May 2007
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Malawi: 2006 Article IV Consultation and Third Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, and Request for Waiver of Nonobservance of Performance Criterion—Staff Report; Staff Statement; Public Information Notice and Press Release on the Executive Board Discussion; and Statement by the Executive Director for Malawi

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of a combined discussion of the 2006 Article IV consultation with Malawi and third review under the three-year arrangement under Poverty Reduction and Growth Facility, and request for a waiver of nonobservance of a performance criterion, the following documents have been released and are included in this package:

- the staff report for the combined 2006 Article IV Consultation and Third Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, and Request for Waiver of Nonobservance of Performance Criterion, prepared by a staff team of the IMF, following discussions that ended on November 7, 2006, with the officials of Malawi on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on January 30, 2007. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF;
- a staff statement of March 14, 2007 updating information on recent economic developments;
- a Public Information Notice (PIN) and Press Release, summarizing the views of the Executive Board as expressed during its March 14, 2007, discussion of the staff report on issues related to the Article IV consultation and the IMF arrangement, respectively; and
- a statement by the authorities of Malawi.

The documents listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Malawi*
Memorandum of Economic and Financial Policies by the authorities of Malawi*
Technical Memorandum of Understanding*
*Also included in Staff Report

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

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INTERNATIONAL MONETARY FUND

MALAWI

2006 Article IV Consultation and Third Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, and Request for Waiver of Nonobservance of Performance Criterion

Prepared by the African Department

(In consultation with other departments)

Approved by Robert Corker and Michael T. Hadjimichael

January 31, 2007

Discussions: Discussions for the Article IV Consultations and the third review of the three-year Poverty Reduction and Growth Facility (PRGF) arrangement were held in Lilongwe October 24–November 7, 2006. The staff met with President Bingu wa Mutharika, Minister of Finance Goodall Gondwe, Governor of the Reserve Bank of Malawi Victor Mbewe, and other senior government officials. The staff also met with donors, private sector representatives, and civil society organizations. The staff team comprised Mr. McDonald (head), Mr. Staines, Ms. Teferra (all AFR), Mr. Dalsgaard (FAD), Mr. Tolosa (PDR), and Mr. Baunsgaard (resident representative).

PRGF arrangement: A PRGF arrangement (SDR 38.2 million, 55 percent of quota) was approved on August 5, 2005 (Country Report No. 05/285), of which SDR 15.3 million has been disbursed. Most quantitative end-June 2006 performance criteria were met, but the authorities request a waiver for the nonobservance of the performance criterion on government domestic borrowing. Malawi is requesting the fourth disbursement under the current PRGF arrangement (SDR 6.68 million). The authorities' program for the second half of 2006/07 (July–June) is outlined in the attached Supplement to the Memorandum of Economic and Financial Policies (MEFP).

Key policy issues: Medium-term challenges are to enhance growth and improve economic management capacity. The latter is also essential to deal with a possible scaling-up of aid. In the short term, the government will need to manage expectations about how much the budget can deliver in the wake of debt relief delivery.

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EXECUTIVE SUMMARY

Now is an opportune juncture for Malawi to advance an ambitious reform agenda to reduce poverty. The country has made progress in achieving macroeconomic stabilization, received debt relief, and finalized its second poverty reduction strategy paper, the Malawi Growth and Development Strategy (MGDS). Over the medium term, three key challenges have to be addressed: raising growth, improving economic management capacity, and managing a possible scaling up of external aid. Malawi would need a large increase in external private capital and aid flows to finance its development goals.

A reform program is being developed to address these medium-term challenges, building on initiatives already included in the PRGF-supported program. To boost economic growth, the authorities aim to remove major impediments to private sector growth by easing the cost of doing business, deepening financial intermediation, and improving public service delivery. The government is strengthening its economic management capacity, especially in public financial management, external debt management, and the compilation of national statistics. Steps are being taken to enhance policymaking and implementation at the Reserve Bank of Malawi (RBM), the Ministry of Finance, and other key institutions, so that higher aid can be absorbed more effectively.

Recent macroeconomic performance and policy implementation continues to be broadly satisfactory. Despite a food crisis, growth has been strong and inflation has eased. A more flexible exchange rate policy helped the government eliminate private external payment arrears. The authorities are committed to a flexible exchange rate and the current real exchange rate is broadly appropriate; competitiveness in key markets shows no sign of deterioration. Supported by the use of IMF debt relief to reduce domestic debt and additional program support, domestic debt is projected to fall faster than programmed.

In the wake of debt relief, expectations about how much the budget can deliver will need to be managed well so that progress on macroeconomic stabilization is not threatened. The government met most of the indicative targets for end-September 2006, and tax revenues have been higher than planned. However, unanticipated development spending on nearly completed projects has jeopardized the end-December 2006 targets on government spending and domestic borrowing.

Economic prospects are positive, though considerable risks and vulnerabilities remain. Growth is projected to remain above historical trend and inflation to fall to single figures. Malawi is, however, subject to recurring food crises as the economy is vulnerable to weather-related risks. The economy is also vulnerable to a reversal of recent oil price declines. The prudent accumulation of external reserves will be essential to mitigate these risks. Finally, domestic policy implementation could come under strain from delays in expected external financing and from rising expenditure pressures, which could weaken expenditure control.

The report recommends completion of the third review under the PGRF arrangement. Staff supports the authorities' request for a waiver for the nonobservance of the performance criterion on government domestic borrowing because it reflects essential unplanned expenditure due to the food crisis.

I. THE SETTING

1. **The Article IV Consultation comes at a critical juncture** following Malawi's progress on macroeconomic stability, attainment of the HIPC completion point in August 2006, and recent launch of its MGDS, which outlines an ambitious agenda of structural reform to enhance growth and reduce poverty.[1] The Article IV discussions focused on the key medium-term challenges facing Malawi, which helped to frame the program discussions for the remainder of 2006/07.

2. **Macroeconomic performance has improved since mid-2004,** after several years of weak policy implementation resulted in anemic growth, spiraling domestic debt, accelerating inflation, and dwindling external reserves (see text table). Low per capita growth also reflected recurrent drought and weak governance.[2] The government has since improved policy implementation on a broad front, including areas identified by Executive Directors in recent Article IV Consultations (Box 1).[3]

Malawi: Selected Indicators

Fiscal year Period average	1999/00 - 2003/04	2004/05 - 2005/06	2006/07 - 2010/11
Real GDP, percent change	1.4	4.4	5.8
Real GDP, percapita, percent change	-0.4	2.9	2.7
Domestic debt, percent of GDP	13.9	21.9	8.3
Overall fiscal balance, incl grants, percent of GDP	-7.7	-3.2	-1.2
CPI index, end-of-period, percent change	18.1	15.6	7.5
Gross official reserves, months of imports	2.7	1.4	2.7

Sources: Malawian authorities and IMF staff estimates and projections

3. **Despite this improvement, policy implementation remains fragile,** and debt relief has raised public expectations of what the budget can deliver. Much remains to be done to establish sustainable growth and enduring macroeconomic stability. Macroeconomic management, in particular, must be strengthened and, as noted by the Board at the second review, governance must improve so that Malawi can attract enough donor support to meet its medium-term objectives.

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[1] "Malawi Growth and Development Strategy," December 2006, Country Report No. 07/55, and "Malawi Growth and Development Strategy—Joint Staff Assessment Note," December 2006, Country Report No. 06/339.

[2] See "Malawi: Ex Post Assessment of Longer-Term Program Engagement," September 2004, Country Report No. 04/389.

[3] See "The Acting Chair's Summing Up: Malawi—2002 Article IV Consultation," August 2002, and "The Acting Chair's Summing Up: Malawi—2004 Article IV Consultation and Ex Post Assessment of Longer-Term Program Engagement," November 2004.

Box 1: Response to Recommendations from Previous Article IV Consultations

In recent Article IV consultations, Executive Directors' recommendations centered on four themes:

Restore macroeconomic stability. The government made considerable progress in this respect by end-June 2006, reducing nonfood inflation to 13 percent and domestic debt to below 20 percent of GDP.

Strengthen public financial management (PFM). Steps to improve PFM include implementing the Integrated Financial Management Information System (IFMIS) and a centralized payments system in late 2005.

Improve food security. Directors stressed the need to strengthen the agricultural sector. Less progress has been made in this area, but the government has made the sector the focal point of the MGDS. It is restructuring the Agricultural Development and Marketing Corporation (ADMARC) and has finalized the Land Reform Bill. However, government interventions in grain and fertilizer markets have continued to impede private sector development in this area. Moreover, a recent FAD assessment questioned whether the fertilizer scheme is adequately targeted. To reduce Malawi's vulnerability to drought, the government is working with donors to improve irrigation, expand storage facilities, introduce weather insurance, and advance agricultural marketing. However, no comprehensive risk management strategy is yet in place. Moreover, the impact of natural disasters is amplified by policy, such as the ban on grain exports that constrain regional integration of grain markets.

Restructure public sector enterprises. This is another area where the authorities need to strengthen their efforts. To improve the quality of service, the government privatized the telecommunications utility and reorganized the water boards and is rehabilitating existing hydro-power plants. It will soon bring the Malawi Energy Regulatory Act—which establishes a new regulatory authority—into effect.

4. **The government faces political challenges that risk diverting attention away from economic reform**. It has a minority position in parliament. The opposition recently invoked constitutional restrictions on members of parliament who have crossed party lines to support the government. Despite the impasse, the government has so far managed to minimize the impact on economic management.

II. Recent Macroeconomic performance

5. **Macroeconomic performance in 2005/06 was broadly satisfactory.** Real GDP growth was 5.3 percent; nonfood inflation declined to 13 percent. Overall inflation, which was above 15 percent, exceeded expectations, mainly because urban food prices were slow to reflect the bumper harvest in early 2006, and were more susceptible to the exchange rate depreciation that occurred in the second half of the fiscal year.

6. **Overall fiscal performance in 2005/06 was satisfactory.** Because of unanticipated food security spending and accelerated repayments of domestic arrears, the performance criterion on government domestic borrowing and the indicative target on discretionary government spending were both missed. Domestic borrowing was 0.3 percent of GDP, 0.9 percent higher than programmed, but domestic debt still fell below 20 percent of GDP. The

underlying surplus (1 percent of GDP) was lower than expected, but the overall deficit (1 percent of GDP) was better than expected, mainly because of shortfalls in loan-financed project spending.

7. **Exchange rate management improved in the second half of 2005/06.** The RBM pegged the exchange rate through the second half of 2005, resulting in a shortage of external reserves and unpaid private external arrears, but instituted a more flexible exchange rate policy in January 2006. The resulting depreciation helped clear the private external arrears by the end of July (structural benchmark for end-June). Clearance was held up by a delay in program support (to the end of June) and by weak foreign exchange inflows following disruptions to the tobacco auctions in May because of price disagreements. By end-June, tobacco export receipts for the 2006 marketing season were US$30 million less than in 2005. Nevertheless, external official reserves reached 1.6 months of imports, comfortably above target.

8. **Following the February reduction in the LRR, the authorities tightened reserve money growth** to reduce excess liquidity and contain inflationary risks. The mop-up, however, was incomplete, and the fiscal year ended with a modest monetary overhang—though broad money stayed on target. As intended, lowering the LRR eased financial intermediation costs, raising deposit rates and reducing interest rate spreads. Given the lack of creditworthy projects, the lower LRR also depressed treasury bill yields, which, despite the mop-up, have remained about 5 percentage points, lower than at the start of 2006.

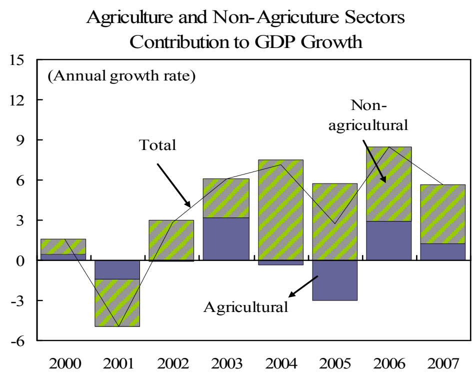
III. Policy Discussions

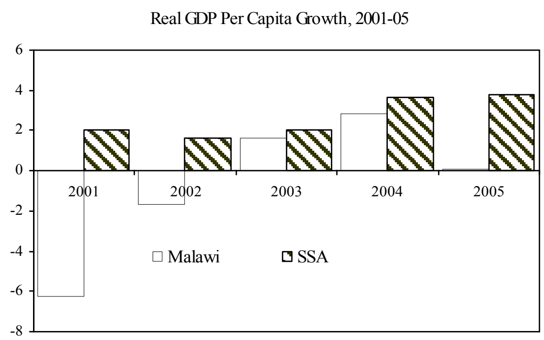
9. **The Article IV discussions centered on three key medium-term challenges**, that Malawi needs to address in order to improve its economic performance. These include policies to enhance growth, build institutional capacity, and manage a potential scaling-up of external financing. These issues helped frame conversations about policies for the rest of fiscal year 2006/07. There was broad agreement on the challenges ahead and ways to address them, but some divergence of views on emphasis. There was agreement that, to take advantage of Malawi's opportune circumstances, it would be essential to advance an ambitious structural reform agenda and retain a focus on macroeconomic stabilization. The agenda would need to address administrative capacity constraints to ensure that measures are effectively designed and implemented.

