework for managing public finances, in 2003, the Finance and Audit Act was separated into two separate pieces of legislation: the Public Finance Management Act (PFMA) and the Public Audit Act (PAA).** The new Public Finance Management Act represented a change in emphasis from the previous, narrower notion of dealing with public money to the wider and more comprehensive notion of the economic, fiscal and financial management of public finances. Further, the two Acts were designed to update the existing public finance and public audit laws in order to meet Malawi's present and future requirements and at the same time introduce finance management and audit provisions reflecting modern trends and international best practice.

21. **The Government of Malawi is now more transparent in the usage of public resources by reporting expenditures to the public on a quarterly basis.** The government has continued to submit the Quarterly Expenditure Reports (QERs) to the Cabinet Committee on the Economy and the Budget and Finance Committee of parliament within six weeks of the end of the quarter. Furthermore, it now posts on its internet website the budgeted and actual protected pro-poor expenditures (PPEs) within twelve weeks of the end of the quarter. PPE reports have also been published in the press on a quarterly basis. PPEs have been of particular interest to the public because they represent expenditure items for which the government has fully committed itself to make resources available, even when there is a cash flow problem.

22. **Despite various hitches, IFMIS has been rolled out in all ministries.** The government of Malawi dramatically altered its previous IFMIS course in May 2005, after numerous problems with previous implementation attempts. The authorities chose to adopt the IFMIS framework successfully implemented in Tanzania, including revision of the chart of accounts, centralization of government banking and of the government payment system. A review by the World Bank in late 2005 certified the robustness of the system. Therefore, instead of piloting the system, the government decided on a full roll out, which commenced in November 2005. The system is running on two platforms, an electronic and a manual one.

The electronic system is being used in eight ministries: Finance, Health, Agriculture, Education, Office of the President and cabinet, the Malawi Defense Force, the Malawi Police Service, and State House, which account for over 40 percent of the budget. In January 2006, the electronic system was extended to four other spending agencies. There is an action plan to roll-out the electronic system in all the ministries within a two year period.

Box 4: Improving Malawi's Public Expenditure Management

Malawi has made progress in improving formulation of the budget. Firstly, as recommended by the HIPC Assessment and Action Plan (AAP), the government has taken steps to widen the coverage of donor support, thus improving the comprehensiveness of the budget. Secondly, the formulation process is also more participatory. In the past, pre-budget consultation meetings were seen as cosmetic. But civil society and the private sector have commended the new government for taking into account their representations in the formulation of the budget. Further, enough time is now allowed for the budget to be scrutinized before being passed. Amendments are made to the draft budget to take into account comments by legislators and other stakeholders. To ensure that the budget documents are easily understood by all stakeholders, the government (with assistance from the donors) is currently working on further simplification of the documents.

Significant progress has also been made in the execution of the budget. Firstly, the government has improved the credibility of the budget process by broadly remaining within the appropriated budget for the first time in over ten years. Secondly, several reforms have been undertaken in order to improve the execution of the budget as follows: (i) a policy for clearing arrears and preventing their recurrence was approved by cabinet in 2005. The policy is now being implemented, and the government has started clearing the backlog of arrears; (ii) the office of the Director of Public Procurement (ODPP) became operational in 2004 in line with the new Public Procurement Act that was passed in 2003. The provisions of the new Act conform to international standards and help ensure transparency and efficiency in public procurement; (iii) after many failed attempts in the past, the government introduced IFMIS in November 2005. There has also been a centralization of the government payment system, which has led to the closure of some 1,550 bank accounts that were susceptible to abuse; tightening of the internal controls in the execution of the budget, which has led to improved alignment of expenditures to the approved budget and reduction in the build up of arrears; and timely production of expenditure reports. The government is also currently working on a new Human Resource Management Information System (HRMIS) that will ensure effective management of the wage bill through improved payroll records.

There has also been progress in reducing the time it takes to evaluate the implementation of the budget. In particular, good progress has been made in shortening the length of time between the end of the fiscal year and the production of financial statements that are submitted to the auditor general. At the decision point, the lag was some 14 months after the end of the fiscal year. This has now been reduced to 6 months, and Malawi is on course to meet the benchmark of four months. Similarly, there has been significant improvement in the preparation and auditing of the final accounts. With assistance from development partners, the capacity of the National Audit Office has been strengthened. Until recently there was a 2-3 years time lag between the end of the fiscal year and the presentation of the audited accounts and report to the legislature, implying that the official accounting records were not very useful for fiscal management purposes. The time lag has now been reduced to 9 months. With the rolling out of IFMIS, the time it takes to fully evaluate the implementation of the budget will be reduced even further.

Box 5: Malawi's Fight Against Corruption

Perceived corruption in Malawi is relatively better than most low income countries in Africa. Malawi's score on the Transparency International's Corruption Perceptions Index (TICPI) in 2005 was 2.8 out of 10. This score is better than the average for other Low Income Countries in Africa (2.5), including those countries that have already reached completion point.

After a period of laxity under the previous administration, this score reflects stabilization since 2004, when the new government of President Mutharika adopted a zero tolerance policy on corruption. In his inaugural speech in May 2004, the President made a personal commitment to fight corruption at all levels in his government.

Specific measures that have been undertaken to fight corruption include the following:

- In 2004, the government amended the Corrupt Practices Act of 1995. Among the many improvements, the new Act widens the definition of corruption (which in the original Act was restricted to bribery only); criminalizes abuse of office and possession of unexplained wealth by public officers; and provides for the protection of whistle blowers.
- Since most of the corruption in the public sector takes place when awarding contracts, a new Public Procurement Act was passed in 2003. The Act creates a new Office of the Director of Public Procurement (ODPP) and strengthens controls and safeguards on public procurement. This ODPP was created in 2004 and is now fully operational.
- In 2005, the government adopted a new public payment system as part of the IFMIS. This was out of a realization that that theft of public funds and corruption was taking place partly because it was difficult to keep track of the many government accounts that were held in various commercial banks. The introduction of the new payment system has led to the aforementioned closure of some 1,550 bank accounts that were susceptible to abuse.
- A governance and corruption baseline survey has recently been conducted by the ACB. The survey has revealed the areas where corruption is still rampant, and the ACB is in the process of developing an action plan to help reduce corruption in those departments.
- With assistance from Norway since 2002, the capacity of the National Audit Office has been strengthened.
- In September 2005, a US$20.9 million Threshold Country Plan was approved by the Millennium Challenge Corporation to help Malawi fight corruption and improve fiscal management. Specifically, under the Plan, the financial assistance will help Malawi reduce by 75 percent the time it takes to process corruption cases, professionalize public procurement, build capacity in government auditing functions, and strengthen independent media coverage.
- Malawi has also signed an agreement with the World Bank Institute for support in the fight against corruption.

These measures have started showing tangible results. Over the past two years, the Anti-Corruption Bureau (ACB) has launched several investigations of high profile persons in government as well as in the opposition. These have led to arrests and convictions, while some cases are still in the courts. Some of the notable corruption cases recently pursued include those of the former Minister of Education, Mayor of City of Blantyre, and the Secretary to the Treasury. The Minister of Education and the Mayor of City of Blantyre were convicted for theft, while the case of the Secretary to the Treasury is still in court. Corruption charges have also been filed against the former President. His recent arrest on these charges led to the suspension of the Director of the ACB (he has subsequently resigned) on the grounds that his actions in the case had been politically motivated and had led to the impression that the charges would be dropped. The government has since issued a public statement to the effect that the charges against the former President have not been dropped and his prosecution will resume as soon as a new Director of the ACB is appointed in the coming weeks.

Raising the quality of education

23. **Several steps have been taken to improve the quality of education since the decision point, and the results are beginning to show.** The introduction of free primary education in 1994 saw enrollment rates increase from 1.9 million to 3.2 million. This put a huge strain on the education sector as a whole. As a result, during the 1990s the quality of education deteriorated at various levels of Malawi's education system. However, over the past four years, the authorities have undertaken policies that should soon translate into improved quality indicators (such as improved completion rates and reduced drop-out rates). Notably, as part of the HIPC completion point requirements, there has been a significant increase in resources allocated to the sector, which have gone into building more schools, teacher training, and teaching and learning materials. As a result, some of the intermediate indicators have already started improving. For example, the ratio of pupils per qualified teacher has declined from 123 in 2000 to 83 in 2005. Similarly, the number of pupils per permanent classroom has declined from 114 in 2000 to 99 in 2005.

24. **The sector's share of discretionary recurrent budget has on average been 29 percent for the period 2001/02 to 2004/05.** This level is well above the required threshold of 23 percent agreed in the HIPC decision point document. However, based on the approved budget for 2005/06, the share has dropped to 21 percent. The drop in the share has been due to the fact that government had to budget for drought relief and recovery programs (maize purchase and an expanded fertilizer subsidy program).

25. **The level of resources allocated to teaching and learning materials has increased in real terms, but the subsidy to boarding secondary schools has not substantially decreased**. In 2000/01, government policy on the operations of conventional boarding secondary schools changed such that responsibility for running boarding services, including the school fees charged to cover boarding expenses, is now in the hands of local communities. However, evidence suggests that the level of the fees being charged per student in these schools is not high enough to cover boarding expenses, indicating that the central government is still partly subsiding boarding expenses. Although more progress is desirable in reallocating the funding from boarding facilities toward teaching and learning materials, on balance this trigger has been satisfactorily implemented.

26. **Donor-supplied primary textbooks for each school are now pre-packed and directly distributed from the supplier to the schools.** Since 2002, donor-supplied textbooks are pre-packed and directly supplied to schools. The ministry of education only provides enrolment figures per school and per district.

27. **The government was not able to increase yearly enrolment of 6,000 students for teacher training on a sustained basis**. Yearly enrolment was 3,000 in 2000 and climbed to 5,490 in 2005, nearly meeting the target. The latter was achieved since two cohorts were enrolled in one year under the crash course (the Malawi Integrated In-service Teacher

Education Program (MIITEP). This program has now been discontinued because it leads to a reduction in the quality of trained teachers. Annual enrolment in TTCs has therefore reverted to the original 3,000. However, a two pronged approach to increasing the number of properly trained teachers in primary schools has now been adopted. Firstly, since September 2005, the Initial Primary Teacher Education (IPTE) also known as the one-plus-one teacher training program was introduced. Under this program, students will be in college for one year and then gain teaching experience for another year. Therefore, student teachers will be spending less time in college than under the previous two-year program, but more time than under the crash course. Although the new system does not increase annual enrolment in TTCs, the number of teachers deployed in primary schools after every two years will be twice (6,000) the number under the old two-year residential training program.

28. The second approach to increasing the number of properly trained teachers in primary schools is that the number of places in TTCs is also being increased, mostly with support from donors. GTZ is financing the expansion of five TTCs while construction of a new college funded by IDA is under way in Liwonde. It is expected that once the expansion program of the existing five colleges is complete in March 2008, enrolment will increase from the current level of 3,000 to 3,810. The new 500 capacity college that is being built in Liwonde will become operational in 2009, after which total enrolment in all the colleges will increase to 4,310. Given these efforts, staffs now believe that the original target of 6000 was overly ambitious.

29. In-service training for primary teachers was institutionalized in 2001 in the form of a continuous professional development program following the phasing out of the Malawi Schools Support Program (MSSP) funded by UK DfID. The Department of Teacher Education and Development (DTED) identifies teacher training needs with the Malawi Institute of Education (MIE) as the implementing agency. Most of the in-service training has been delivered at the 315 Teacher Development Centers in the country while some have taken place at MIE.

Improving health outcomes

30. **At decision point, it was recognized that Malawi had some of the worst health indicators in Sub-Saharan Africa.** The authorities have since demonstrated a strong commitment to undertaking measures that would help improve these outcomes. In 2002, the government started consultations with various partners on a prioritized program of work that could be supported through sector-wide approach (SWAp) financing arrangement. The agreement for a SWAp was signed in 2004 and provides the basis for a significant scaling up of resources allocated to the health sector. However, in parallel, the authorities have already been pursuing reforms to improve health outcomes. In particular, the government has increased the level of front line staff, drugs, and other basic medical supplies. Reforms are also underway to improve the efficiency of drug procurement and distribution.

31. **Significant numbers of nurse technicians, medical assistants, and radiography technicians have been trained and deployed.** The government set up a human resources emergency program that has also been supported by development partners. Since the decision point, Malawi has been training and deploying over 300 nurse technicians, over 60 medical assistants and 20 radiography technicians. The thresholds for these health cadres were 200, 50 and 20, respectively. Further, the government, with support from UK DfID, has embarked on a program of topping-up salaries for health workers in order to retain them in the public sector. This is in response to a recent trend where health sector workers, especially nurses, have left the public sector and joined the private sector or migrated in search of better opportunities.

32. **The average budget for drugs and medical supplies has been above the Better Health for Africa (BHA) standard and phase one reforms of the Central Medical Stores were sufficiently completed.** Over the period 2001/02 and 2005/06, the average budget for drugs and medical supplies has been US1.36 per capita, which is above the BHA threshold of US$1.25 per capita. In order to improve efficiency in the procurement and distribution of these drugs, several reforms were undertaken. First, the essential drugs list was reviewed in 2001 when the government defined the Essential Health Package. Secondly, an information system to monitor compliance with agreed policies and financial allocations was also developed with support from UK's DfID. Lastly, after initial delays, preparations were started to transform the CMS into an autonomous body (a trust). More recently, the government, following advice from the Health SWAp partners, has changed the strategy for reforming the CMS. A management contractor has been engaged to run the CMS for two years. The contractor will review various options for reforming the institution (based on experiences elsewhere in the region), recommend the best option, and implement the adopted approach. Thus, while the new strategy is being designed for reforming the CMS, the institution is already operating with a very high level of autonomy since it is being run by an independent team of management consultants.

33. **The health share of discretionary recurrent budget has been below the 13 percent threshold that had been committed to at the decision point**. On average, it has been 12 percent during the period 2001/02 and 2004/05. This trigger was therefore not met. As mentioned above, the reason is that over this period, the government was preparing a six-year program of work outlining health sector priorities that would be financed through a SWAp. The strategy was therefore to increase health sector spending once all SWAp arrangements were in place. Indeed, buoyed by the contributions from the SWAp partners, the 2005/06 approved allocation to health increased markedly to 18 percent of the discretionary recurrent budget. Preliminary actual expenditures for FY2005/06, available as of July 2006, show that health sector expenditures were 18 percent of the discretionary recurrent budget.[6]

[6] Final actual expenditures will be available end of September 2006.

Fighting HIV/AIDS

34. **At the decision point, Malawi's HIV prevalence rate for the working age population (15-49 years) was 16 percent, one of the highest in sub-Saharan Africa.** The five triggers were therefore aimed at strengthening the institutional framework for fighting HIV/AIDS, scaling up measures for prevention, and mitigating the impact of HIV. The government's efforts in these areas have been well supported by donors through a specialized HIV/AIDS SWAp and the Global Fund. To date, Malawi has made good progress in the fight against HIV/AIDS, and some results have already started showing. The latest HIV/AIDS monitoring report shows that HIV infection rates have stabilized in the past two years.

35. **The National AIDS Commission (NAC) Trust Deed was revised to make it operationally more autonomous and the secretariat is fully staffed**. Previously, the NAC used to be a department in the Ministry of Health. However, in 2005, the Trust Deed was revised providing for the appointment of a more broad-based board of trustees (government, private sector, faith community, NGOs, and civil society). Operationally, the secretariat (which serves the NAC) is independent of the government. For example, it has its own procurement manual. In order to strengthen the legal status of the NAC, government plans to have the institution established under an Act of Parliament.

36. **The availability of condoms in retail outlets and of testing kits at all blood transfusion sites has increased significantly.** Through its monitoring system, the NAC certifies that there is over 75 percent condom availability in various retail outlets (groceries, shops, and night clubs). These are mainly supplied by the two main reproductive health service providers: Population Services International (PSI) and Banja la Mtsogolo. There is also 70 percent availability of condoms in public hospitals, and some private hospitals, which are supplied to clients free of charge. Most of these hospitals also have blood transfusion sites and the number of testing kits has increased from about 1,500 at decision point to 4,000 in 2005.[7]

37. **A Behavior Change Communication Strategy was developed in 2003 and is now being implemented.** The strategy outlines the desired behaviors that would help fight HIV/AIDS as well as the key interventions necessary to inculcate such behaviors in people. The results of implementation of the strategy have already started showing results. For example, according to the 2005 HIV/AIDS monitoring and evaluation report, condom usage amongst men, a key behavioral change, increased from 28.7 percent in 2003 to 30.1 percent in 2004.

[7] Each kit allows 100 tests to be done. Therefore, with 4,000 kits, it means, 400,000 tests can be conducted.

38. **Syndromic management of sexually transmitted diseases (STDs) is now routine practice in all central hospitals, district hospitals and major Christian Health Association of Malawi (CHAM) hospitals.** The NAC has also extended this practice even to some health centers. This has helped improve the diagnosis and treatment of STDs, including HIV/AIDS without requiring sophisticated and time-consuming laboratory tests or advanced medical skills. Diagnosis and treatment is based on classification by groups of symptoms and signs to determine the nature of an infection. A combination of treatments is then prescribed that are effective against the most common organisms that cause the symptoms and signs. In 2004-05, 276,666 cases were managed in government, CHAM and BLM facilities. The NAC and stakeholders are now monitoring the training of staff on STD management on a quarterly basis.

Improving access to land and credit

39. **Access to land and credit remain constrained in Malawi, but there has been progress.** In line with the HIPC decision point requirements, the authorities have taken steps to ensure that land in Malawi is more equitably distributed and that land rights are secured, so that households can use land as collateral for accessing credit. To this end, the government has drafted legislation and introduced reforms to ensure that more rural households have access to land and credit.

40. **The draft Land Bill has been submitted to parliament.** Providing equitable and secure access to land has been the centerpiece of the government's land reform policy. A new National Land Policy was prepared in 2000 and approved by cabinet on January 17, 2002. In January 2003, a special Law Commission was empanelled to review the existing land legislation and formulate a new legislative framework for land matters that would articulate the principles of the approved Malawi National Land Policy. Following consultations, a draft Land Bill was prepared and submitted to parliament on June 13, 2006. The Bill adequately captures the main principles of equitable and secure access to land. In particular, the Bill now provides for the conferment of individual title deeds to land previously owned under customary land tenure. This means that once registered, the title of the owner will have full legal status and the land may be leased or used as security for a loan. Further, consistent with the on-going decentralisation process, the bill confers greater responsibility in the administration of land issues from the central government to districts and traditional authorities.

41. **A microfinance policy has been approved by cabinet**. At the decision point, a draft microfinance policy had just been prepared. The policy aims to promote best practices amongst micro-finance institutions in order to expand client outreach, improve coordination and increase capacity. It also proposes a peer-regulatory structure for the industry and the establishment of a monitoring system that can track lending volumes, number of clients and areas covered with a view to improving coordination of micro-finance activities. The

authorities committed themselves to having the policy approved by cabinet. This was done in October 2002.

42. **Significant progress has been made to increase access by the poor to micro-credit.** At the decision point, it was envisaged that the implementation of a microfinance policy would spur the expansion of micro-credit services in Malawi. The target was to increase the number of clients by 20 percent. In 2000, there were 257,276 microfinance clients. By December 2005, the number had increased to 459,906, representing a 79 percent increase.

43. **A monitoring system covering all micro-finance institutions has been established.** The Reserve Bank of Malawi established a monitoring system covering all microfinance institutions in 2003 under the SADC microfinance observatory initiative. The system is run by the department responsible for the supervision of non-bank financial institutions in collaboration with the Malawi Microfinance Network (MAMN). Data is collected through the administration of a comprehensive questionnaire that aims at obtaining information on the institutional characteristics of the microfinance organization itself, its market characteristics, financial services and non-financial services rendered, and the balance sheet.

Creating an effective safety net system

44. **There have been improvements in the efficiency and effectiveness of the safety nets system, but more remains to be done and the reform process is ongoing.** As far back as 1999, the Government of Malawi started working towards the creation of an effective safety net system that would be affordable and effective. This was out of a realization that resources were limited and hence, Malawi could not afford a safety net system that was not properly coordinated and targeted. In collaboration with the World Bank, it produced a National Safety Net Strategy which outlined the government's medium term objectives in terms of type and size of safety net programs. Although challenges still remain, several actions have been taken towards the creation of an effective safety net system.

45. **The universal starter-pack was transformed into a Targeted Input Program (TIP) in the year 2000/01.** This reduced the number of farmers targeted from 2.86 million to 1.5 million. The program was scaled down further in 2001/02 to only 1 million farmers but was subsequently scaled up again, and by 2004/05, the final year of TIP, the number of beneficiaries had climbed to 2 million. From the 2005/06 season, the TIP was transformed into a fertilizer price subsidy program designed to target 1.7 million poor smallholder maize and tobacco farmers, and taking up a slightly larger amount of government expenditures. As in the case of TIP, the beneficiaries are identified through village development committees. Unfortunately, the new program is somewhat regressive compared to the TIP because the farmers need to complement the voucher scheme with their own cash in order to purchase the fertilizer, which potentially discriminates against the poorest farmers. The government tried to address this problem by scaling up the Public Works Program (PWP) which enabled some

of the poorest farmers to purchase fertilizer. Overall, although further reforms may be necessary to improve the operation of the new voucher scheme, the trigger has been satisfactorily implemented.

46. **Some progress has been made to rationalize and prioritize existing and new programs under the National Safety Net Strategy (NSNS).** In 2002, the government established a National Safety Nets Unit (NSU) to coordinate the rationalization and prioritization of safety nets through four technical sub-committees, one for each of the four types of safety nets—Public Works Program, Targeted Inputs Program, Targeted Nutrition Program and Direct Welfare Transfers. The sub-committees have been meeting to discuss the scaling up and down of various safety nets programs. For example, as recommended in the NSNS, the PWP has been scaled up in recent years. Further, a study to look at an appropriate wage rate for all PWPs was carried out although its recommendations are yet to be implemented. However, while the government has made some attempts to rationalize and prioritize the various donor-managed safety nets interventions, actual progress has been limited. There still exist many competing programs that need to be rationalized with respect to coverage and modalities. This is partly due to the poorly coordinated positions of donors, which are expressed in a broad array of relatively uncoordinated safety net instruments. The government is aware of the difficulties and the NSU is now coordinating the development of a Social Protection Policy which will provide a more definitive framework for the implementation of various safety net programs.

47. **A monitoring and evaluation (M&E) system of the National Safety Net Strategy has been established.** An M&E system has been set up in the NSU for monitoring and evaluating a large number of indicators (process, inputs, outputs, and outcomes) for the four priority programs, with provision to capture information on any other program being implemented in the country. A catalogue of safety net programs has also been defined, and several report formats have been designed to extract information from the data-base. The NSU has also been involved in in-depth monitoring of individual safety net programs through field visits.

D. Use of HIPC Initiative Interim Assistance

48. **As part of the HIPC decision document, it was agreed that HIPC debt relief resources would allow the government, in the context of the normal budget prioritization process, to increase funding to poverty reducing areas, supplementing domestic revenues.** According to information provided by the government, savings from interim HIPC assistance have been used broadly in line with the criteria set forth at the decision point. In order to ensure that these resources would be used well, a small sub-set of

high-priority activities were identified from the interim PRSP [8] (since the full MPRSP had not yet been completed) that would benefit from additional funding as a result of HIPC debt relief. This list was later expanded after the finalization of a full PRSP. To ensure that the resources freed up through HIPC assistance would be used in line with the criteria set forth under the HIPC initiative, the government decided to the ring-fence funding for these expenditures. This meant that in the event of shortfalls in revenues, funding for these priority activities would be protected to ensure uninterrupted service delivery. As a result, these expenditures have since been known as Protected Pro-poor Expenditures (PPEs). The level of expenditures on PPEs during fiscal years 2001/02 to 2004/05 is summarized in Table 2. To ensure transparency and accountability in the usage of HIPC resources, the funding allocations to PPEs and out-turns have been published on the Ministry of Finance website and in the press on a quarterly basis.

49. **Beyond HIPC completion point, the government remains committed to protect funding for PPEs.** Although the government is about to finalize its new policy strategy, the MGDS, it has indicated commitment to continue the ring-fencing of funding for PPEs. Since some of the activities may no longer be of highest priority, it plans to revise the list of activities categorized as PPEs. The revisions will be done in consultation with various stakeholders, especially civil society and parliament.

III. DEBT RELIEF AND DEBT SUSTAINABILITY UPDATE

A. Updated Data Reconciliation for the Decision Point

50. **The staffs of IDA and the IMF, together with the Malawian authorities, have reviewed the stock of debt at end-1999 against creditor statements.** As a result of this review, estimates of the nominal stock and the NPV of debt after traditional debt relief as of end 1999 were reduced slightly from US$ 2,604 million and US$ 1,469 million to US$2,600 million and US$1,466 million, respectively (Table 6).

51. **Multilateral creditors:** The NPV of debt of multilateral creditors as of end 1999 was reduced by US$3.7 million to US$1,094 million. This is largely because European Union loans administered by IDA are now treated as loans from Paris Club creditors. Estimates of the NPV of debt to IDA, IBRD, African Development Fund (AfDf) and African

[8] These programs were in health (drugs, primary health care), education (teaching materials and teacher training), water (borehole construction and maintenance), gender, youth and community services and rural roads.

Development Bank (AfDB) were also reduced slightly, while the NPV of debt to the PTA Bank was raised by US$2 million.[9]

52. **Bilateral and commercial creditors**. The estimate of the NPV of debt owed to Paris Club creditors was increased from US$294 million to US$320 million. This was because of the reclassification of EU loans administered by IDA and because debt owed to the United Kingdom that had been classified as commercial debt at the time of the decision point is now treated as bilateral debt. Consequently, estimates of the NPV of debt owed to commercial creditors declined from US$43 million to US$17 million.

53. **Estimates of exports of goods and services used to evaluate HIPC assistance at the decision point have also been revised** from an average US$551 million per year over 1997-99 to US$547 million.[10]

B. Status of Creditor Participation and Revision of HIPC Assistance

54. **As a result of these changes, the common reduction factor has climbed from 43.7 to 44.1 percent and total HIPC assistance in NPV terms has been revised upwards from US$643 million to US$646 million (Table 7).[11]** Malawi has received financing assurances of participation in the HIPC Initiative from creditors representing 97 percent of the NPV of HIPC assistance estimated at the decision point. All but one multilateral creditor, all Paris Club and all but one commercial creditor have confirmed their participation in the HIPC Initiative (Table 16).

Multilateral creditors

55. **The revised HIPC assistance from multilateral creditors totals US$482 million in NPV terms or 75 percent of total HIPC assistance (Table 7).** Except for the PTA Bank, all multilateral creditors have committed themselves to provide assistance once Malawi reaches the completion point.

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[9] Debt owed to the PTA Bank, could not be reconciled with creditor statements. The debt data was revised based on written correspondence between the Malawian authorities and the PTA Bank from December 1999 and early 2000 in the context of the PTAs law suit against the Government of Malawi. As a result of this law suit, Malawi agreed in March 2000 to pay all obligations to the PTA Bank on specified due dates. PTA Bank has not provided any HIPC assistance to Malawi.

[10] The revision was first reported in the staff report to the Board at end-2003, during the first review of the PRGF arrangement approved at end-2000.

[11] Malawi qualifies for an upward revision of HIPC assistance since it reached its decision point prior to the approval of the new information reporting decision by the Boards. (See "Information Reporting in the Context of HIPC Initiative Assistance," IMF, March 4, 2002 and IDA, April 4, 2002.)

- **The World Bank**: Revised HIPC debt relief from the World Bank will amount to US$333 million in NPV terms as of end-1999 (Table 16). IDA delivered US$100 million in NPV terms (US$118 million in nominal terms) as interim relief between January 2001 and August 2006, corresponding to a reduction of 55.3 percent of debt service falling due over this period. On reaching the completion point, the revised HIPC debt relief would equal an average of 55.9 percent of debt service due, provided till end 2020 (Table 14).

- **The IMF**: Revised HIPC assistance from the IMF would amount to SDR23.3 million (US$30.3 million) in NPV terms at the decision point.[12] It represents an average reduction of 33 percent in debt service over 2001-9, excluding 2002. Provision of interim assistance by the IMF was disrupted in 2002 by delays in concluding the first review under the PRGF arrangement and, though resumed in 2003, was again disrupted when the program went off-track in 2004. During the interim period, IMF disbursed SDR 11.6 million (US$16.5 million) in assistance. At the completion point, the IMF will disburse the remaining HIPC assistance of SDR 11.7 million, together with accrued interest, currently estimated at SDR 3.7 million, subject to satisfactory assurances from Malawi's other creditors.

- **The African Development Bank Group**: Revised HIPC debt relief from the AfDB would amount to US$71 million in NPV terms. The AfDB provided US$26 million of interim relief in end-1999 NPV terms. At the completion point, the AfDB is expected to provide the remaining assistance through an 80 percent reduction of debt service on debt outstanding at end-1999, applied till July 2016.

- **Other multilateral creditors**: The modalities of assistance for all other multilateral creditors are summarized in Table 16.

Bilateral and commercial creditors

- **Paris Club creditors** have agreed in principle to provide their share of assistance under the enhanced HIPC Initiative (US$141 million in NPV terms) (Table 16). Interim assistance has been provided through a flow treatment under Cologne terms, as agreed on January 25, 2001.[13] Bilateral agreements followed the extension of the consolidation period to September 1, 2006 with most Paris Club creditors. All Paris Club creditors have indicated that they would provide additional assistance beyond HIPC relief, estimated at US$84 million in end-2005 NPV terms, of which US$3.7 million in NPV terms have already been provided during the interim period.

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[12] IMF's HIPC assistance to Malawi approved at the decision point amounted to US$30.1 million.

[13] In the corresponding agreed minute, participating Paris Club creditors declared their readiness in principle to provide their full share of assistance through a stock of debt operation at the completion point, provided Malawi maintained satisfactory relations with the participating creditor countries.

- **Non-Paris Club creditors** are expected to provide treatment comparable to that of the Paris Club, with assistance under the enhanced HIPC Initiative amounting to US$15 million in NPV terms. South Africa agreed to provide HIPC debt relief beyond terms comparable to the Paris Club treatment, cancelling 100% of all maturities as they fall due.[14] The Kuwaiti Fund indicated in 2004 to deliver HIPC debt relief once Malawi would reach the completion point. Although the Malawian authorities formally requested debt relief in the context of the HIPC Initiative in 2001 and 2006, Taiwan, Province of China, has not yet manifested its intention of delivering HIPC debt relief to Malawi.

- Most **commercial creditors** located in Paris Club countries have already provided the full amount of HIPC debt relief on terms comparable to that of the Paris Club.[15] Only two commercial creditors located in the Netherlands and South Africa have not yet provided the full amount of HIPC debt relief as agreed at the decision point.[16]

C. Debt Sustainability After HIPC Assistance

56. **The current estimate of Malawi's debt stock updates the previous version prepared for the decision point document in December 2000**. The new estimate is based on loan-by-loan data as well as exchange and interest rates at end-2005 (Table 5).[17] Based on 99 percent data reconciliation, Malawi's nominal stock of external debt reached US$2.97 billion at end-2005 (Table 8).[18] Multilateral creditors were owed 88 percent of the total nominal debt stock. The IDA and the AfDB Group remain Malawi's largest creditors, respectively, accounting for 65 percent and 14 percent of total outstanding debt.

57. **The NPV of Malawi's external debt at end-2005, after full delivery of the assistance committed under the HIPC Initiative at the decision point, is estimated at US$1.3 billion, equivalent to 245 percent of exports.** Voluntary debt relief beyond HIPC assistance provided by bilateral creditors would reduce the NPV of debt to US$1.2 billion, corresponding to an NPV of debt to exports ratio of 229 percent. At the decision point, this NPV of debt was projected to reach 169 percent of exports at end 2005. It therefore exceeds decision point projections by 60 percentage points and the HIPC threshold of 150 percent by nearly 80 percentage points.

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[14] South Africa has also provided HIPC relief beyond terms comparable to the Paris Club.

[15] This refers to the following commercial creditors: Banco Bilbao, STD Bank, Skandinaviska Enskilda Banken, Chase Manhattan Bank and West Minister Bank. They provided HIPC debt relief through a 100% cancellation of the debt service falling due during the interim period.

[16] The Netherlands' Development Finance Company (FMO) has not yet agreed to the authorities' requests of HIPC relief. The South Africa Investment Development Corporation stopped the delivery of interim assistance in 2003.

[17] Loan data refers to public and publicly guaranteed external debt outstanding and disbursed.

[18] This corresponds to 100 percent reconciliation of multilateral debt data and a 99 percent reconciliation of bilateral and commercial debt data at end-2005.

58. **Even with full delivery of HIPC assistance, and assuming reasonable export and GDP growth projections, the ratio of Malawi's NPV of debt-to-exports will remain above the HIPC threshold for more than a decade.** At the decision point, it was already anticipated that this NPV of debt ratio would remain above the HIPC threshold till 2010, peaking at 180.7 percent in 2002.[19] However, under the current baseline scenario,[20] which assumes sound policy implementation, this NPV of debt ratio would remain above the HIPC threshold for significantly longer, through to 2020, and debt service would remain above 8 percent of exports till 2013.[21]

59. **At the decision point, it was also already recognized that Malawi's debt sustainability was vulnerable to exogenous shocks.** The decision point document identified weak export growth and financing on inadequately concessional terms as the primary risks to sustainability. The sensitivity analysis showed that if export prices were to remain at their 2000 level and if export volume growth would be 1 percent instead of 4.6 percent as assumed under the baseline, Malawi's NPV of debt to exports ratio in 2005 would reach 187 percent instead of 169 percent as projected under the baseline. Securing only 60 percent of new loans on IDA terms (as opposed to more than 90 percent assumed under the baseline scenario), would have raised its NPV of debt to exports ratio in 2005 by 23 percentage points. The alternative scenario risk assessments in the decision point document clearly indicated that, under either of these circumstances, the NPV debt ratio would remain above the HIPC threshold through to the end of the projection period. Reaching the completion point, the vulnerability of Malawi's external debt sustainability has been exacerbated by the deterioration in its debt indicators relative to decision point projections.[22]

D. Considerations For Topping-Up of HIPC Assistance

60. **The enhanced HIPC Initiative framework allows for additional debt relief ("topping-up") at the completion point** if the HIPC has experienced deterioration in its debt burden indicators, which is primarily attributable to a fundamental change in its

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[19] At the decision point, export receipts were projected to increase by an average of 4.8 percent over 2006-20. The baseline scenario now assumes average growth of 6 percent consistent with the stated government strategy to diversify and promote exports.

[20] The baseline scenario, described in Box 5, assumes MDRI. Projected debt burden indicators after HIPC assistance are based on new borrowing, export growth and GDP growth assumptions that are consistent with the baseline.

[21] Exports, revenues and GDP are assumed to be the same as in the baseline scenario discussed below, which assumes the full delivery of HIPC assistance as well as debt relief under MDRI.

[22] See, also Appendix I "Malawi: Joint World Bank/IMF Debt Sustainability Analysis based on Low-Income Country Framework".

economic circumstances due to exogenous factors.[23] Additional debt relief may then be provided by all creditors equiproportionately to bring the NPV of debt-to-exports ratio down to 150 percent at the completion point. So far, four countries have received topping-up assistance: Burkina Faso, Ethiopia, Niger and Rwanda. Malawi's NPV of debt to exports ratio after full delivery of HIPC assistance at end-2005 amounts to 245 percent, declining to 229 percent after voluntary bilateral debt relief beyond HIPC. This compares to 169 percent projected at the decision point. This section identifies the factors behind the increase in Malawi's NPV debt ratio at the completion point relative to projections made at the decision point. It discusses first the factors that lead to an increase in Malawi's NPV of debt to exports ratio and then addresses other factors that may have contributed to a fundamental change in Malawi's economic circumstances.

61. **Lower-than-projected export receipts explain a third of the higher NPV of debt-to-exports ratio.** A key strategic objective at the time of the decision point was to enhance performance in the export sector and its share of the economy. The strategy met with some success: non-traditional export receipts more than doubled over this period and merchandise export volume growth averaged 8.8 percent over 2001-05, versus an average of 5.4 percent envisaged at the decision point. However, these gains were offset by weak merchandise export prices, whose growth averaged about ½ percent per year over this period versus more than 2 percent per year anticipated at the decision point. The main export commodity, tobacco, which constitutes about half of Malawi's merchandise exports, was particularly hard hit: its price was expected to rise 20.4 percent between 2000 and 2005, but instead fell 13.6 percent. As a result, gains in overall receipts since the decision point have been weak and the export sector's share of economic activity is little changed since the decision point, even though Malawi increased its market share in the tobacco world market from 1.47 percent in 2000 to 2.41 percent in 2004. Furthermore, tobacco prices are projected to fall in real terms in the medium term as a consequence of increasing health concerns related to tobacco consumption.[24]

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[23] See IMF PRGF-HIPC Trust Instrument, Section III, paragraph 3(e); Box 1 in "Enhanced HIPC Initiative--Completion Point Considerations," IMF, (8/20/2001), https://www.imf.org/external/np/hipc/2001/cpd/cpd.pdf, and IDA, (8/21/2001), http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTDEBTDEPT/0,,menuPK:64166670~pagePK:64166691~piPK:64166715~theSitePK:469043,00.html

[24] See, The World Bank, "Prospects for the Global Economy," Washington DC, 2006.

Table 1. Malawi: Evolution of NPV of Debt to Exports Ratio

From HIPC Decision Point to end-2005

NPV of debt-to-exports ratio at decision point	**150.0**
Anticipated increase in ratio	**19.0**
1. Due to anticipated new borrowing	27.7
2. Due to anticipated change in exports of goods and services	-8.68
Change in exports of goods	-7.87
Change in tobacco exports	-13.38
Change in tobacco prices	*-5.19*
Change in tobacco volume	*-8.19*
Change in non-tobacco exports	5.51
Change in exports of service	-0.81
3. Other	0.0
NPV of debt-to-exports ratio (as projected at end-2005) 1/ 2/	**169.0**
Unanticipated increase in ratio 3/	**60.2**
1. Due to changes in the parameters	40.5
Exchange rates	*8.1*
Discount rates	*32.4*
2. Due to unanticipated new borrowing	3.8
Higher than expected disbursements	*-9.7*
Lower concessionality of new disbursements	*13.6*
3. Due to unanticipated change in exports of goods and services	19.7
Change in exports of goods	*18.3*
Change in tobacco exports	31.1
Change in tobacco prices	*21.2*
Change in tobacco volume	*9.9*
Change in non-tobacco exports	-12.9
Change in exports of services	1.4
4. Other unticipated factors 4/	-3.9
Actual NPV of debt-to-exports ratio 2/ 5/	**229.1**

Source: WB Staff estimates

1/ NPV of debt-to-exports ratio under assumption of full delivery of HIPC assistance in percent. See "Malawi: Enhanced HIPC Debt Initiative: Decision Point Document" IDA/R2000-234.

2/ Exports are three-year backward looking moving average of exports of goods and services.

3/ Changes are expressed in percentage points.

4/Other factors capture revision of debt data base and debt relief assumptions, as well as bilateral debt relief beyond HIPC assistance.

5/ NPV of debt-to-exports-ratio after full delivery of HIPC assistance and bilateral debt relief beyond HIPC assistance.

62. **Changes in discount rates explain about half of the increase in Malawi's NPV of debt-to-exports ratio**.[25] While market rates have declined since the decision point, the nominal debt service burden facing Malawi has remained broadly unchanged as interest rates on external debt are mostly fixed. But a decline in the interest rates on industrialized benchmark bonds (the discount rates used in HIPC documents) would reflect market expectations of a lower rate of inflation or a lower real interest rate. This is normally associated with a lower level of economic activity in industrialized countries, which could lead to a reduction of Malawi's future export earnings, implying a heavier debt burden.[26] A

[25] Under the HIPC Initiative, the NPV of debt is calculated at the reference year and for the subsequent 20-year projection period as the discounted value of future debt service payments using the exchange rates and the discount rates prevailing at the reference year. The discount rates used in the calculation of the NPV of debt are the 6-months backward average of long-term Commercial Interest Reference Rates (CIRRs) of the OECD.

[26] The discount rates used in the calculation of the NPV of debt are the 6-months backward averages of the long-term Commercial Interest Reference Rates (CIRRs) of the OECD.

recent analysis done at the IMF on the informational content of the CIRR discount rate[27] supports the contention that a decrease in these discount rates significantly worsens the export outlook for HIPC countries.

63. **The unanticipated depreciation of the US dollar against the Euro and SDR was also a factor, albeit minor, in the higher NPV debt ratio.** More than three quarters of Malawi's debt stock is denominated in Euros and SDR while Malawi's main export commodity, tobacco, is denominated in US dollars. Consequently, the depreciation of the US dollar, accompanied by weaker US dollar tobacco export prices, was responsible for a fundamental deterioration in the balance of payments that was partly reflected in a worsening external reserve position.

64. **Unanticipated new borrowing did not lead to a substantial increase in Malawi's NPV of debt to exports ratio.** Lower than projected concessionality of new loans led to an increase in the NPV of debt to exports ratio by 13.6 percentage points. At the decision point it was assumed that the grant element of new loans would amount to 71 percent, exceeding the grant element of an IDA loan. The actual grant element over 2000-05 averaged 57 percent. The relatively low concessionality of new loans was, however, largely offset by a smaller volume of new borrowing than projected, lowering the NPV debt ratio by 9.7 percentage points. [28]

65. **An additional factor that has significantly affected Malawi's economic circumstances is the increase in import prices, especially for oil products, relative to decision point projections**. At the decision point, import prices were expected to increase by 0.7 percent each year over 2000-05, but instead increased by 6.7 percent per year, on average, largely due to the sharp increase in international petroleum prices. Moreover, current projections indicate that import price levels are expected to remain high relative to projections made at the decision point. Together with weak export prices, high import prices contributed to the large deterioration in Malawi's terms of trade of about 20 percent over 2000-05 and this deterioration is expected to continue through the projection period, though at a more modest pace. While the raise in international oil price has not directly contributed to the higher than anticipated debt-to-exports ratio (and therefore does not appear in Table 1), they have weakened Malawi's capacity to service its debt burden, while adding to the country's external financing need and exerting pressure on its limited external reserves.

66. **The staffs are of the view that the substantial unanticipated deterioration in Malawi's NPV of debt-to-exports ratio between the decision and completion points was primarily attributable to exogenous factors.** Lower exports prices of Malawi's main export commodity, changes in discount and exchange rates, and overly optimistic new

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[27] See IMF *HIPC Topping-Up—The Informational Content of the CIRR Discount Rate,* March 18, 2004.

[28] Using the discount rate as of the decision point, the grant element of an IDA loans is 65 percent.

borrowing assumptions at the time of Malawi's decision point were all unambiguously exogenous, outside of the control of the Malawian authorities, and fully explain the unanticipated increase in Malawi's NPV of debt-to-exports ratio. In addition, the unanticipated increase of import prices also contributed to a worsening of Malawi's debt sustainability outlook.

67. **In line with the policy on topping-up approved by the Boards of IDA and the IMF, the staffs consider that Malawi's case meets the requirements for topping-up at the completion point.** Consistent with this policy, staffs therefore recommend that additional assistance of US$411 million under the enhanced HIPC Initiative be granted to bring Malawi's NPV debt ratio from 229 percent at end-2005 after the bilateral debt relief beyond HIPC assistance to the 150 percent HIPC threshold.[29]

E. Debt Relief Under Multilateral Debt Relief Initiative

68. **If Executive Directors approve the completion point for Malawi under the enhanced HIPC Initiative, Malawi will also qualify for additional debt relief under the Multilateral Debt Relief Initiative (MDRI).** Three creditors would provide debt relief under the MDRI: IDA, the AfDF and the IMF. As debt relief under the MDRI would cover all remaining debt service obligations on eligible credit balances after any debt service relief available under the HIPC Initiative, the amount of relief under MDRI depends on the Executive Directors' approval of topping-up.[30] MDRI debt relief (net of HIPC assistance) would lead to debt service savings on debt owed to IDA, the IMF and the African Development Bank of US$1.9 billion without topping-up and of US$1.4 billion, if topping-up were to be approved.

Without topping-up

- **IDA** would provide debt relief under the MDRI through a debt stock cancellation of debt disbursed before end-2003 and still outstanding on September 30, 2006.[31] This would reduce Malawi's debt stock owed to IDA by US$1.8 billion, of which a reduction of US$1.4 billion would be due to the implementation of MDRI and the remainder to HIPC assistance (Table 14). Debt cancellation under the MDRI from IDA would result in average annual debt service savings (net of HIPC assistance) for Malawi of US$27 million between 2006 and 2010 and US$41 million over the next 38 years. Total debt service savings would amount to US$ 1.5 billion (or SDR 1.1 billion).

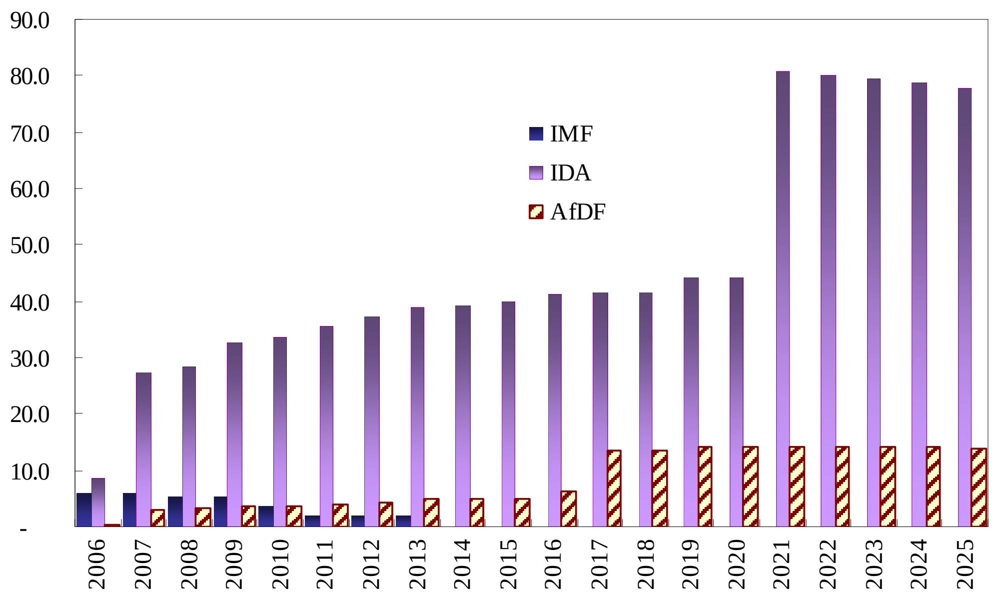
[29] The share of IDA's and IMF's assistance in total topping-up assistance is 74 percent.

[30] For IDA, eligible debt covers debt disbursed and outstanding as of December 31, 2003. For the IMF and AfDF, credits on debt outstanding and disbursed as of December 31, 2004 may be eligible for debt relief under the MDRI.

[31] See, International Development Association, "The Multilateral Debt Relief Initiative: Implementation Modalities for IDA," November, 18, 2005, http://siteresources.worldbank.org/IDA/Resources/MDRI.pdf.

- **The IMF**'s debt relief under the MDRI would cover the full stock of debt owed to the IMF at end-2004 that remains outstanding at the completion point.[32] This would lead to a debt stock reduction of SDR37.9 million, of which SDR22.4 million would be financed from the MDRI-I Trust and the remainder from the HIPC umbrella account (Table 15a). MDRI relief would yield debt service savings (net of HIPC assistance) averaging SDR 3 million (or US$4 million) over the next 8 years, corresponding to total debt service savings of SDR 22 million (or US$32 million). The Reserve Bank of Malawi will transfer the flow of savings on debt service owed to the IMF to the budget on an annual basis.

Figure 1. Malawi: Implied Savings under the MDRI 1/
(In millions of U.S. dollars)



Sources: IDA and IMF Staff estimates.
1/ MDRI debt service savings without topping-up of HIPC assistance.

- **The AfDF** would provide debt relief under the MDRI through a debt stock cancellation of debt disbursed before end-2004 and still at the completion point,[33] amounting to US$382.9 million, of which US$54.4 million would correspond to HIPC assistance. MDRI relief from the AfDB will yield annual debt service savings (net of HIPC assistance) averaging US$27 million over the next 5 years and US$8 million over the next 45 years. Total debt service savings under MDRI would amount to US$347 million in nominal terms to be delivered in full at the time of the completion point.

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[32] As defined in the MDRI-I Trust Instrument.

[33] See African Development Fund, "The Multilateral Debt Relief Initiative: ADF Implementation Modalities Paper," November 28, 2005.

With topping-up

- **IDA** would cancel US$ 1.8 billion of the debt stock owed by Malawi on October 1, 2006 (Table 14), of which a reduction of US$1.1 billion would be due to the implementation of MDRI. With topping-up, average annual debt service savings (net of HIPC assistance) would decrease to US$8 million over the next 5 years and US$31 million over the next 38 years, corresponding to total debt service savings of US$1.2 billion.[34]

- **The IMF** would provide debt relief under the MDRI amounting to SDR37.9 million, of which SDR14.5 million would be financed from the MDRI-I Trust, SDR15.4 million from completion point assistance disbursed to Malawi's HIPC umbrella sub-account, and SDR8 million from topping-up assistance.(Table 15b). MDRI relief would imply debt service savings (net of HIPC assistance) averaging SDR1.6 million (or US$2.4 million) over the next 8 years, amounting to total debt service savings of SDR13 million (or US$19 million).[35]

- **The AfDF** would cancel a debt stock of US$383 million under the MDRI, of which US$95 million would correspond to HIPC assistance. This would imply annual debt service savings (net of HIPC assistance) averaging US$2 million over the next 5 years and US$4 million over the projection period, totaling US$253 million over the entire projection period.[36]

F. Debt Sustainability Outlook After MDRI, 2006-25

69. **The macroeconomic framework underpinning the debt sustainability outlook has been revised to take into account recent developments (Tables 3 and 4).** Over the medium term, the macroeconomic framework is in line with the government's economic program supported by the PRGF arrangement with the IMF. Long-term assumptions are based on information provided by the authorities regarding sectoral strategies, including in the MGDS—the new poverty-reduction strategy—as well as latest WEO prices and recent trends in macroeconomic variables. The main elements of the long term macroeconomic framework underpinning the debt sustainability analysis are outlined in Box 6.

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[34] IDA allocations to countries receiving MDRI debt relief will be reduced by the amount of MDRI relief to be provided in that year. (See, IDA "The Multilateral Debt Relief Initiative: Implementation Modalities for IDA," November 18, 2005). Since topping-up would reduce the amount of MDRI debt relief in each year, the IDA allocation to Malawi would be higher if topping-up were to be approved.

[35] If topping-up assistance is approved by the Boards of IDA and IMF, some of Malawi's pre-MDRI cutoff date credit outstanding to the IMF will remain outstanding pending the receipt of financing assurances for disbursing topping-up assistance and the subsequent disbursement of topping-up assistance.

[36] Similar to IDA, MDRI debt relief provided by the AfDF is netted out from AfDFs allocation. (See, AfDF, "The Multilateral Debt Relief Initiative: ADF Implementation Modalities Paper", November 2005). Since topping-up of HIPC assistance leads to a reduction in MDRI debt relief provided by AfDF, AfDFs allocation to Malawi would be higher if topping-up were to be approved.

Box 6: Macroeconomic Assumptions Underlying the Debt Sustainability Analysis over 2006-25

- **Growth**. Annual output growth is projected to amount to approximately 6 percent over the near term, and to drop to 4.5 percent in line with the regional long term average and consistent with annual per capita growth of 2.5 percent. This compares to a historical ten-year average of real GDP growth of 2.8 percent.

- **Inflation and exchange rates**: Inflation is expected to fall and remain in single digits within the near term The real exchange rate is assumed to remain steady through the longer term.

- **Net official assistance** to Malawi is assumed to increase gradually and modestly by about 2 percent of GDP to about 23 percent of GDP by 2015, mainly as a result of debt relief. The share of grants in gross aid inflows is expected to increase from 78 percent in the first half of the decade to about 84 percent. The higher aid flows are assumed to have a high import content which will mitigate the threat of an aid-driven appreciation of the real exchange rate.

- **External official debt**: The outlook assumes the full delivery of HIPC assistance and debt relief under the MDRI. New debt is assumed to be issued on concessional terms consistent with the experience since the decision point. New borrowing is assumed to decline from 5.8 percent of GDP in the first half of this decade to 3.8 percent of GDP over the projection period.

- **FDI and exports**: Increasing and diversifying Malawi’s export base is a high priority in the MGDS. Possible areas of export growth include tobacco and tea, other agricultural products, tourism, hydro electricity and mineral resources. If implemented, the export share of the economy will be increased, supported by stronger FDI inflows and growth in private sector investment.

- **Fiscal policy** is expected to target continued reduction of domestic debt to around 2 percent of GDP. The government is assumed to maintain a stable domestic revenue effort relative to GDP. A lower domestic interest bill and higher net aid inflows are assumed to support an increase in the development budget by 4 percent of GDP. In addition, poverty reducing current spending will be increased, including a rise in the wage bill to 8.5 percent of GDP to cover increased employment in social sectors. The ability of government to absorb additional aid will be a key constraint on the scaling up of aid.

- **Current account**: The current account balance is expected to deteriorate modestly. Higher exports will be offset by higher aid-driven imports and the tilt in the composition of gross aid toward loans.

- **Gross official reserves** are assumed to increase steadily to 5 months of imports over the longer term. Improving reserve coverage is a key priority because of Malawi’s vulnerability to food crises and external shocks.

70. **The MGDS aims to enhance growth by maintaining macroeconomic stability and implementing structural reforms to create an enabling environment for private sector investment (Box 2).** In addition, there is scope for output to recover from a prolonged period of poor performance. A key assumption is that measures are implemented to insulate the economy from the debilitating impact of periodic droughts.[37] Consequently, it is projected that Malawi will be able to attain real GDP growth of around 6 percent per year on average between 2006 and 2011. Over the longer term, the outlook assumes a more cautious annual growth rate of 4.5 percent, consistent with the regional average and annual per capita growth of 2.5 percent.[38] It is also assumed that an increase in output growth by one percentage point would accelerate the annual rate of decline in the poverty headcount ratio by about 0.2 percentage points.

71. **The outlook assumes only a modest increase in aid flows and does not incorporate a substantial scaling up of aid.** Borrowing projections are based on current information available regarding future commitments. These commitments are likely to be at odds with the level of aid flows needed to meet the Millennium Development Goals. New borrowing is assumed to be kept at modest levels and is expected to decline as a share of GDP as the composition of aid shifts to grants. Moreover, new borrowing is assumed to be on concessional terms consistent with the average since the decision point (see Section IV.D above). The budget is expected to benefit from the increased routing of a portion of aid, currently passed outside the budget, through the central government as its capacity to utilize aid effectively increases.

72. **The outlook assumes full delivery of HIPC assistance as well as debt relief under the MDRI.** Two variations of the baseline outlook are considered: one with, and one without topping-up of HIPC assistance. To facilitate comparison, it is assumed that any additional debt service savings arising in the second variation are accumulated as external reserves.

Excluding Topping-Up of HIPC Assistance

73. **After HIPC and MDRI debt relief, Malawi's external debt is expected to remain below the HIPC threshold throughout the projection period under the baseline**. HIPC assistance, debt relief provided by bilateral creditors beyond HIPC assistance and the implementation of the MDRI is projected to reduce Malawi's NPV of debt outstanding as of

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[37] The government has made food security a top priority and is implementing measures to improve performance in this sector. Measures include expanding the fertilizer subsidy scheme, investments to improve irrigation, measures to strengthen agricultural markets to aid crop diversification, and improving access to financial markets including weather-based insurance.

[38] Long-term annual growth of 4.5 percent is less than the 5.5 percent annual average growth for 2010-20 assumed at the decision point and attempts to address the tendency for growth projections to be overly optimistic.

end 2005 from US$1.3 billion to US$242 million at end-2006. As a consequence, Malawi's NPV of debt to exports ratio would drop from 245 percent as of end-2005 to 43 percent by end-2006. Because of new borrowing, it would subsequently rise to about 89 percent at the end of the projection period. The NPV of debt-to-GDP ratio would decrease to 11 percent at end-2006 and gradually approach 24 percent at the end of the projection period. Finally, the NPV of debt-to-revenue ratio would decline to 44 percent in 2006 and trend upwards above 102 percent near the end of the projection period.

74. **Debt service is projected to remain low through the projection period.** After HIPC relief and relief under MDRI, annual debt service would average US$17 million on average during 2006-15, the equivalent of about 2 percent of exports of goods and services.

Including Topping-Up of HIPC Assistance

75. **After topping-up HIPC assistance and the subsequent implementation of MDRI, the NPV of debt-to-exports ratio would further drop to 32 percent at end-2006.** It would then rise to 103 percent at the end of the projection period. The NPV of debt-to-GDP ratio would decrease to 8 percent at end-2006. It is expected to reach above 28 percent by the end of the projection period. Finally, the NPV of debt-to-revenue ratio would decline to 33 percent in 2006 and would average about 108 percent over 2016-25.