A. Enhancing Growth

10. **The government has made enhancing growth, primarily through more private sector activity and higher exports, its priority in the MGDS** (see text figures). The government's commitment to sound macroeconomic management has already lowered inflation and interest rates, paving the way for private sector growth. The MGDS also aims to promote sectoral growth by improving support services and infrastructure, focusing on

agriculture in the medium term (see Box 1), and on developing capacity in other sectors (such as mining and tourism) in the longer term.[4]





Malawi: Cost of Doing Business in 2006

	Malawi	SSA
Ease of Doing Business Rank 1/	110	131
Starting a Business		
Procedures (number)	10	11.1
Time (days)	37	61.8
Cost (% of income per capita)	135	163
Closing a Business		
Time (years)	2.6	3.5
Cost (% of estate)	30	20
Recovery rate (cents on the dollar)	13	18
Dealing with Licenses		
Procedures (number)	22	18.1
Time (days)	185	235.5
Cost (% of income per capita)	236	1048
Employing Workers		
Hiring cost (% of salary)	1	12.7
Firing costs (weeks of wages)	84	71
Registering Property		
Procedures (number)	6	112
Time (days)	118	4
Cost (% of property value)	3.4	1.3
Getting Credit		
Credit Information Index	0	1.3
Protecting Investors		
Investor Protection Index	5.3	4.7
Enforcing Contracts		
Procedures (number)	40	38.1
Time (days)	337	581.1
Cost (% of debt)	136.5	42.2
Paying Taxes		
Payments (number)	29	40.9
Time (hours)	878	336.4
Total tax rate (% profit)	32.6	71.2
Trading Across Borders		
Time for export (days)	44	40.0
Cost to export (US$ per container)	1565.0	1561.1
Time for import (days)	60	52
Cost to import (US$ per container)	1590.0	1946.9

Source: World Bank
1/ Out of 175 countries.

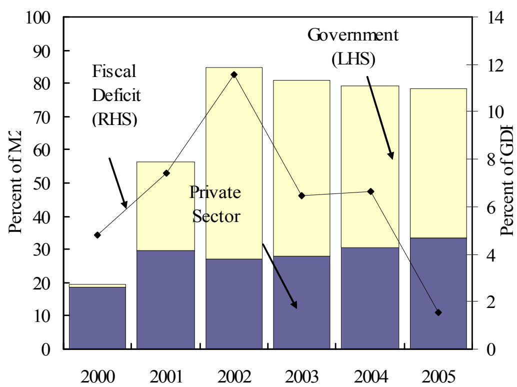
11. **Following extensive consultations with the private sector and donors, the government has identified major impediments to business activity** and aims to finalize a Private Sector Development Program in early 2007. The discussions focused on:

- **Competitiveness and the costs of doing business**. Malawi ranked 110 worldwide and 13 in sub-Saharan Africa in the World Bank's 2006 report on the ease of doing business (see text table). The costs of dealing with public institutions are especially onerous, reflecting burdensome licensing, tax, external trade document, and procedural requirements. In other areas, weak property rights (especially for land) make it difficult to enforce contracts. Malawi also ranks poorly on the flexibility of its factor markets. Skilled labor is scarce, and the costs of dismissing workers are prohibitive. Similarly, the costs of starting and closing a business are high.

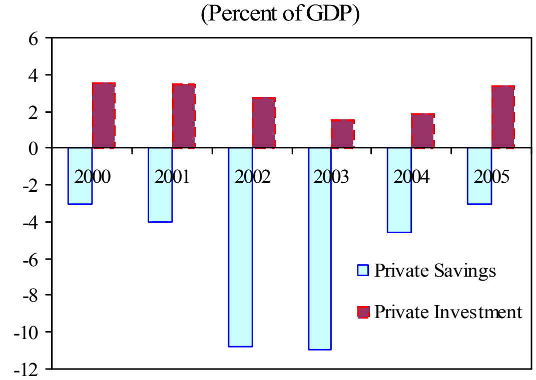
[4] The government is negotiating a mining concession. The Kayelekera uranium mine is expected to last 11 years, generating about 1,000 tons of uranium and US$90 million in export receipts annually.

- **Access to credit** (see text table and figures, and Box 2). Financial intermediation is shallow largely because Malawi's dominant informal and subsistence sectors keep income and savings low.[5] Entrenched land tenure traditions complicate both property rights and the use of land as collateral. Weak enforcement of creditor rights and the absence of information on borrowers make lending risky. The authorities and staff agreed that further fiscal consolidation is fundamental to crowding in private sector credit expansion. The authorities emphasized the need to lower Malawi's high real lending rates. In this regard, staff supported further reducing the LRR, when such a move can be accommodated within the monetary framework. Both agreed that structural measures to lower intermediation costs should focus on strengthening the regulatory and legislative framework, increasing competition in the banking sector, and lowering lending risk. To this end, the government has tentatively identified the key elements of a comprehensive strategy, which could be finalized following the Financial Sector Assessment Program (FSAP), expected in mid-2007.

Fiscal Deficit and Credit to the Economy



Private Saving and Investment (Percent of GDP)



Box 2: Financial Sector Development

Malawi's financial system lacks depth. Commercial bank assets in 2005 were only 12 percent of GDP, well below the average for sub-Saharan Africa, and highly concentrated. Malawi's monetization, measured by broad money relative to GDP, is comparable with the regional average. However, deposits as a percentage of GDP and bank credit to the private sector—both measures of financial depth—are low, even by the already weak regional standards. Large domestic government borrowing has crowded out lending to the private sector. Financial intermediation is further discouraged by negative real deposit interest rates and lending rates that in real terms were among the highest in the region.

Malawi: Selected Commercial Banking Indicators End-2005

	Malawi	SSA
Bank Concentration, index	100.0	88.9
Percent of GDP		
M2	21.2	31.4
Assets	11.8	23.8
Deposits	16.2	24.3
Bank Credit to Private	6.5	17.0
Percent		
Real Deposit Rate	-3.9	-0.9
Lending-Deposit Spread	22.2	12.4

Sources: IMF and World Bank.

[5] Financial intermediation is discussed in a Selected Issues Paper accompanying this report.

- **Public enterprise reform** (see Boxes 1 and 3). Weak management and government interference have undercut the efficiency of Malawi's public utilities. To improve the quality of service, the government is exploring private sector participation and strengthening monitoring and corporate governance. Staff urged the government to clarify the boundaries between utilities' commercial and government-mandated social functions and to ensure that the latter are adequately and transparently financed by the budget.

Box 3: Water and Electricity Utilities

Malawi's utilities are owned and controlled by the government. They operate on a commercial basis, but have government-mandated social obligations—rural electrification and ensuring water supplies. The government funds these social objectives from the budget while paying the utilities a management fee. The government controls major financial decisions, including borrowing and investment decisions and also tariffs. Transparency in the financial relations between the government and the utilities from 2000/01 to 2004/05 was poor.

Over this period, tariffs do not appear to have been set on a commercially viable basis to cover needed capital expenditures as well as operating costs and therefore imposed costs on the utilities that were not adequately funded by the budget. In addition, collection rates (especially from government) were low (receivables averaged 6 months over this period). As a result, the utilities accumulated annual losses, averaging 1.5 percent of GDP, that were largely financed by government lending. Lending was not fully reflected in the fiscal accounts. By the end of 2004/05, utilities' debt obligations to the government reached 5 percent of GDP, posing a potential liability to the budget.

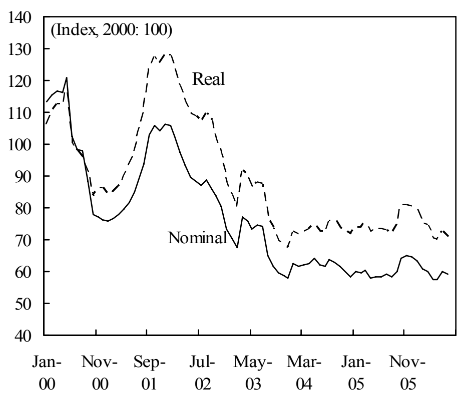
12. **The MGDS emphasizes export growth**. This would require the authorities to maintain a flexible exchange rate, rationalize Malawi's external trade arrangements, and diversify the export base.

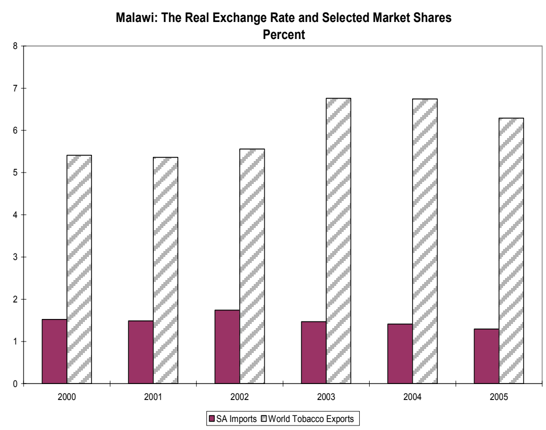
- **Restrictive exchange rate management has hampered business activity**. In recent reviews, staff concluded that the authorities maintained an exchange restriction (as evidenced by private external payment arrears) and a multiple currency practice (MCP) under Article VIII. As the authorities have ceased the informal rationing of foreign exchange and there is no longer a backlog of arrears on import payments, the exchange restriction evidenced by these arrears has been eliminated. Staff is determining whether the official action that gave rise to the MCP has ceased (e.g., the authorities' practice of determining an exchange rate, and the use of moral suasion to use the RBM-determined exchange rate), but notes that the exchange rate spread has also narrowed significantly—from 12 percent in March 2006 to below 5 percent in

January 2007.[6] Staff will continue to monitor the situation to ascertain the extent to which this spread may be attributable to market forces.

- **Following Fund guidelines on *de facto* classification, Malawi's exchange system is characterized as a managed float.** The authorities reaffirmed their commitment to a flexible exchange rate and stressed the importance of a competitive real exchange rate to support their growth strategy. They see the current real exchange rate as broadly appropriate, but recognize that debt relief could put upward pressure on the rate. Staff agreed that there are no clear signs of misalignment: the real exchange rate has remained flat in the last year in the absence of major shocks to the terms of trade, aid flows or government spending; it is considerably lower than its average in recent history; and competitiveness in key markets shows no signs of deterioration (see text figures). A key medium-term objective is to increase external reserve coverage above 3 months of imports to reduce Malawi's vulnerability to terms-of-trade shocks, shortfalls in donor disbursements, and recurring crop failure. Accordingly, staff advised the RBM to use any real appreciation to accumulate external reserves, monetary conditions permitting.

Real and Nominal Effective Exchange Rate





- **The trade system remains relatively free of restrictions**. The average tariff is 14 percent, with three non-zero tariffs and a maximum of 25 percent. However, the coverage of excise duty has been extended and there are still numerous quantitative restrictions. Imports of cement, salt, and flour require licenses, and maize exports are effectively banned. The authorities are considering ways to rationalize Malawi's overlapping involvement in the Common Market for Eastern and Southern Africa and the Southern African Development Community, which both plan to become customs unions by 2010.

[6] The spread is measured as the difference in average of the buy and sell exchange rates offered by commercial banks and foreign exchange rate bureaus. Over the same period, the spread on buy rates alone fell from about 5 percent to below 2 percent, while the spread on sell rates alone fell from about 18 percent to about 10 percent.

- **Malawi needs to diversify its exports to address the large deterioration in the terms of trade over the past decade**. Higher international oil prices and declining prices for key export commodities, especially tobacco, have hurt the economy's competitiveness. Also, the erosion of Malawi's sugar preferences to the EU, which came into effect in mid-2006, will hurt export earnings.

B. Building Institutional Capacity

13. **Malawi's improved macroeconomic performance** reflects the government's firm commitment to pursue strong measures. Deepening this performance will require strengthening the government's economic management capacity and overall economic governance. The discussions covered ways to improve the government's capacity to identify and assess policy challenges; to formulate, implement, and manage economic decision-making; and to monitor and evaluate performance. Discussions focused on improving public financial management (PFM), building debt and aid management capacity, and strengthening statistical capacity (Box 1).

- **To improve PFM**, the government recently prepared a comprehensive three-year action plan in collaboration with donors that includes measures to improve budget preparation, planning, and execution. The plan also calls for improved fiscal monitoring and reporting, both internally and externally (including to parliament); enhanced audit capacity; stronger local governments; and more effective policymaking tools and covers measures for planning, mobilizing, and allocating resources to Malawi's development strategies.

- **As noted in the HIPC completion point document, weak external debt management has contributed to Malawi's high debt burden.**[7] The authorities agreed on the need for a comprehensive strategy that would encompass guidelines on acceptable loan terms to encourage borrowing only on concessional terms and feasibility studies for new project loans. The strategy would cover public sector enterprises and build capacity to develop debt sustainability analyses. Given Malawi's high domestic debt burden, staff also encouraged the authorities to strengthen their capacity to manage domestic debt.

- **Coordination with donors has been strengthened** by the Common Approach to Budget Support framework and the strengthening of the Debt and Aid Unit within the

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[7] "Malawi—Debt Relief at the Heavily Indebted Poor Countries Initiative Completion Point and Under the Multilateral Debt Relief Initiative," August 2006, Country Report No. 06/420. The debt sustainability analysis concluded that, following debt relief, Malawi's external debt burden indicators would fall to levels significantly lower than the average for low-income countries and were projected to remain well below the HIPC sustainability threshold. This projection assumed 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.

Ministry of Finance. Staff urged stronger coordination among the government departments that manage and implement the development budget.

C. Scaling Up External Financing

14. **Malawi requires a significant scaling up of external financing flows**—official aid and private capital—to meet its medium-term objectives and to finance the higher private and public expenditures needed for the MGDS.

15. **Reaching the HIPC completion point and accessing relief under the MDRI will likely have only a modest impact on official aid flows**. Net official aid to Malawi has already increased significantly since 2000 and, on the basis of current commitments, is projected to average 24 percent of GDP over the next four fiscal years, about the same as in 2005 (see text table). Aid is also subject to considerable uncertainty. Absent scaling-up, aid flows are unlikely to be adequate to support the proposed range of activities under the MGDS (see text table).

Malawi: Net official aid flows

Percent of GDP, period average

	2001-05	2006-10
Net official aid to Malawi	19.7	24.0
Net aid to government	10.7	18.2
Gross aid	13.2	18.4
Program aid	4.5	4.4
Project	8.7	13.9
Debt service paid	-2.5	-0.2
Project grants to NGOs	9.0	5.9

Sources: Malawian authorities and IMF staff.