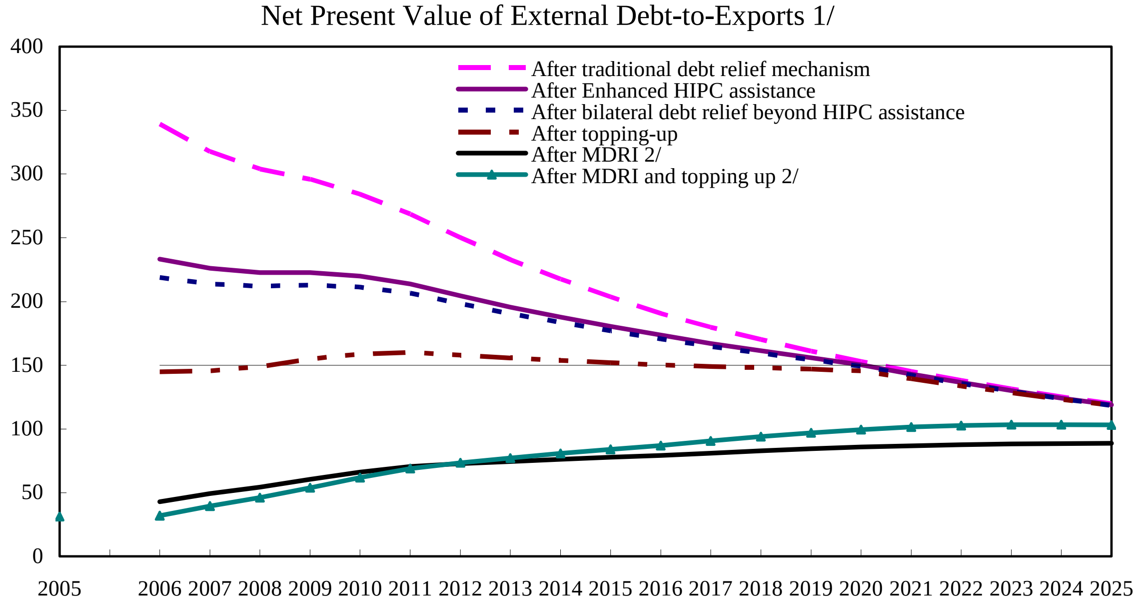
76. **Debt service is projected to remain low through the projection period.** After HIPC relief, additional bilateral relief, topping-up and relief under MDRI, total annual debt service would decrease further to US$16 million on average during 2006-15, the equivalent of about 2 percent of exports of goods and services. Debt service would remain around 2 percent of exports through the remainder of the projection period.

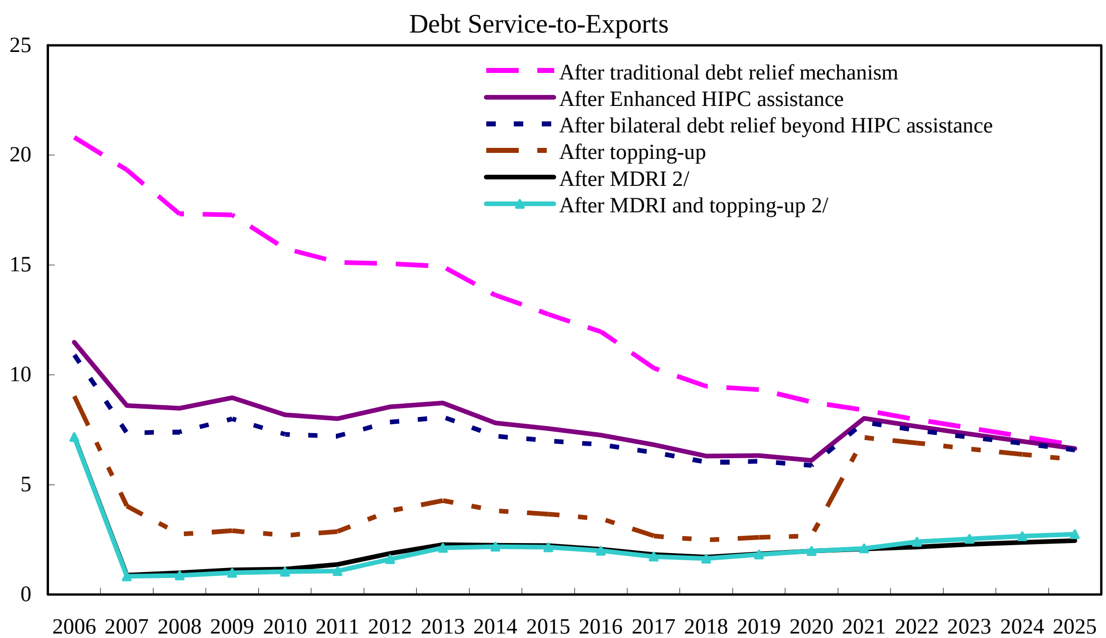
G. Sensitivity Analysis

77. **Even with debt relief under MDRI, Malawi's debt sustainability remains vulnerable in the long run.** [39] Possible risks include the contracting of new debt on inadequately concessional terms; high levels of new borrowing that, because of poor policy implementation, are associated with poor growth and weak export growth; and failure to insulate the economy from periodic shocks to which the country is vulnerable. These risks are illustrated in the accompanying three scenarios that assume full delivery of HIPC assistance, additional bilateral assistance and debt relief under the MDRI, and that exclude topping-up. A fourth scenario considers the implications of a substantial scaling up of aid and debt (Table 13).

[39] Given the small effect of topping-up on debt burden indicators after the implementation of MDRI (see figure 2), Malawi's debt sustainability outlook after MDRI remains unchanged when taking topping-up into account.

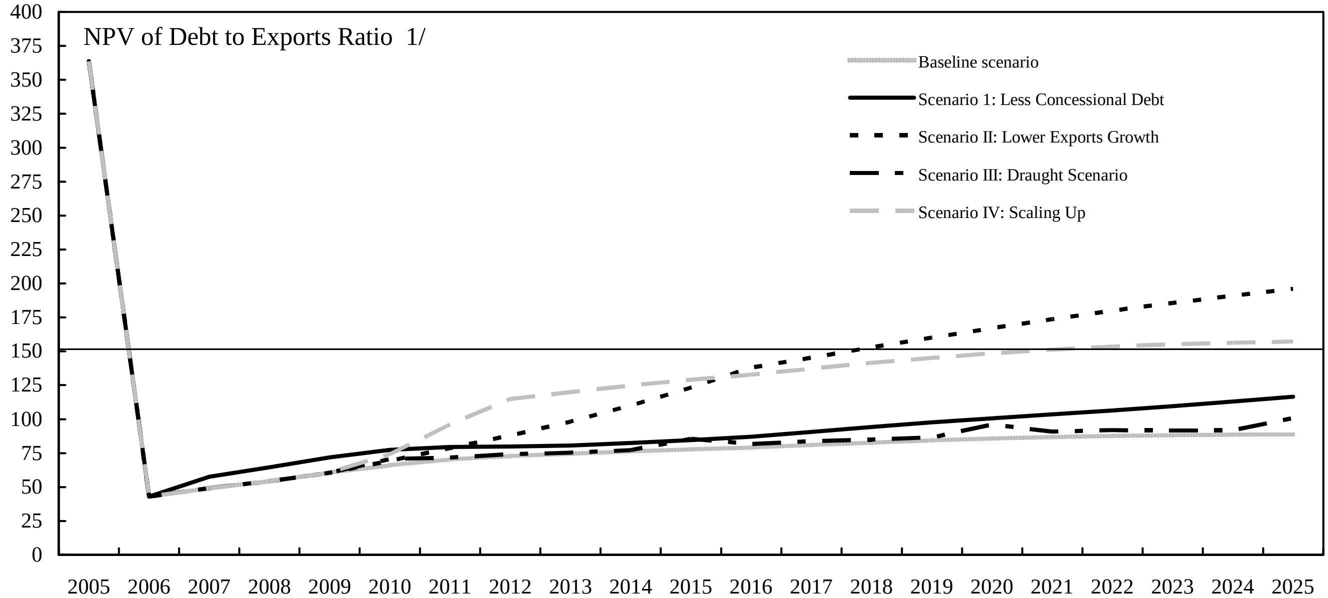
Figure 2. Malawi: External Debt and Debt Service Indicators for Medium- and Long-Term Public Sector Debt, 2005-25

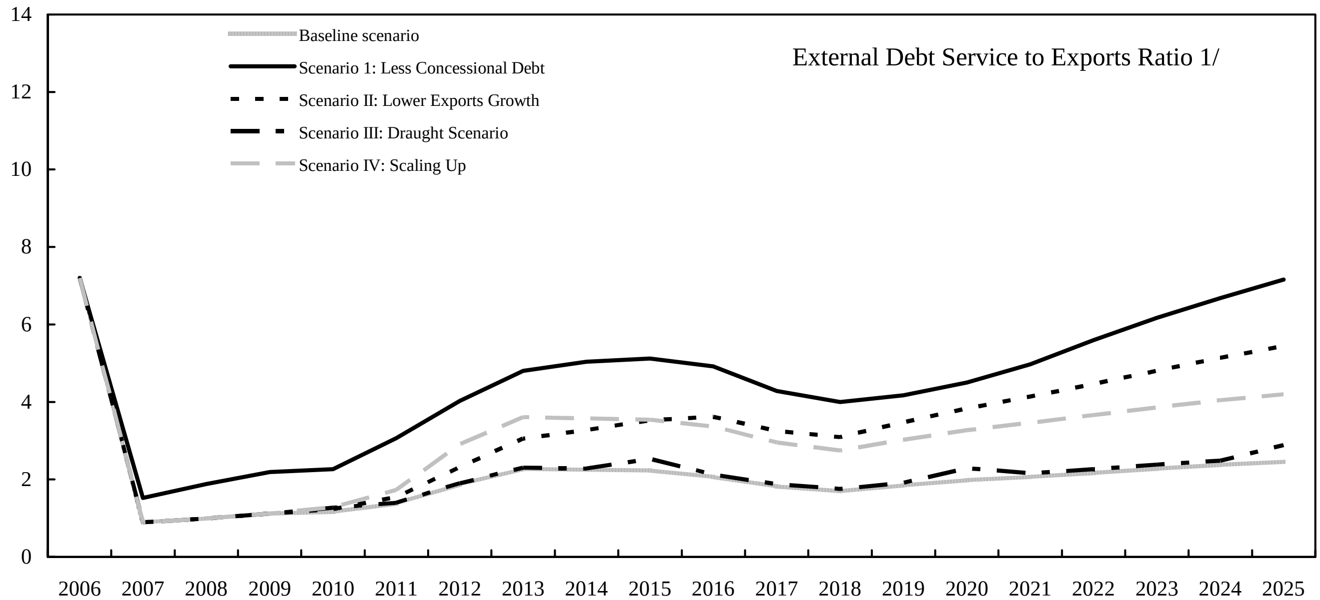




Sources: Malawian authorities; and IDA and IMF staff estimates and projections.
1/ Assumes full delivery of HIPC assistance.
2/ Includes bilateral debt relief beyond HIPC assistance.

Figure 3. Malawi: Sensitivity Analysis, 2005-2025
(in percent)





Sources: Malawian authorities; and Bank-Fund staff estimates and projections.
1/ Baseline assumes debt after additional bilateral assistance and MDRI debt relief.

Scenario 1: Borrowing on less than fully concessional terms

78. **Debt relief under MDRI opens the scope for new borrowing on less than concessional terms**. Sound debt management is required to ensure that new borrowing is on adequately concessional terms to ensure that the external debt burden does not become unsustainable again. This scenario explores the consequences of new borrowing on less than fully concessional terms and assumes a grant element of 45 percent. To isolate the implications of poor debt management, this scenario assumes that output and export growth as well as gross aid flows are the same as in the baseline scenario. However, the higher cost of new borrowing reduces the long-term scope for expanding the fiscal spending envelope and hampers the accumulation of external reserves.

- As in the baseline scenario, Malawi's debt remains below the HIPC threshold throughout the projection period. However, by the end of the projection period, the lower concessionality raises the NPV of debt above 117 percent of exports and debt service above 7 percent of exports

Scenario 2: Higher borrowing and lower exports

79. **Maintaining debt sustainability will depend critically on sound policy decisions as well as implementation**. This scenario assumes that the government supplements the baseline levels of aid with a higher level of borrowing similar to levels witnessed in the first half of the decade. However, efforts to implement structural reforms to enhance growth are assumed to be unsuccessful. The scenario further assumes that long-term global prospects for tobacco prices are poor and that efforts to diversify Malawi's exports from a reliance on tobacco meet with little success. As a result, output and export growth as well as external reserve accumulation are weaker than envisaged in the baseline scenario and the export sector's share of total output in the economy falls.

- Higher borrowing and weaker export growth lead to a steep increase in Malawi's NPV of debt-to-exports ratio. It breaches the HIPC thresholds by 2019, reaching 196 percent the end of the projection period. The debt service-to-export ratio also rises, climbing to 5 percent of exports by 2025.

Scenario 3: Failure to insulate the economy from periodic droughts

80. **Debt sustainability is vulnerable to the periodic droughts that Malawi has routinely experienced in the past**. This scenario reflects this past experience and assumes that Malawi fails to implement measures that adequately insulate the economy from the shocks. It is assumed that droughts were to occur every 5 years starting in 2010. During the year affected, drought reduces production, including exports. Despite increased donor support during drought periods, domestic government borrowing and external reserves are put under pressure, making it more difficult for the government to maintain low inflation and

real interest rates. The vulnerability of the economy to shocks also has a longer term negative impact on the business environment: domestic borrowing, inflation and real interest rates are generally higher than in the baseline leading to lower private investment as well as lower output and export growth.

- After HIPC and MDRI, Malawi's NPV of debt to exports ratio remains below the HIPC threshold throughout the projection period. Given the assumption of substantial donor support in terms of grants during period of droughts, debt burden indicators under the drought scenario closely mimics the baseline.

Scenario 4: Scaling-up of aid and new borrowing

81. **Malawi is likely to require a large scaling-up of aid if it is to meet the MDGs and make significant inroads into poverty**. However, scaling up aid through loans rather than grants could threaten Malawi's external debt sustainability. To illustrate this risk, this scenario assumes that aid to Malawi (including flows to the private sector and other institutions outside government) are increased by 5 percent of GDP to about 26.5 percent of GDP over 2011-25. The composition of aid between grants and loans remains broadly unchanged from recent experience, so that new borrowing rises to 6.8 percent of GDP, about 3 percent of GDP higher than in the baseline scenario. The additional aid is assumed to be used effectively, increasing the annual growth of both output and export growth by 0.5 percent above the baseline.

82. **Despite higher output and export growth, the additional borrowing assumed in this scaling-up would induce the NPV of debt-to-export ratio to breach the HIPC threshold before the end of the projection period.** This clearly illustrates that Malawi would need to rely heavily on grant financing if it is to make faster progress towards achieving the MDGs while maintaining debt burden indicators at sustainable levels.

83. **The sensitivity analysis shows that Malawi's debt sustainability remains vulnerable to exogenous shocks.** It is therefore important that the authorities make prudent use of the resources freed up through debt relief and strengthen their public expenditure management. Moreover, the government would need to continue with the implementation of governance and structural reforms after the completion point in order to sustain strong economic growth and to avoid a deterioration of its debt burden indicators.

IV. Conclusions

84. **The staffs of IDA and the IMF consider that Malawi's performance with regard to the conditions established in December 2000 for reaching the completion point under the Enhanced HIPC Initiative has been broadly satisfactory.**

85. **Malawi successfully formulated a full PRSP—the MPRS—in 2002.** Implementation was initially weak largely because of poor macroeconomic performance, but

has improved in recent years, as outlined in the second and third APRs. In the view of IDA and IMF staffs, implementation of the MPRS over the last year has been satisfactory. Malawi’s development strategy will henceforth be guided by the new Malawi Growth and Development Strategy.

86. **Malawi has met the requirement for a minimum of six months satisfactory performance under a PRGF-supported program.** Macroeconomic policy implementation was poor during the first three years after the decision point and the PRGF arrangement, approved at end-2000, expired with only the first review being completed. However, policy implementation improved significantly following the election of a new government in early 2004. Malawi has now maintained almost two years of satisfactory macroeconomic policy implementation, first under an SMP from July 2004 to June 2005 and subsequently under a new PRGF arrangement approved in August 2005.

87. **Malawi has successfully implemented a range of social measures specified at the decision point as required to reach the completion point under the HIPC Initiative.** The pace of implementation was initially slow, but gathered pace in recent years. IDA and IMF staff have assessed that Malawi has implemented all but two of the triggers, related to the share of health expenditures and the number of teachers in training college. In view of the progress made to-date in implementing a broader strategy for raising the quality of education and improving health outcomes, the staffs recommend that waivers be granted for non-observance of these two triggers.

88. **Achieving and sustaining strong economic growth will require, in addition to maintaining a sound macroeconomic framework, accelerated structural and governance reforms.** It will require that the government sustain the recent pace of implementation of reforms, increase and implement more effectively its public investment program, and strengthen partnership with donors.

89. **Malawi’s debt burden at end-2005 is higher than anticipated at the decision point.** The full delivery of assistance under the HIPC Initiative would reduce Malawi’s debt burden but would not be sufficient to make this burden sustainable. This reflects a detrimental shift in exogenous factors beyond the control of the country. The IDA and IMF staffs recommend that Malawi be considered for additional and exceptional assistance under the HIPC Initiative.

90. **On reaching the completion point under the HIPC Initiative, Malawi has also become eligible for debt relief under the MDRI.** After full delivery of the HIPC Initiative and additional debt relief from some Paris Club creditors and MDRI, the NPV of debt-to-exports ratio would be reduced to about 43.0 percent at end-2006. Nevertheless, Malawi’s economy remains vulnerable to external shocks. The sensitivity analysis shows that Malawi’s external debt sustainability could be jeopardized by a return to high levels of borrowing and a failure to implement strong macroeconomic and structural reform policies to

enhance output growth and improve the performance of the export sector. Debt relief under the MDRI increases the scope for new borrowing and highlights the importance of prudent external debt management to ensure that new borrowing is maintained within limits and on adequately concessional terms.[40] Malawi's debt sustainability could also be jeopardized by a failure to implement measures to insulate the economy from periodic droughts to which Malawi is susceptible and which have an impact on its main export commodity, tobacco.

91. **Important challenges and risks remain on Malawi's development path.** First, pressures for higher spending in the post-completion point period, financed by external borrowing, could jeopardize macroeconomic stability, undermine debt sustainability, and endanger external competitiveness. Second, uncertainties continue to exist about the projected commodity output and prices. A sharp fall in these prices could jeopardize the sustainability of the external position. Third, the government needs to maintain the pace of governance and structural reforms beyond the completion point to attract private and official resources in order to sustain strong economic growth and reduce poverty.

92. **In light of the above, the staffs of the IDA and IMF recommend that the Executive Directors determine that Malawi has reached the completion point under the Enhanced HIPC Initiative and that additional assistance under the Initiative be granted to lower Malawi's NPV of debt to exports ratio at end-2005 to 150 percent.**

V. Issues for Discussion

Executive Directors may wish to focus on the following issues and questions:

Completion point: Do Directors agree that Malawi has met all but two of floating conditions for reaching the completion point under the enhanced HIPC Initiative, as established at the time of the decision point?

Data correction: Do Directors agree with staffs' recommendation that the proposed revision in the stock of debt in NPV terms and exports of goods and services warrants a revision in the amount of HIPC Initiative assistance?

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[40] In particular, the borrowing space created by MDRI debt relief should not be used to contract debt on non-concessional terms. IDA's Board has recently approved a two-pronged package of measures addressing free riding on future borrowing by IDA grant-recipient as well as post-MDRI countries. (See, IDA, "IDA Countries and non-concessional Debt: Dealing with the Free-Rider Problem in IDA fourteen Grant-recipient and post-MDRI countries," June 2006). On the creditor side, the package involves enhancing creditor coordination around an agreed framework. On the borrower side, it provides disincentives on new borrowing by reducing volumes and/or hardening the terms of assistance. The IMF will continue to monitor and discourage non-concessional borrowing through the use of the debt sustainability framework for low-income countries in both surveillance and program contexts.

Topping-Up: Do Directors agree that the deterioration in Malawi's debt sustainability is primarily attributable to a fundamental change in its economic circumstances due to exogenous factors?

- If so, do Directors agree that exceptional additional HIPC Initiative assistance be granted to lower Malawi's NPV of debt-to-exports ratio at end-2005 to 150 percent?

- If so, do Directors agree that this additional assistance would be granted when the Boards decide that other creditors have provided sufficient assurances to participate in this exceptional effort?

MDRI: Do IMF Directors agree that Malawi qualifies for an amount of debt relief by the Fund equal to SDR37.9 million, of which SDR14.5 million would be financed from the MDRI-I Trust, SDR15.4 million from completion point assistance disbursed to Malawi's HIPC umbrella sub-account, and SDR8 million from topping-up assistance, if topping-up is approved. Do Directors agree that the authorities have adequate monitoring mechanisms to ensure that debt relief is used according to its intended purposes?

Creditor participation: Do Directors agree that sufficient assurances have been given by Malawi's creditors to commit HIPC assistance to Malawi on an irrevocable basis?

Debt Sustainability: Do Directors agree with staffs' assessment that Malawi's debt sustainability is likely to be maintained over the medium and long-term? Do Directors share the staffs' assessment regarding possible risks that may emerge if the authorities do not actively pursue policies that encourage export diversification and prudent fiscal and debt management policies?

Do Directors agree that Malawi should continue to seek debt relief from its non-Paris Club creditors within the framework of the HIPC Initiative and that the staffs should continue to monitor the delivery of the debt relief from all creditors?

Table 2: Resources used on Protected Pro-poor Expenditures, FY2001/02-FY2004/05
(In millions of U.S. dollars)

	2001/02 (Actual)	2002/03 (Actual)	2003/04 (Actual)	2004/05 (Actual)	Total
Agriculture					
Agricultural Extensions	2.21	2.87	8.01	6.48	19.57
Small-scale Irrigation	-	3.38	1.87	-	5.25
Technology Generation and Technical Service	-	-	-	3.34	3.34
Water Development					
Rural Waster Supply	0.90	0.61	0.27	0.31	2.09
Borehole and Dam Construction	3.51	2.30	0.95	-	6.76
Rehabilitation	-	-	-	0.13	0.13
Education					
Teaching and learning materials	9.05	5.72	15.97	5.40	36.14
Teacher's salaries	30.72	49.77	45.88	-	126.37
Teachers' housing	-	1.61	0.37	0.02	2
Teacher training	1.97	4.99	3.40	3.78	14.14
Health					
Primary Health Care	8.69	9.97	-		18.66
Health Workers' Training	1.67	3.65	1.44	2.25	9.01
Curative Health Services	8.84	6.52	8.80	7.94	32.1
Infrastructure Development	-	-	1.02	1.10	2.12
Preventive Health Care	0.28	0.28	6.89	1.08	8.53
Health Technical Services	-	-	0.21	5.37	5.58
Drugs	14.80	12.48	12.23	13.16	52.67
Health Worker Salaries	-	9.64	-	-	9.64
Clinical and Population Services	-	-	-	0.08	0.08
Gender, Child Welfare and Community Services					
Gender Mainstreaming	0.59	-	-	-	0.59
Adult Literacy	-	0.91	0.54	0.53	1.98
Family Welfare and Gender Services	-	0.74	0.36	0.20	1.3
Child Care Services	-	0.11	-	0.07	0.18
Police					
Crime Prevention and Investigation				2.48	2.48
Community Policing	0.04	2.56	1.70	1.34	5.64
Police Officer Training	-	1.53	1.05	1.91	4.49
Labor and Vocational Training					
Technical and Vocational Training	1.52	1.97	1.64	2.13	7.26
Trade and Private Sector Development					
Industrial Development	-	-	-	0.14	0.14
Enterprise Development Promotion	0.63	0.29	1.32	0.26	2.5
Cooperatives Development	-	-	-	0.22	0.22
National Roads Authority/Local Government					
Rural Feeder Roads	10.68	4.60	0.76	-	16.04
Natural Resources					
Small-scale Fishing	-	0.94	0.34	0.58	1.86
Small-scale Mining	0.59	0.90	0.64	0.39	2.52
Tourism					
Promotion of Tourism	0.48	-	-	-	0.48
Tourism Services	-	0.39	0.42	0.41	1.22
Conservation and Protection of Wildlife	-	0.70	0.56	0.74	2
Total	**97.17**	**129.43**	**116.64**	**61.84**	**405.0**8
HIPC Debt Relief	**30.7**	**40.2**	**50.9**	**46.9**	**168.7**

Source: Malawian authorities

Table 3. Malawi: Selected Economic Data, 2003-25
(In percent of GDP, unless otherwise specified)

	Actual			Projections												Average	
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2020	2025	2006-15	2016-25
National income and prices																	
Real GDP growth	6.1	7.1	2.8	8.4	5.6	6.0	6.0	5.5	5.0	4.5	4.5	4.5	4.5	4.5	4.5	5.5	4.5
Nominal GDP (billions of kwacha)	172	207	246	304	345	393	447	506	570	639	717	804	901	1598	2832	563	1766
percent change	15.9	20.5	18.6	23.5	13.7	13.9	13.8	13.2	12.7	12.1	12.1	12.1	12.1	12.1	12.1	13.9	12.1
Gross domestic product, current prices, U.S. dollars	1765	1903	2076	2158	2280	2462	2661	2869	3079	3288	3512	3750	4005	5565	7732	3006	5854
GDP per capita (in U.S. dollars)	148	155	166	172	176	187	198	209	220	230	241	252	264	330	414	215	341
percent change	-10.8	5.5	6.9	2.7	1.8	5.0	5.0	5.6	5.1	4.6	4.6	4.6	4.6	4.6	4.6	4.4	4.6
Consumer price index, percent change (period average)	9.6	11.4	15.5	13.1	7.2	7.5	7.4	7.3	7.3	7.3	7.3	7.3	7.3	7.3	7.3	7.9	7.3
Public finance																	
Total revenues (including grants)	26.7	34.7	37.6	44.1	41.8	39.0	38.7	38.0	38.3	38.2	38.1	38.1	38.0	37.6	37.5	39.2	37.9
Revenue (excluding grants)	20.0	22.6	25.1	24.9	24.2	24.2	23.7	23.7	23.7	23.7	23.7	23.7	23.7	23.7	23.7	23.9	23.8
Grants	6.7	12.2	12.5	19.2	17.6	14.8	15.0	14.3	14.6	14.5	14.4	14.4	14.3	13.9	13.8	15.3	14.1
Total expenditure	38.3	42.5	43.1	46.1	43.1	39.4	38.7	38.2	38.6	41.2	41.3	41.2	41.2	41.3	41.1	40.9	40.6
Current expenditure	30.9	31.4	31.8	34.1	28.2	26.1	24.9	23.7	23.9	25.9	25.9	25.9	25.9	26.0	25.8	26.5	24.5
Investment expenditure and net lending	7.4	11.1	11.4	11.9	14.9	13.3	13.8	14.5	14.7	15.3	15.3	15.3	15.3	15.3	15.3	14.5	16.1
Overall balance	-11.6	-7.8	-5.6	-2.0	-1.3	-0.5	0.0	-0.2	-0.3	-3.0	-3.1	-3.2	-3.2	-3.7	-3.6	-1.7	-2.7
Domestic financing	11.8	7.7	3.0	0.4	-0.4	-1.8	-2.6	-2.5	-2.5	0.2	0.3	0.2	0.2	0.3	0.2	-0.8	-0.7
Domestic debt	20.4	24.8	23.8	20.0	16.5	12.8	8.6	5.1	2.0	2.0	2.0	2.0	2.0	2.0	2.0	7.3	-1.5
Savings and investment																	
National saving	3.3	5.1	8.6	7.9	16.7	17.6	16.9	14.1	15.1	15.8	15.9	16.0	16.1	16.3	16.7	15.2	17.9
Domestic saving	-11.7	-9.9	-10.3	-9.2	-3.5	-1.1	-1.6	-4.1	-3.0	-2.3	-2.1	-2.0	-1.8	-1.1	-0.2	-3.1	0.3
Net factor income and private transfers	5.6	3.8	5.2	4.3	4.9	4.8	4.8	4.4	4.3	4.3	4.2	4.2	4.1	3.6	3.1	4.4	3.6
Net official transfers	9.3	11.2	13.7	12.8	15.3	14.0	13.8	13.8	13.8	13.8	13.8	13.8	13.8	13.8	13.8	13.9	13.9
Foreign saving	7.6	9.3	5.9	7.7	1.8	1.1	2.6	4.8	4.2	4.2	4.3	4.4	4.4	4.7	5.0	4.0	4.0
Gross investment	10.9	14.4	14.5	15.6	18.5	18.7	19.5	19.0	19.4	20.1	20.2	20.3	20.5	21.1	21.7	19.2	21.9
External sector, public debt, and debt service																	
Export of goods and services, US$m	481	511	566	614	636	657	678	738	799	862	929	1001	1079	1571	2287	799.4	1669.5
Export of goods and services	27.2	26.8	27.3	28.0	27.7	26.4	25.2	25.5	25.7	25.9	26.2	26.4	26.7	27.9	29.3	26.4	28.4
Imports of goods and services	49.7	51.2	52.0	52.8	49.7	46.2	46.4	48.5	48.1	48.3	48.5	48.8	48.9	50.1	51.3	48.6	50.0
Current account balance (excluding official transfers)	-17	-21	-20	-20.5	-17.1	-15.1	-16.3	-18.6	-18.0	-18.0	-18.1	-18.2	-18.2	-18.5	-18.8	-17.8	-18.0
Current account balance (including official transfers)	-7.6	-9.3	-5.9	-7.7	-1.8	-1.1	-2.5	-4.8	-4.2	-4.2	-4.3	-4.4	-4.4	-4.7	-5.0	-3.9	-4.0
Net official aid inflows to Malawi	20.0	18.9	23.8	21.8	24.7	22.2	22.1	22.9	22.8	22.7	22.6	22.6	22.5	22.5	22.3	22.7	22.7
Net official aid inflows to government	11.2	12.2	16.0	15.3	18.3	16.2	16.2	17.1	17.1	17.0	17.0	17.1	17.0	17.0	16.8	16.8	17.1
Gross aid inflows	14.3	15.7	18.8	19.1	20.0	17.7	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.5	17.9	17.7
Debt service paid	3.2	3.5	2.8	3.8	1.7	1.6	1.3	0.4	0.4	0.5	0.5	0.4	0.5	0.5	0.7	1.1	0.6
Official aid flows outside government	8.8	6.7	7.8	6.5	6.4	6.1	5.8	5.8	5.7	5.7	5.6	5.6	5.5	5.5	5.5	5.9	5.6
Usable gross official reserves (in millions US dollars)	116	119	131	114	207	299	362	399	437	482	531	586	644	1034	1637	406	1117
In months of annual imports of goods and services	1.4	1.3	1.4	1.2	2.2	2.9	3.3	3.4	3.5	3.6	3.7	3.8	3.9	4.4	4.9	3.1	4.5
Exchange rate: Kwacha per US dollar, period average	97	109	118	...	...	...	...	...	...	...	...	...	...	...	...	..	..

Sources: Malawian authorities and IMF staff estimates.

Table 4. Malawi: Balance of Payments, 2000-09
(In millions of US dollars)

	Actuals						Projections			
	2000	2001	2002	2003	2004	2005	2006	2007 113	2008	2009
Current account balance (including grants)	-51	-117	-216	-134	-178	-122	-169	-42	-27	-67
Trade balance	-140	-158	-306	-351	-424	-473	-498	-456	-438	-511
Exports	402	427	421	441	470	524	572	593	611	630
Imports	-542	-585	-727	-792	-894	-998	-1070	-1049	-1049	-1141
Services balance	-66	-66	-154	-88	-85	-84	-85	-75	-76	-72
Interest public sector (net)	-21	-18	-20	-26	-28	-26	-19	-4	-1	8
Receipts	12	9	3	2	1	1	3	5	9	14
Payments	-33	-26	-23	-27	-28	-26	-22	-9	-10	-6
Other factor payments (net)	-16	-15	-24	-16	-17	-17	-19	-20	-21	-22
Nonfactor (net)	-29	-33	-109	-47	-40	-41	-47	-51	-55	-58
Receipts	45	54	50	40	41	41	42	43	46	48
Payments	-74	-87	-77	-87	-81	-83	-90	-95	-100	-106
Unrequited transfers (net)	155	107	243	305	331	435	413	488	487	516
Private (net)	8	10	8	141	118	151	132	136	139	145
of which Official aid to non-gvt	1	211	183	156	127	162	147	151	157	158
Official (net)	148	98	235	164	213	284	280	352	348	371
Receipts	148	98	235	164	213	284	280	352	348	371
Balance of payments assistance	78	51	13	42	64	97	46	99	92	98
Japan HIPC Initiative 2/	0	0	11	17	0	0	0	0	0	0
Project and humanitarian	70	47	211	105	149	187	234	253	256	273
Payments	-1	-1	0	0	0	0	0	0	0	0
Capital account balance (incl. errors and omissions)	39	85	61	96	152	92	111	89	90	108
Medium- and long-term flows	65	60	24	11	16	21	50	59	57	72
Official disbursements	125	127	81	97	95	98	113	91	86	100
Balance of payments support	31	55	0	18	35	18	33	18	24	27
Project support	94	72	81	78	50	79	80	72	62	72
Amortization (amounts due before HIPC debt relief)	-60	-67	-57	-69	-75	-77	-63	-32	-29	-28
Foreign direct investment and other inflows	27	28	38	43	44	26	30	32	34	36
MDRI debt forgiveness on debt due after current year	0	0	0	0	0	0	1844	376	0	0
MDRI grants from ADF	0	0	0	0	0	0	0	376	0	0
MDRI grants from IDA	0	0	0	0	0	0	1798	0	0	0
MDRI grants from IMF	0	0	0	0	0	0	46	0	0	0
Other liabilities (MDRI-IDA and ADF loans)	0	0	0	0	0	0	-1813	-378	0	0
Short-term capital and errors and omissions	-53	-2	0	42	92	45	0	0	0	0
Overall balance	-12	-32	-155	-38	-25	-30	-58	47	64	41
Financing (- increase in reserves)	12	32	155	38	25	30	58	-47	-64	-41
Central bank	17	12	111	-3	-16	-49	6	-75	-85	-63
Gross reserves (- increase)	2	41	41	39	-6	-31	41	-93	-93	-63
Liabilities	15	-29	71	-42	-10	-18	-35	18	7	0
Of which: IMF (net)	-1	-6	17	0	-14	-11	11	18	7	0
Purchases/drawings	8	0	23	9	0	8	25	18	7	0
Repurchases/repayments	-9	-6	-6	-9	-14	-19	-14	0	0	0
Loans	0	0	50	-50	0	0	-54	0	0	0
Commercial banks	-6	-8	15	-7	-6	19	-9	-4	-4	-5
Arrears	0	0	0	0	0	0	0	0	0	0
Debt relief	0	27	29	48	47	60	46	30	26	27
MDRI debt forgiveness on debt due in current year	0	0	0	0	0	0	15	2	0	0
Residual financing gap (+ underfinanced)	0	0	0	0	0	0	0	0	0	0
Memorandum items										
Trade balance G&S	-170	-191	-333	-398	-464	-514	-545	-507	-492	-569
Total exports G&S	446	480	471	481	511	566	614	636	657	678
Total imports G&S	-616	-672	-803	-878	-975	-1080	-1159	-1143	-1149	-1247
Total net official aid inflows	181	364	465	370	369	493	515	600	584	621
Net aid flows to gvt	179	152	282	214	242	332	368	449	428	464
Gross official aid flows (incl. IMF)	281	225	339	270	309	390	419	460	441	471
Grants	148	98	235	164	213	284	280	352	348	371
Share of total	53	43	69	61	69	73	67	76	79	79
Loans	133	127	104	106	95	106	138	108	93	100
Program	118	106	36	69	99	124	121	135	123	126
Project-Other	163	119	292	184	199	266	311	331	318	345
Debt service after relief	102	72	57	56	67	58	51	11	13	7
Official grant aid flows outside gvt	1	211	183	156	127	162	147	151	157	158
Total grants share of total gross aid	53	71	80	75	78	81	76	82	84	84
Gross usable reserves	224.6	184.6	103.4	115.6	119.3	131.2	113.9	206.5	299.3	362.1
Gross reserves in months of current imports	4.4	3.3	1.5	1.6	1.5	1.5	1.2	2.2	3.1	3.5

Sources: Malawian authorities and IMF staff estimates.

Table 5. Malawi: Comparison of Discount Rate and Exchange Rate Assumptions at end-1999 and end-2005

	Discount Rates 1/ 2/ (In percent per annum)		Exchange Rates (Currency per U.S. dollar)	
	At Decision Point in 1999	At Completion Point in 2005	At Decision Point in 1999	At Completion Point in 2005
Austrian Schilling	5.47	3.95	13.70	11.66
Belgian Franc	5.47	3.95	40.16	34.20
Deutsche Mark	5.47	3.95	1.95	1.66
Danish Kroner	5.32	3.88	7.40	6.32
European Currency Unit/Euro	5.47	3.95	1.00	0.85
French Franc	5.47	3.95	6.53	5.56
British Pound	6.70	5.28	0.62	0.58
Irish Pound	5.47	3.95	0.78	0.67
Italian Lira	5.47	3.95	1,927.40	1,641.32
Japanese Yen	1.98	1.91	102.20	117.97
Kuwaiti Dinar	7.04	5.08	0.30	0.29
Luxembourg Franc	5.47	3.95	40.16	34.20
Netherlands Guilder	5.47	3.95	2.19	1.87
Norwegian Krone	6.64	4.17	8.04	1.00
Portuguese Escudo	5.47	3.95	199.56	169.94
Spanish Peseta	5.47	3.95	165.62	141.04
Special Drawing Rights	5.59	4.30	0.73	0.70
Swedish Krona	5.80	3.92	8.53	7.96
Swiss Franc	4.27	2.76	1.60	1.31
U.S. Dollar	7.04	5.08	1.00	1.00

Sources: OECD; and IMF, *International Financial Statistics.*

1/ The discount rates used are the average commercial interest reference rates (CIRRs) for the respective currencies over the six-month period ending in December 2005 for the completion point and in December 1999 for the decision point.

2/ For all Euro area currencies, the Euro CIRR is used. For the Kuwaiti Dinar, the USD discount rate is used. For all other currencies for which the CIRRs are not available, the SDR discount rate is used.

Table 6. Malawi: Nominal and Net Present Value of External Debt at Decision Point as of end End-December 1999 1/
(In millions of US dollars)

	Nominal Debt Stock		NPV of Debt after Rescheduling 2/	
	At Decision Point	Revised at Completion Point 3/	At Decision Point	Revised at Completion Point 3/
Total	**2,604.2**	**2,600.3**	**1,469.3**	**1,466.5**
Multilateral	**2,187.1**	**2,174.5**	**1,097.6**	**1,093.9**
World Bank Group	1,603.0	1,601.4	756.7	756.4
IDA	1,586.0	1,585.0	740.0	739.8
IBRD	17.0	16.3	16.8	16.6
African Development Bank Group	321.7	323.9	162.0	160.0
AfDF	299.3	301.5	137.5	136.1
AfDB	22.4	22.4	24.6	23.9
IMF	87.6	87.6	68.8	68.8
EU/EIB	95.5	88.6	65.5	62.2
EU 4/	89.5	82.7	59.5	56.1
EIB	6.0	5.9	6.0	6.1
IFAD	50.4	50.4	25.9	25.9
PTA Bank 5/	22.3	16.0	14.8	16.8
NDF	3.3	3.3	1.5	1.5
BADEA	1.9	1.9	1.4	1.4
OPEC Fund	1.5	1.5	1.0	1.0
Paris Club bilateral	**337.8**	**366.4**	**293.8**	**320.5**
Austria	20.2	20.2	15.6	15.6
EU-IDA administered loans 4/	...	5.3	...	1.5
France	14.0	14.1	9.8	9.9
Germany	0.5	0.5	0.2	0.2
Japan	293.8	293.8	262.1	262.0
Spain	8.2	8.2	5.8	5.8
United Kingdom 6/	1.0	24.2	0.3	25.6
Non Paris Club bilateral	**43.4**	**43.4**	**35.1**	**34.7**
Taiwan, Province of China	36.0	36.0	30.3	30.3
Kuwait Fund	4.2	4.2	3.0	2.6
South Africa 7/	3.2	3.2	1.9	1.9
Commercial 8/	**36.0**	**16.2**	**42.8**	**17.3**

Sources: Malawian authorities and Bank-Fund staff estimates.

1/ Public and publicly guaranteed debt only.
2/ Rescheduling assumes a Naples stock operation based on a cut-off date of January 1, 1982 from bilateral and commercial creditors.
3/ Information based on latest data available at completion point.
4/ Contrary to the decision point, IDA administered loans from the European Union are treated as loans from Paris Club creditors at completion point.
5/ Debt owed to PTA bank was revised based on written correspondence between the Malawian authorities and the PTA Bank from December 1999 and early 2000 that was exchanged in the context of PTA's law suit against the Government of Malawi+A3.
6/ The increase in United Kingdom debt level is attributable to the inclusion of the Commonwealth Development Corporation loans that were initially classified as commercial loans at the time of the decision point. The United Kingdom have recently agreed to classify these loans as bilateral loans to be treated under the Paris Club umbrella.
7/ At the time of the decision point South Africa was classified as a Paris Club creditor. But staff obtained recent information from the Paris Club confirming that although South Africa participated in previous Paris Club negotiations for Malawi (1983 and 1988), they decline the Paris Club invitation to participate in the 2001 Cologne flow agreement. At the time of the preparation of this completion point document, staff did not yet receive indication that South Africa was willing to participate in the Paris Club negotiations for the HIPC completion point of Malawi.
8/ The decrease in commercial debt level is due to the reclassification of two creditors (Commonwealth Development Corporation and Banque Francaise pour le Commerce Exterieur) as Paris Club bilateral creditors. Staff received confirmation that these two creditors are treated under the Paris Club umbrella. Commercial creditors are Banco Bilbao, Chase Manhattan Bank, the Netherlands' Development Finance Company (FMO), Skandinaviska Enskilda Banken, South Africa Investment Development Corporation, STD Bank and West Minster Bank.

Table 7. Malawi: Estimated HIPC Assistance at Decision Point (Amended) 1/
(in millions of U.S. dollars in end-December 1999 NPV terms; unless otherwise indicated)

	Total Assistance under the NPV of debt-to-exports criterion 2/				Common Reduction Factor (in percent) 3/
	Total	Multilateral	Bilateral	Commercial	
	(in millions of U.S. dollars)				
Assistance (decision point document)	643	480	144	19	43.7
Assistance (amended)	646	482	157	8	44.1
Memorandum items:					
NPV of debt (amended) 4/	1,466	1,094	355	17	
3-year average of exports 5/	547				
Current-year exports	489				
NPV of debt-to-exports 6/	268				
Multilateral Creditors	1,094				
Bilateral Creditors	355				
Paris Club Creditors	320				
of which: pre-cutoff date non ODA	4				
Non-Paris Club Creditors	35				
of which: pre-cutoff date non ODA	0				
Commercial Creditors	17				

Sources: Malawian authorities and Bank-Fund staff estimates.

1/ The proportional burden sharing approach is described in "HIPC Initiative--Estimated Costs and Burden Sharing Approaches" .
2/ Applies a hypothetical stock-of-debt operation on Naples terms and appropriate comparable treatment by other official bilateral creditors at January 1, 1982. NPV of debt-to-exports target is 150 percent.
3/ Each creditors' NPV reduction at the decision point in percent of its exposure at the reference year (end 1999).
4 Based on latest data available at completion point after full application of traditional debt relief mechanisms.
5/ Three-year average of exports of goods and nonfactor services from 1997 to 1999.
6/ Uses three-year average of exports of goods and nonfactor services from 1997 to 1999 as denominator.

Table 8. Malawi: Nominal and Net Present Value of External Debt at Completion Point, End-2005 1/
(In millions of US dollars)

	Legal Situation 3/		Net Present Value 4/	
	Nominal Debt	NPV of Debt	After enhanced HIPC	After additional bilateral assistance
Total	**2,969.4**	**1,919.5**	**1,272.9**	**1,189.2**
Multilateral	2,626.0	1,607.8	1,168.6	1,168.6
IDA	1,933.4	1,171.9	835.6	835.6
IBRD	0.030	0.029	0.03	0.03
AfDF	418.7	248.4	193.6	193.6
AfDB	10.5	11.3	5.6	5.6
IMF	75.2	41.3	43.3	43.3
EU 2/	74.3	59.3	34.1	34.1
EIB	0.4	0.4	0.2	0.2
IFAD	63.8	40.4	23.7	23.7
BADEA	13.8	11.4	10.5	10.5
OPEC Fund	9.0	7.9	7.4	7.4
NDF	26.9	15.5	14.5	14.5
Paris Club bilateral	300.0	274.2	83.7	0.0
Austria	20.5	18.2	...	...
Belgium	3.0	1.7	...	...
EU-IDA administered loans 2/	4.8	3.2	...	...
France	15.9	12.0	...	...
Germany	0.2	0.2	...	...
Japan	192.7	178.4	...	...
Spain	9.6	5.9	...	...
United Kingdom	53.3	54.6	...	...
Non Paris Club bilateral	40.9	35.0	19.9	19.9
Kuwait	25.2	20.3	18.4	18.4
South Africa	0.4	0.4	0.0	0.0
Taiwan, Province of China	15.2	14.3	1.5	1.5
Commercial	2.5	2.6	0.6	0.6

Sources: Malawian authorities and Bank-Fund staff estimates.

1/ Figures are based on data as of end-December 2005.
2/ European Economic Commission loans administered by IDA were classified as multilateral loans at decision point and have been reclassified as Paris Club bilateral loans at completion point.
3/ Reflects the external debt situation as of end-2005, including a Paris Club Cologne flow rescheduling. Since most of Malawi's debt was contracted after the original cut-off debt of January 1, 1982, the Paris Club fixed a new cut-off debt of January 1, 1997 to deliver interim assistance.
4/ Assumed delivered unconditionally.

Table 9. Malawi: Net Present Value of External Debt, 2005 - 2025
(In millions of U.S. dollars; unless otherwise indicated)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2005 - 2015	2016 - 2025
	Actuals										Projections											Averages	
I. After traditional debt-relief mechanisms 1/																							
1. NPV of total debt (2+6) 2/	1903.5	1912.5	1922.8	1933.4	1944.4	1963.0	1983.3	1999.1	2008.7	2023.7	2041.2	2061.4	2096.7	2140.1	2183.1	2232.1	2284.5	2341.3	2402.6	2469.5	2544.4	1966.9	2275.6
2. NPV of outstanding debt (3+4)	1903.5	1853.2	1806.7	1768.4	1726.1	1684.1	1636.7	1584.4	1525.7	1468.1	1408.2	1345.7	1289.5	1232.3	1168.5	1104.4	1037.6	969.3	899.2	828.0	756.3	1669.6	1063.1
3. Official bilateral and commercial	257.2	238.2	220.2	203.1	187.3	172.8	158.0	144.0	129.9	115.6	101.2	86.9	77.5	68.5	59.2	51.9	45.3	38.8	32.9	28.4	25.4	175.2	51.5
3. Multilateral	1646.3	1615.0	1586.5	1565.3	1538.8	1511.3	1478.6	1440.4	1395.9	1352.5	1307.0	1258.8	1212.0	1163.8	1109.3	1052.5	992.3	930.5	866.3	799.6	731.0	1494.3	1011.6
IDA	1183.6	1182.0	1178.1	1171.9	1159.1	1143.3	1123.9	1100.6	1072.6	1042.4	1010.1	974.0	935.4	895.8	850.8	804.2	754.6	703.6	650.6	595.5	538.7	1124.3	770.3
IMF	67.4	44.4	26.9	20.2	15.2	12.0	9.1	6.1	2.9	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	18.7	0.0
African Development Bank Group	259.7	258.5	257.0	254.9	252.5	249.7	246.1	243.3	239.4	234.9	229.9	224.6	219.1	213.0	206.3	199.0	191.4	183.6	175.5	167.1	158.6	247.8	193.8
Others	135.7	130.1	124.6	118.2	111.9	106.3	99.5	90.4	81.0	73.8	67.0	60.1	57.5	55.0	52.2	49.3	46.3	43.3	40.2	37.0	33.7	103.5	47.5
4. Official bilateral and commercial	257.2	238.2	220.2	203.1	187.3	172.8	158.0	144.0	129.9	115.6	101.2	86.9	77.5	68.5	59.2	51.9	45.3	38.8	32.9	28.4	25.4	175.2	51.5
Paris Club	235.4	220.3	204.3	188.6	174.2	161.0	147.6	135.0	122.2	109.3	96.3	82.9	73.7	64.8	55.7	48.6	42.1	35.7	30.0	25.7	22.9	163.1	48.2
Other official bilateral and commercial	21.8	17.9	15.9	14.5	13.1	11.8	10.4	9.0	7.6	6.2	4.8	4.0	3.9	3.7	3.5	3.4	3.2	3.0	2.9	2.7	2.5	12.1	3.3
II. After delivery of enhanced HIPC assistance																							
1. NPV of total debt (2+6) 2/	1887.2	1315.0	1370.4	1417.7	1465.0	1520.6	1580.1	1635.9	1688.6	1749.0	1811.6	1877.0	1948.3	2028.2	2109.9	2197.2	2253.7	2314.4	2379.3	2449.2	2526.2	1585.5	2208.4
NPV of total debt after full delivery 3/	1272.9	1315.0	1370.4	1417.7	1465.0	1520.6	1580.1	1635.9	1688.6	1749.0	1811.6	1877.0	1948.3	2028.2	2109.9	2197.2	2253.7	2314.4	2379.3	2449.2	2526.2	1529.7	2208.4
2. NPV of outstanding debt (3+4)	1887.2	1255.7	1254.3	1252.7	1246.7	1241.7	1233.5	1221.2	1205.6	1193.4	1178.5	1161.3	1141.2	1120.4	1095.4	1069.5	1006.8	942.4	875.9	807.8	738.2	1288.2	995.9
3. Official bilateral and commercial	279.4	99.9	92.9	86.4	80.5	74.4	68.6	62.9	57.1	51.2	45.3	40.1	35.7	31.5	27.2	23.2	19.8	16.4	13.3	11.0	9.2	90.8	22.7
Paris Club	243.1	82.0	75.8	70.4	65.4	60.3	55.4	50.5	45.6	40.7	35.7	31.5	28.0	24.8	21.6	18.6	15.8	13.1	10.6	8.9	7.8	75.0	18.1
Other official bilateral and commercial	36.3	17.9	17.0	16.1	15.1	14.1	13.2	12.3	11.4	10.5	9.6	8.6	7.6	6.6	5.6	4.6	4.0	3.4	2.7	2.1	1.4	15.8	4.7
4. Multilateral	1607.8	1155.78	1161.48	1166.22	1166.24	1167.3	1164.9	1158.3	1148.6	1142.2	1133.2	1121.2	1105.5	1088.9	1068.2	1046.3	987.0	926.0	862.6	796.8	729.0	1197.5	973.2
IDA	1171.9	844.7	853.1	860.7	864.2	866.4	866.5	865.2	861.5	856.9	851.4	844.3	836.4	828.2	816.5	804.2	754.6	703.6	650.6	595.5	538.7	887.5	737.3
IMF	41.3	28.7	23.9	19.7	15.2	12.0	9.1	6.1	2.9	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	14.6	0.0
African Development Bank Group	259.7	195.8	199.0	202.1	205.1	208.1	211.1	214.5	217.3	220.3	223.3	224.6	219.1	213.0	206.3	199.0	191.4	183.6	175.5	167.1	158.6	214.2	193.8
Others	134.9	86.7	85.4	83.7	81.8	80.7	78.1	72.6	66.8	63.4	58.5	52.2	50.1	47.7	45.4	43.1	41.0	38.8	36.5	34.2	31.8	81.2	42.1
III. After unconditional delivery of enhanced HIPC assistance 3/																							
1. NPV of total debt (2+6) 2/	1272.9	1315.0	1370.4	1417.7	1465.0	1520.6	1580.1	1635.9	1688.6	1749.0	1811.6	1877.0	1948.3	2028.2	2109.9	2197.2	2253.7	2314.4	2379.3	2449.2	2526.2	1529.7	2208.4
2. NPV of outstanding debt (3+4)	1272.9	1255.7	1254.3	1252.7	1246.7	1241.7	1233.5	1221.2	1205.6	1193.4	1178.5	1161.3	1141.2	1120.4	1095.4	1069.5	1006.8	942.4	875.9	807.8	738.2	1232.4	995.9
3. Official bilateral and commercial	104.3	99.9	92.9	86.4	80.5	74.4	68.6	62.9	57.1	51.2	45.3	40.1	35.7	31.5	27.2	23.2	19.8	16.4	13.3	11.0	9.2	74.9	22.7
4. Multilateral	1168.6	1155.8	1161.5	1166.2	1166.2	1167.3	1164.9	1158.3	1148.6	1142.2	1133.2	1121.2	1105.5	1088.9	1068.2	1046.3	987.0	926.0	862.6	796.8	729.0	1157.5	973.2
IV. After bilateral debt relief beyond HIPC assistance 4/																							
1. NPV of total debt (2+6) 2/	1887.2	1233.0	1294.5	1347.3	1399.6	1460.3	1524.7	1585.3	1642.9	1708.3	1775.8	1845.5	1920.3	2003.4	2088.3	2178.6	2237.9	2301.4	2368.7	2440.3	2518.4	1532.6	2190.3
NPV of total debt after full delivery 3/	1189.2	1233.0	1294.5	1347.3	1399.6	1460.3	1524.7	1585.3	1642.9	1708.3	1775.8	1845.5	1920.3	2003.4	2088.3	2178.6	2237.9	2301.4	2368.7	2440.3	2518.4	1469.2	2190.3
Multilateral	1168.6	1155.8	1161.5	1166.2	1166.2	1167.3	1164.9	1158.3	1148.6	1142.2	1133.2	1121.2	1105.5	1088.9	1068.2	1046.3	987.0	926.0	862.6	796.8	729.0	1157.5	973.2
Bilateral	20.6	17.9	17.0	16.1	15.1	14.1	13.2	12.3	11.4	10.5	9.6	8.6	7.6	6.6	5.6	4.6	4.0	3.4	2.7	2.1	1.4	14.3	4.7
2. NPV of outstanding debt (3+4)	1887.2	1173.7	1178.5	1182.3	1181.3	1181.4	1178.1	1170.7	1160.0	1152.7	1142.7	1129.8	1113.1	1095.6	1073.8	1050.9	991.0	929.4	865.3	798.8	730.4	1235.3	977.8
3. Official bilateral and commercial	279.4	17.9	17.0	16.1	15.1	14.1	13.2	12.3	11.4	10.5	9.6	8.6	7.6	6.6	5.6	4.6	4.0	3.4	2.7	2.1	1.4	37.9	4.7
Paris Club	243.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	22.1	0.0
Other official bilateral and commercial	36.3	17.9	17.0	16.1	15.1	14.1	13.2	12.3	11.4	10.5	9.6	8.6	7.6	6.6	5.6	4.6	4.0	3.4	2.7	2.1	1.4	15.8	4.7
4. Multilateral	1607.8	1155.8	1161.5	1166.2	1166.2	1167.3	1164.9	1158.3	1148.6	1142.2	1133.2	1121.2	1105.5	1088.9	1068.2	1046.3	987.0	926.0	862.6	796.8	729.0	1197.5	973.2
V. After possible topping-up of HIPC assistance 4/																							
1. NPV of total debt (2+6) 2/	1887.2	817.1	882.1	948.0	1018.2	1097.0	1181.6	1263.2	1343.2	1430.6	1523.3	1622.5	1736.8	1859.9	1989.3	2126.2	2196.0	2269.9	2348.1	2430.9	2520.6	1217.4	2110.0
NPV of total debt after full delivery 3/	1189.2	817.1	882.1	948.0	1018.2	1097.0	1181.6	1263.2	1343.2	1430.6	1523.3	1622.5	1736.8	1859.9	1989.3	2126.2	2196.0	2269.9	2348.1	2430.9	2520.6	1154.0	2110.0
Multilateral	1168.6	747.1	756.0	773.5	790.9	809.7	827.1	841.2	853.5	868.8	884.6	901.7	925.1	948.1	971.4	995.8	946.8	895.9	843.1	788.2	731.7	847.4	894.8
Bilateral and commercial	20.6	10.7	10.1	9.5	9.0	8.4	7.9	7.3	6.8	6.2	5.7	5.1	4.5	3.9	3.3	2.7	2.4	2.0	1.6	1.2	0.8	9.3	2.8
2. NPV of outstanding debt (3+4)	1887.2	757.8	766.1	783.0	799.9	818.1	835.0	848.5	860.3	875.1	890.3	906.8	929.6	952.0	974.7	998.5	949.1	897.9	844.7	789.4	732.5	920.1	897.5
3. Official bilateral and commercial	279.4	10.7	10.1	9.5	9.0	8.4	7.9	7.3	6.8	6.2	5.7	5.1	4.5	3.9	3.3	2.7	2.4	2.0	1.6	1.2	0.8	32.8	2.8
Paris Club	243.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	22.1	0.0
Other official bilateral and commercial	36.3	10.7	10.1	9.5	9.0	8.4	7.9	7.3	6.8	6.2	5.7	5.1	4.5	3.9	3.3	2.7	2.4	2.0	1.6	1.2	0.8	10.7	2.8
4. Multilateral	1168.6	747.1	756.0	773.5	790.9	809.7	827.1	841.2	853.5	868.8	884.6	901.7	925.1	948.1	971.4	995.8	946.8	895.9	843.1	788.2	731.7	847.4	894.8
IDA	835.6	546.2	562.2	578.6	594.9	611.5	628.5	645.8	663.3	681.4	700.2	719.5	739.5	760.5	781.9	804.2	754.6	703.6	650.6	595.5	538.7	640.8	704.9
IMF	43.3	17.0	7.9	7.6	7.5	7.6	6.8	5.2	2.9	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	9.8	0.0
African Development Bank Group	199.2	126.1	127.4	128.5	129.6	130.6	131.4	132.7	133.5	134.3	135.0	135.2	137.4	139.7	142.0	144.4	146.8	149.4	152.1	154.9	157.9	137.1	146.0
Others	90.5	57.9	58.5	58.8	58.9	60.0	60.3	57.5	53.8	51.6	49.3	47.0	48.1	47.9	47.5	47.3	45.3	42.9	40.4	37.8	35.2	59.7	43.9
VI. After MDRI assistance and bilateral debt relief beyond HIPC assistance 4/																							
1. NPV of total debt (2+6) 2/	1887.2	242.3	298.2	345.8	397.3	456.7	520.3	581.8	642.8	710.1	780.2	855.2	943.2	1040.0	1142.5	1251.2	1366.2	1487.0	1613.5	1746.0	1886.6	623.9	1333.1
NPV of total debt after full delivery 3/	224.1	242.3	298.2	345.8	397.3	456.7	520.3	581.8	642.8	710.1	780.2	855.2	943.2	1040.0	1142.5	1251.2	1366.2	1487.0	1613.5	1746.0	1886.6	472.7	1333.1
Multilateral	203.5	165.0	165.2	164.8	163.9	163.7	160.4	154.8	148.5	144.1	137.6	130.9	128.4	125.6	122.4	118.9	115.3	111.7	107.4	102.5	97.2	161.0	116.0
Bilateral and commercial	20.6	17.9	17.0	16.1	15.1	14.1	13.2	12.3	11.4	10.5	9.6	8.6	7.6	6.6	5.6	4.6	4.0	3.4	2.7	2.1	1.4	14.3	4.7
2. NPV of outstanding debt (3+4)	1887.2	183.0	182.2	180.8	179.0	177.8	173.6	167.1	159.9	154.6	147.2	139.5	136.0	132.2	128.0	123.5	119.3	115.0	110.1	104.5	98.6	326.6	120.7
3. Official bilateral and commercial	279.4	17.9	17.0	16.1	15.1	14.1	13.2	12.3	11.4	10.5	9.6	8.6	7.6	6.6	5.6	4.6	4.0	3.4	2.7	2.1	1.4	37.9	4.7
4. Multilateral	1168.6	165.0	165.2	164.8	163.9	163.7	160.4	154.8	148.5	144.1	137.6	130.9	128.4	125.6	122.4	118.9	115.3	111.7	107.4	102.5	97.2	248.8	116.0
VII. After MDRI and possible topping-up assistance 5/																							
1. NPV of total debt (2+6) 2/	1887.2	180.1	239.5	293.0	354.0	426.9	508.4	587.4	666.0	750.8	841.4	940.1	1056.6	1181.8	1313.8	1453.1	1596.8	1741.8	1889.8	2039.8	2194.0	612.2	1540.8
NPV of total debt after full delivery 3/	169.6	180.1	239.5	293.0	354.0	426.9	508.4	587.4	666.0	750.8	841.4	940.1	1056.6	1181.8	1313.8	1453.1	1596.8	1741.8	1889.8	2039.8	2194.0	456.1	1540.8
Multilateral	149.0	110.1	111.5	112.8	114.0	116.1	117.7	116.7	113.8	111.5	109.0	108.0	111.2	112.9	114.5	116.2	116.4	113.2	109.5	105.2	100.5	116.6	110.8
Bilateral and commercial	20.6	10.7	10.1	9.5	9.0	8.4	7.9	7.3	6.8	6.2	5.7	5.1	4.5	3.9	3.3	2.7	2.4	2.0	1.6	1.2	0.8	9.3	2.8
2. NPV of outstanding debt (3+4)	1887.2	120.8	121.6	122.4	123.0	124.5	125.5	124.1	120.5	105.1	114.7	113.1	115.7	116.9	117.8	119.0	118.7	115.2	111.1	106.4	101.3	280.9	113.5
3. Official bilateral and commercial	279.4	10.7	10.1	9.5	9.0	8.4	7.9	7.3	6.8	6.2	5.7	5.1	4.5	3.9	3.3	2.7	2.4	2.0	1.6	1.2	0.8	32.8	2.8
4. Multilateral	1168.6	110.1	111.5	112.8	114.0	116.1	117.7	116.7	113.8	98.9	109.0	108.0	111.2	112.9	114.5	116.2	116.4	113.2	109.5	105.2	100.5	208.1	110.8
IDA	835.6	35.8	36.7	38.0	39.2	40.5	41.9	43.5	44.6	45.8	47.2	48.8	50.6	52.2	53.8	55.4	57.2	56.1	54.5	52.4	50.0	44.9	42.3
IMF	43.3	2.9	2.9	3.0	3.1	3.2	3.3	3.5	2.9	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
African Development Bank Group	199.2	13.6	13.3	13.0	12.7	12.4	12.1	12.3	12.4		12.5	12.2	12.6	12.9	13.2	13.5	13.9	14.2	14.6	15.0	15.4	14.5	14.0
Others	90.5	57.9	58.5	58.8	58.9	60.0	60.3	57.5	53.8	51.6	49.3	47.0	48.1	47.9	47.5	47.3	45.3	42.9	40.4	37.8	35.2	29.9	27.2
Memorandum items:																							
NPV of new borrowing	0.0	59.3	116.0	165.0	218.3	278.9	346.6	414.7	482.9	555.6	633.1	715.7	807.2	907.8	1014.5	1127.7	1246.9	1372.0	1503.4	1641.5	1788.0	327.0	1212.5