Malawi: Financing the MGDS, 2006-11 /1

Percent of GDP

MGDS	
All activities	188
All priority one activities	56
Medium-term projections	
Net aid flows to the budget	94
Development spending	86

Sources: Malawian authorities and Fund staff estimates

1/ The government and donors have prepared cost estimates stated in 2005/06 prices. These have been converted to current prices and stated as a share of GDP using medium-term projections under the PRGF-supported program.

- **Several key donors are preparing medium-term plans**. The World Bank expects to approve a new four-year Country Assistance Strategy in early 2007, which could provide US$340 million, substantially more than previously anticipated.[8] The EU is preparing its next six-year European Development Fund plan, starting in 2007/08, which will tentatively provide €350 million, as previously envisaged, with scope for additional aid, depending on performance. Beyond the near term, Malawi could also receive Millennium Challenge Corporation funds from the United States, though these are still too uncertain to incorporate into the framework.

[8] IDA allocations under the new Country Assistance Strategy were expected to be reduced to offset relief under the MDRI. However, because of the topping-up of HIPC assistance (which was not incorporated into the program), IDA's contribution to MDRI-related relief is smaller, reducing the offsetting cut in IDA allocations.

- **The discussions focused on managing higher aid flows** to promote growth while maintaining macroeconomic stability. In particular, the authorities must balance calls for the immediate use of resources with efforts to increase Malawi's low external reserve coverage. Staff also raised a concern, shared by donors, that resources on infrastructure and social priorities be used effectively. In this regard, the government and the World Bank are undertaking a public expenditure review. In addition, the government could make more effective and timely use of the annual performance reviews of the MGDS.

- **About a third of net official aid currently passes to nongovernmental organizations (NGOs).** Donors will likely continue directly funding NGOs, placing resources where they can be used most effectively. Rerouting part of this aid through the budget will therefore require improved administrative capacity to ensure that resources are used efficiently.

16. **Private sector growth will also require higher private capital flows to the private sector.** Malawi's stronger macroeconomic environment (including its lower external debt burden) and reforms to strengthen business competitiveness could help attract more foreign direct investment and portfolio flows. Foreign portfolio investors have already expressed interest in investing in government domestic debt markets.

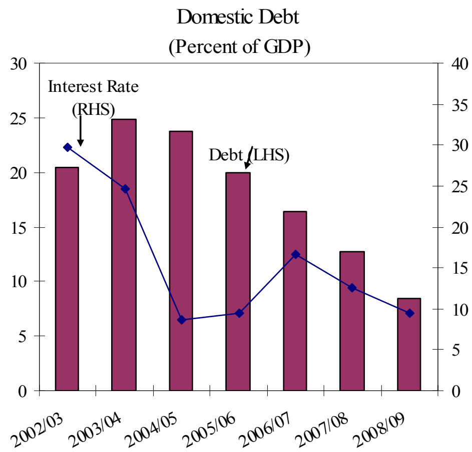
- **Staff noted that, while investor interest is welcome, Malawi could face significant challenges in adjusting to volatile portfolio flows**. Liberalization of capital market transactions should thus proceed slowly until Malawi has a stable macroeconomic environment, stronger financial institutions, better regulation by the RBM, established financial instruments, and deeper financial markets to manage capital flow surges. The authorities will postpone further consideration of liberalization until after the FSAP.

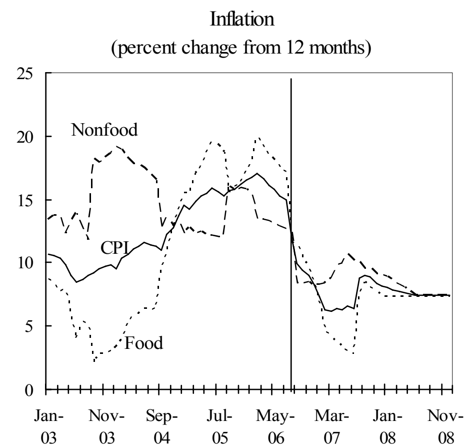
17. **Larger capital inflows will also require Malawi to strengthen its anti–money laundering capacities**. The authorities are implementing the 2004 recommendations of the Eastern and Southern African Anti–Money Laundering Group. An important first step was parliament's approval of long-outstanding anti-money laundering legislation in July 2006.

IV. Medium-Term Macroeconomic Framework

18. **The key medium-term objective is to consolidate macroeconomic stability—reducing domestic debt and inflation—to lay the foundation for higher growth and poverty reduction**. The framework assumes that existing good policies in Malawi are maintained. Further, it is expected that Malawi will implement key elements of the structural reform agenda identified in the policy discussions. Many of these will be included under the

current PRGF-supported program (see below). The framework is also cautiously based on current information concerning aid commitments.





- **Output growth is assumed to average 5.5 percent over the near term,** before settling at 4.5 percent. While projected near-term growth is high by both historical and regional standards, there is scope for output to recover from the prolonged period of poor performance. Moreover, gross investment is expected to rise to 20 percent of GDP over the medium-term from only 13 percent over the past decade. Despite the higher growth, per capita growth will remain well below the level needed to meet the MDGs. In addition, Malawi's vulnerability to exogenous shocks, especially weather-related, makes it important to build external reserves to insulate economic activity.

- **Further consolidation of domestic debt to below 10 percent of GDP is still the key medium-term fiscal objective,** as this would free resources for the private sector. Malawi's total public sector resource requirements, including for the MGDS, need to be clearly articulated and expenditures prioritized according to projected resource flows. In this regard, staff cautioned that Malawi may not have enough absorptive capacity to accommodate the large increase in development spending, though the authorities felt this would not be a major concern. The government also thought that civil service salaries might continue to be misaligned, especially compared to the private sector (Box 4).[9]

- **The strategy could provide significant fiscal space for priority spending** over the next four fiscal years compared with the last eight—though much of the expansion has already occurred (text table). Additional resources will mostly stem from higher net aid inflows, including debt relief (8.4 percent of GDP each year), and lower domestic interest costs (1.8 percent of GDP each year, rising to 4 percent of GDP from the rate three years ago). The bulk of these fiscal savings will be used to finance

[9] Malawi's wage policy is discussed in a Selected Issues Paper accompanying this staff report.

higher development spending and repay domestic debt. But with appropriate prioritization, average pro-poor spending could be, on average, 5 percent of GDP higher than in the past eight years.

Box 4: Malawi Civil Service Wage Policy

Weak payroll management has undermined budget implementation in recent years and remains a major concern. To help improve payroll management, the government has compiled a database of civil service employees, prepared a detailed schedule of wage adjustments for 2005/06, and is compiling monthly reports on payroll execution.

The government payroll has increased substantially relative to GDP since the late 1990s, mainly reflecting rising salaries, suggesting containment of future wage growth will be important. As a share of GDP, civil service compensation in Malawi is now in line with other countries' in the region. Moreover, a detailed comparison by grade with government employees in other countries, with private sector compensation, and with income levels in Malawi in general, also failed to reveal any major misalignment in civil service compensation.

In designing future wage adjustments, the challenge will be to contain the overall payroll at current levels relative to GDP. However, the government will need to make difficult decisions about priorities within this overall envelope. Future wage adjustments will also need to ensure sufficient compensation at the lowest employee grades to cover the cost of living. The government will have to balance the need to contain growth in the age bill while at the same time providing adequate incentives for the civil service and strengthening economic management capacity.

The program ceiling on the wage bill allows for additional hiring and spending on wages in the health sector.

- **The government affirmed its commitment to the monetary framework,** anchored by a reserve money target and geared to price stability. The authorities recognized that only policies that contain inflation and reduce domestic debt will bring about sustainably lower interest rates. The authorities acknowledged that any interest rate reductions will need to be modest and measured, and they are prepared to raise rates if the inflation target comes under threat. The RBM is committed to a flexible exchange rate policy, consistent with the monetary framework, and supported by the government's commitment to prudent fiscal policies.

Malawi: Sources and Allocation of Fiscal Space
Percent of GDP

	98/99-05/06 Avg.	06/07-09/10 Avg.	Change
Sources of fiscal space	26.5	41.1	14.6
Domestic revenues, other receipts	20.4	24.7	4.3
Net foreign financing	11.0	19.4	8.4
Domestic interest payments	-4.8	-3.0	1.8
Allocations of fiscal space	26.5	41.1	14.6
Wages	6.2	7.7	1.5
Other current spending	14.5	15.0	0.5
Development	9.4	17.2	7.8
Domestic debt reduction	-3.6	1.2	4.8
Memorandum			
Pro-poor spending /1	6.0	11.3	5.3

Sources: Malawian authorities and Fund staff projections.
1/ Data available from 2000/01.

Malawi: Implications of reaching the HIPC CP
Millions of U.S. dollars

	2006/07	2007/08	2008/09
Central Government, Budget			
Debt service before relief	114	113	113
Debt service savings	88	100	100
Debt service after debt relief	26	14	14
Reserve Bank of Malawi			
Debt service before relief	26	13	7
Debt service savings	26	13	7
Debt service after debt relief	0	0	0
Memorandum			
Debt relief resources to budget	148	100	100
Budget debt service savings	88	100	100
Transfer from RBM	60	0	0
Flow transfers	26	0	0
Stock transfer	34	0	0

Sources: Malawian authorities and IMF staff estimates.

V. Macroeconomic Policies for 2006/07

19. **The government's key macroeconomic objectives for 2006/07 are largely the same as those discussed at the second review**. A bumper harvest will support a rebound in real GDP growth to 7 percent. Prospects for falling inflation remain positive, but the target has been increased to 8 percent because of delayed declines in urban food prices.

20. **The government met most of the indicative targets for end-September 2006.** Expenditures were broadly as allocated, and tax revenues were significantly higher than planned. Tax revenues continued the strong performance begun in the last quarter of 2005/06, reflecting the economic recovery and continued improvements in tax administration. An administrative delay in budget support (about US$28 million) squeezed the monetary program, as the shortfall was only partially covered by a program adjustor. As a result, both the targets on net foreign assets and on net domestic assets at the RBM went unmet, though reserve money was as programmed. The delayed budget support was received in early October.

21. **Program performance at end-December 2006 is expected to be favorable**. The monetary targets on net foreign assets and net domestic assets at the RBM are expected to be met by a comfortable margin because of accelerated disbursements in donor program support. However, the targets on government spending and domestic borrowing may come under pressure owing to faster domestically financed development expenditure (notably on roads) and spending on fertilizer.

A. Adjustment to Fiscal Plans

22. **Since Malawi reached the HIPC completion point, the IMF has provided the country with 2.6 percent of its GDP (US$60 million or MK 8.4 billion) in debt relief**.[10] These resources were originally intended to be transferred from the RBM to the budget on a flow basis according to the former schedule of debt service payments to the IMF; MK3.7 billion will still be transferred in 2006/07 on this basis. The remainder will be transferred to the government this fiscal year and will be used to reduce domestic debt held by the RBM by 1.4 percent of GDP beyond the programmed domestic debt reduction. Staff supported this revision as it will not alter expenditures substantially, though the budget should benefit from lower domestic interest costs.

23. **Overall projections of debt service payments are in line with the budget.** However, there is the possibility that additional debt relief from the topping-up of HIPC assistance could be delivered this fiscal year. Paris Club creditors agreed to write off all pre-cutoff debt in October 2006, and the African Development Bank approved HIPC completion point assistance in November.

24. **Additional resources are expected to provide scope to expand expenditure**. The strong tax revenue performance of the first fiscal quarter is projected to continue but will likely be partially offset by weaker nontax domestic revenues. Moreover, the World Bank is expected to provide an additional US$20 million in program support, though this will be partially offset by reduced projections in program support from other donors. The government has committed these extra resources to additional spending on maize, wages, and development projects (mainly water supply). While staff is of the view that these additional expenditures can be accommodated, given the increases in resources and relative macroeconomic stability, it urged the authorities to safeguard the quality of development spending.

25. **The government has changed its food security operations**. In addition to using the unexpectedly large harvest to purchase more maize for the Strategic Grain Reserve, the government has authorized the ADMARC to finance its maize purchases for commercial resale through off-budget borrowing. Fertilizer purchases will also be accelerated to ensure timely delivery to farmers.

26. **The wage bill in 2006/07 has been increased by 0.1 percent of GDP** starting in the third fiscal quarter, reflecting additional hiring in the social sectors and assumed increases in compensation for the judiciary and the National Assembly. The actual increase in salaries to

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[10] This includes the delivery of topping-up assistance now that adequate financing assurances have been received. "Malawi—Satisfactory Assurances for the Disbursement of the Fund's Share of Topping-Up under the Enhanced HIPC Initiative," December 2006.

the National Assembly will depend on the recommendation of the Public Service Remuneration Board.

27. **Spending on civil service pensions has been consistent with the new pension formula** adopted in July 2006 to protect the scheme's long-term viability. Under the formula, the pension bill is projected to be 1.5 percent of GDP in 2006/07 (versus 1.2 percent of GDP in 2005/06). It should stay below 2 percent of GDP in the medium term.

28. **The outlook for the fiscal year is positive, but risky.** Domestic debt is expected to fall to 14.8 percent of GDP, 1.7 percent lower than programmed. Excluding repayments using funds saved through IMF debt relief, domestic debt would be 16.3 percent of GDP, broadly in line with the budget objective. The increased spending will reduce the underlying surplus to 0.6 percent of GDP (compared with the 1.0 percent of GDP envisaged earlier). However, the adjustment program with the World Bank has yet to be finalized, so that the timing of the World Bank's support remains uncertain and may be delayed until the next fiscal year. As these resources have already been committed, such a delay could push the fiscal-year domestic borrowing target out of reach. As a contingency, much of the increased expenditures are planned for the fourth fiscal quarter and will be postponed to 2007/08 should external support be delayed.