Sources: Malawian authorities; and Bank-Fund staff estimates and projections.
1/ Refers to public and publicly guaranteed external debt only and assumes a stock-of-debt operation on Naples terms (67 percent NPV reduction) at end-1999 with a cutoff-date of January 1, 1982, and at least comparable action by other official bilateral creditors.
2/ Discounted on the basis of the average six-month commercial interest reference rate for the respective currency as of end-December 2005.
The conversion of currency-specific NPVs into U.S. dollars occurs for all years at the base date exchange rate (December 2005).
3/ NPV of total debt assuming the entire HIPC Initiative assistance is fully delivered as of end-December 2005.
4/ After debt relief beyond HIPC offered by some of the Paris Club creditors on a voluntary basis.
5/ Includes bilateral debt relief beyond HIPC assistance and adjusts new borrowing assumptions for change in IDA and AfDF allocations.

Table 10. Malawi: External Debt Service After Full Implementation of Debt-Relief Mechanisms, 2006-2025
(In millions of U.S. dollars)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2006 - 2015	2016 - 2025
																					Averages	
I. After traditional debt-relief mechanisms 1/																						
Total debt service (including new debt)	127.9	123.0	113.8	117.2	116.1	120.9	129.8	138.7	136.4	137.7	139.1	129.2	128.1	136.0	137.8	142.1	145.4	149.2	152.6	155.7	126.1	141.5
Total debt service on outstanding debt	126.8	121.1	111.1	113.7	111.8	115.7	118.8	123.2	119.9	120.0	120.2	111.5	110.4	114.6	112.4	112.5	111.3	110.3	108.5	106.0	118.2	111.8
Multilateral	101.3	97.1	88.6	93.0	92.8	96.9	101.0	105.7	102.6	102.9	103.7	100.1	99.5	103.7	103.8	104.7	103.7	103.5	103.2	102.3	98.2	102.8
IDA	53.0	55.3	57.4	63.6	66.1	69.0	72.1	75.7	76.7	77.5	79.8	80.8	80.1	83.7	83.4	84.3	83.6	83.4	83.2	82.5	66.6	82.5
IMF	25.9	19.4	7.8	6.0	3.8	3.4	3.4	3.4	1.6	1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	7.6	0.0
African Development Bank	11.1	11.4	11.9	12.2	12.5	13.2	12.2	13.3	13.8	14.0	14.2	14.3	14.5	15.0	15.2	15.3	15.2	15.2	15.2	15.1	12.6	14.9
Others	11.3	11.0	11.6	11.3	10.3	11.3	13.3	13.2	10.6	9.9	9.7	5.1	5.0	5.0	5.1	5.1	4.9	4.9	4.9	4.8	11.4	5.4
Official bilateral and commercial	25.6	24.0	22.5	20.7	19.1	18.8	17.7	17.5	17.3	17.1	16.6	11.4	10.9	10.8	8.6	7.8	7.6	6.8	5.3	3.7	20.0	8.9
Paris Club	20.6	21.1	20.3	18.6	17.1	16.9	15.9	15.7	15.5	15.4	15.5	11.0	10.5	10.5	8.3	7.5	7.2	6.5	5.0	3.4	17.7	8.6
Other official bilateral and commercial	4.9	2.9	2.2	2.1	2.0	1.9	1.9	1.8	1.8	1.7	1.0	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	2.3	0.4
II. After enhanced HIPC assistance																						
Total debt service (including new debt)	70.6	54.8	55.8	60.8	60.4	64.1	73.8	81.1	78.3	81.6	84.4	85.6	85.3	92.4	96.0	136.0	139.6	143.8	147.9	152.0	68.1	116.3
Total debt service on outstanding debt	69.6	52.9	53.2	57.4	56.2	58.9	62.7	65.6	61.7	64.0	65.6	67.8	67.6	70.9	70.7	106.4	105.6	104.9	103.8	102.3	60.2	86.6
Multilateral	62.2	43.0	44.1	48.9	47.8	51.0	55.0	57.9	54.2	56.5	59.0	62.1	62.3	65.7	65.8	102.3	101.5	101.3	101.0	100.2	52.1	82.1
IDA	27.2	28.2	29.4	33.8	35.2	37.4	38.9	41.1	41.8	42.6	43.9	44.4	44.4	47.5	47.6	84.3	83.6	83.4	83.2	82.5	35.5	64.5
IMF	16.6	5.9	5.2	5.4	3.8	3.4	3.4	3.4	1.6	1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5.0	0.0
African Development Bank	10.9	4.1	4.4	4.6	4.7	4.9	4.6	5.4	5.3	5.6	7.2	14.3	14.5	15.0	15.2	15.3	15.2	15.2	15.2	15.1	5.5	14.2
Others	7.6	4.8	5.1	5.1	4.1	5.2	8.1	8.0	5.5	6.8	7.9	3.5	3.4	3.2	2.9	2.7	2.7	2.7	2.7	2.6	6.0	3.4
Official bilateral and commercial	7.3	9.9	9.0	8.4	8.3	8.0	7.7	7.6	7.6	7.5	6.6	5.7	5.3	5.3	4.9	4.1	4.0	3.6	2.8	2.2	8.1	4.4
Paris Club	3.7	8.0	7.2	6.6	6.6	6.4	6.2	6.1	6.0	6.0	5.1	4.3	3.9	3.9	3.6	3.2	3.2	2.8	2.0	1.4	6.3	3.3
Other official bilateral and commercial	3.6	1.8	1.8	1.8	1.7	1.6	1.6	1.5	1.5	1.5	1.4	1.4	1.4	1.3	1.3	0.8	0.8	0.8	0.8	0.8	1.8	1.1
III. After bilateral debt relief beyond HIPC																						
Total debt service (including new debt)	66.9	46.8	48.6	54.2	53.8	57.7	67.6	75.0	72.2	75.6	79.3	81.3	81.4	88.4	92.4	132.7	136.4	141.0	145.9	150.6	61.8	113.0
Total debt service on outstanding debt	65.9	44.9	45.9	50.7	49.6	52.6	56.6	59.5	55.7	58.0	60.5	63.6	63.7	67.0	67.1	103.2	102.4	102.1	101.8	100.9	53.9	83.2
Multilateral	62.2	43.0	44.1	48.9	47.8	51.0	55.0	57.9	54.2	56.5	59.0	62.1	62.3	65.7	65.8	102.3	101.5	101.3	101.0	100.2	52.1	82.1
Official bilateral and commercial	3.7	1.8	1.8	1.8	1.7	1.6	1.6	1.5	1.5	1.5	1.4	1.4	1.4	1.3	1.3	0.8	0.8	0.8	0.8	0.8	1.9	1.1
Paris Club	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other official bilateral and commercial	3.6	1.8	1.8	1.8	1.7	1.6	1.6	1.5	1.5	1.5	1.4	1.4	1.4	1.3	1.3	0.8	0.8	0.8	0.8	0.8	1.8	1.1
IV. After possible topping-up of HIPC assistance																						
Total debt service (including new debt)	55.5	25.7	18.1	19.7	19.9	22.9	32.8	39.7	38.2	39.5	40.1	33.5	33.5	37.9	41.9	121.2	125.9	130.5	135.5	140.2		
Total debt service on outstanding debt	54.4	23.7	15.4	16.2	15.6	17.7	21.8	24.2	21.7	21.9	21.2	15.7	15.8	16.5	16.6	91.6	91.8	91.5	91.3	90.5	23.3	54.3
Multilateral	50.9	22.6	14.3	15.2	14.6	16.8	20.8	23.3	20.8	21.0	20.4	14.9	15.0	15.7	15.8	91.1	91.3	91.1	90.9	90.0	22.0	53.6
IDA	20.7	7.6	7.9	8.7	9.1	9.5	9.9	10.4	10.5	10.6	11.0	11.1	11.0	11.5	11.5	84.3	83.6	83.4	83.2	82.5	10.5	47.3
IMF	13.5	9.9	0.7	0.4	0.2	1.1	1.9	2.5	1.6	1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.3	0.0
African Development Bank	10.9	3.4	3.6	3.7	3.8	4.0	3.7	4.2	4.2	4.3	4.9	2.9	2.9	3.0	3.0	3.1	3.0	3.0	3.0	3.0	4.6	3.2
Others	5.8	1.8	2.2	2.3	1.4	2.2	5.4	6.2	4.5	4.5	4.5	1.0	1.1	1.2	1.3	3.7	4.7	4.6	4.6	4.6	3.6	3.1
Official bilateral and commercial	3.5	1.1	1.1	1.1	1.0	1.0	0.9	0.9	0.9	0.9	0.9	0.8	0.8	0.8	0.8	0.5	0.5	0.5	0.5	0.5	1.2	0.6
Paris Club	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other official bilateral and commercial	3.4	1.1	1.1	1.1	1.0	1.0	0.9	0.9	0.9	0.9	0.9	0.8	0.8	0.8	0.8	0.5	0.5	0.5	0.5	0.5	1.2	0.6
V. After MDRI Assistance and bilateral debt relief beyond HIPC 2/																						
Total debt service (including new debt)	44.2	5.7	6.5	7.6	8.6	11.0	16.1	21.1	22.5	24.1	24.0	22.8	23.0	27.0	31.1	35.0	39.6	44.9	50.5	56.2	16.8	35.4
Total debt service on outstanding debt	43.2	3.8	3.9	4.1	4.3	5.9	5.1	5.6	6.0	6.5	5.2	5.1	5.3	5.5	5.8	5.5	5.5	5.9	6.4	6.5	8.8	5.7
Multilateral	39.5	1.9	2.1	2.3	2.6	4.3	3.6	4.0	4.5	5.0	3.7	3.7	3.9	4.2	4.5	4.6	4.6	5.1	5.6	5.8	7.0	4.6
IDA	18.5	0.8	1.0	1.3	1.5	1.7	1.6	2.1	2.6	2.8	2.8	2.8	3.0	3.2	3.4	3.6	3.6	4.0	4.5	4.7	3.4	3.6
IMF	10.5	0.0	0.0	0.0	0.0	1.6	1.6	1.6	1.6	1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.8	0.0
African Development Bank	10.5	1.1	1.0	1.0	1.0	1.0	0.3	0.4	0.4	0.6	0.9	0.9	0.9	1.0	1.0	1.0	1.1	1.1	1.1	1.1	1.7	1.0
Others	7.6	4.8	5.1	5.1	4.1	5.2	8.1	8.0	5.5	6.8	7.9	3.5	3.4	3.2	2.9	2.7	2.7	2.7	2.7	2.6	6.0	3.4
Official bilateral and commercial	3.7	1.8	1.8	1.8	1.7	1.6	1.6	1.5	1.5	1.5	1.4	1.4	1.4	1.3	1.3	0.8	0.8	0.8	0.8	0.8	1.9	1.1
VI. After MDRI and possible topping-up of HIPC assistance 3/																						
Total debt service (including new debt)	43.8	4.5	5.0	6.0	7.0	7.9	13.3	19.1	21.3	22.7	22.6	21.1	21.7	26.0	30.6	35.3	43.5	49.6	56.0	62.4	15.1	36.9
Total debt service on outstanding debt	42.8	2.6	2.2	2.3	2.3	2.1	1.5	2.6	3.5	3.6	2.0	1.4	1.5	1.6	1.7	1.3	4.2	4.7	5.1	5.3	6.6	2.9
Multilateral	39.3	1.5	1.1	1.3	1.3	1.2	0.6	1.7	2.6	2.7	1.2	0.5	0.7	0.8	0.9	0.8	3.7	4.2	4.7	4.9	5.3	2.2
IDA	18.3	0.6	0.3	0.4	0.4	0.4	0.2	0.7	0.7	0.6	0.4	0.4	0.5	0.7	0.7	0.6	3.6	4.0	4.5	4.7	2.3	2.0
IMF	10.5	0.1	0.0	0.0	0.0	0.0	0.0	0.7	1.6	1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.5	0.0
African Development Bank	10.5	0.8	0.8	0.8	0.8	0.8	0.3	0.3	0.3	0.6	0.8	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	1.6	0.2
Others	5.9	1.8	2.2	2.3	1.4	2.2	5.4	6.2	4.5	4.5	4.5	1.0	1.1	1.2	1.3	3.7	4.7	4.6	4.6	4.6	3.6	3.1
Official bilateral and commercial	3.4	1.1	1.1	1.1	1.0	1.0	0.9	0.9	0.9	0.9	0.9	0.8	0.8	0.8	0.8	0.5	0.5	0.5	0.5	0.5	1.2	0.6
Memorandum items:																						
Debt service of new debt	1.1	1.9	2.7	3.5	4.3	5.1	11.0	15.5	16.5	17.6	18.8	17.7	17.7	21.4	25.3	29.6	34.1	38.9	44.1	49.7	7.9	29.7

Sources: Malawian authorities; and Bank-Fund staff estimates and projections.

1/ Refers to public and publicly guaranteed external debt only and assumes a stock-of-debt operation on Naples terms (67 percent NPV reduction) at end-1999 with a cutoff-date of January 1, 1982, and at least comparable action by other official bilateral creditors.
2/ After MDRI relief from certain multilateral institutions and debt relief beyond HIPC offered by some of the Paris Club creditors on a voluntary basis.
3/ Includes debt relief beyond HIPC offered by some of the Paris Club creditors on a voluntary basis and adjusts new borrowing assumptions for change in IDA and AfDF allocations.

Table 11. Malawi: External Debt Indicators, 2005-2025 1/

(In percent, unless otherwise indicated)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2005 - 2015	2016 - 2025
	Actuals										Projections											Averages	
After traditional debt relief mechanisms 2/																							
NPV of debt-to-GDP ratio	91.7	87.1	83.6	77.7	72.3	67.7	63.8	60.2	56.6	53.4	50.4	47.7	45.4	43.4	41.5	39.7	38.0	36.5	35.1	33.8	32.6	69.5	39.4
NPV of debt-to-exports ratio 3/ 4/	366.8	339.4	317.6	304.0	295.9	284.1	268.6	250.0	232.7	217.5	203.5	190.6	179.9	170.3	161.2	152.9	145.1	138.0	131.3	125.2	119.7	280.0	151.4
NPV of debt-to-revenue ratio 5/	365.6	350.2	346.1	321.2	305.3	285.9	269.1	254.0	239.0	225.4	212.9	201.3	191.7	183.3	175.0	167.6	160.6	154.1	148.1	142.5	137.5	288.6	166.2
Debt service-to-exports ratio	…	20.8	19.3	17.3	17.3	15.7	15.1	15.1	14.9	13.6	12.8	12.0	10.3	9.5	9.3	8.8	8.4	8.0	7.6	7.2	6.8	16.2	8.8
Debt service-to-revenue ratio 5/	…	23.4	22.1	18.9	18.4	16.9	16.4	16.5	16.5	15.2	14.4	13.6	11.8	11.0	10.9	10.3	10.0	9.6	9.2	8.8	8.4	17.9	10.4
After delivery of enhanced HIPC assistance																							
NPV of debt-to-GDP ratio	90.9	59.9	59.6	57.0	54.5	52.5	50.8	49.2	47.6	46.2	44.8	43.4	42.2	41.1	40.1	39.1	37.5	36.1	34.7	33.5	32.3	55.7	38.0
NPV of debt-to-exports ratio 3/ 4/	363.7	233.3	226.3	222.9	222.9	220.1	214.0	204.6	195.6	188.0	180.6	173.6	167.1	161.4	155.8	150.5	143.2	136.4	130.1	124.2	118.8	224.7	146.1
NPV of debt-to-exports ratio (existing debt only)	363.7	222.8	207.2	197.0	189.7	179.7	167.0	152.7	139.7	128.2	117.5	107.4	97.9	89.2	80.9	73.2	64.0	55.5	47.9	41.0	34.7	187.7	69.2
NPV of debt-to-revenue ratio 5/	362.5	240.8	246.6	235.5	230.0	221.4	214.4	207.9	200.9	194.8	189.0	183.3	178.2	173.7	169.2	165.0	158.4	152.3	146.6	141.3	136.5	231.3	160.5
Debt service-to-exports ratio	…	11.5	8.6	8.5	9.0	8.2	8.0	8.6	8.7	7.8	7.6	7.3	6.8	6.3	6.3	6.1	8.0	7.6	7.3	7.0	6.6	8.6	6.9
Debt service-to-revenue ratio 5/	…	12.9	9.9	9.3	9.5	8.8	8.7	9.4	9.6	8.7	8.5	8.2	7.8	7.3	7.4	7.2	9.6	9.2	8.9	8.5	8.2	9.5	8.2
After unconditional delivery of enhanced HIPC assistance																							
NPV of debt-to-GDP ratio	61.3	59.9	59.6	57.0	54.5	52.5	50.8	49.2	47.6	46.2	44.8	43.4	42.2	41.1	40.1	39.1	37.5	36.1	34.7	33.5	32.3	53.0	38.0
NPV of debt-to-exports ratio 3/ 4/	245.3	233.3	226.3	222.9	222.9	220.1	214.0	204.6	195.6	188.0	180.6	173.6	167.1	161.4	155.8	150.5	143.2	136.4	130.1	124.2	118.8	214.0	146.1
NPV of debt-to-revenue ratio 5/	244.5	240.8	246.6	235.5	230.0	221.4	214.4	207.9	200.9	194.8	189.0	183.3	178.2	173.7	169.2	165.0	158.4	152.3	146.6	141.3	136.5	220.5	160.5
After unconditional delivery of bilateral debt relief beyond HIPC 6/																							
NPV of debt-to-GDP ratio	57.3	56.2	56.3	54.2	52.1	50.4	49.0	47.7	46.3	45.1	43.9	42.7	41.6	40.6	39.7	38.7	37.3	35.9	34.6	33.4	32.2	50.8	37.7
NPV of debt-to-exports ratio 3/ 4/	229.1	218.8	213.8	211.9	213.0	211.3	206.5	198.3	190.3	183.6	177.0	170.7	164.7	159.4	154.2	149.2	142.2	135.6	129.5	123.8	118.5	204.9	144.8
NPV of debt-to-exports ratio (existing debt only)	229.1	208.3	194.6	185.9	179.8	171.0	159.5	146.4	134.4	123.9	113.9	104.5	95.5	87.2	79.3	72.0	63.0	54.8	47.3	40.5	34.4	167.9	67.8
NPV of debt-to-revenue ratio 5/	228.4	225.8	233.0	223.8	219.8	212.7	206.9	201.4	195.5	190.3	185.2	180.2	175.6	171.6	167.4	163.6	157.3	151.5	146.0	140.8	136.1	211.2	159.0
Debt service-to-exports ratio	…	10.9	7.4	7.4	8.0	7.3	7.2	7.8	8.1	7.2	7.0	6.8	6.5	6.0	6.1	5.9	7.8	7.5	7.2	6.9	6.6	7.8	6.7
Debt service-to-revenue ratio 5/	…	12.3	8.4	8.1	8.5	7.8	7.8		8.9	8.0	7.9	7.7	7.4	7.0	7.1	6.9	9.3	9.0	8.7	8.4	8.1	8.6	8.0
After possible topping-up of HIPC assistance 6/																							
NPV of debt-to-GDP ratio	90.9	37.2	38.4	38.1	37.9	37.8	38.0	38.0	37.9	37.8	37.6	37.5	37.6	37.7	37.8	37.8	36.6	35.4	34.3	33.2	32.3	42.7	36.0
NPV of debt-to-exports ratio 3/ 4/	363.7	145.0	145.7	149.1	154.9	158.8	160.0	158.0	155.6	153.7	151.9	150.0	149.0	148.0	146.9	145.6	139.5	133.8	128.4	123.3	118.6	172.4	138.3
NPV of debt-to-exports ratio (existing debt only)	363.7	134.5	126.5	123.1	121.7	118.4	113.1	106.1	99.7	94.0	88.8	83.9	79.7	75.8	72.0	68.4	60.3	52.9	46.2	40.0	34.5	135.4	61.4
NPV of debt-to-exports ratio after full delivery in 2005 3/ 4/	150.0	145.0	145.7	149.1	154.9	158.8	160.0	158.0	155.6	153.7	151.9	150.0	149.0	148.0	146.9	145.6	139.5	133.8	128.4	123.3	118.6	153.0	138.3
NPV of debt-to-revenue ratio 5/	228.4	149.6	158.8	157.5	159.9	159.7	160.3	160.5	159.8	159.4	158.9	158.5	158.8	159.3	159.5	159.6	154.4	149.4	144.7	140.3	136.2	164.8	152.1
Debt service-to-exports ratio	...	9.0	4.0	2.7	2.9	2.7	2.9	3.8	4.3	3.8	3.7	3.4	2.7	2.5	2.6	2.7	7.2	6.9	6.6	6.4	6.1	4.0	4.7
Debt service-to-revenue ratio 5/	...	10.2	4.6	3.0	3.1	2.9	3.1	4.2	4.7	4.3	4.1	3.9	3.1	2.9	3.0	3.1	8.5	8.3	8.0	7.8	7.6	4.4	5.6
After unconditional delivery of MDRI and bilateral debt relief beyond HIPC assistance 7/																							
NPV of debt-to-GDP ratio	10.8	11.0	13.0	13.9	14.8	15.8	16.7	17.5	18.1	18.7	19.3	19.8	20.4	21.1	21.7	22.3	22.7	23.2	23.6	23.9	24.1	15.4	22.3
NPV of debt-to-exports ratio 3/ 4/	43.2	43.0	49.3	54.4	60.5	66.1	70.5	72.8	74.5	76.3	77.8	79.1	80.9	82.8	84.3	85.7	86.8	87.6	88.2	88.5	88.8	62.6	85.3
NPV of debt-to-revenue ratio 5/	43.0	44.4	53.7	57.5	62.4	66.5	70.6	73.9	76.5	79.1	81.4	83.5	86.3	89.1	91.6	93.9	96.0	97.9	99.4	100.8	101.9	64.4	94.0
Debt service-to-exports ratio	…	7.2	0.9	1.0	1.1	1.2	1.4	1.9	2.3	2.2	2.2	2.1	1.8	1.7	1.8	2.0	2.1	2.2	2.3	2.4	2.5	2.1	2.1
Debt service-to-revenue ratio 5/	…	8.1	1.0	1.1	1.2	1.3	1.5	2.1	2.5	2.5	2.5	2.3	2.1	2.0	2.2	2.3	2.5	2.6	2.8	2.9	3.0	2.4	2.5
After unconditional delivery of MDRI, topping up and bilateral debt relief beyond HIPC assistance 7/																							
NPV of debt-to-GDP ratio	8.2	8.2	10.4	11.8	13.2	14.7	16.3	17.7	18.8	19.8	20.8	21.7	22.9	24.0	25.0	25.8	26.6	27.2	27.6	27.9	28.1	14.5	25.7
NPV of debt-to-exports ratio 3/ 4/	32.7	32.0	39.6	46.1	53.9	61.8	68.8	73.5	77.1	80.7	83.9	86.9	90.6	94.0	97.0	99.5	101.4	102.6	103.3	103.4	103.2	59.1	98.2
NPV of debt-to-revenue ratio 5/	32.6	33.0	43.1	48.7	55.6	62.2	69.0	74.6	79.2	83.6	87.8	91.8	96.6	101.2	105.3	109.1	112.2	114.6	116.5	117.7	118.5	60.9	108.4
Debt service-to-exports ratio	…	7.1	0.7	0.8	0.9	0.9	1.0	1.5	2.1	2.1	2.1	1.9	1.7	1.6	1.8	1.9	2.1	2.4	2.5	2.6	2.7	1.9	2.1
Debt service-to-revenue ratio 5/	…	8.0	0.8	0.8	0.9	1.0	1.1	1.7	2.3	2.4	2.4	2.2	1.9	1.9	2.1	2.3	2.5	2.9	3.1	3.2	3.4	2.1	2.5
Memorandum items (in millions of U.S. dollars):																							
NPV of debt after enhanced HIPC assistance	1887.2	1315.0	1370.4	1417.7	1465.0	1520.6	1580.1	1635.9	1688.6	1749.0	1811.6	1877.0	1948.3	2028.2	2109.9	2197.2	2253.7	2314.4	2379.3	2449.2	2526.2	1585.5	2208.4
Of which: existing debt only	1887.2	1255.7	1254.3	1252.7	1246.7	1241.7	1233.5	1221.2	1205.6	1193.4	1178.5	1161.3	1141.2	1120.4	1095.4	1069.5	1006.8	942.4	875.9	807.8	738.2	1288.2	995.9
Debt service after enhanced HIPC assistance	…	70.6	54.8	55.8	60.8	60.4	64.1	73.8	81.1	78.3	81.6	84.4	85.6	85.3	92.4	96.0	136.0	139.6	143.8	147.9	152.0	68.1	116.3
GDP	2075.6	2194.5	2300.0	2487.0	2688.6	2898.9	3110.8	3322.3	3548.2	3789.5	4047.1	4322.3	4616.2	4930.0	5265.2	5623.2	6005.5	6413.8	6849.9	7315.6	7813.0	2951.1	5915.5
Exports of goods and services 3/	565.7	614.451	636.2	657.0	678.1	737.9	799.2	861.6	928.8	1001.2	1079.3	1163.5	1254.2	1352.0	1457.5	1571.1	1693.7	1825.8	1968.1	2121.6	2287.1	778.1	1669.5
Exports of goods and services (three-year avg.) 3/ 4/	519.0	563.6	605.5	635.9	657.1	691.0	738.4	799.6	863.2	930.5	1003.1	1081.3	1165.7	1256.6	1354.6	1460.2	1574.1	1696.9	1829.2	1971.9	2125.6	727.9	1551.6
Government revenue 5/	520.6	546.2	555.6	601.9	636.9	686.7	736.9	787.0	840.5	897.6	958.7	1023.9	1093.5	1167.8	1247.2	1332.0	1422.6	1519.3	1622.6	1732.9	1850.7	706.2	1401.3

Sources: Malawian authorities; and Bank-Fund staff estimates and projections.