B. Reducing Inflation and Restoring External Reserves

29. **Monetary policy remains geared to reducing inflation.** Reserve money growth will be reduced to offset the unanticipated monetary overhang at the end of June 2006. In recent months, commercial bank lending to the private sector has responded to the lower LRR and the resulting lower treasury bill yields. Indeed, by the end of September 2006, such lending had increased 28 percent from a year ago.

30. **Inflation has dropped sharply** in recent months to about 10 percent at end-December 2006, following declines in both food and nonfood inflation. A moderation in world oil prices, the strong agricultural crop, a projected deceleration in reserve money growth, and continued stability in the exchange rate are expected to lower inflation below 10 percent by mid-2007. Declining inflation provides scope for interest rate reductions, and the authorities reduced the bank rate from 25 percent to 20 percent in mid-November 2006, prompting further declines in treasury bill rates and similar declines in commercial bank lending as well as deposit rates. A more measured reduction in interest rates would have been preferable, given the risk that inflationary expectations may not have been curbed. However, in staff's judgment, the reduction in rates is unlikely to result in a major liquidity expansion given the low level of private sector credit and high intermediation costs.

31. **Net foreign assets at the RBM have increased steeply because of IMF debt relief**. However, gross official reserves are still low as a result of the food crisis and pressures on the foreign exchange market earlier in fiscal year 2006, despite the recovery of tobacco

export receipts. The stability of the exchange rate, if continued, will provide opportunities to build reserves to about 1.7 months of imports by the end of the fiscal year.

C. Structural Measures

32. **Building on the MGDS, the government has proposed structural measures for inclusion under the PRGF-supported program during the remainder of 2006/07.** The government is giving a high priority to enhancing growth.

- **To ease the cost of doing business**, the government plans to introduce a single business permit and a simplified business licensing fee structure that would, among other things, treat resident and nonresident investors equally. It will establish the Malawi Investment and Trade Centre to provide the private sector with one-stop services. The government will also start a review of selected commercial laws.

- **The key elements of a comprehensive strategy to strengthen financial intermediation** tentatively include enhancing financial stability, strengthening creditor rights, increasing the availability of information in credit markets, and reducing intermediation costs. Specific measures include passage of the Land Reform Bill, revision of the RBM Act to give the RBM greater autonomy, legislation to govern the microfinance sector (structural benchmark for end-June 2007), and the introduction of commercial courts.

- **With respect to public sector enterprises**, the government will continue to improve their efficiency and financial performance by introducing clear lines of accountability, allowing them greater operational and financial autonomy, and introducing new procedures to ensure that government departments pay their utility bills (see below). As a first step toward improving transparency and better monitoring the fiscal risks, the government will compile quarterly financial reports for major public sector enterprises and publish their audited annual financial statements (structural benchmark for end-March 2007).

33. **The government is also emphasizing economic management capacity.**

- **On the basis of the PFM action plan** (structural benchmark for end-October 2006), the government will continue phasing-in the IFMIS and will strengthen budget comprehensiveness, internal controls and reconciliation in budget execution, and audited financial reports. The government will also centralize the payment of utility bills of all central government entities to prevent future utility arrears (performance criterion for end-March 2007) and will strengthen control of the wage bill by compiling monthly reports of payroll execution (structural benchmark for end-March 2007).

- **As a first step toward a comprehensive external debt management strategy**, the government will draft and issue guidelines for the entire public sector to ensure that new borrowing is sufficiently concessional and accumulated within sustainable levels (structural benchmark for end-June 2007). Staff suggested that these borrowing guidelines aim for a grant element of at least 54 percent (the average since the HIPC decision point) and that the government establish indicative limits on the annual rate of external debt accumulation for the public sector as a whole.

- **To improve statistical reporting** the government expects to complete revisions to the national accounts and the balance of payments; it will also rebase the consumer price index by mid-2007.

34. **Structural reforms in other areas are also under way.**

- **The new travel policy**, focusing on accountability and transparency, is expected to be issued shortly (structural benchmark for end-September 2006). It aims to reduce government travel spending from 5½ to 3 percent of total expenditure.

- **Retail petroleum product pricing and taxation arrangements** are being reviewed to ensure timely pass-through of world oil prices, while smoothing the impact of sudden and large oil price shocks. Although the current mechanism calls for an automatic retail price adjustment of petroleum products, adjustments have become increasingly discretionary in recent years, with the oil import price used in the pricing formula kept artificially low as international oil prices rose, resulting in importer losses and foregone tax revenues. Returning to an automatic pricing mechanism and implementing specific duties rather than ad valorem taxes would mitigate the impact of oil price increases on retail prices.[11]

- **The government is tackling the fiscal risks arising from extrabudgetary operations** and has requested technical assistance from the World Bank in this area. The Malawi Development Corporation (MDC) is being liquidated, and its assets are being sold to settle outstanding liabilities to the Development Bank of Southern Africa, the European Investment Bank, and other creditors. The recent appointment of new management at the Malawi Rural Development Fund (MARDEF) and the completion of an external audit in December should strengthen the accountability framework and promote more regular reporting on performance.

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[11] Petroleum prices in Malawi are broadly in line with those in neighboring countries: at the end of 2005, the gasoline per liter was US$1.02 in Malawi, US$1.22 in Zambia, US$0.98 in Uganda, and US$0.92 in South Africa.

D. Program Risks

35. **Malawi remains vulnerable to exogenous shocks**, including recurrent food crises, higher world oil prices, and lower export prices. Drought would also affect hydro-electricity generation, which supplies most of Malawi's power generation. Besides continued implementation of strong policies, efforts to raise external reserves could mitigate such risks.

36. **The fiscal risks identified in the recent review of the PRGF-supported program, including potential wage bill overruns, persist.** With the HIPC completion point now past, the government will need to guard against unrealistic expectations about budget expenditures. The government's budgetary expenditure plans to spend resources that may not be disbursed on a timely basis during this fiscal year, pose challenges for monetary management. The government will need to monitor potential liabilities from the MDC, MARDEF, and other institutions. The decision to allow ADMARC to borrow commercially also poses fiscal risks.

VI. Staff Appraisal

37. **Malawi is at an opportune juncture given its progress toward macroeconomic stabilization, the delivery of debt relief, and the launch of the MGDS.** To make serious inroads into reducing poverty, Malawi must now advance an ambitious agenda of structural reforms. In doing so, the government must stay focused on macroeconomic stability while warding off unrealistic budget expectations because of debt relief.

38. **Macroeconomic performance in 2005/06 was broadly satisfactory, despite the food crisis**. Real GDP growth was strong, and the domestic debt/GDP ratio and non-food inflation both fell. Malawi met most of the quantitative targets for end-June 2006, and exchange rate management improved substantially. However, the performance criterion on government domestic borrowing and the indicative target on discretionary government spending were missed. As this was largely due to the food crisis, staff supports the authorities' request for a waiver for the nonobservance of the performance criterion.

39. **Prospects for 2006/07 are favorable, but public spending pressures need to be contained.** A bumper harvest will support a rebound in GDP growth, and, although urban food prices are declining more slowly than expected, inflation should stay in the single digits. The fiscal outlook is positive, but risky. Supported by the use of IMF debt relief to reduce domestic debt and additional planned program support from the World Bank, domestic debt is now projected to decline by almost 2 percentage points of GDP more than programmed. Fiscal performance through the first quarter of 2006/07 has been strong, but expenditure pressures have been building, jeopardizing the end-December 2006 targets on discretionary spending and domestic borrowing. Much will depend on the government's efforts to contain funding releases in the final months of 2006.

40. **The program faces other risks.** Food security remains a problem, as Malawi is vulnerable to weather-related shocks. In addition, Malawi faces the risk of a reversal of recent oil price declines. There is also a risk that external financing (e.g., from the World Bank) may be delayed until 2007/08. The government, therefore, must build external reserves and maintain strict expenditure controls.

41. **There is an urgent need to improve Malawi's growth**. Staff commends the authorities on their agenda for lowering the cost of doing business, enhancing access to credit, and improving public service delivery, and welcomes their continued commitment to improving economic management capacity, especially in public financial management. Delays in implementing reforms should be avoided to keep poverty reduction goals on track.

42. **Higher aid and private capital flows are critical to meeting Malawi's development objectives.** Absorbing these flows while maintaining macroeconomic stability will be a challenge. The government must also balance calls to use these resources immediately with the need to increase Malawi's low external reserve coverage. Public spending on infrastructure and social priorities also need to be effective and efficient; in this regard, staff urged the authorities to complete the public expenditure review being undertaken with the World Bank. Further, the government should conduct more timely annual performance reviews of the MDGS and incorporate its findings into the budget.

43. **The authorities' commitment to a flexible exchange rate is welcome.** Staff agrees with the authorities that the current real exchange rate is broadly appropriate. There are no clear signs of misalignment, as the real exchange rate has stabilized after a significant depreciation, and competitiveness in key markets shows no signs of deterioration.

44. **On the basis of performance through end-June 2006 and in the first half of 2006/07, and the authorities' continued commitment to program implementation, staff recommends completion of the third review under the PRGF arrangement.**

45. **It is recommended that the next Article IV Consultation take place within 24 months, subject to the provisions of the decision on consultation cycles in program countries**.

Table 1a. Malawi: Selected Economic Indicators, 2002–08

	2002	2003	2004	2005	2006		2007		2008
	Act.	Act.	Act.	Act.	Prog.	Proj.	Prog.	Proj.	Proj.
National income and prices									
GDP at constant market prices	2.1	3.9	5.1	2.1	8.4	8.5	5.6	5.7	5.5
Nominal GDP (billions of kwacha)	148.4	171.9	207.2	245.7	303.5	305.1	345.2	349.5	396.8
Nominal GDP per capita (U.S. dollars)	160.3	143.1	150.9	161.4	167.2	170.7	171.8	179.8	188.6
GDP deflator	16.6	9.2	12.5	15.4	13.9	14.4	7.7	8.4	7.6
Consumer prices (end of period)	11.5	9.8	13.7	16.5	7.9	9.9	8.0	8.1	7.4
Food	8.2	3.0	14.1	17.2	8.7	10.0	7.4	7.4	7.3
Nonfood	15.9	18.6	13.3	15.8	8.2	9.7	9.0	9.0	7.4
Consumer prices (annual average)	14.9	9.6	11.4	15.5	13.1	14.0	7.2	8.4	7.5
Investment and savings (percent of GDP)									
National savings	-6.4	2.9	4.5	-3.1	7.9	7.6	16.7	18.0	23.0
Of which : domestic savings	-16.7	-12.1	-10.6	-23.9	-9.3	-13.1	-3.5	-4.4	1.8
unrequited transfers	12.6	17.3	17.3	22.8	18.8	22.4	21.2	23.2	21.7
Gross investment	10.4	10.8	14.4	13.0	15.6	14.6	18.5	19.2	24.5
Foreign savings	16.8	7.9	9.9	16.1	7.7	7.0	1.8	1.2	1.6
Central government (percent of GDP)									
Revenue (excluding grants)	17.7	22.0	23.2	25.5	24.4	24.3	23.9	24.0	24.3
Expenditure and net lending	35.1	39.3	44.0	43.1	43.1	43.6	41.3	40.9	44.7
Underlying balance[1]	-2.8	-0.5	0.8	-0.7	0.5	0.9	0.5	1.0	0.5
Overall balance (excluding grants)	-17.4	-17.3	-20.8	-17.6	-18.8	-19.3	-17.4	-16.8	-20.4
Overall balance	-11.6	-6.5	-6.6	-1.5	-3.4	-3.4	0.1	-0.1	-1.2
Money and credit (change in percent of beginning-of-year M2)									
Money and quasi money	25.2	29.3	29.8	14.3	22.1	22.0	13.7	15.5	14.1
Net foreign assets	-55.4	21.5	6.0	5.1	6.3	24.4	15.3	20.0	19.8
Net domestic assets	80.6	7.8	23.8	9.2	15.7	-2.4	-1.5	-4.5	-5.6
Credit to the government	45.1	11.3	10.3	2.1	25.0	-2.1	-18.1	-10.7	-24.3
Credit to the rest of the economy	4.1	8.1	11.3	5.6	-4.1	7.7	3.9	5.1	4.3
Velocity	5.4	4.9	4.5	4.7	4.8	4.8	4.8	4.8	4.7
External sector (millions of U.S. dollars)									
Exports, f.o.b.	421	433	502	507	572	467	593	464	482
Imports, c.i.f.	-698	-689	-810	-1,070	-1,070	-889	-1,049	-836	-877
Usable gross official reserves	103	116	119	131	114	143	207	242	325
(months of imports)	1.4	1.4	1.1	1.4	1.2	1.6	2.2	2.6	3.2
Current account (excluding transfers, in percent of GDP)	-29.4	-25.2	-27.3	-38.9	-26.5	-29.4	-23.0	-24.5	-23.3
Nominal effective exchange rate (percentage change)	-28.6	-23.6	-4.3	-11.4	...	...	...	...	...
Real effective exchange rate (percentage change)	-24.8	-17.2	5.5	0.1	...	...	...	...	...
Terms of trade	-3.1	-6.5	-2.5	-10.2	-1.2	-1.2	-0.3	-4.4	0.4
Debt stock and service (percent of GDP)									
External debt (public sector)	148	164	155	143	48	51	32	33	34
NPV of debt (percent of avg. exports)	278.4	268.0	257.7	361.0	220.0	33.6	205.8	45.1	52.8
External debt service (percent of exports)	18.6	22.2	21.6	22.1	16.2	30.7	6.4	4.5	3.5
Net domestic debt (central government)	17.4	22.3	22.6	21.9	19.7	17.4	14.7	12.6	9.2
Domestic interest payment	4.0	7.9	8.4	6.3	4.9	4.9	3.5	3.1	2.3
Treasury bill rate (period average)	41.7	39.3	28.6	24.4	...	...	...	...	...