1/ All debt indicators refer to public and publicly guaranteed (PPG) debt and are defined after rescheduling, unless otherwise indicated.
2/ Reflect a hypothetical stock-of-debt operation on Naples terms at end-1999 for Paris Club creditors as calculated in the HIPC decision point document.
3/ Exports of goods and services as defined in IMF, *Balance of Payments Manual*, 5th edition, 1993.
4/ Based on a three-year average of exports on the previous year (e.g., export average over 2003-2005 for NPV of debt-to-exports ratio in 2005).
5/ Revenue is defined as central government revenue, excluding grants.
6/ After debt relief beyond HIPC offered by some of the Paris Club creditors on a voluntary basis.
7/ After MDRI relief from certain multilateral institutions and debt relief beyond HIPC offered by some of the Paris Club creditors on a voluntary basis.

Table 12. Malawi: Enhanced HIPC Initiative Assistance Levels and Possible Topping-Up at Completion Point
(In millions of U.S. dollars; unless otherwise indicated)

	NPV of debt	3-year exports moving average 3/	NPV of assistance	NPV of debt after assistance	NPV of debt-to-exports ratio (in percent)	Common Reduction Factor
			end-1999			
Assistance at the Decision Point 1/	1466.5 2/	546.8	646.3	820.2 4/	150%	44.1%
			end-2005			
Topping up at Completion Point						
Completion Point Estimates						
NPV after enhanced HIPC assistance	1272.9 5/	519.0			245.3	
NPV after bilateral debt relief beyond HIPC	1189.2 5/6/	519.0			229.1	
Calculation of possible topping up assistance						
Total NPV after bilateral debt relief beyond HIPC	1189.2 5/6/	519.0	410.7	778.4	150.0	34.5%
Multilateral	1168.6		403.6	765.0		
Bilateral and commercial	20.6		7.1	13.5		

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

1/ HIPC assistance as amended at the completion point. NPV figures calculated using end-1999 parameters.
2/ NPV of debt after assuming a stock-of-debt operation on Naples terms at the end-1999 and at least comparable treatment by non-Paris Club and commercial creditors.
3/ Exports of goods and non-factor services.
4/ Assuming unconditional delivery at end-1999 and applied to the stock of debt outstanding as of end-1999.
5/ Assuming unconditional delivery at end-2005 and applied to the stock of debt outstanding as of end-2005.
6/ Includes debt relief beyond HIPC initiative assistance provided by most of the Paris Club creditors on a voluntary basis.

Table 13. Malawi: Sensitivity Analysis, 2005 - 2025 1/

(In percent; unless otherwise indicated)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2006 - 2015	2016 - 2025
											Projections											Averages	
Baseline scenario																							
NPV of debt-to-exports ratio 2/	363.7	43.0	49.3	54.4	60.5	66.1	70.5	72.8	74.5	76.3	77.8	79.1	80.9	82.8	84.3	85.7	86.8	87.6	88.2	88.5	88.8	64.5	85.3
Debt service-to-exports ratio 2/	…	7.2	0.9	1.0	1.1	1.2	1.4	1.9	2.3	2.2	2.2	2.1	1.8	1.7	1.8	2.0	2.1	2.2	2.3	2.4	2.5	2.1	2.1
Debt service-to-revenue ratio 3/	…	8.1	1.0	1.1	1.2	1.3	1.5	2.1	2.5	2.5	2.5	2.3	2.1	2.0	2.2	2.3	2.5	2.6	2.8	2.9	3.0	2.4	2.5
Memorandum items (in millions of U.S. dollars):																							
NPV of debt	1,887.2	242.3	298.2	345.8	397.3	456.7	520.3	581.8	642.8	710.1	780.2	855.2	943.2	1,040.0	1,142.5	1,251.2	1,366.2	1,487.0	1,613.5	1,746.0	1,886.6	497.6	1,333.1
Of which: new debt		59.3	116.0	165.0	218.3	278.9	346.6	414.7	482.9	555.6	633.1	715.7	807.2	907.8	1,014.5	1,127.7	1,246.9	1,372.0	1,503.4	1,641.5	1,788.0	327.0	1,212.5
Debt service	…	44.2	5.7	6.5	7.6	8.6	11.0	16.1	21.1	22.5	24.1	24.0	22.8	23.0	27.0	31.1	35.0	39.6	44.9	50.5	56.2	16.8	35.4
Of which: new debt	…	1.1	1.9	2.7	3.5	4.3	5.1	11.0	15.5	16.5	17.6	18.8	17.7	17.7	21.4	25.3	29.6	34.1	38.9	44.1	49.7	7.9	29.7
Exports of goods and services, three-year average	519.0	563.6	605.5	635.9	657.1	691.0	738.4	799.6	863.2	930.5	1,003.1	1,081.3	1,165.7	1,256.6	1,354.6	1,460.2	1,574.1	1,696.9	1,829.2	1,971.9	2,125.6	748.8	1,551.6
Exports of goods and services, annual	565.7	614.5	636.2	657.0	678.1	737.9	799.2	861.6	928.8	1,001.2	1,079.3	1,163.5	1,254.2	1,352.0	1,457.5	1,571.1	1,693.7	1,825.8	1,968.1	2,121.6	2,287.1	799.4	1,669.5
Revenues	520.6	537.0	550.7	595.9	630.3	679.6	729.3	778.9	831.8	888.4	948.8	1,013.3	1,082.2	1,155.7	1,234.3	1,318.2	1,407.9	1,503.6	1,605.8	1,715.0	1,831.6	162.3	173.3
Sensivity analysis																							
Scenario I: Less Concessional New Borrowing																							
NPV of debt-to-exports ratio 2/	363.7	43.0	57.5	64.6	72.0	77.3	79.4	79.8	80.7	82.4	84.5	87.0	90.7	94.3	97.6	100.6	103.5	106.4	109.5	113.0	116.6	72.1	101.9
Debt service-to-exports ratio 2/		7.2	1.5	1.9	2.2	2.3	3.1	4.0	4.8	5.0	5.1	4.9	4.3	4.0	4.2	4.5	5.0	5.6	6.2	6.7	7.2	3.7	5.2
Debt service-to-revenue ratio 3/		8.1	1.7	2.1	2.3	2.4	3.3	4.4	5.3	5.6	5.8	5.6	4.9	4.6	4.9	5.3	5.9	6.7	7.5	8.2	8.8	4.1	6.2
Memorandum items (in millions of U.S. dollars):																							
NPV of debt	1,887.2	242.3	348.4	410.6	472.9	534.3	586.2	638.2	696.4	767.1	847.6	940.5	1,057.0	1,184.8	1,321.9	1,469.2	1,629.3	1,805.2	2,003.4	2,227.5	2,478.5	554.4	1,611.7
Of which: new debt		59.3	166.2	229.8	293.9	356.4	412.6	471.1	536.5	612.5	700.4	801.0	921.0	1,052.7	1,193.9	1,345.7	1,510.0	1,690.2	1,893.3	2,123.0	2,379.9	383.9	1,491.1
Debt service		44.2	9.7	12.4	14.8	16.7	24.5	34.7	44.6	50.4	55.2	57.3	53.7	54.1	60.8	70.8	84.3	102.2	121.5	141.8	163.7	30.7	91.0
Of which: new debt		1.1	5.9	8.5	10.7	12.4	18.6	29.6	39.0	44.4	48.8	52.1	48.6	48.8	55.3	65.0	78.8	96.7	115.6	135.5	157.2	21.9	85.4
Exports of goods and services, three-year average	519.0	563.6	605.5	635.9	657.1	691.0	738.4	799.6	863.2	930.5	1,003.1	1,081.3	1,165.7	1,256.6	1,354.6	1,460.2	1,574.1	1,696.9	1,829.2	1,971.9	2,125.6	748.8	1,551.6
Exports of goods and services, annual	565.7	614.5	636.2	657.0	678.1	737.9	799.2	861.6	928.8	1,001.2	1,079.3	1,163.5	1,254.2	1,352.0	1,457.5	1,571.1	1,693.7	1,825.8	1,968.1	2,121.6	2,287.1	799.4	1,669.5
Revenues	520.6	546.2	555.6	601.9	636.9	686.7	736.9	787.0	840.5	897.6	958.7	1,023.9	1,093.5	1,167.8	1,247.2	1,332.0	1,422.6	1,519.3	1,622.6	1,732.9	1,850.7	724.8	1,401.3
Scenario II: Higher Borrowing and Weak Export Performance																							
NPV of debt-to-exports ratio 2/	363.7	43.0	49.3	54.4	60.5	69.3	78.8	88.1	98.2	110.0	123.1	137.9	145.3	152.9	160.2	167.1	173.7	179.9	185.6	191.0	196.1	77.4	169.0
Debt service-to-exports ratio 2/	…	7.2	0.9	1.0	1.1	1.2	1.5	2.3	3.1	3.3	3.5	3.6	3.2	3.1	3.5	3.8	4.1	4.5	4.8	5.1	5.4	2.5	4.1
Debt service-to-revenue ratio 3/	…	8.1	0.3	0.4	0.5	0.7	0.8	1.7	2.4	2.6	2.8	3.0	2.6	2.5	2.8	3.1	3.4	3.7	3.9	4.2	4.4	2.0	3.4
Memorandum items: (in millions of U.S. dollars):																							
NPV of debt	1,887.2	242.3	298.2	345.8	397.3	474.2	565.7	667.2	781.8	919.6	1,080.4	1,270.4	1,405.4	1,553.0	1,708.2	1,871.5	2,042.8	2,221.4	2,407.2	2,600.6	2,804.5	577.2	1,988.5
Of which: new debt	0.0	59.3	116.0	165.0	218.3	296.3	392.0	500.1	621.9	765.0	933.2	1,130.9	1,269.3	1,420.8	1,580.2	1,748.0	1,923.5	2,106.4	2,297.1	2,496.1	2,705.9	406.7	1,867.8
Debt service	…	44.2	5.7	6.5	7.6	8.9	11.7	18.4	25.5	28.8	32.5	34.9	33.0	33.0	38.9	45.1	51.1	57.8	65.4	73.4	81.7	19.0	51.4
Of which: new debt	…	1.1	1.9	2.7	3.5	4.6	5.8	13.3	20.0	22.8	26.0	29.8	27.9	27.7	33.4	39.3	45.6	52.3	59.5	67.1	75.2	10.1	45.8
Exports of goods and services, three-year average	519.0	563.6	605.5	635.9	657.1	684.6	718.3	757.5	796.4	836.0	877.7	921.4	967.4	1,015.7	1,066.5	1,119.8	1,175.9	1,234.8	1,296.8	1,361.9	1,430.4	713.3	1,159.1
Exports of goods and services, annual	565.7	614.5	636.2	657.0	678.1	718.7	758.1	795.8	835.4	877.0	920.7	966.6	1,014.9	1,065.6	1,118.9	1,175.0	1,233.8	1,295.7	1,360.8	1,429.2	1,501.1	749.1	1,216.2
Revenues	520.6	546.2	555.6	601.9	636.9	683.4	729.9	775.8	824.6	876.4	931.5	990.1	1,052.4	1,118.6	1,188.9	1,263.6	1,343.1	1,427.6	1,517.3	1,612.7	1,714.1	716.2	1,322.8
Scenario III: Periodic Droughts																							
NPV of debt-to-exports ratio 2/	363.7	43.0	49.3	54.4	60.5	70.6	71.6	74.3	75.3	77.2	85.4	81.7	83.8	84.9	86.5	96.0	90.8	91.9	91.5	91.8	100.9	66.2	90.0
Debt service-to-exports ratio 2/	…	7.2	0.9	1.0	1.1	1.3	1.4	1.9	2.3	2.3	2.5	2.1	1.9	1.8	1.9	2.3	2.2	2.3	2.4	2.5	2.9	2.2	2.2
Debt service-to-revenue ratio 3/	…	0.2	0.3	0.4	0.5	0.7	0.7	1.4	1.8	1.8	2.0	1.8	1.6	1.5	1.7	2.1	2.1	2.2	2.4	2.5	3.0	1.0	2.1
Memorandum items: (in millions of U.S. dollars):																							
NPV of debt	1,887.2	242.3	298.2	345.8	397.3	479.9	517.5	576.9	635.3	699.3	817.5	835.8	918.3	1,008.6	1,103.7	1,294.6	1,309.7	1,419.8	1,534.4	1,653.7	1,920.9	501.0	1,300.0
Of which: new debt	0.0	59.3	116.0	165.0	218.3	302.0	343.8	409.8	475.3	544.8	670.3	696.3	782.3	876.5	975.7	1,171.1	1,190.4	1,304.8	1,424.3	1,549.2	1,822.3	330.5	1,179.3
Debt service	…	44.2	5.7	6.5	7.6	9.0	11.0	16.0	20.8	22.2	25.2	23.5	22.3	22.4	26.1	32.1	33.7	37.9	42.8	48.0	57.2	16.8	34.6
Of which: new debt	…	1.1	1.9	2.7	3.5	4.6	5.1	10.9	15.3	16.2	18.7	18.3	17.2	17.1	20.6	26.3	28.2	32.4	36.9	41.6	50.6	8.0	28.9
Exports of goods and services, three-year average	519.0	563.6	605.5	635.9	657.1	680.1	722.4	776.9	843.2	905.5	956.8	1,023.5	1,095.3	1,187.9	1,275.7	1,348.0	1,443.2	1,545.4	1,677.2	1,801.1	1,903.2	734.7	1,430.0
Exports of goods and services, annual	565.7	614.5	636.2	657.0	678.1	705.2	783.8	841.7	903.9	970.7	995.6	1,104.3	1,185.9	1,273.5	1,367.6	1,402.7	1,559.1	1,674.4	1,798.1	1,931.0	1,980.5	778.7	1,527.7
Revenues	520.6	546.2	555.6	601.9	636.9	673.7	731.5	778.2	827.9	880.8	919.1	996.6	1,060.3	1,128.1	1,200.2	1,252.3	1,358.6	1,445.4	1,537.8	1,636.0	1,707.1	715.2	1,332.2
Scenario IV: Scaling up of Aid																							
NPV of debt-to-exports ratio 2/	363.7	43.0	49.3	54.4	60.5	74.2	96.1	114.9	120.1	124.9	129.1	132.9	137.2	141.5	145.2	148.5	151.2	153.4	155.1	156.3	157.2	86.6	147.8
Debt service-to-exports ratio 2/	…	7.2	0.9	1.0	1.1	1.3	1.7	2.9	3.6	3.6	3.5	3.4	3.0	2.7	3.0	3.3	3.5	3.7	3.9	4.0	4.2	2.7	3.5
Debt service-to-revenue ratio 3/	…	0.2	0.3	0.4	0.5	0.7	1.1	2.5	3.3	3.3	3.3	3.3	2.9	2.7	3.1	3.4	3.8	4.1	4.3	4.6	4.9	1.6	3.7
Memorandum items: (in millions of U.S. dollars):																							
NPV of debt	1,887.2	242.3	298.2	345.8	397.3	513.0	710.0	920.5	1,041.5	1,173.6	1,313.9	1,464.9	1,637.9	1,829.5	2,033.8	2,252.0	2,484.1	2,729.5	2,988.7	3,262.6	3,555.0	695.6	2,423.8
Of which: new debt	…	59.3	116.0	165.0	218.3	335.2	536.4	753.4	881.6	1,019.1	1,166.8	1,325.3	1,501.9	1,697.3	1,905.8	2,128.5	2,364.8	2,614.5	2,878.6	3,158.0	3,456.4	525.1	2,303.1
Debt service	…	44.2	5.7	6.5	7.6	9.5	13.8	25.2	33.9	36.3	39.0	40.1	38.1	38.4	45.8	53.6	61.5	70.4	80.5	91.2	102.6	22.2	62.2
Of which: new debt		1.1	1.9	2.7	3.5	5.2	8.0	20.0	28.3	30.3	32.5	34.9	33.0	33.1	40.2	47.8	56.1	65.0	74.6	84.9	96.0	13.3	56.6
Exports of goods and services, three-year average	519.0	563.6	605.5	635.9	657.1	691.0	738.4	800.9	867.5	939.6	1,017.7	1,102.2	1,193.8	1,293.0	1,400.5	1,516.9	1,642.9	1,779.5	1,927.3	2,087.5	2,261.0	751.7	1,620.5
Exports of goods and services, annual	565.7	614.5	636.2	657.0	678.1	737.9	799.2	865.7	937.6	1,015.5	1,099.9	1,191.3	1,290.3	1,397.5	1,513.7	1,639.5	1,775.7	1,923.2	2,083.1	2,256.2	2,443.7	804.2	1,751.4
Revenues	520.6	546.2	555.6	601.9	636.9	686.7	736.9	790.8	848.6	910.6	977.2	1,048.6	1,125.2	1,207.5	1,295.8	1,390.5	1,492.1	1,601.2	1,718.3	1,843.9	1,978.6	729.1	1,470.2

Sources: Malawian authorities; and staff estimates and projections.

1/ All debt indicators refer to public and publicly guaranteed debt and are defined after delivery of MDRI and debt relief beyond HIPC assistance offered by some Paris Club creditors on a voluntary basis.
2/ Exports of goods and services as defined in IMF, *Balance of Payments Manual,* 5th edition, 1993. The NPV of debt-to-exports ratio is based on a three-year average of exports on the previous year; the debt-service ratio is based on current year exports.
3/ Debt service-to-revenue ratio is based on current central government revenues, excluding grants.

Table 14. Malawi: Delivery of IDA Assistance Under the Enhanced HIPC Initiative and the MDRI, 2000-20 1/

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

																						Average	
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2001-05	2006-43
	Actual						Projections																
I. Relief under the Enhanced HIPC Initiative																							
Debt service before HIPC Assistance 1/	28.1	30.5	34.3	37.9	41.0	42.4	49.7	55.3	57.4	63.6	66.1	69.0	72.1	75.7	76.7	77.5	79.8	80.8	80.1	83.7	83.4	35.7	56.9
Principal	16.3	18.7	22.7	26.5	29.8	31.4	37.7	41.2	43.5	50.1	53.0	56.3	59.8	63.9	65.3	66.6	69.4	71.0	70.8	74.9	75.3	24.2	50.8
Interest	11.9	11.7	11.6	11.4	11.2	11.0	12.0	14.1	13.8	13.5	13.1	12.7	12.3	11.8	11.3	10.8	10.3	9.8	9.3	8.7	8.2	11.5	6.1
IDA HIPC assistance 2/	0.0	16.8	18.9	20.9	22.7	23.5	25.8	27.2	28.0	29.8	30.9	31.6	33.2	34.6	34.8	34.9	35.9	36.3	35.7	36.2	35.9	17.1	
Debt service after HIPC assistance 1/	28.1	13.7	15.4	17.0	18.3	18.9	27.2	28.2	29.4	33.8	35.2	37.4	38.9	41.1	41.8	42.6	43.9	44.4	44.4	47.5	47.6	18.6	44.1
Principal	16.3	8.5	10.2	11.9	13.3	14.0	18.7	19.9	21.3	25.8	27.4	29.8	31.5	34.0	35.0	36.0	37.6	38.4	38.6	42.1	42.5	12.4	39.8
Interest	11.9	5.2	5.2	5.1	5.0	4.9	8.5	8.3	8.1	8.0	7.8	7.6	7.3	7.1	6.8	6.6	6.3	6.0	5.7	5.4	5.1	6.2	4.3
IDA HIPC assistance with possible topping-up at completion point 3/	0.0	0.0	0.0	0.0	0.0	0.0	29.1	47.7	49.5	54.9	57.0	59.5	62.2	65.3	66.1	66.8	68.8	69.7	69.1	72.2	72.0		
Debt service after topping up 1/	28.1	13.7	15.4	17.0	18.3	18.9	20.7	7.6	7.9	8.7	9.1	9.5	9.9	10.4	10.5	10.6	11.0	11.1	11.0	11.5	11.5	18.6	33.0
II. Relief under the MDRI 4/																							
Projected stock of IDA credits outstanding at implementation date 5/							1,908.0																
Remaining IDA credits after MDRI debt relief							103.6																
Without possible topping-up																							
Debt stock reduction on eligible credits 6/							1,804.4																
Due to HIPC relief 7/							423.2																
Due to MDRI							1,381.1																
Debt service due after HIPC relief and the MDRI							18.5	0.8	1.0	1.3	1.5	1.7	1.6	2.1	2.6	2.8	2.8	2.8	3.0	3.2	3.4		3.7
With possible topping-up																							
Debt stock reduction on eligible credits at the completion point							1,804.4																
Due to HIPC relief 7/							391.6																
Due to Topping-up							345.0																
Due to MDRI							1,067.7																
Debt service due to IDA after HIPC relief, topping up and MDRI							18.3	0.6	0.3	0.4	0.4	0.4	0.2	0.7	0.7	0.6	0.4	0.4	0.5	0.7	0.7		2.9
Memorandum Item:																							
Debt service to IDA covered by HIPC assistance as approved at decision point (in percent) 8/	55.3	55.3	55.3	55.3	55.3	55.3	55.3	55.3	55.3	55.3	55.3	55.3	55.3	55.3	55.3	55.3	55.3	55.3	55.3	55.3	55.3	55.3	55.3
Debt service to IDA covered by HIPC assistance revised at completion point (in percent) 8/	55.3	55.3	55.3	55.3	55.3	55.3	55.9	55.9	55.9	55.9	55.9	55.9	55.9	55.9	55.9	55.9	55.9	55.9	55.9	55.9	55.9	55.3	55.9
Debt service to IDA covered by HIPC assistance with possible topping-up (in percent) 9/	55.3	55.3	55.3	55.3	55.3	55.3	86.3	86.3	86.3	86.3	86.3	86.3	86.3	86.3	86.3	86.3	86.3	86.3	86.3	86.3	86.3	55.3	86.3
Debt service to IDA covered by HIPC assistance and MDRI (in percent) 9/	55.3	55.3	55.3	55.3	55.3	55.3	65.1	98.5	98.3	98.0	97.7	97.6	97.7	97.2	96.6	96.4	96.5	96.5	96.3	96.1	95.9	55.3	85.2
Debt service to IDA covered by HIPC assistance, topping-up and MDRI (in percent) 9/	55.3	55.3	55.3	55.3	55.3	55.3	65.5	98.9	99.5	99.3	99.4	99.5	99.7	99.1	99.0	99.2	99.5	99.5	99.3	99.2	99.2	55.3	86.1
IDA debt service relief under the MDRI 10/							9.1	28.5	29.3	33.3	34.5	36.5	38.1	39.9	40.2	40.7	42.0	42.6	42.4	45.3	45.2		40.8
IDA debt service relief under the MDRI with possible topping-up 10/							2.9	9.7	9.1	10.1	10.5	10.9	11.5	12.0	12.1	12.2	12.5	12.7	12.6	13.2	13.1		30.7

Source: IDA staff estimates.

1/ Debt service till end-September 2006 is estimated on debt outstanding as of December, 1999. From October 2006 onwards, principal and interest due to IDA correspond to prorated projections on disbursed and outstanding debt as of end-December 2005, converted to U.S. dollars using the exchange rate as of end-December 2005.

2/ Enhanced HIPC assistance till September 2006 as approved by the Board of IDA at the decision point. (IDA/R2000-234, 12-21-2000). After October 2006, HIPC assistance based on revised schedule which is subject to the IDA approval of revision of HIPC assistance to Malawi.

3/ Subject to IDA Board approval of topping-up assistance at the completion point.

4/ Stock of debt and debt service denominated in SDRs are converted into U.S. dollar by applying the end-2005 exchange rate.

5/ Stock of debt outstanding on September 30, 2006.

6/ Debt disbursed as of December, 31 2003 and still outstanding at the end of FY06.

7/ HIPC relief is assumed to proportionally reduce repayments of principal and charges on IDA credits disbursed as of end-December 2003 and still outstanding as of September, 30 2006.

8/ Based on debt disbursed and outstanding as of end-1999.

9/ Based on debt disbursed and outstanding as of end-2005.

10/ For SDR denominated credits, debt relief under the MDRI is estimated as debt service on SDR denominated credits minus USD-based HIPC debt relief on these credits. HIPC debt relief is converted into SDR equivalent amounts using the following exchange rates: i) for costs during FY07 and FY08, by applying the foreign exchange rate of 1.5104 resulting from the hedging of donor contributions to cover HIPC costs during IDA 14; (ii) for costs from FY09 onwards, by applying the foreign exchange rate of 1.47738 agreed by donors under the latest regular IDA replenishment. For USD denominated creditors, debt relief under the MDRI is estimated as debt service on USD denominated credits minus USD-based HIPC debt relief on these credits. The resulting MDRI debt relief amounts are converted into SDR equivalent amounts by applying the foreign exchange reference rates agreed by donors under the latest regular IDA replenishment.