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

[1] A measure of domestic adjustment effort (i.e., domestic primary balance excluding maize and the Health SWAp). Definition: Overall balance plus statistical discrepancy, excluding grants, revenue and expenditure from maize, interest, foreign-financed development expenditures, and the Health SWAp.

Table 1b. Malawi: Selected Economic Indicators on a Fiscal Year Basis, 2002/03 – 2008/09

	2002/03	2003/04	2004/05	2005/06		2006/07		2007/08	2008/09
	Act.	Act.	Act.	Prog.	Proj.	Prog.	Proj.	Proj.	Proj.
National income and prices									
GDP at constant market prices	3.0	4.5	3.5	5.1	5.3	7.0	7.0	5.6	5.5
Nominal GDP (billions of kwacha)	160.1	189.6	226.5	271.0	275.4	324.4	327.3	373.2	423.1
Nominal GDP per capita (U.S. dollars)	154.0	142.6	160.1	161.2	164.8	168.2	175.3	184.1	194.0
GDP deflator	15.6	11.0	14.1	12.9	14.9	10.6	11.2	8.0	7.5
Consumer prices (end of period)	8.5	11.6	15.9	10.3	15.3	5.7	8.2	7.4	7.4
Food	4.0	6.3	19.6	7.8	17.5	3.4	4.7	7.3	7.3
Nonfood	13.9	17.5	12.1	16.1	12.8	10.5	12.2	7.5	7.4
Consumer prices (annual average)	16.7	10.1	13.6	14.9	16.1	8.1	9.8	8.2	7.4
Investment and savings (percent of GDP)									
National savings	-2.6	3.8	0.5	10.3	2.1	14.3	15.4	20.8	20.5
Of which: domestic savings	-15.4	-11.2	-17.7	-7.7	-18.5	-4.5	-6.3	-0.9	-0.3
unrequited transfers	15.1	17.3	20.3	20.0	22.6	20.1	22.8	22.4	21.3
Gross investment	9.4	12.8	13.7	16.2	13.1	18.9	19.3	22.2	22.8
Foreign savings	12.0	9.0	13.3	6.0	11.0	4.5	3.9	1.4	2.3
Central government (percent of GDP)									
Revenue (excluding grants)	20.0	22.6	25.1	24.5	24.4	24.2	24.2	24.5	24.1
Expenditure and net lending	38.3	42.5	42.9	45.3	43.5	43.1	43.5	42.7	42.4
Underlying balance[1]	-1.7	-0.9	1.8	1.8	0.9	1.0	0.6	1.2	0.1
Overall balance (excluding grants)	-18.3	-19.9	-17.8	-20.8	-19.0	-19.0	-19.3	-18.2	-18.3
Overall balance	-11.6	-7.8	-5.4	-2.0	-1.0	-1.3	-1.4	-0.4	-1.7
Money and credit (change in percent of beginning-of-year M2)									
Money and quasi money	24.1	35.6	18.4	18.0	15.2	18.0	22.5	14.9	14.6
Net foreign assets	-5.3	8.6	5.8	8.2	9.2	11.8	17.2	23.8	13.7
Net domestic assets	29.4	27.0	12.7	9.8	6.0	6.2	5.3	-8.9	0.9
Credit to the government	40.3	20.9	9.4	-9.0	-15.7	9.0	-5.0	-13.8	-18.7
Credit to the rest of the economy	7.5	2.5	14.0	6.2	9.1	-6.7	6.2	4.9	4.4
Velocity	5.3	4.6	4.7	4.8	4.9	4.8	4.8	4.8	4.7
External sector (millions of U.S. dollars)									
Exports, f.o.b.	420	454	516	525	487	578	464	471	492
Imports, c.i.f.	-782	-694	-910	-1,012	-1,003	-1,076	-879	-843	-915
Usable gross official reserves	90	94	112	137	141	160	159	250	302
(months of imports)	1.1	0.8	1.2	1.5	1.6	1.7	1.7	2.5	2.8
Current account (excluding transfers; in percent of GDP)	-27.1	-26.3	-33.6	-26.0	-33.6	-24.6	-26.7	-23.8	-23.6
Nominal effective exchange rate (percentage change)[2]	-21.0	-21.6	-9.7	...	-3.0	...	...	...	...
Real effective exchange rate (percentage change)[2]	-17.3	-14.5	2.1	...	8.7	...	...	...	...
Domestic debt (percent of GDP)									
Net domestic debt (central government)	20.4	24.8	23.8	19.3	19.9	16.5	14.8	11.3	8.6
Domestic interest payment	5.5	9.1	7.4	5.5	5.5	4.3	4.1	2.7	1.9
Treasury bill rate (period average)	38.3	36.3	24.5	...	22.4	...	...	...	...

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

[1] A measure of domestic adjustment effort (i.e., domestic primary balance excluding maize and the Health SWAp). Definition: Overall balance plus statistical discrepancy, excluding grants, revenue and expenditure from maize, interest, foreign-financed development expenditures, and the Health SWAp.

[2] Based on data through December 2005.

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

	2006/07 Program						2006/07 Curremt					
	Q1 Prog.	Q2 Prog.	Q3 Prog.	Q4 Prog.	Annual Prog.	Percent of GDP	Q1 Proj.	Q2 Proj.	Q3 Proj.	Q4 Proj.	Annual Proj.	Percent of GDP
Total revenue and grants	31,391	30,184	38,615	35,324	135,514	41.8	29,792	37,084	34,612	36,263	137,751	42.1
Revenue	18,695	18,555	20,396	20,708	78,355	24.2	19,354	19,080	19,821	21,002	79,258	24.2
Tax revenue	16,766	16,230	17,837	18,318	69,152	21.3	17,789	17,429	18,029	19,013	72,259	22.1
Pension contributions, employees	0	0	0	0	0	0.0	0	0	0	0	0	0.0
Nontax revenue	1,929	2,325	2,559	2,390	9,203	2.8	1,565	1,651	1,792	1,990	6,998	2.1
Of which : sales receipts maize	40	320	400	40	800	0.2	0	0	0	0	0	0.0
Grants	12,696	11,629	18,219	14,616	57,159	17.6	10,438	18,004	14,791	15,261	58,494	17.9
Budget/ program support	2,992	0	6,008	653	9,652	3.0	650	5,772	2,128	0	8,551	2.6
Project	4,498	4,879	7,547	7,318	24,242	7.5	4,430	3,838	7,876	11,537	27,680	8.5
Dedicated grants	2,430	4,507	2,823	4,742	14,502	4.5	3,164	6,282	3,911	2,219	15,576	4.8
DFID/EU	850	0	0	0	850	0.3	482	574	777	0	1,834	0.6
National Aids Commission (NAC)	1,413	1,445	1,471	1,491	5,821	1.8	1,695	3,440	992	0	6,126	1.9
Health swap	0	2,890	1,177	3,075	7,142	2.2	819	1,863	1,970	2,045	6,697	2.0
HIPC debt relief	2,138	982	1,178	779	5,078	1.6	1,556	851	214	382	3,002	0.9
MDRI debt relief from IMF	638	1,261	663	1,123	3,685	1.1	638	1,261	663	1,123	3,685	1.1
Total expenditure and net lending	33,306	35,691	37,856	33,033	139,887	43.1	31,290	38,922	35,712	36,368	142,292	43.5
Current expenditure	23,039	24,671	24,238	19,517	91,465	28.2	22,025	26,274	23,126	19,866	91,291	27.9
Wages and salaries	5,710	5,798	5,886	5,981	23,375	7.2	5,712	5,795	6,310	6,210	24,027	7.3
Of which : Health Swap	247	253	257	261	1,019	0.3	247	253	257	261	1,019	0.3
Interest payments	4,542	4,259	3,896	2,948	15,645	4.8	5,055	3,631	3,118	2,960	14,764	4.5
Domestic	3,682	3,913	3,547	2,649	13,791	4.3	4,200	3,380	2,960	2,783	13,323	4.1
Foreign	860	346	349	299	1,854	0.6	854	251	158	177	1,441	0.4
Other current expenditure	12,787	14,614	14,456	10,588	52,444	16.2	11,258	16,849	13,698	10,696	52,501	16.0
Purchases of goods and services	8,960	6,758	7,000	6,761	29,479	9.1	6,913	7,592	7,598	6,922	29,025	8.9
Maize	1,320	320	400	40	2,080	0.6	482	971	607	0	2,060	0.6
Pulses and oils	0	0	0	0	0	0.0	0	0	0	0	0	0.0
Health SWAp	1,531	1,531	1,531	1,531	6,123	1.9	1,241	1,712	1,420	1,306	5,678	1.7
Elections	1,000	0	0	0	1,000	0.3	0	0	500	500	1,000	0.3
Other goods and services	5,110	4,907	5,069	5,191	20,276	6.3	5,189	4,909	5,072	5,116	20,286	6.2
Subsidies and transfers	3,326	7,356	6,956	3,326	20,965	6.5	3,478	8,562	5,881	3,555	21,476	6.6
Pension and gratuities	1,191	1,191	1,191	1,191	4,763	1.5	1,191	1,191	1,191	1,191	4,763	1.5
Fertilizer subsidy	0	4,030	3,630	0	7,660	2.4	209	5,232	2,495	0	7,935	2.4
Other subsidies and transfers	2,136	2,136	2,136	2,136	8,542	2.6	2,079	2,139	2,196	2,364	8,778	2.7
Arrears repayment	500	500	500	500	2,000	0.6	867	695	219	219	2,000	0.6
Development expenditure	10,095	10,848	13,446	13,343	47,732	14.7	9,265	12,418	12,356	16,272	50,310	15.4
Part I (foreign financed)	8,365	9,119	11,681	11,508	40,673	12.5	6,764	9,354	10,799	14,715	41,631	12.7
Part II (domestically financed)	1,729	1,729	1,765	1,835	7,059	2.2	2,501	3,064	1,557	1,557	8,679	2.7
Net lending	173	173	173	173	690	0.2	0	230	230	230	690	0.2
Overall balance (including grants)	-1,916	-5,507	759	2,291	-4,373	-1.3	-1,498	-1,838	-1,100	-105	-4,540	-1.4
Spending directly related to privatization	0	0	0	0	0	0.0	0	0	0	0	0	0.0
Augmented balance	-1,916	-5,507	759	2,291	-4,373	-1.3	-1,498	-1,838	-1,100	-105	-4,540	-1.4
Total financing	1,916	5,507	-759	-2,291	4,373	1.3	3,705	-370	1,100	105	4,540	1.4
Foreign (net)	-209	2,704	1,592	1,651	5,737	1.8	-792	1,169	1,583	4,203	6,163	1.9
Borrowing	2,455	4,011	2,663	2,698	11,828	3.6	1,854	2,076	1,931	4,846	10,707	3.3
Program	0	1,217	0	0	1,217	0.4	0	0	0	2,882	2,882	0.9
Project	2,455	2,794	2,663	2,698	10,611	3.3	1,854	2,076	1,931	1,964	7,825	2.4
Amortization	-2,664	-1,308	-1,071	-1,047	-6,090	-1.9	-2,646	-907	-348	-643	-4,544	-1.4
Domestic (net)	2,125	2,804	-2,351	-3,942	-1,364	-0.4	-1,052	-660	-484	-4,098	-6,293	-1.9
Other financing (IMF MDRI relief)	0	0	0	0	0	0.0	5,549	-879	0	0	4,670	1.4
Discrepancy	0	0	0	0	0	0.0	-2,207	2,207	0	0	0	0.0
Memorandum items:												
Nominal GDP	324,355	324,355	324,355	324,355	324,355		327,320	327,320	327,320	327,320	327,320	
Net domestic debt	57,129	59,932	57,581	53,639	53,639	16.5	53,777	53,117	52,633	48,536	48,536	14.8
MDRI/HIPC debt service relief, total[1]	2,327	5,176	4,113	5,077	16,692	5.1	7,742	5,896	3,298	3,785	20,720	6.3

Sources: Malawian authorities; and IMF staff estimates.

[1] Includes debt relief through debt cancellation and transfers.

Table 2b: Malawi: Central Government Operations, 2002/03 – 2008/09
(Millions of Malawi kwacha)

	2002/03	2003/04	2004/05	2005/06		2006/07		2007/08	2008/09
	Act.	Act.	Act.	Prog.	Est.	Prog.	Proj.	Proj.	Proj.
Total revenue and grants	42,685	65,817	84,925	117,394	117,116	135,514	137,751	157,846	172,068
Revenue	32,009	42,754	56,809	66,364	67,316	78,355	79,258	91,467	101,821
Tax revenue	27,251	36,902	49,798	58,016	59,884	69,152	72,259	82,258	91,640
Pension contributions, employees	…	…	…	…	…	…	…	1,477	1,675
Nontax revenue	4,758	5,852	7,011	8,348	7,431	9,203	6,998	7,731	8,506
Of which : sales receipts maize	591	1,351	468	1,157	1,175	800	0	0	0
Grants	10,675	23,063	28,117	51,030	49,801	57,159	58,494	66,379	70,247
Budget/ Program support	1,220	6,576	5,085	15,159	13,930	9,652	8,551	12,597	10,985
Project	4,604	6,518	11,020	15,185	11,089	24,242	27,680	36,777	39,462
Dedicated grants	188	4,219	6,933	13,645	17,215	14,502	15,576	15,895	18,696
HIPC debt relief	3,588	5,261	5,078	7,041	7,567	5,078	3,002	1,111	1,104
MDRI debt relief from IMF	0	0	0	0	0	3,685	3,685	0	0
Total expenditure and net lending	61,322	80,536	97,215	122,842	119,737	139,887	142,292	159,344	179,214
Current expenditure	49,473	59,537	71,657	88,051	93,473	91,465	91,291	93,072	103,600
Wages and salaries	10,930	12,337	17,056	20,448	20,209	23,375	24,027	29,549	33,502
Of which : Health SWAp	0	0	94	730	602	1,019	1,019	1,199	1,265
Interest payments	10,985	20,024	19,612	18,368	18,209	15,645	14,764	10,717	9,009
Domestic	8,871	17,253	16,650	14,909	15,017	13,791	13,323	9,935	8,012
Foreign	2,114	2,771	2,962	3,459	3,192	1,854	1,441	782	997
Other current expenditure	27,559	27,176	34,989	49,235	55,055	52,444	52,501	52,806	61,089
Purchases of goods and services	20,127	18,416	19,968	29,923	33,050	29,479	29,025	27,932	35,231
Maize	6,078	0	2,447	8,497	9,123	2,080	2,060	0	0
Pulses and oils	0	0	0	0	1,260	0	0	0	0
Health SWAp	0	0	984	3,873	5,077	6,123	5,678	4,430	4,778
Elections	10	2,029	63	261	60	1,000	1,000	373	4,231
Other goods and services	14,039	16,388	16,474	17,292	17,530	20,276	20,286	23,128	26,222
Subsidies and other current transfers	7,431	7,410	13,555	17,312	19,183	20,965	21,476	21,874	22,858
Pension and gratuities	1,431	1,613	2,106	3,208	3,209	4,763	4,763	6,101	7,240
Fertilizer/Seeds subsidy	0	0	4,328	5,635	6,937	7,660	7,935	6,635	6,135
Other subsidies and transfers	6,000	5,797	7,121	8,469	9,036	8,542	8,778	9,138	9,483
Arrears repayment	0	1,349	1,467	2,000	2,822	2,000	2,000	3,000	3,000
Development expenditure	11,787	20,999	24,969	34,791	26,263	47,732	50,310	66,272	75,614
Part I (foreign financed)	9,521	17,681	22,556	30,972	22,342	40,673	41,631	55,823	62,921
Part II (domestically financed)	2,266	3,319	2,413	3,819	3,921	7,059	8,679	10,449	12,693
Net lending	61	0	589	0	0	690	690	0	0
Overall balance (including grants)	-18,637	-14,719	-12,289	-5,448	-2,621	-4,373	-4,540	-1,498	-7,147
Spending directly related to privatization[1]	0	0	0	2,225	2,841	0	0	0	0
Augmented balance (incl. privatization)	-18,637	-14,719	-12,289	-7,673	-5,462	-4,373	-4,540	-1,498	-7,147
Total financing	18,099	14,938	12,920	7,673	5,878	4,373	4,540	1,498	7,147
Foreign (net)	-730	425	6,102	5,773	982	5,737	6,163	7,775	12,884
Borrowing	4,917	7,185	11,588	15,817	11,142	11,828	10,707	10,030	15,297
Program	0	1,386	5,182	3,351	3,373	1,217	2,882	1,249	4,490
Project	4,917	5,799	6,406	12,467	7,770	10,611	7,825	8,781	10,807
Amortization	-5,448	-7,577	-8,210	-10,044	-10,161	-6,090	-4,544	-2,255	-2,413
Domestic (net)	18,829	14,512	6,818	-1,661	905	-1,364	-6,293	-6,277	-5,737
Other financing (privatization, IMF MDRI etc.)	-307	62	0	3,560	3,991	0	4,670	0	0
Discrepancy (- is overfinancing)	538	-218	-631	0	-417	0	0	0	0
Memorandum items:									
Nominal GDP	160,137	189,563	226,479	270,989	275,433	324,355	327,320	373,182	423,100
Net domestic debt	32,654	47,104	53,923	52,262	54,828	53,639	48,536	42,258	36,521
Underlying balance[2]	-2,781	-1,648	4,189	4,805	2,601	3,208	2,118	4,292	580
Overall balance (excluding grants)	-29,312	-37,783	-40,406	-56,478	-52,421	-61,532	-63,034	-67,877	-77,394
Pro-poor spending	8,828	11,390	20,317	18,543	31,298	40,109	36,426	42,453	48,616
Arrears (stock)	...	...	10,037	...	...	...	...	...	...
MDRI/HIPC debt service relief, total[3]	...	...	...	...	…	16,692	20,720	20,190	…
IMF	...	...	...	...	…	3,810	8,399	0	…
IDA	...	...	...	...	…	7,359	7,108	8,496	…
AfDB	…	…	…	…	…	902	869	1,821	…
Paris Club Bilaterals and others	…	…	…	…	…	4,621	4,344	9,873	…
Gross debt of state owned enterprises[4]	...	…	28,652	...	34,727	…	…	…	…

Sources: Malawian authorities; and IMF staff estimates.

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

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

[3] Includes reflief through debt cancellation and transfers.

[4] Include ADMARC, ESCOM, the Waterboards, MDC, Air Malawi, MHC and MPC.

Table 2c: Malawi: Central Government Operations, 2002/03 – 2008/09

(Percent of GDP)

	2002/03	2003/04	2004/05	2005/06		2006/07		2007/08	2008/09
	Act.	Act.	Act.	Prog.	Est.	Prog.	Proj.	Proj.	Proj.
Total revenue and grants	26.7	34.7	37.5	43.3	42.5	41.8	42.1	42.3	40.7
Revenue	20.0	22.6	25.1	24.5	24.4	24.2	24.2	24.5	24.1
Tax revenue	17.0	19.5	22.0	21.4	21.7	21.3	22.1	22.0	21.7
Pension contributions, employees	…	…	…	…	…	…	…	0.4	0.4
Nontax revenue	3.0	3.1	3.1	3.1	2.7	2.8	2.1	2.1	2.0
of which : Sales receipts maize	0.4	0.7	0.2	0.4	0.4	0.2	0.0	0.0	0.0
Grants	6.7	12.2	12.4	18.8	18.1	17.6	17.9	17.8	16.6
Budget/ Program support	0.8	3.5	2.2	5.6	5.1	3.0	2.6	3.4	2.6
Project	2.9	3.4	4.9	5.6	4.0	7.5	8.5	9.9	9.3
Dedicated grants	0.1	2.2	3.1	5.0	6.3	4.5	4.8	4.3	4.4
HIPC debt relief	2.2	2.8	2.2	2.6	2.7	1.6	0.9	0.3	0.3
MDRI debt relief from IMF	0.0	0.0	0.0	0.0	0.0	1.1	1.1	0.0	0.0
Total expenditure and net lending	38.3	42.5	42.9	45.3	43.5	43.1	43.5	42.7	42.4
Current expenditure	30.9	31.4	31.6	32.5	33.9	28.2	27.9	24.9	24.5
Wages and salaries	6.8	6.5	7.5	7.5	7.3	7.2	7.3	7.9	7.9
Of which : Health SWAp	0.0	0.0	0.0	0.3	0.2	0.3	0.3	0.3	0.3
Interest payments	6.9	10.6	8.7	6.8	6.6	4.8	4.5	2.9	2.1
Domestic	5.5	9.1	7.4	5.5	5.5	4.3	4.1	2.7	1.9
Foreign	1.3	1.5	1.3	1.3	1.2	0.6	0.4	0.2	0.2
Other current expenditure	17.2	14.3	15.4	18.2	20.0	16.2	16.0	14.2	14.4
Purchases of goods and services	12.6	9.7	8.8	11.0	12.0	9.1	8.9	7.5	8.3
Maize purchases	3.8	0.0	1.1	3.1	3.3	0.6	0.6	0.0	0.0
Pulses and oils	0.0	0.0	0.0	0.0	0.5	0.0	0.0	0.0	0.0
Health SWAp	0.0	0.0	0.4	1.4	1.8	1.9	1.7	1.2	1.1
Elections	0.0	1.1	0.0	0.1	0.0	0.3	0.3	0.1	1.0
Other goods and services	8.8	8.6	7.3	6.4	6.4	6.3	6.2	6.2	6.2
Subsidies and other current transfers	4.6	3.9	6.0	6.4	7.0	6.5	6.6	5.9	5.4
Pension and gratuities	0.9	0.9	0.9	1.2	1.2	1.5	1.5	1.6	1.7
Fertilizer/Seeds subsidy	0.0	0.0	1.9	2.1	2.5	2.4	2.4	1.8	1.5
Other subsidies and transfers	3.7	3.1	3.1	3.1	3.3	2.6	2.7	2.4	2.2
Arrears repayment	0.0	0.7	0.6	0.7	1.0	0.6	0.6	0.8	0.7
Development expenditure	7.4	11.1	11.0	12.8	9.5	14.7	15.4	17.8	17.9
Part I (foreign financed)	5.9	9.3	10.0	11.4	8.1	12.5	12.7	15.0	14.9
Part II (domestically financed)	1.4	1.8	1.1	1.4	1.4	2.2	2.7	2.8	3.0
Net lending	0.0	0.0	0.3	0.0	0.0	0.2	0.2	0.0	0.0
Overall balance (including grants)	-11.6	-7.8	-5.4	-2.0	-1.0	-1.3	-1.4	-0.4	-1.7
Spending directly related to privatization[1]	0.0	0.0	0.0	0.8	1.0	0.0	0.0	0.0	0.0
Augmented balance	-11.6	-7.8	-5.4	-2.8	-2.0	-1.3	-1.4	-0.4	-1.7
Total financing	11.3	7.9	5.7	2.8	2.1	1.3	1.4	0.4	1.7
Foreign (net)	-0.5	0.2	2.7	2.1	0.4	1.8	1.9	2.1	3.0
Borrowing	3.1	3.8	5.1	5.8	4.0	3.6	3.3	2.7	3.6
Program	0.0	0.7	2.3	1.2	1.2	0.4	0.9	0.3	1.1
Project	3.1	3.1	2.8	4.6	2.8	3.3	2.4	2.4	2.6
Amortization	-3.4	-4.0	-3.6	-3.7	-3.7	-1.9	-1.4	-0.6	-0.6
Domestic (net)	11.8	7.7	3.0	-0.6	0.3	-0.4	-1.9	-1.7	-1.4
Other financing (privatization, IMF MDRI etc.)	-0.2	0.0	0.0	1.3	1.4	0.0	1.4	0.0	0.0
Discrepancy (- is overfinancing)	0.3	-0.1	-0.3	0.0	-0.2	0.0	0.0	0.0	0.0
Memorandum items:									
Net domestic debt	20.4	24.8	23.8	19.3	19.9	16.5	14.8	11.3	8.6
Underlying balance[2]	-1.7	-0.9	1.8	1.8	0.9	1.0	0.6	1.2	0.1
Overall balance (excluding grants)	-18.3	-19.9	-17.8	-20.8	-19.0	-19.0	-19.3	-18.2	-18.3
Pro-poor spending	5.5	6.0	9.0	6.8	11.4	12.4	11.1	11.4	11.5
Arrears (Stock)	...	...	4.4	...	...	...	...	...	...
MDRI/HIPC debt service relief, total[3]	...	...	...	...	…	5.1	6.3	5.4	…
IMF	...	...	...	...	…	1.2	2.6	0.0	…
IDA	...	...	...	...	…	2.3	2.2	2.3	…
AfDB	…	…	…	…	…	0.3	0.3	0.5	…
Paris Club Bilaterals and others	…	…	…	…	…	1.4	1.3	2.6	…
Liabilities of state owned enterprises[4]	...	…	12.7	...	12.6	…	…	…	…
Real GDP growth, percent	3.0	4.5	3.5	5.1	5.3	7.0	7.0	5.6	5.5
Inflation (consumer prices, end-period), percent	8.5	11.6	15.9	10.3	15.3	5.7	8.1	7.4	7.4
Current account, percent of GDP	-12.0	-9.0	-13.3	-6.0	-11.2	-4.5	-4.7	-2.0	-2.5

Sources: Malawian authorities; and IMF staff estimates.

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

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

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

[4] Include ADMARC, the Waterboards, MDC, Air Malawi, MHC and MPC.