Table 15a. Malawi: Delivery of IMF Assistance under the HIPC Initiative and the MDRI (without possible topping-up), 2000-2009 1/
(In millions of SDRs, unless otherwise indicated)

	2000	2001	2002	2003	2004	2005	2006 Jan-Aug	2006 Sep-Dec	2007	2008	2009
	Actual						Projection				
I. Pre-MDRI Debt relief (under the HIPC Initiative only) 2/											
HIPC-eligible Debt Service due on IMF obligations 3/	0.1	6.2	6.2	7.7	9.6	10.8	4.6	8.7	13.9	5.8	4.5
Principal	0.0	5.5	5.7	7.2	9.2	10.2	4.3	8.6	13.4	5.4	4.1
Interest	0.1	0.7	0.5	0.4	0.4	0.6	0.2	0.2	0.5	0.5	0.4
HIPC assistance--deposits into the HIPC Umbrella Account											
Interim assistance	2.3			4.6		4.6					
Completion point disbursement							15.4				
Completion point assistance 4/							11.7				
Completion point interest							3.7				
HIPC assistance--drawdown from the HIPC Umbrella Account	0.0	2.3	0.0	1.8	2.8	2.6	2.1	4.4	9.4	1.8	0.4
IMF assistance without interest	0.0	2.3	0.0	1.8	2.8	2.5	2.1	3.2	8.0	0.3	0.3
Estimated interest earnings 5/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.2	1.4	1.5	0.1
Debt service due on IMF obligations after HIPC assistance	0.1	3.8	6.2	5.9	6.8	8.2	2.4	4.4	4.5	4.0	4.2
Delivery schedule of IMF assistance (in percent of total assistance; on a flow basis)	0	10	0	8	12	11	9	14	34	1	1
Share of debt service due on IMF obligations covered by HIPC assistance (in percent)	0.0	37.6	0.5	23.4	29.5	23.8	46.8	50.2	67.5	30.9	8.2
Proportion (in percent) of each principal repayment obligation falling due during the period to be paid by HIPC assistance from the principal deposited in Umbrella Account 6/	0.0	42.4	0.0	78.3	50.1	49.9	48.1	37.0	59.5	5.5	7.1
II. Post-MDRI Debt relief (under both MDRI and HIPC Initiatives)											
Projected pre-cutoff date debt at completion point							37.9				
Delivery of debt relief (on stock basis):							37.9				
from the MDRI-I Trust 7/							22.4				
from the HIPC Umbrella Account							15.4				
III. Debt service due to the IMF after HIPC and MDRI debt relief 8/								0.1	0.4	0.4	0.4
Memorandum items:											
(Based on debt service data and exchange rates as of end-2005)											
Debt service due on IMF obligations (in millions of U.S. dollars) 9/								0.2	0.6	0.6	0.6
Debt service due on current IMF obligations after IMF assistance 10/	0.2	5.5	8.8	8.4	9.7	11.8	3.5	6.2	6.5	5.8	6.0
(in percent of exports) 11/	0.0	1.2	1.9	1.8	2.0	2.3	1.2	2.2	1.1	0.9	0.9

Source: Fund staff estimates.

1/ Total IMF assistance under the HIPC Initiative is SDR 23.3 million calculated on the basis of data available at the decision point, excluding interest earned on Malawi's account and on committed but undisbursed amounts, as described in footnote 5. The amount of IMF assistance committed at the decision point is adjusted upwards from SDR 23.14 million to SDR 23.3 million owing to data revisions.
2/ Reflects the projected delivery of HIPC assistance in the absence of MDRI decision.
3/ Data prior to completion point are as of end-October 2000. Forthcoming obligations after completion point are based on schedules in effect as of end-December 2005. Interest obligations include net SDR charges and assessments.
4/ A final disbursement of SDR 11.73 million assumed to be deposited into Malawi's Umbrella Account at the completion point in August 2006.
5/ Includes estimated interest earnings on: (1) amounts held in Malawi's account; and (2) up to the completion point, amounts committed but not yet disbursed. The projected interest earnings are estimated based on assumed interest rates which are gradually increasing to 4.5 percent in 2009; actual interest earnings may be higher or lower. Interest accrued on (1) during a calendar year will be used toward the first principal repayment obligation(s) falling due in the following calendar year except in the final year, when it will be used toward payment of the final obligation(s) falling due in that year. Interest accrued on (2) during the interim period will be used toward principal repayment obligations falling due during the three years after the completion point.
6/ Proportions prior to completion point are actual proportions as approved by the Executive Board.
7/ Credit outstanding at end-2004 that has not been repaid by the member or with HIPC assistance at the completion point and is not scheduled to be repaid by HIPC assistance, as defined in the MDRI-I Trust Instrument.
8/ As of end-December 2005; reflecting obligations associated with disbursements made in 2005.
9/ After IMF assistance under the HIPC Initiative and the MDRI.
10/ After IMF assistance under the HIPC Initiative.
11/ Three year moving average of exports of goods and services.

Table 15b. Malawi: Delivery of IMF Assistance under the HIPC Initiative (with possible topping-up) and the MDRI, 2000-2013 1/
(In millions of SDRs, unless otherwise indicated)

	2000	2001	2002	2003	2004	2005	2006		2007	2008	2009	2010	2011	2012	2013
							Jan-Aug	Sep-Dec							
	Actual						Projection								
I. Pre-MDRI Debt relief (under the HIPC Initiative only) 2/															
HIPC-eligible Debt Service due on IMF obligations 3/	0.1	6.2	6.2	7.7	9.6	10.8	4.6	8.7	13.9	5.8	4.5	3.0	2.8	2.8	2.8
Principal	0.0	5.5	5.7	7.2	9.2	10.2	4.3	8.6	13.4	5.4	4.1	2.6	2.4	2.4	2.4
Interest	0.1	0.7	0.5	0.4	0.4	0.6	0.2	0.2	0.5	0.5	0.4	0.4	0.4	0.4	0.4
HIPC assistance--deposits into the HIPC Umbrella Account															
Interim assistance	2.3			4.6		4.6									
Completion point disbursement							15.4								
Completion point assistance 4/							11.7								
Completion point interest							3.7								
Topping up assistance 5/									10.2						
Topping up interest									0.4						
HIPC assistance--drawdown from the HIPC Umbrella Account	0.0	2.3	0.0	1.8	2.8	2.6	2.2	6.5	6.7	5.0	3.9	2.5	1.6	1.1	0.6
IMF assistance without interest	0.0	2.3	0.0	1.8	2.8	2.5	2.1	5.3	5.2	3.4	3.4	2.5	0.7	1.1	0.4
Estimated interest earnings 6/	0.0	0.0	0.0	0.0	0.0	0.0	0.1	1.2	1.4	1.6	0.5	-	1.0	-	0.2
Debt service due on IMF obligations after HIPC assistance	0.1	3.8	6.2	5.9	6.8	8.2	2.4	2.2	7.3	0.9	0.7	0.5	1.2	1.7	2.1
Delivery schedule of IMF assistance (in percent of total assistance; on a flow basis)	0.0	6.9	0.0	5.4	8.5	7.6	6.2	15.8	15.7	10.0	10.0	7.4	2.0	3.2	1.3
Share of debt service due on IMF obligations covered by HIPC assistance (in percent)	0.0	37.6	0.5	23.4	29.5	23.8	48.0	74.4	47.8	85.4	85.4	82.2	58.7	39.1	22.2
Proportion (in percent) of each principal repayment obligation falling due during the period to be paid by HIPC assistance from the principal deposited in Umbrella Account 7/	0.0	42.4	0.0	78.3	50.1	49.9	48.1	61.7	39.1	62.5	81.9	95.8	27.9	45.7	18.2
II. Post-MDRI Debt relief (under both MDRI and HIPC Initiatives)															
Projected pre-cutoff date debt at completion point							37.9								
Delivery of debt relief (on stock basis):							29.9		8.0						
from the MDRI-I Trust 8/							14.5								
from the HIPC Umbrella Account							15.4		8.0						
Delivery of remaining topping up assistance (on stock basis):									2.6						
Topping up assistance									2.2						
Topping up interest									0.4						
III. Debt service due to the IMF after HIPC and MDRI debt relief 9/								0.1	0.4	0.4	0.4	0.4	0.4	0.4	0.9
Memorandum items:															
(Based on debt service data and exchange rates as of end-2005)															
Debt service due on IMF obligations (in millions of U.S. dollars) 10/								0.2	0.6	0.6	0.6	0.6	0.6	0.6	1.2
Debt service due on current IMF obligations after IMF assistance 11/	0.2	5.5	8.8	8.4	9.7	11.8	3.4	3.2	10.4	1.2	1.0	0.8	1.6	2.4	3.1
(in percent of exports) 12/	0.0	1.2	1.9	1.8	2.0	2.3	1.2	1.1	1.7	0.2	0.1	0.1	0.3	0.4	0.5

Source: Fund staff estimates.

1/ Total IMF assistance under the HIPC Initiative is SDR 33.45 million including topping-up assistance of SDR 10.15 million, and excluding interest earned on Malawi's account and on committed but undisbursed amounts, as described in footnote 5.
The amount of IMF assistance committed at the decision point is adjusted upwards from SDR 23.14 million to SDR 23.30 million owing to data revisions.
2/ Reflects the projected delivery of HIPC assistance in the absence of MDRI decision.
3/ Data prior to completion point are as of end-October 2000. Forthcoming obligations after completion point are based on schedules in effect as of end-December 2005. Interest obligations include net SDR charges and assessments.
4/ A disbursement of SDR 11.73 million assumed to be deposited into Malawi's Umbrella Account at the completion point in August 2006.
5/ Assuming topping up assistance, plus accrued interest, will be disbursed to Malawi's HIPC Umbrella account 1 year after completion point, with satisfactory financing assurance in place.
6/ Includes estimated interest earnings on: (1) amounts held in Malawi's account; (2) up to the completion point, amounts committed but not yet disbursed; and (3) until the disbursement of topping up assistance, the amount of such assistance committed but disbursed. The projected interest earnings are estimated based on assumed interest rates which are gradually increasing to 5 percent in 2010 and beyond; actual interest earnings may be higher or lower. Interest accrued on (1) during a calendar year will be used toward the first principal repayment obligation(s) falling due in the following calendar year except in the final year, when it will be used toward payment of the final obligation(s) falling due in that year. Interest accrued on (2) during the interim period will be used toward principal repayment obligations falling due during the three years after the completion point.
7/ Proportions prior to completion point are actual proportions as approved by the Executive Board.
8/ Credit outstanding at end-2004 that has not been repaid by the member or with HIPC assistance at the completion point and is not scheduled to be repaid by HIPC assistance, as defined in the MDRI-I Trust Instrument.
9/ As of end-December 2005; after the delivery of HIPC and MDRI debt relief on stock basis.
10/ After IMF assistance under the HIPC Initiative and the MDRI.
11/ After IMF assistance under the HIPC Initiative.
12/ Three year moving average of exports of goods and services.

Table 16. Malawi: Status of Creditor Participation Under the Enhanced HIPC Initiative

	Debt Relief in NPV Terms (US$ million) 1/	Amended Debt Relief in NPV terms	Percentage of Total Assistance 2/	Satisfactory Reply	Modalities To Deliver Debt Relief
The World Bank Group (IDA/IBRD)	330.9	333.3	51.5	Yes	Interim IDA assistance is being delivered through a 55.3% reduction of IDA debt service until end-September 2006 and through a 55.9% reduction thereafter. Total debt relief is to be provided over 20 years, ending 2020.
AfDB Group	70.9	70.5	11.0	Yes	Interim assistance was provided equal to 80.0% debt service reduction until October 2004. Further interims assistance was provided in 2005. Remaining assistance will be delivered at completion point equal to an 80% debt service reduction until July 2016.
IMF	30.1	30.3	4.7	Yes	The IMF provided interim assistance in 2001 and from 2003 onwards. HIPC relief is provided through grants from the PRGF/HIPC Trust to Malawi's Umbrella Account until 2009.
EU/EIB	28.7	27.4	4.5	Yes	Interim debt relief provided on identified EDF and EIB loans. Debt relief at completion point will be provided through grants to pay off EDF loans.
IFAD	11.3	11.4	1.8	Yes	Assistance will be delivered at completion point through a reduction of debt service payments on eligible debt by up to 100% until the target in NPV terms is reached.
PTA Bank	6.5	7.4	1.0	No	No debt relief provided. PTA Bank suit the Government of the Republic of Malawi in December 1999. Consequently, the Malawian authorities repaid all debt outstanding to the PTA Bank.
NDF	0.7	0.7	0.1	Yes	A contribution to the HIPC Trust Fund will pay 100% of the debt service of selected loans due after approval of the completion point until full delivery of HIPC assistance
BADEA	0.6	0.6	0.1	Yes	Badea has agreed in principle to deliver debt relief through concessional rescheduling of new loans, including cancellation and/or decrease of interest rates.
OPEC Fund	0.4	0.4	0.1	Yes	Rescheduling of terms of selected loans after approval of the completion point.
Total multilateral	480.0	482.1	74.7		
Paris Club creditors	128.5	141.2	20.0	Yes	Cologne flow provided during interim period. Stock-of-debt operation under Cologne terms is expected at completion point.
Non-Paris Club creditors	15.4	15.3	2.4		
Taiwan, Province of China	13.3	13.4	2.1	No	Creditor has not manifested its intention of delivering HIPC relief.
Kuwait Fund	1.3	1.1	0.2	No	The Kuwaiti Fund promised to deliver debt relief once Malawi reaches completion point. Modalities of debt relief will be determined by the creditor at that stage.
South Africa	0.8	0.8	0.1	Yes	Under a debt relief agreement signed before Malawi reached decision point, the creditor has agreed to cancel 100% of all maturities as they fall due. Therefore, creditor has provided interim assistance beyond the Paris Club comparable terms.
Commercial creditors	18.7	7.6	2.9	Yes	All commercial creditors, with the exception of two, did provide interim assistance beyond Cologne terms and have delivered their full share of HIPC relief over the interim period. Despite the requests from Malawi, FMO has not yet agreed to negotiate debt relief. The other commercial creditor (South Africa) has not yet agreed to provide HIPC debt relief, but has delivered interim assistance on comparable Cologne terms until 2003.
Total bilateral and commercial	162.6	164.2	25.3		
Total	642.6	646.3	100.0		

Source: Malawian authorities; and IDA and IMF staff estimates.

1/ The amount of assistance is estimated using the exchange rates and creditor exposure at the decision point.
2/ Based on data as of decision point.

Table 17. Paris Club Creditors' Delivery of Debt Relief Under Bilateral Initiatives
Beyond the HIPC Initiative 1/

	Countries covered	ODA (in percent)		Non-ODA (in percent)		Provision of relief	
		Pre-cutoff date debt	Post-cutoff date debt	Pre-cutoff date debt	Post-cutoff date debt	Decision point (In percent)	Completion point
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Australia	HIPCs	100	100	100	100 2/	2/	2/
Austria	HIPCs	100	-	100	-	Case-by-case, flow	Stock
Belgium	HIPCs	100	100	100	-	100 flow	Stock
Canada	HIPCs 3/	- 4/	- 4/	100	100	100 flow	Stock
Denmark	HIPCs	100	100 5/	100	100 5/	100 flow	Stock
France	HIPCs	100	100	100	-	100 flow 6/	Stock
Finland	HIPCs	100	- 7/	100	- 7/	-	-
Germany	HIPCs	100	100	100	- 8/	100 flow	Stock
Ireland	-	-	-	-	-	-	-
Italy	HIPCs	100	100 9/	100	100 9/	100 flow	Stock
Japan	HIPCs	100	100	100	-	-	Stock
Netherlands, the	HIPCs	100 10/	100	100	-	90-100 flow 10/	Stock
Norway	HIPCs	11/	11/	12/	12/	-	-
Russia	Case-by-case	-	-	-	-	-	Stock
Spain	HIPCs	100	Case-by-case	100	Case-by-case	-	Stock
Sweden	HIPCs	-	- 13/	100	-	-	Stock
Switzerland	HIPCs	100		100	Case-by-case	100, flow 14/	Stock
United Kingdom	HIPCs	100	100	100	100 15/	100 flow 15/	Stock
United States	HIPCs	100	100	100	100 16/	100 flow	Stock

Source: Paris Club Secretariat.

1/ Columns (1) to (7) describe the additional debt relief provided following a specific methodology under bilateral initiatives and need to be read as a whole for each creditor. In column (1), "HIPCs" stands for eligible countries effectively qualifying for the HIPC process. A "100 percent" mention in the table indicates that the debt relief provided under the enhanced HIPC Initiative framework will be topped up to 100 percent through a bilateral initiative.

2/ Australia: post-cutoff date non-ODA relief to apply to debts incurred before a date to be finalized; timing details for both flow and stock relief are to be finalized.

3/ Canada: including Bangladesh. Canada has granted a moratorium of debt service as of January 2001 on all debt disbursed before end-March 1999 for 13 out of 17 HIPCs with debt service due to Canada. Eligible countries are Benin, Bolivia, Cameroon, Dem. Rep. Of Congo, Ethiopia, Ghana, Guyana, Honduras, Madagascar, Rwanda, Senegal, Tanzania, and Zambia. 100% cancellation will be granted at completion point. As of July 2004, Canada has provided completion point stock of debt cancellation for Benin, Bolivia, Guyana, Senegal and Tanzania.

4/ 100 percent of ODA claims have already been cancelled on HIPCs, with the exception of Myanmar's debt to Canada.

5/ Denmark provides 100 percent cancellation of ODA loans and non-ODA credits contracted and disbursed before September 27, 1999.

6/ France: cancellation of 100 percent of debt service on pre-cutoff date commercial claims on the government as they fall due starting at the decision point. Once countries have reached their completion point, debt relief on ODA claims on the government will go to a special account and will be used for specific development projects.

7/ Finland: no post-COD claims

8/ Germany proposes to cancel all debts incurred before June 20, 1999 depending on a consensus within Paris Club creditors

9/ Italy: cancellation of 100 percent of all debts (pre- and post-cutoff date, ODA and non-ODA) incurred before June 20, 1999 (the Cologne Summit). At decision point, cancellation of the related amounts falling due in the interim period. At completion point, cancellation of the stock of remaining debt.

10/ The Netherlands: 100 percent ODA (pre- and post-cutoff date debt will be cancelled at decision point); for non-ODA: in some particular cases (Benin, Bolivia, Burkina Faso, Ethiopia, Ghana, Mali, Mozambique, Nicaragua, Rwanda, Tanzania, Uganda and Zambia), the Netherlands will write off 100 percent of the consolidated amounts on the flow at decision point; all other HIPCs will receive interim relief up to 90 percent reduction of the consolidated amounts. At completion point, all HIPCs will receive 100 per cent cancellation of the remaining stock of the pre-cutoff date debt.

11/ Norway has cancelled all ODA claims.

12/ Due to the current World Bank/IMF methodology for recalculating debt reduction needs at HIPC completion point, Norway has postponed the decisions on whether or not to grant 100% debt reduction until after the completion point.

13/ Sweden has no ODA claims.

14/ Switzerland: In principle 100 percent cancellation of Pre-cutoff date non-ODA debt. However, Switzerland claims the right at the decision point to forgive only 90 percent in case of major political and/or political weaknesses.

15/ United Kingdom: "beyond 100 percent" full write-off of all debts of HIPCs as of their decision points, and reimbursement at the decision point of any debt service paid before the decision point.

16/ United States: 100 percent post-cutoff date non-ODA treated on debt assumed prior to June 20, 1999 (the Cologne Summit).

Table 18. HIPC Initiative: Status of Country Cases Considered Under the Initiative, July 28, 2006

Country	Decision Point	Completion Point	Target NPV of Debt-to- Exports (in percent)	Target NPV of Debt-to- Gov. revenue (in percent)	Assistance Levels 1/ (In millions of U.S. dollars, present value) Total	Bilateral and commercial	Multi-lateral	IMF	World Bank	Percentage Reduction in NPV of Debt 2/	Estimated Total Nominal Debt Service Relief (In millions of U.S. dollars)
Completion point reached under enhanced framework											
Benin	Jul. 00	Mar. 03	150		265	77	189	24	84	31	460
Bolivia					1,302	425	876	84	194		2,060
original framework	*Sep. 97*	*Sep. 98*	*225*		*448*	*157*	*291*	*29*	*54*	*14*	*760*
enhanced framework	*Feb. 00*	*Jun. 01*	*150*		*854*	*268*	*585*	*55*	*140*	*30*	*1,300*
Burkina Faso					553	83	469	57	231		930
original framework	*Sep. 97*	*Jul. 00*	*205*		*229*	*32*	*196*	*22*	*91*	*27*	*400*
enhanced framework	*Jul. 00*	*Apr. 02*	*150*		*195*	*35*	*161*	*22*	*79*	*30*	*300*
topping-up	…	*Apr. 02*	*150*		*129*	*16*	*112*	*14*	*61*	*24*	*230*
Cameroon	Oct. 00	Apr. 06	*150*		1,267	879	322	37	176	27	4,917
Ethiopia					1,982	637	1,315	60	832		3,275
enhanced framework	*Nov. 01*	*Apr. 04*	*150*		*1,275*	*482*	*763*	*34*	*463*	*47*	*1,941*
topping-up		*Apr. 04*	*150*		*707*	*155*	*552*	*26*	*369*	*31*	*1,334*
Ghana	Feb. 02	Jul. 04	144	250	2,186	1,084	1,102	112	781	56	3,500
Guyana					591	223	367	75	68		1,354
original framework	*Dec. 97*	*May 99*	*107*	*280*	*256*	*91*	*165*	*35*	*27*	*24*	*634*
enhanced framework	*Nov. 00*	*Dec-03*	*150*	*250*	*335*	*132*	*202*	*40*	*41*	*40*	*719*
Honduras	Jul. 00	Mar-05	110	250	556	215	340	30	98	18	1,000
Madagascar	Dec. 00	*Oct-04*	150		836	474	362	19	252	40	1,900
Mali					539	169	370	59	185		895
original framework	*Sep. 98*	*Sep. 00*	*200*		*121*	*37*	*84*	*14*	*43*	*9*	*220*
enhanced framework	*Sep. 00*	*Mar. 03*	*150*		*417*	*132*	*285*	*45*	*143*	*29*	*675*
Mauritania	Feb. 00	Jun. 02	137	250	622	261	361	47	100	50	1,100
Mozambique					2,023	1,270	753	143	443		4,300
original framework	*Apr. 98*	*Jun. 99*	*200*		*1,717*	*1,076*	*641*	*125*	*381*	*63*	*3,700*
enhanced framework	*Apr. 00*	*Sep. 01*	*150*		*306*	*194*	*112*	*18*	*62*	*27*	*600*
Nicaragua	Dec. 00	Jan. 04	150		3,308	2,175	1,134	82	191	73	4,500
Niger					663	235	428	42	240		1,190
enhanced framework	*Dec. 00*	*Apr. 04*	*150*		521	211	309	28	170	53	944
topping-up	…	*Apr. 04*	*150*		143	23	119	14	70	25	246
Rwanda					696	65	631	63	383		1,316
enhanced framework	*Dec. 00*	*Apr-05*	*150*		452	56	397	44	228	71	839
topping-up	…	*Apr-05*	*150*		243	9	235	20	154	53	477
Senegal	Jun. 00	Apr. 04	133	250	488	212	276	45	124	19	850
Tanzania	Apr. 00	Nov. 01	150		2,026	1,006	1,020	120	695	54	3,000
Uganda					1,003	183	820	160	517		1,950
original framework	*Apr. 97*	*Apr. 98*	*202*		*347*	*73*	*274*	*69*	*160*	*20*	*650*
enhanced framework	*Feb. 00*	*May 00*	*150*		*656*	*110*	*546*	*91*	*357*	*37*	*1,300*
Zambia	Dec. 00	Apr-05	150		2,499	1,168	1,331	602	493	63	3,900
Decision point reached under enhanced framework											
Burundi	Aug. 05	Floating	150		826	124	701	28	425	92	1,465
Chad	May. 01	Floating	150		170	35	134	18	68	30	260
Congo, Democratic Rep. of	Jul. 03	Floating	150		6,311	3,837	2,474	472	831	80	10,389
Congo Rep. of	Mar. 06	Floating		250	1,679	1,561	118	8	49	32	2,881
Gambia, The	Dec. 00	Floating	150		67	17	49	2	22	27	90
Guinea	Dec. 00	Floating	150		545	215	328	31	152	32	800
Guinea-Bissau	Dec. 00	Floating	150		416	212	204	12	93	85	790
Malawi	Dec. 00	Floating	150		643	163	480	30	331	44	1,000
São Tomé and Príncipe	Dec. 00	Floating	150		97	29	68	-	24	83	200
Sierra Leone	Mar. 02	Floating	150		600	205	354	123	122	80	950
Total assistance provided/committed					**34,756**	**17,239**	**17,377**	**2,588** 3/	**8,203**		**61,221**

Sources: IMF and World Bank Board decisions, completion point documents, decision point documents, preliminary HIPC documents, and staff calculations.

1/ Assistance levels are at countries' respective decision or completion points, as applicable.
2/ In percent of the net present value of debt at the decision or completion point (as applicable), after the full use of traditional debt-relief mechanisms.
3/ Equivalent to SDR 1,750 million at an SDR/USD exchange rate of 0.6764, as of July 28, 2006.
4/ Nonreschedulable debt to non-Paris Club official bilateral creditors and the London Club, which was already subject to a highly concessional restructuring, is excluded from the NPVof debt at the completion point in the calculation of this ratio.
5/ Equivalent to SDR 1,750 million at an SDR/USD exchange rate of 0.6764, as of July 28, 2006.
6/ It is suggested that enhanced HIPC relief for Côte d'Ivoire overtake the commitments made under the original HIPC framework.

APPENDIX I MALAWI: JOINT WORLD BANK/IMF DEBT SUSTAINABILITY ANALYSIS BASED ON LOW-INCOME COUNTY FRAMEWORK[41]

1. **Malawi's risk of debt distress after debt relief under the HIPC Initiative and the Multilateral Debt Relief Initiative (MDRI) is moderate.**[42] On reaching the HIPC Completion Point, Malawi's NPV of debt-to-exports ratio will drop from 191 percent in 2005 to 39 percent in 2006. Debt service as a share of exports will decline from 22 to 16.2 percent between 2005 and 2006. Despite this drop in its debt burden indicators, Malawi will nevertheless remain vulnerable to exogenous shocks. If the government was not to implement its reform strategy to enhance growth, diversify exports and to improve governance, Malawi's debt burden indicators would increase steeply and the external debt stock indicators would breach their thresholds within a decade. Even when assuming good policy performance accompanied by strong GDP and export growth and substantial inflows of external financing in the form of grants, all debt burden indicators are expected to deteriorate through the projection period. Under the most extreme stress test, Malawi's NPV of debt-to-GDP ratio breaches its threshold for a prolonged period of time and the NPV of debt-to-exports ratio also approaches it. Moreover, Malawi's high domestic debt is also vulnerable to exogenous shocks.[43]

I. EXTERNAL DEBT SUSTAINABILITY ANALYSIS

2. **The implementation of structural reforms to support private sector development, export diversification and growth, while maintaining macroeconomic stability characterize the underlying macro-framework.**[44] Annual output growth is projected to be about 6 percent over the near term, recovering from a prolonged period of

[41] This appendix updates the debt sustainability analysis (DSA) prepared in August 2005. It was prepared jointly by the IMF and the World Bank, based on the common standard framework for low-income countries (LIC) approved by the Executive Boards of the IMF and IDA.[41] This LIC DSA makes use of the updated debt data base which was reconciled for the HIPC completion point and also incorporates revised macro-economic projections.

[42] The World Bank's Country Policy and Institutional Assessment (CPIA) rates Malawi as a medium performer. Under the joint World Bank/ IMF debt sustainability framework the corresponding thresholds are 40 percent for the NPV of external PPG debt to GDP ratio, 150 percent for the NPV of external PPG debt to exports ratio, 250 percent for the NPV of external PPG debt to revenue ratio, 20 percent for the external PPG debt service to exports ratio, and 30 percent for the external PPG debt service to revenue ratio. ("*Operational Framework for Debt Sustainability Assessments in Low-Income Countries – Further Considerations,*" www.imf.org).

[43] Malawi's domestic debt burden increases its vulnerability to exogenous shocks, but does not affect Malawi's risk rating.