Table 3a. Malawi : Monetary Authorities' Balance Sheet, 2004–07

(Millions of Malawi kwacha, unless otherwise indicated)

	2004	2005				2006							2007	2007	2007	2007
	Q4	Q1	Q2	Q3	Q4	Q1	Q2		Q3		Q4		Q1	Q2	Q3	Q4
	Act.	Act.	Act.	Act.	Act.	Act.	Prog.	Act	Prog.	Act.	Prog.	Proj.	Proj.	Proj.	Proj.	Proj.
Reserve money	17,967	16,196	19,580	20,115	20,611	17,500	22,750	20,924	21,163	20,341	22,067	22,060	18,958	23,764	25,245	25,532
Currency outside banks	10,993	9,976	13,050	12,785	11,947	11,793	...	15,830	...	16,421	...	...	...	...	...	...
Cash in vault	1,861	1,567	1,866	1,787	2,331	1,915	...	1,690	...	2,058	...	...	...	...	...	...
Commercial bank deposits with RBM	5,114	4,653	4,664	5,543	6,333	3,793	...	3,404	...	1,862	...	...	...	...	...	...
Net foreign assets (NFA)	2,919	158	4,060	9,142	6,948	3,455	7,606	8,623	12,844	10,671	9,187	18,098	16,899	18,000	31,316	29,927
NFA (millions of U.S. dollars)	26.8	1.4	33.0	73.7	56.1	25.8	61.8	62.0	104.4	77.2	74.7	128.9	118.2	123.9	212.1	199.4
Gross foreign assets	119.3	90.4	112.4	159.4	131.4	108.3	137.2	138.6	133.4	115.2	113.9	143.4	142.9	158.8	247.0	241.6
Foreign liabilities	-92.5	-88.9	-79.4	-85.8	-75.3	-82.5	-75.4	-76.5	-28.9	-38.0	-39.2	-14.5	-24.7	-34.9	-34.9	-42.2
Net domestic assets	15,048	16,038	15,520	10,972	13,663	14,045	15,145	12,301	8,319	9,669	12,880	3,962	2,059	5,763	-6,071	-4,395
Credit to government (net)	12,046	20,297	22,181	11,957	11,339	12,706	12,613	6,430	10,877	9,556	12,504	8,897	8,117	6,425	405	3,194
Credit to statutory bodies (net)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Credit to domestic banks	2	2	2	2	2	2	2	2	2	42	2	45	46	49	52	52
Other items (net)	3,001	-4,261	-6,662	-986	2,322	1,337	2,529	5,869	-2,560	71	374	-4,979	-6,105	-710	-6,528	-7,641
Revaluation accounts	-2	0	0	0	0	112	0	0	112	0	112	0	0	0	0	0
Open market operations	-5,582	-13,592	-16,907	-10,061	-7,881	-6,088	-6,621	-3,496	-5,140	-7,207	-4,445	-11,927	-15,335	-12,929	-20,649	-24,371
Encumbered reserves	1,013	1,037	799	807	3,472	869	492	903	492	412	492	562	572	581	591	600
IMF MDRI Relief	...	...	...	...	...	...	...	...	-6,468.2	0	-5,395	-1,786	-1,123	0	0	0
Others	7,572	8,293	9,446	8,268	6,731	6,444	8,658	8,462	8,444	6,866	9,610	8,172	9,782	11,638	13,531	16,130
Memorandum items:																
Seasonally adjusted reserve money	17,754	19,347	19,584	20,317	20,406	20,897	22,658	20,934	20,846	20,628	21,872	21,841	22,637	23,774	25,601	25,278
Quarterly change	6.6	9.0	1.2	3.7	0.4	2.4	4.7	0.2	4.3	-1.5	4.9	5.9	3.6	5.0	7.7	-1.3
Annual change	30.7	33.9	4.7	22.0	14.9	8.0	16.2	6.9	5.2	1.5	7.1	7.0	8.3	13.6	24.1	15.7
Seasonally adjusted currency outside banks	13,669	13,990	16,540	18,051	17,217	17,566	...	21,128	...	22,278	...	...	...	...	...	...
Quarterly change	15.1	2.3	18.2	9.1	-4.6	2.0	...	20.3	...	5.4	...	...	...	...	...	...
Annual change	42.7	40.5	56.7	51.9	26.0	25.6	...	27.7	...	23.4	...	...	...	...	...	...
Net Foreigjn Assets at program exchange rate	2,919	158	4,060	9,142	6,948	3,455	7,606	8,623	12,844	10,671	9,187	15,852	16,476	17,261	29,550	27,786
Net Domestic Assets at program exchange rate	15,048	16,038	15,520	10,972	13,663	14,045	15,145	12,301	8,319	9,669	12,880	6,208	2,482	6,502	-4,304	-2,254
Money multiplier																
Money multiplier	2.54	2.75	2.59	2.54	2.53	3.09	2.63	2.79	2.91	3.13	2.89	2.89	3.28	3.01	2.87	2.88
Seasonally adjusted	2.53	2.47	2.48	2.50	2.53	2.72	2.55	2.67	2.88	2.99	2.88	2.89	2.88	2.88	2.88	2.88
Net sales[1]																
Quarterly change	-2,254	6,029	2,177	1,733	-52	3,832	-2,092	-2,267	1,375	100	80	4,720	3,704	-4,812	7,099	3,038
Annual change	7,378	12,086	12,595	7,686	9,887	7,690	-2,379	3,246	1,007	1,613	1,148	6,385	6,258	3,713	10,711	9,029

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

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

Table 3b. Malawi : Monetary Survey, 2004–07
(Millions of Malawi kwacha, unless otherwise indicated)

	2004	2005				2006							2007			
	Q4	Q1	Q2	Q3	Q4	Q1	Q2		Q3		Q4		Q1	Q2	Q3	Q4
	Act.	Act.	Act.	Act.	Act.	Act.	Prog.	Act.	Prog.	Act.	Prog.	Proj.	Proj.	Proj.	Proj.	Proj.
Money and quasi-money	45,666	44,552	50,625	51,081	52,208	54,079	59,740	58,328	61,644	60,637	63,724	63,716	62,146	71,469	72,534	73,583
Money	25,443	24,400	28,977	29,171	30,204	29,941	...	33,249	...	33,811	...	...	...	...	...	...
Quasi money	20,222	20,151	21,648	21,910	22,004	24,138	...	25,080	...	26,826	...	...	...	...	...	...
Of which: foreign currency deposits	7,120	7,284	8,246	7,564	6,475	9,300	...	8,807	...	10,908	...	...	...	...	...	...
Net foreign assets (NFA)	7,593	3,092	9,054	12,475	9,929	9,417	13,227	13,714	17,789	18,726	13,209	22,690	21,144	23,769	37,695	35,435
NFA (millions of U.S. dollars)	69.7	27.7	73.6	100.5	80.2	70.4	107.5	98.7	144.6	135.4	107.4	161.6	147.9	163.6	255.3	236.1
Gross foreign assets	177.8	125.2	163.9	207.5	170.3	163.1	199.8	188.9	181.8	187.7	156.3	185.8	180.3	206.2	299.4	289.0
Foreign liabilities	-108.1	-97.5	-90.3	-106.9	-90.1	-92.7	-92.3	-90.2	-37.1	-52.3	-48.9	-24.2	-32.4	-42.6	-44.1	-52.9
Monetary authorities	2,919	158	4,060	9,142	6,948	3,455	7,606	8,623	12,844	10,671	9,187	18,098	16,899	18,000	31,316	29,927
NFA of the monetary authorities (millions of U.S. dollars)	26.8	1.4	33.0	73.7	56.1	25.8	61.8	62.0	104.4	77.2	74.7	128.9	118.2	123.9	212.1	199.4
Gross foreign assets	119.3	90.4	112.4	159.4	131.4	108.3	137.2	138.6	133.4	115.2	113.9	143.4	142.9	158.8	247.0	241.6
Foreign liabilities	-92.5	-88.9	-79.4	-85.8	-75.3	-82.5	-75.4	-76.5	-28.9	-38.0	-39.2	-14.5	-24.7	-34.9	-34.9	-42.2
Commercial banks	4,674	2,934	4,994	3,333	2,982	5,962	5,621	5,091	4,945	8,055	4,022	4,592	4,245	5,769	6,379	5,508
NFA of the commercial banks (millions of U.S. dollars)	42.9	26.3	40.6	26.9	24.1	44.6	45.7	36.6	40.2	58.3	32.7	32.7	29.7	39.7	43.2	36.7
Gross foreign assets	58.5	34.8	51.5	48.0	38.9	54.7	62.6	50.3	48.4	72.5	42.4	42.4	37.4	47.4	52.4	47.4
Foreign liabilities	-15.6	-8.5	-10.9	-21.2	-14.8	-10.2	-16.9	-13.7	-8.2	-14.2	-9.7	-9.7	-7.7	-7.7	-9.2	-10.7
Net domestic assets	38,073	41,460	41,571	38,607	42,279	44,661	46,513	44,614	43,855	41,911	50,515	41,027	41,002	47,700	34,839	38,148
Credit to government (net)	22,322	29,229	30,077	21,083	23,280	29,261	25,542	22,122	28,364	22,819	36,394	22,159	21,380	19,206	12,565	15,354
Credit to statutory bodies (net)	-483	-664	-772	-1,088	-1,479	-1,370	-1252	-795	-1,449	-738	-1,522	-790	-819	-847	-883	-912
Credit to private sector	13,926	13,227	16,497	18,201	17,500	16,500	20,121	21,126	20,335	22,544	15,391	20,812	19,388	24,818	26,315	24,179
Other items (net)	2,307	-332	-4,231	411	2,978	270	2,102	2,161	-3,395	-2,714	251	-1,155	1,053	4,523	-3,158	-473
RBM's revaluation accounts	-2	0	0	0	0	112	0	0	112	0	112	0	0	0	0	0
Open market operations	-5,372	-7,510	-10,174	-6,461	-4,831	-3,438	-4,969	-2,640	-2,257	-2,597	-850	-709	-783	-302	-9,885	-9,809
Encumbered reserves	1,013	1,037	799	807	3,472	869	492	903	492	412	492	562	572	581	591	600
IMF MDRI Relief	...	...	...	...	...	...	...	...	-6468.2	0.0	-5,395	-1,786	-1,123	0	0	0
Others	6,668	6,141	5,144	6,065	4,337	2,727	6,579	3,898	4,727	-529	5,893	778	2,387	4,243	6,136	8,736
Memorandum items:																
Seasonally adjusted broad money	45,623	47,400	48,437	50,133	52,139	57,386	56,892	55,712	60,594	59,482	63,648	63,632	65,948	68,263	71,152	73,486
Quarterly change	7.0	3.9	2.2	3.5	4.0	10.1	4.3	-2.9	5.1	6.8	5.0	7.0	3.6	3.5	4.2	3.3
Annual change	29.7	24.0	18.4	17.6	14.3	21.1	18.0	15.0	20.7	18.6	22.1	22.0	14.9	22.5	19.6	15.5
Seasonally adjusted credit to private sector	11,589	11,689	11,714	11,918	12,558	13,813	20,516	14,209	20,416	15,294	15,118	14,934	16,231	16,692	17,852	17,350
Quarterly change	7.7	0.9	0.2	1.7	5.4	10.0	10.0	2.9	1.8	7.6	-26.0	-2.4	8.7	2.8	6.9	-2.8
Annual change	39.8	38.1	17.9	10.8	8.4	18.2	22.0	21.3	11.7	28.3	-12.1	18.9	17.5	17.5	16.7	16.2
Velocity of money (annual GDP divided by seasonally adjusted end-period broad money)	4.54	4.57	4.68	4.71	4.71	4.54	4.76	4.94	4.77	5.32	4.77	4.80	4.80	4.80	4.76	4.76

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

Table 4a. Malawi: Balance of Payments, 2002–09[1]
(Millions of U.S. dollars, unless otherwise indicated)