[44]The macroeconomic framework underlying this DSA is identical to the baseline underlying the HIPC DSA. Differences in debt burden indicators are the result of the methodological differences between the joint Bank-Fund Low-Income (LIC) DSA framework and the HIPC methodology. The LIC methodology uses a) a fixed 5 percent discount rate instead of currency-specific discount rates under HIPC, b) WEO exchange rate projections instead of fixed exchange rates as of end-of the base date; and (c) annual exports instead of a three-year average of exports in the NPV of debt to exports ratio.

poor performance. It is assumed to drop to 4.5 percent over the longer term converging to the regional average. Private sector investment and FDI inflows are projected to boost export growth in the long term, leading to an increase in the export share of the economy from 27 percent in 2005 to 30 percent by the end of the projection period. Donor support, as measured by net official assistance is assumed to increase gradually and modestly by about 2 percent of GDP to about 23 percent of GDP in 2015. It is assumed that even after HIPC completion point and implementation of MDRI about 84 percent of total aid, excluding HIPC debt relief grants, is provided in the form of grants. The share of loans remains relatively low amounting to around 3.8 percent. Although the volume of new loans increases relative to the past five years, the grant element underlying the new borrowing assumptions is in line with past experience.

3. **All external debt burden indicators are projected to remain below their thresholds under the baseline** (Figure 1). Malawi's NPV of debt ratio to GDP is projected to fall from 52 percent in 2005 to 11 percent in 2006, before increasing toward 24 percent by the end of the projection period (Table 1). Similarly, the NPV of debt to exports ratio drops from 191 percent in 2005 to 39 percent in 2006, before starting to climb to 81 percent by 2026. Malawi's debt service to exports ratio would decline from 22 in 2005 to 16 percent in 2006, remaining on average at 4.1 percent throughout the projection period. Possible "topping-up" of HIPC assistance would further reduce debt burden indicators in 2004.[45] However, since "topping-up" would reduce MDRI relief provided by IDA, IDA's allocation to Malawi would be higher after possible topping-up. Assuming that growth assumptions remained unchanged, the additional IDA allocation would lead to a slight increase in Malawi's debt burden indicators relative to the baseline projections in the medium term.[46]

4. **Failure to implement reforms, lack of donor financing in the form of grants and exogenous shocks would lead to a substantial deterioration of Malawi's debt burden indicators.** If key macroeconomic variables, such as GDP growth, the current account deficit and FDI inflows, would assume their historical average, Malawi's debt stock indicators would breach their thresholds within a decade (Figure 1). Debt stock indicators would also approach their thresholds toward the end of the projection period if scaling up of aid would be financed through concessional debt instead of grants. Finally, under the most extreme stress test, Malawi's NPV of debt to GDP ratio would be lifted above its indicative threshold by 2011 for a sustained period of time.

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[45] Annual IDA allocations are reduced by the amount of MDRI relief provided in a given year. See, IDA, "The Multilateral Debt Relief Initiative: Implementation Modalities for IDA," November 2005.

[46] Similar to IDA, the AfDF "nets out" MDRI debt relief from its annual allocation. See AfDF, "The Multilateral Debt Relief Initiative: ADF Implementation Modalities Paper," November 2005.

II. Public Debt Sustainability Analysis

5. **Reducing the large domestic debt burden is expected to remain the cornerstone of the government's fiscal strategy through the medium term**. Domestic debt reached almost 25 percent of GDP in 2003/04 with interest costs of 9 percent of GDP (or one fifth of the budget). When a new government was elected in early 2004, it made reversing the domestic debt spiral its fiscal priority. By the end of FY05/06 the government is expected to have succeeded in reducing domestic debt below 20 percent of GDP and domestic interest costs to about 5.5 percent. This was achieved, despite the severe food crisis, through fiscal restraint, lower interest rates, as well as higher program support. Continued fiscal restraint, further reductions in interest rates in tandem with a sustained reduction in inflation, and debt relief under the MDRI are assumed to enable the government to reduce the domestic debt below 10 percent and interest payments to about 2 percent of GDP. Over the longer term, the baseline scenario assumes that the government will target a stable domestic debt burden of about 2 percent of GDP at a cost of less than 0.5 percent of GDP in interest payments.

6. **External debt relief combined with the government's commitment to reduce domestic debt would lead to a substantial decline in Malawi's public debt stock.** Malawi's public debt stock is expected to drop from 159 percent of GDP in 2005 to 37 percent of GDP in 2006 as a result of HIPC debt relief and the implementation of MDRI. It is projected to decline and bottom out around 32 percent at the turn of the decade. Similarly, the NPV of public debt would decline from 74 percent of GDP in 2005 to around 18 percent of GDP at the end of the decade.

7. **The projected improvement in the public debt burden is vulnerable to a deterioration in either the external or domestic debt indicators**. Many of the factors that could cause deterioration in the external debt burden would also threaten domestic debt sustainability. A failure to implement reforms or insufficient donor financing in the form of grants could also lead to pressures to accumulate domestic debt. A reversion to the historical record of poor macroeconomic policy implementation during 1999-2003 would retard the reduction in domestic debt and cause deterioration in the public debt burden indicators, even with the level of external support assumed in the baseline (Figure 2).[47] Under the most extreme stress test, Malawi's NPV of public debt to GDP would continue to rise indefinitely.

[47] Over this period, real GDP growth averaged below 2 percent and the primary deficit (including grants) averaged about 2 percent of GDP. 2004 and 2005 are excluded from this historical comparison as the primary balance was in surplus during these years.

III. CONCLUSION

8. **Even after full delivery of HIPC debt relief and implementation of the MDRI, Malawi would remain at a moderate risk of debt distress.** On reaching the HIPC Completion Point, Malawi's NPV of debt-to-exports ratio will drop from 191 percent in 2005 to 41 percent in 2006. Debt service as a share of exports will decline from 22 to 16 percent between 2005 and 2006. Topping-up of HIPC assistance would decrease the NPV of debt to exports ratio further to 31 percent and the debt service to exports to 5.1 percent in 2006, but would not change Malawi's risk of debt distress classification. Notwithstanding good policy performance, the debt stock indicators are projected to increase during the projection period and to breach their policy-dependant thresholds if key macroeconomic variables would assume their historical average. Moreover, the NPV of debt to GDP ratio would breach its threshold under stress tests. Although projected to decline, Malawi's domestic debt is currently high, increasing Malawi's probability of debt distress. For Malawi's debt to remain sustainable in the future it is important that authorities make prudent use of the resources freed-up through debt relief and strengthen their public expenditure management. Moreover, contracting of new loans on less concessional terms or shifting from grants to loans would significantly deteriorate Malawi's debt sustainability outlook.

Table 1. Malawi: External Debt Sustainability Framework, Baseline Scenario, 2006-2026 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 6/	Standard Deviation 6/	Projections										
	2003	2004	2005			2006	2007	2008	2009	2010	2011	2006-11 Average	2016	2021	2026	2012-26 Average
External debt (nominal) 1/	**158.9**	**148.1**	**136.8**			**20.1**	**23.6**	**25.3**	**26.8**	**28.4**	**29.7**		**35.3**	**39.8**	**42.3**	
o/w public and publicly guaranteed (PPG)	158.9	148.1	136.8			20.1	23.6	25.3	26.8	28.4	29.7		35.3	39.8	42.3	
Change in external debt	15.6	-10.8	-11.3			-116.7	3.5	1.7	1.5	1.5	1.3		1.1	0.7	0.4	
Identified net debt-creating flows	18.9	-4.5	-7.7			-4.6	-0.7	-1.6	-0.3	2.1	1.5		1.1	0.9	0.6	
Non-interest current account deficit	**6.1**	**7.8**	**4.6**	**5.5**	**3.9**	**6.7**	**1.4**	**0.7**	**2.3**	**4.6**	**4.0**	**3.3**	**4.1**	**4.4**	**4.8**	4.3
Deficit in balance of goods and services	22.5	24.4	24.8			24.8	22.0	19.8	21.2	23.0	22.4		22.2	22.1	22.1	
Exports	27.2	26.8	27.3			28.0	27.7	26.4	25.2	25.5	25.7		26.9	28.2	29.5	
Imports	49.7	51.2	52.0			52.8	49.7	46.2	46.4	48.5	48.1		49.1	50.3	51.6	
Net current transfers (negative = inflow)	-17.3	-17.4	-21.0	-10.6	6.3	-18.8	-21.2	-19.6	-19.2	-19.2	-19.1	-19.5	-18.9	-18.9	-18.9	-18.9
Other current account flows (negative = net inflow)	0.8	0.9	0.8			0.7	0.6	0.5	0.3	0.7	0.7		0.8	1.2	1.7	
Net FDI (negative = inflow)	**-2.4**	**-2.3**	**-1.3**	**-1.8**	**0.5**	**-1.4**	**-1.4**	**-1.4**	**-1.3**	**-1.4**	**-1.5**	**-1.4**	**-1.8**	**-2.3**	**-2.9**	-2.1
Endogenous debt dynamics 2/	**15.3**	**-10.0**	**-11.1**			**-9.9**	**-0.7**	**-0.9**	**-1.2**	**-1.1**	**-1.1**		**-1.2**	**-1.3**	**-1.4**	
Contribution from nominal interest rate	1.5	1.5	1.3			1.0	0.4	0.4	0.2	0.2	0.2		0.3	0.4	0.4	
Contribution from real GDP growth	-9.5	-10.5	-3.7			-10.9	-1.1	-1.3	-1.4	-1.4	-1.3		-1.4	-1.6	-1.8	
Contribution from price and exchange rate changes	23.3	-1.0	-8.6			…	…	…	…	…	…		…	…	…	
Residual (3-4) 3/	**-3.3**	**-6.3**	**-3.6**			**-112.1**	**4.2**	**3.3**	**1.8**	**-0.5**	**-0.2**		**-0.1**	**-0.1**	**-0.2**	
o/w exceptional financing	0.0	0.0	0.0			-0.7	-0.1	0.0	0.0	-0.8	-0.7		-0.4	-0.1	0.0	
NPV of external debt 4/	...	...	52.0			10.9	12.9	13.8	14.6	15.5	16.1		18.9	22.0	24.0	
In percent of exports	...	...	190.9			39.0	46.7	52.3	58.1	60.8	62.5		70.2	77.9	81.4	
NPV of PPG external debt	**...**	**...**	**52.0**			**10.9**	**12.9**	**13.8**	**14.6**	**15.5**	**16.1**		**18.9**	**22.0**	**24.0**	
In percent of exports	...	...	190.9			39.0	46.7	52.3	58.1	60.8	62.5		70.2	77.9	81.4	
In percent of revenue	...	...	**225.0**			**48.5**	**57.0**	**60.8**	**65.8**	**69.3**	**71.8**		**84.4**	**98.1**	**107.3**	
Debt service-to-exports ratio (in percent)	21.8	22.9	21.5			16.2	6.4	6.0	5.1	4.5	4.4		3.4	2.3	2.5	
PPG debt service-to-exports ratio (in percent)	21.8	22.9	21.5			16.2	6.4	6.0	5.1	4.5	4.4		3.4	2.3	2.5	
Total gross financing need (billions of U.S. dollars)	168.9	221.9	190.8			217.2	41.6	22.1	59.2	126.3	114.6		138.1	167.8	223.8	
Non-interest current account deficit that stabilizes debt ratio	-9.5	18.6	15.9			123.4	-2.1	-1.0	0.7	3.1	2.7		3.0	3.7	4.5	
Key macroeconomic assumptions																
Real GDP growth (in percent)	6.1	7.1	2.8	2.6	3.9	8.4	5.6	6.0	6.0	5.5	5.0	6.1	4.5	4.5	4.5	4.5
GDP deflator in US dollar terms (change in percent)	-14.0	0.6	6.2	0.2	7.7	-2.5	-0.8	2.0	2.0	2.2	2.2	0.8	2.2	2.2	2.2	2.2
Effective interest rate (percent) 5/	1.0	1.0	0.9	1.0	0.1	0.8	2.0	1.8	1.0	0.9	0.9	1.2	0.9	1.0	1.0	0.9
Growth of exports of G&S (US dollar terms, in percent)	2.1	6.2	10.8	0.2	9.2	8.6	3.5	3.3	3.2	8.8	8.3	6.0	7.8	7.8	7.8	7.8
Growth of imports of G&S (US dollar terms, in percent)	9.3	11.0	10.8	7.9	12.8	7.3	-1.4	0.5	8.5	12.7	6.4	5.7	7.2	7.3	7.5	7.3
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	37.2	34.1	36.6	39.2	40.3	41.1	38.1	39.9	38.9	37.3	39.2
Memorandym item:																
Nominal GDP (billions of US dollars)	1765.5	1902.8	2075.6			2194.5	2300.0	2487.0	2688.6	2898.9	3110.8		4322.3	6005.5	8344.2	

Source: Bank-Fund Staff simulations.

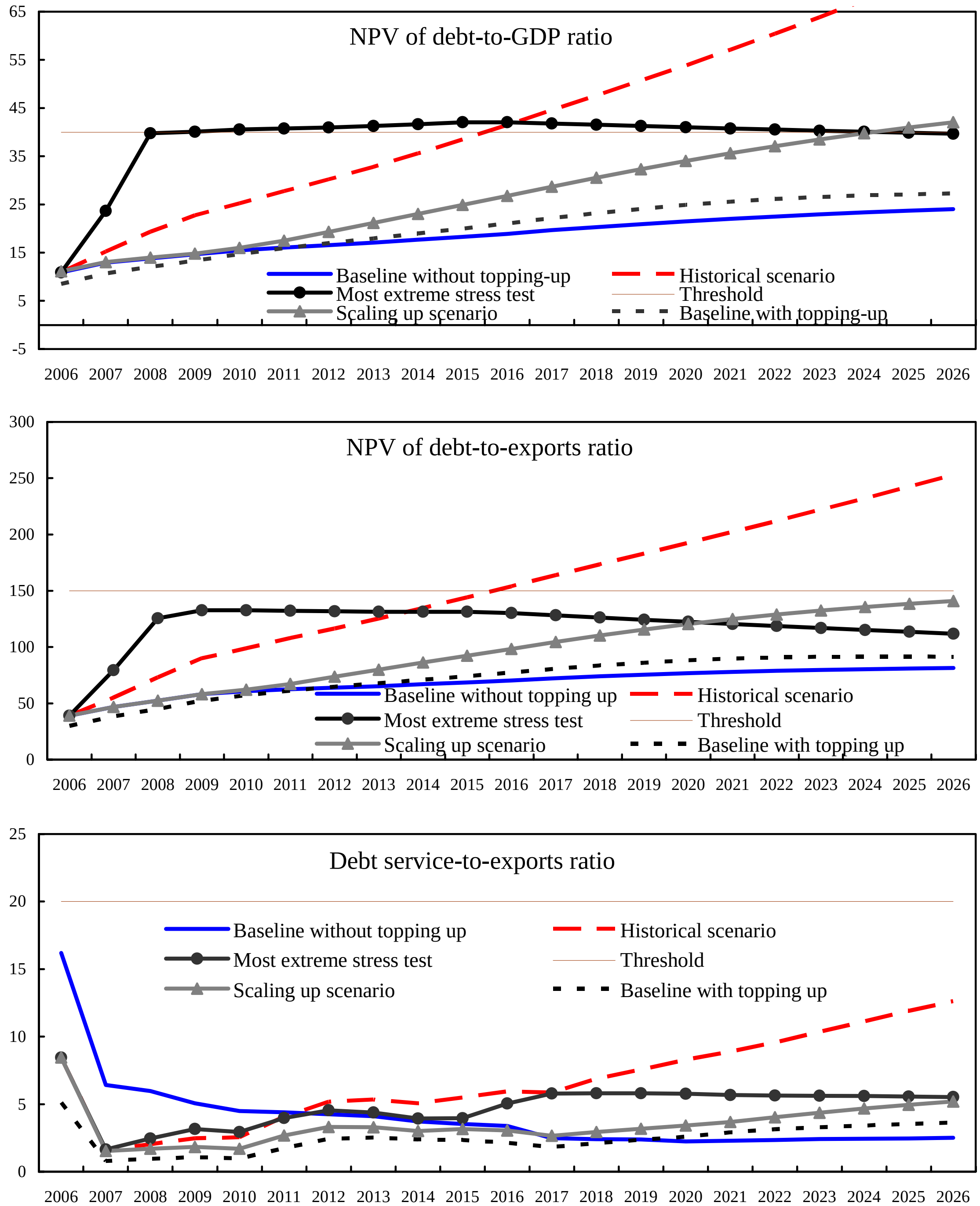
1/ Includes both public and private sector external debt. Baseline does not include possible "topping-up" assistance.
2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.
3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.
4/ Assumes that NPV of private sector debt is equivalent to its face value.
5/ Current-year interest payments devided by previous period debt stock.
6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 2.Malawi: Public Sector Debt Sustainability Framework, Baseline Scenario, 2006-2026
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 5/	Standard Deviation 5/	Estimate	Projections									
	2003	2004	2005			2006	2007	2008	2009	2010	2011	2006-11 Average	2016	2021	2026	2012-26 Average
Public sector debt 1/	169.9	172.5	158.6			37.4	37.4	34.6	31.9	31.0	31.7		37.3	41.8	44.3	
o/w foreign-currency denominated	146.7	148.1	136.8			20.1	23.6	25.3	26.8	28.4	29.7		35.3	39.8	42.3	
	23.2	24.4	21.8			17.4	13.8	9.3	5.1	2.6	2.0					
Change in public sector debt	11.2	2.6	-13.9			-121.2	0.0	-2.8	-2.7	-1.0	0.7		1.1	0.7	0.4	
Identified debt-creating flows	16.0	-24.4	-9.9			-11.2	-4.0	-4.3	-3.9	-3.0	-1.2		0.6	0.8	0.9	
Primary deficit	0.6	-3.0	-4.1	0.2	2.3	-4.0	-3.2	-2.8	-1.9	-1.0	1.0	-2.0	2.7	3.0	3.4	2.9
Revenue and grants	31.6	36.4	42.0			42.3	40.5	39.0	38.5	38.2	38.3		37.9	37.7	37.4	
of which : grants	9.8	12.4	16.5			18.1	16.2	15.0	14.7	14.5	14.6		14.2	13.9	13.8	
Primary (noninterest) expenditure	32.2	33.4	37.9			38.3	37.2	36.2	36.5	37.3	39.3		40.7	40.7	40.8	
Automatic debt dynamics	18.0	-18.9	-2.1			-4.4	0.6	-0.5	-1.0	-1.3	-1.4		-1.8	-2.0	-2.5	
Contribution from interest rate/growth differential	-3.8	-7.5	-3.8			-12.1	0.6	-0.5	-1.0	-1.2	-1.4		-1.7	-1.9	-2.4	
of which : contribution from average real interest rate	5.2	3.8	0.8			0.3	2.6	1.7	1.0	0.4	0.1		-0.2	-0.2	-0.5	
of which : contribution from real GDP growth	-9.1	-11.3	-4.6			-12.4	-2.0	-2.1	-2.0	-1.7	-1.5		-1.6	-1.8	-1.9	
Contribution from real exchange rate depreciation	21.9	-11.4	1.6			7.7	0.0	0.0	0.0	0.0	-0.1		...	...	...	
Other identified debt-creating flows	-2.7	-2.5	-3.7			-2.8	-1.3	-1.0	-1.0	-0.8	-0.7		-0.4	-0.1	0.0	
Privatization receipts (negative)	0.0	0.0	-0.8			-0.7	0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.0	
Debt relief (HIPC and other)	-2.7	-2.5	-2.9			-2.1	-1.3	-1.0	-1.0	-0.8	-0.7		-0.4	-0.1	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.0	
Residual, including asset changes	-4.8	27.0	-4.0			-110.0	4.0	1.5	1.2	2.1	1.9		0.5	-0.1	-0.6	
NPV of public sector debt	90.6	91.0	73.9			28.3	26.7	23.2	19.7	18.1	18.1		20.9	24.0	26.0	
o/w foreign-currency denominated	67.4	66.6	52.0			10.9	12.9	13.8	14.6	15.5	16.1		18.9	22.0	24.0	
o/w external	67.4	66.6	52.0			10.9	12.9	13.8	14.6	15.5	16.1		18.9	22.0	24.0	
NPV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.0	
Gross financing need 2/	27.3	30.1	29.2			23.3	17.7	13.6	9.4	5.7	4.9		5.7	5.7	5.7	
NPV of public sector debt-to-revenue ratio (in percent) 3/	287.0	249.9	176.0			66.9	66.1	59.4	51.3	47.2	47.2		55.0	63.6	69.7	
o/w external	213.5	183.0	124.0			25.9	31.9	35.5	38.1	40.4	41.9		49.8	58.3	64.3	
Debt service-to-revenue ratio (in percent) 3/ 4/	41.9	38.2	28.9			21.5	14.1	10.8	8.0	5.8	4.3		3.1	2.6	1.3	
Primary deficit that stabilizes the debt-to-GDP ratio	-10.5	-5.6	9.8			117.2	-3.2	0.0	0.8	0.0	0.3		1.7	2.3	3.1	
Key macroeconomic and fiscal assumptions																
Nominal GDP (local currency)	172	207	246			304	345	393	447	506	570		1011	1791	3175	
Real GDP growth (in percent)	6.1	7.1	2.8	2.8	3.7	8.4	5.6	6.0	6.0	5.5	5.0	6.1	4.5	4.5	4.5	4.5
Average nominal interest rate on forex debt (in percent)	1.1	1.1	1.0	1.1	0.2	0.8	2.6	1.7	1.3	1.0	0.9	1.4	0.9	1.0	0.3	0.9
Average real interest rate on domestic currency debt (in percent)	43.7	26.9	13.9	29.8	10.7	11.4	15.0	13.1	12.8	14.7	14.7	13.6	9.9	9.6	9.3	9.6
Real exchange rate depreciation (in percent, + indicates depreciation)	16.4	-8.5	1.2	5.9	32.0	6.2	...	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	9.2	12.5	15.4	24.2	13.4	13.9	7.7	7.4	7.3	7.3	7.3	8.5	7.3	7.3	7.3	7.3
Growth of real primary spending (deflated by GDP deflator, in percent)	17.9	11.1	16.6	9.3	7.9	9.6	2.7	3.1	6.9	7.6	10.8	6.8	4.4	4.3	4.6	4.8
Grant element of new external borrowing (in percent)	57.0	57.0	57.0	57.0	0.0	57.0	57.0	57.0	57.0	57.0	57.0	57.0	57.0	57.0	57.0	...

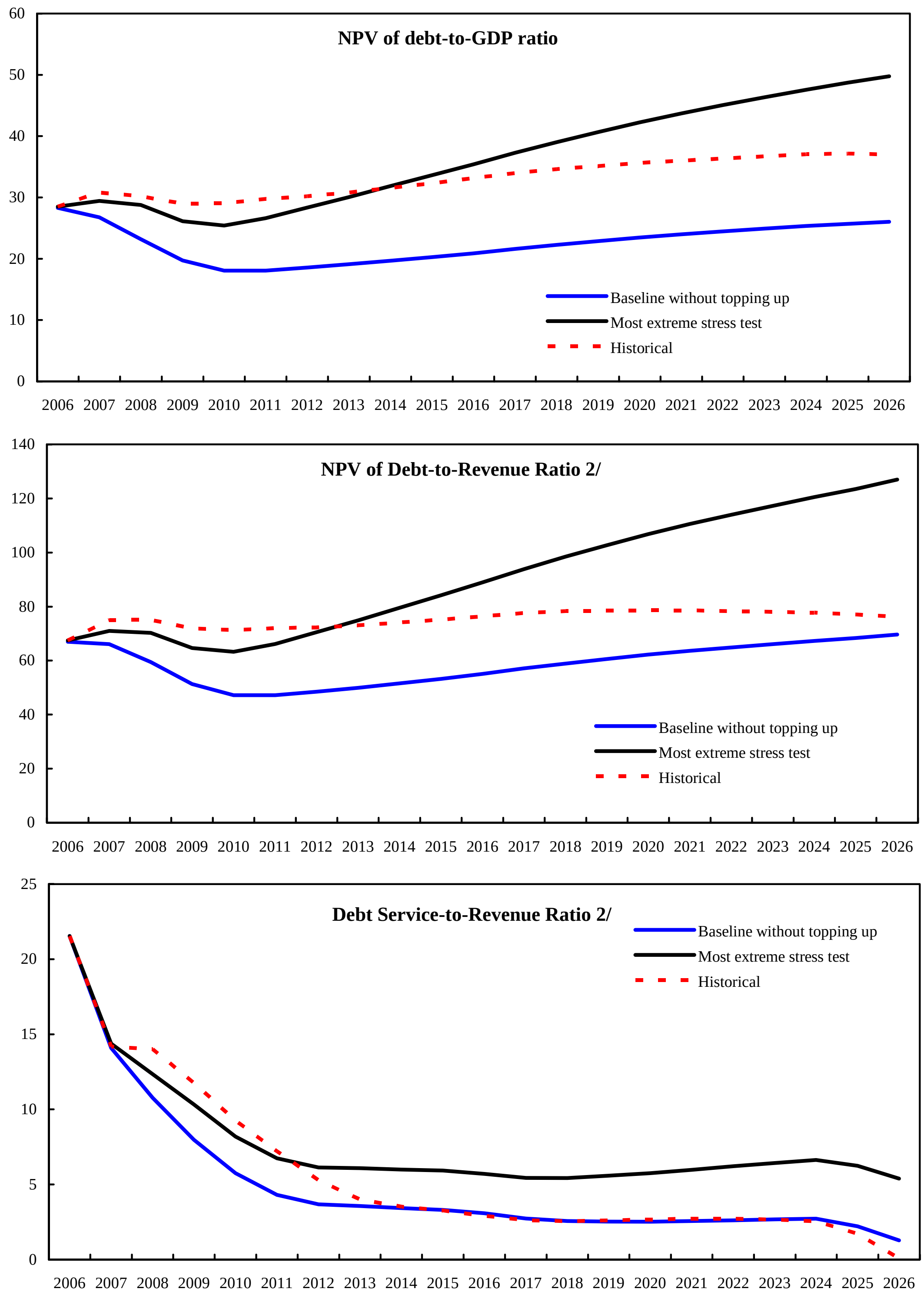
Sources: Malawian authorities; and Bank-Fund staff estimates and projections.
1/ Public sector refers to the general government Gross debt is used. External debt after HIPC assistance and MDRI debt relief and without possible "topping-up" of HIPC assistance.
2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.
3/ Revenues including grants.
4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.
5/ Historical averages and standard deviations are generally derived over the past 6 years due to lack of data availability.

Figure 1. Malawi: Indicators of Public and Publicly Guaranteed External Debt
Under Alternative Scenarios after MDRI and without topping up, 2006-2026
(In percent)



Source: Bank-Fund staff projections and simulations.

Figure 2.Malawi: Indicators of Public Debt Under Alternative Scenarios, 2006-2026 1/



Source: Staff projections and simulations.
1/ Most extreme stress test is test that yields highest ratio in 2016.
2/ Revenue including grants.

APPENDIX II—MALAWI: EXTERNAL DEBT MANAGEMENT

Malawi's legal and institutional framework for debt management clearly defines roles and responsibilities. Under the Public Finance Management Act, the Minister of Finance (MoF) is the only authority to contract external debt. The Debt and Aid Management Division (DAD) of the MoF is responsible for managing and recording external debt. Being the fiscal agent of the government, the Reserve Bank of Malawi (RBM) is responsible for making payments to external creditors upon receipt of payment instructions issued by the MoF.

Data recording and reporting need to be strengthened. External debt data and HIPC debt relief provided by creditors is reconciled on an ad-hoc basis, leading to inaccurate forecasts of debt servicing obligations and to discrepancies between budget estimates and actual debt service payments due. Weak archiving practices make data reconciliation cumbersome and summary checks are not undertaken on a regular basis. Reports on external debt are not published regularly.

Malawi lacks a comprehensive debt management strategy. Although the Budget Division meets regularly with the Debt and Aid Management Division (DAD) and the RBM to discuss macroeconomic policy, including debt related issues, there seems to be little formal coordination between the government's cash management, debt management and overall budgeting. Although the government has increased the share of domestic debt in total debt to meet its financing needs during the past years, it does not analyze the costs or risks associated with the different financing options and does not formulate a medium-term debt management strategy. Minimizing borrowing costs is important to ensure that Malawi remains on a fiscally sustainable path after having reached its completion point.

Staff capacity could be bolstered. The DAD lacks trained staff. Only few staff members are capable of interpreting loan agreements and reports sent by creditors and implement them in the debt recording system. Useful and practical training has been provided by MEFMI[48], the Commonwealth Secretariat and Debt Relief International, but turnover of trained staff has been high, resulting in loss of institutional memory and continuity in work. Technical assistance for building capacity with respect to debt negotiations, formulation of portfolio and debt strategy as well debt sustainability analysis (DSAs) would be useful. The DSA also suffers from a weak technological infrastructure.

[48] Macroeconomic & Financial Management Institute of Eastern & Southern Africa (MEFMI).