	2002	2003	2004	2005	2006		2007		2008	2009
	Act.	Act.	Act.	Act.	Prog	Proj.	Prog	Proj.	Proj.	Proj.
Current account balance (including grants)	**-332.2**	**-139.9**	**-191.5**	**-336.1**	**-169.5**	**-160.2**	**-42.1**	**-32.0**	**-43.5**	**-83.6**
Merchandise trade balance	-284.0	-255.7	-310.9	-565.1	-497.8	-426.1	-455.7	-374.4	-397.7	-465.2
Exports	413.5	433.4	499.3	504.5	572.0	463.2	592.9	461.8	479.6	500.5
Of which: Tobacco	232.8	205.9	258.8	279.0	295.1	245.5	303.4	245.5	252.4	260.0
Imports	-697.5	-689.1	-810.2	-1069.6	-1069.8	-889.3	-1048.6	-836.2	-877.3	-965.7
Of which: Petroleum	-63.0	-78.5	-95.9	-137.2	-177.5	-180.7	-187.9	-196.6	-198.7	-203.7
Emergency Maize	-102.8	-5.5	0.0	-63.7	-40.0	-40.0	0.0	0.0	0.0	0.0
Services balance	-291.7	-189.3	-210.4	-244.7	-84.6	-234.8	-74.5	-216.5	-205.0	-197.6
Interest public sector (net)	-20.2	-25.5	-27.7	-25.9	-18.9	-19.8	-3.6	-4.5	5.1	10.3
Receipts	2.5	1.5	0.7	0.7	3.0	1.5	5.3	1.2	11.4	16.3
Payments (amounts due before HIPC debt relief)	-22.7	-27.0	-28.4	-26.6	-22.0	-21.3	-8.9	-5.7	-6.3	-6.1
Other factor payments (net)	-23.7	-14.6	-15.4	-15.7	-18.7	-17.0	-19.7	-18.0	-19.0	-20.0
Nonfactor (net)	-247.8	-149.2	-167.3	-203.1	-47.0	-197.9	-51.2	-194.0	-191.1	-187.9
Receipts	49.8	40.0	41.2	50.0	42.5	51.7	43.4	60.5	63.5	66.7
Payments	-215.1	-189.2	-208.6	-253.1	-89.5	-249.6	-94.6	-254.6	-254.6	-254.6
Unrequited transfers (net)	243.4	305.1	329.8	473.7	412.9	500.7	488.1	558.9	559.1	579.2
Private (net)	8.1	141.1	116.3	191.7	132.5	173.0	136.4	177.0	180.0	185.8
Receipts	21.6	156.4	127.9	203.6	143.0	185.1	147.3	189.4	192.7	198.8
Payments	-13.4	-15.3	-11.6	-11.8	-10.6	-12.1	-10.8	-12.4	-12.7	-13.0
Official (net)	235.3	164.0	213.4	281.9	280.5	327.7	351.7	381.9	379.1	393.4
Receipts	235.3	164.0	213.4	281.9	280.5	327.7	351.7	381.9	379.1	393.4
Balance of payments assistance	12.8	41.7	64.3	97.2	46.1	68.2	98.9	83.5	79.7	77.6
Japan HIPC Initiative[2]	11.0	16.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Donor humanitarian grants	135.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project related	76.1	87.5	149.2	170.6	234.4	259.5	252.7	298.4	299.4	315.8
Drought related	0.0	0.0	0.0	14.1	0.0	0.0	0.0	0.0	0.0	0.0
Food Security	0.0	18.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital account balance (incl. errors and omissions)	**177.3**	**101.7**	**166.2**	**308.3**	**111.2**	**99.3**	**89.1**	**95.4**	**117.1**	**132.7**
Medium- and long-term flows	23.8	10.9	16.2	20.4	50.0	24.1	58.9	65.2	83.3	96.8
Disbursements	81.0	96.7	95.3	97.5	113.3	86.5	90.8	82.9	96.1	111.4
Balance of payments support	0.0	18.4	35.2	18.1	32.9	24.5	18.4	28.4	33.6	37.5
Project support	81.0	78.3	50.1	79.4	80.4	62.0	72.4	54.5	62.5	74.0
Other medium-term loans			10.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment assets	0.0	-17.2	-4.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization (amounts due before HIPC debt relief)	-57.2	-68.6	-74.8	-77.1	-63.4	-62.4	-31.9	-17.7	-12.8	-14.6
Foreign direct investment and other inflows	37.6	43.2	44.1	26.5	29.8	29.8	32.3	32.4	34.0	35.7
MDRI debt forgiveness on debt due after current year					1844.0	1864.0	375.7	383.0		
MDRI grants from ADF					0.0	0.0	375.7	383.0		
MDRI grants from IDA					1798.0	1804.0	0.0	0.0		
MDRI grants from IMF					46.0	60.0	0.0	0.0		
Other liabilities (MDRI-IDA and ADF loans)					-1812.7	-1818.6	-377.9	-385.2		
Short-term capital and errors and omissions	115.9	47.6	105.9	261.5	0.0	0.0	0	0	0	0
Overall balance	**-154.9**	**-38.2**	**-25.3**	**-27.8**	**-58.3**	**-60.9**	**46.9**	**63.3**	**73.6**	**49.0**
Financing (- increase in reserves)	**154.8**	**38.2**	**25.4**	**27.8**	**58.3**	**60.8**	**-46.9**	**-63.4**	**-73.6**	**-49.1**
Central bank	111.5	-2.6	-15.7	-48.6	6.0	-48.2	-75.1	-70.5	-76.0	-50.9
Gross reserves (- increase)	40.9	39.4	-6.0	-30.6	41.3	11.8	-92.7	-98.3	-83.3	-50.9
Liabilities	70.6	-42.0	-9.7	-18.0	-35.3	-60.0	17.6	27.7	7.3	0.0
Of which: IMF (net)	16.8	-0.1	-13.7	-10.6	10.6	-60.1	17.5	27.7	7.3	0.0
Purchases/drawings	23.0	9.3	0.0	8.3	24.9	14.4	17.5	27.7	7.3	0.0
Repurchases/repayments	-6.2	-9.3	-13.7	-18.9	-14.2	-74.5	0.0	0.0	0.0	0.0
MDRI liabilities (repayment)	50.0	-50.0	0.0	0.0	-54.2	-54.2	0.0	0.0	0.0	0.0
Commercial banks	14.5	-6.7	-6.0	18.8	-8.6	-8.6	-4.0	-4.0	-4.0	-5.0
Arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt relief	28.9	47.5	47.0	57.6	46.2	103.0	29.9	9.0	6.4	6.8
MDRI debt forgiveness on debt due in current year					14.6	14.6	2.2	2.2		
Residual financing gap (+ underfinanced)	**0.0**	**0.0**	**0.0**	**0.0**	0.0	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum items:										
IMF MDRI debt relief	0.0	0.0	0.0	0.0	13.2	13.2	20.7	20.7	8.3	6.4
Gross official reserves										
Millions of U.S. dollars	162.0	122.6	128.6	159.2	117.9	147.4	210.5	245.6	328.9	379.8
Months of imports[3]	2.2	1.4	1.2	1.8	1.2	1.6	2.2	2.6	3.2	3.6
In months of imports[4]	2.1	1.7	1.5	1.4	1.2	1.6	2.2	2.7	3.5	3.7
Usable gross official reserves[5]										
Millions of U.S. dollars	103.4	115.6	119.3	131.2	113.9	143.4	206.5	241.6	324.9	375.8
Months of imports[3]	1.4	1.4	1.1	1.4	1.2	1.6	2.2	2.6	3.2	3.5
Months of imports[4]	1.4	1.6	1.4	1.2	1.2	1.5	2.2	2.7	3.4	3.7
Current account balance (percent of GDP)										
Excluding official transfers	-29.3	-17.2	-21.3	-29.8	-20.5	-21.8	-17.1	-17.2	-16.4	-17.2
Including official transfers	-17.2	-7.9	-10.1	-16.2	-7.7	-7.2	-1.8	-1.3	-1.7	-3.0
Export value growth (percent)	-3.1	4.8	15.2	1.0	11.2	-8.2	6.3	-0.3	3.9	4.3
Merchandise imports, excluding all maize	-566	-684	-793	-1006	-1029.8	-849	-1049	-836	-877	-966
Percent change	22.3	20.8	16.0	26.9	10	-15.6	1.8	-1.5	4.9	10.1

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

[1] The implications of MDRI were incorporated before the DSA was completed and may therefore differ from the figures presented in the HIPC completion point document.
[2] For 2002-03, relief was provided through grants in yen. From 2004 onward, debt will be written off and recorded under debt relief.
[3] In previous staff reports, the delivery of debt relief by Paris Club creditors was presented as exceptional financing. Following the completion point, the delivery of Paris Club debt relief through a stock operation is now reflected through a reduction in projections of amortization owing and a corresponding reduction in exceptional financing.
[4] In months of following year's imports of goods and nonfactor services.
[5] In months of current year's imports of goods and nonfactor services.

Table 4b. Malawi: Gross financing requirements and sources of financing, 2002–09
(Millions of U.S. dollars)

	2002	2003	2004	2005	2006		2007	2008	2009
	Act.	Act.	Act.	Act.	Prog.	Proj.	Proj.	Proj.	Proj.
Gross financing requirements	**-521.7**	**-391.1**	**-501.4**	**-733.3**	**-530.5**	**-2440.1**	**-919.1**	**-522.8**	**-547.5**
External current account deficit (excl. official transfers)	-567.5	-303.9	-405.0	-618.1	-388.9	-487.9	-413.9	-422.7	-477.1
of which: trade balance on goods and services	-531.8	-404.9	-478.2	-768.2	-476.2	-624.0	-568.5	-588.8	-653.1
Official debt amortization	-63.4	-77.9	-88.5	-96.0	-111.3	-1955.5	-402.9	-12.8	-14.6
of which IMF repurchases and repayments	-6.2	-9.3	-13.7	-18.9	-27.3	-74.5	0.0	0.0	0.0
MDRI debt repayment						-1818.6	-385.2		
Other , including reserves	109.2	-9.2	-8.0	-19.2	-30.2	3.3	-102.2	-87.3	-55.9
Gross reserves	40.9	39.4	-6.0	-30.6	-28.8	11.8	-98.3	-83.3	-50.9
Gross liabilities (excluding IMF)	53.8	-41.9	4.0	-7.4	0.1	0.1	0.0	0.0	0.0
Change in n.f.a. of commercial banks	14.5	-6.7	-6.0	18.8	-1.5	-8.6	-4.0	-4.0	-5.0
Sources of financing	**521.7**	**391.1**	**501.5**	**733.3**	**530.5**	**2440.0**	**919.0**	**522.8**	**547.5**
Private capital (net)	153.5	73.6	145.7	287.9	22.2	29.8	32.4	33.8	35.9
of which Short term errors and ommissions	115.9	47.6	105.9	261.5	-7.6	0.0	0.0	-0.2	0.2
Gross official Assistance	339.3	270.0	308.8	387.7	452.4	428.6	492.5	482.6	504.8
Official Grants	235.3	164.0	213.4	281.9	290.2	327.7	381.9	379.1	393.4
Balance of payments support	12.8	41.7	64.3	97.2	81.8	68.2	83.5	79.7	77.6
Other	222.5	122.3	149.2	184.7	208.5	259.5	298.4	299.4	315.8
Loan Disbursements	104.0	106.0	95.3	105.8	162.2	100.9	110.6	103.5	111.4
IMF	23.0	9.3	0.0	8.3	25.3	14.4	27.7	7.3	0.0
Balance of payments support	0.0	18.4	35.2	18.1	56.5	24.5	28.4	33.6	37.5
Project support	81.0	78.3	50.1	79.4	80.4	62.0	54.5	62.5	74.0
Other medium-term loans	0.0	0.0	10.0	0.0	0.0	0.0	0.0	0.0	0.0
Accumulation of arrears (exceptional)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt relief (including MDRI)	28.9	47.5	47.0	57.6	55.9	1981.6	394.2	6.4	6.8
Financing gap (surplus +/deficit -)	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum items (percent of GDP)									
Gross financing requirements	-26.9	-22.0	-26.4	-35.2	-24.6	-108.9	-38.2	-20.3	-19.8
Current account balance, excluding official transfers	-29.2	-17.1	-21.3	-29.7	-18.0	-21.8	-17.2	-16.4	-17.2
Trade balance on goods and services	-27.4	-22.8	-25.1	-36.9	-22.1	-27.8	-23.6	-22.9	-23.6
Gross official assistance	17.5	15.2	16.2	18.6	21.0	19.1	20.5	18.7	18.2
Gross official assistance, net of amortization after debt rel	15.7	13.5	14.0	16.8	18.4	20.3	20.1	18.5	18.0
Balance of payments assistance (including IMF)	1.8	3.9	5.2	5.9	7.6	4.8	5.8	4.7	4.2
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

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

Table 5a. Malawi: Quantitative Targets[1]

	Criteria	Jun. 2005 Stock Actual	End-Mar. 2006 CR 06/94	End-Mar. 2006 Adjusters	End-Mar. 2006 Adjusted Target	End-Mar. 2006 Act.	End-Jun. 2006: Test Date CR 06/94	End-Jun. 2006: Test Date Adjusters	End-Jun. 2006: Test Date Adjusted Target	End-Jun. 2006: Test Date Act.	End-Sep. 2006 CR 06/445	End-Sep. 2006 Adjusters	End-Sep. 2006 Adjusted Target	End-Sep. 2006 Act.
			(Cumulative flows from June 30, 2005)											
I. Monetary Targets (Mllions of Malawi kwacha)														
1. Ceiling on net domestic assets of the monetary authorities[2]	PC[3]	15,520	-1,564	-1,278	-2,842	-1,197	-375	-1,331	-1,706	-2,227	-7,201	1,634	-5,567	-4,673
2. Ceiling on reserve money	IT	19,580	-1,690	...	-1,690	-2,080	3,170	...	3,170	1,344	1,582	...	1,582	760
II. Fiscal Targets (Millions of Malawi kwacha)														
3. Ceiling on central government's net domestic borrowing[2 4 5]	PC[3]	53,923	180	-39	140	6,857	-1,661	1,420	-240	905	3,206	-2,033	1,174	-146
4. Ceiling on central government wages and salaries 4/	PC[3]	...	14,914	174	15,087	15,344	20,448	-128	20,320	20,209	26,158	-128	26,030	25,921
5. Ceiling on central government discretionary expenditures 4/	IT	...	40,873	-387	40,486	47,087	53,054	1,204	54,258	58,976	73,898	1,650	75,548	72,735
III. External Targets (Millions of U.S. dollars)														
6. Floor on net foreign assets of the monetary authorities[2]	PC[3]	33.0	-1.0	-10.0	-11.0	-7.2	28.8	-9.6	19.3	29.0	71.4	-13.3	58.1	44.2
7. Ceiling on the accumulation of external payments arrears[6]	PC[3]	...	0.0	...	0.0	0.0	0.0	...	0.0	0.0	0.0	...	0.0	0.0
8. Ceiling on new nonconcessional external debt with a maturity of one year or m	PC[3]	...	0.0	...	0.0	0.0	0.0	...	0.0	0.0	0.0	...	0.0	0.0
9. Ceiling on new nonconcessional external debt with a maturity of less than one	PC[3]	...	0.0	...	0.0	0.0	0.0	...	0.0	0.0	0.0	...	0.0	0.0
Memorandum items:														
Balance of payments support (in millions of U.S. dollars)			116.4	-10.0	...	91.4	144.5	-9.6	...	134.9	159.0	-10.0	...	139.6
Debt service payments to the WB and the ADB (in millions of US dollars)											7.0	3	...	10.3
IMF debt relief transfers from the RBM to the CG (in millions of US dollars)											4.5	40	...	44.7
Health SWAp wage expenditures (in millions of kwacha)			322	174	...	496	730	-128	...	602	977	-128	...	849
Health SWAp ORT expenditures (in millions of kwacha)			2,399	-387	...	2,011	3,873	1,204	...	5,077	4,413	1,650	...	6,063
Net Movement in special accounts (in millions of kwacha)			1,049	1,338		2,386	1,693	-104	...	1,589	3,590	-1,698	...	1,892
Cash payment of arrears (in millions of kwacha)			1,604	0	...	2,223	2,000	0	...	2,822	2,500	0	...	3,689
Liquidity Reserve Requirement (percent)			27.5	2,508	...	20.0	27.5	2,508	...	20.0	20.0	0	...	20.0
Program exchange rate		123	123	123	123	123	123	123	123	123	123	123	123	123

PC - performance criteria; IT - indicative target

[1] Targets are defined in the technical memorandum of understanding (TMU).

[2] Targets are subject to an adjuster for BOP support.

[3] Targets for end-March and end-September 2006 are indicative.

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

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

[6] Evaluated on a continuous basis.

Table 5b. Malawi: Quantitative Targets[1]

	Criteria	Jun. 2005 Stock Actual	End-Sep. 2006 CR 06/445	End-Sep. 2006 Adjusters	End-Sep. 2006 Adjusted Target	End-Sep. 2006 Act.	End-Dec. 2006: Test Date CR 06/445	End-Dec. 2006: Test Date Proj.	End-Mar 2007 Prog.	End-June 2007: Test Date Prog.
I. Monetary Targets (Mllions of Malawi kwacha)										
1. Ceiling on net domestic assets of the monetary authorities[2]	PC[3]	15,520	-7,201	1,634	-5,567	-4,673	-2,640	-9,312	-12,499	-8,478
2. Ceiling on reserve money	IT	19,580	1,582	...	1,582	760	2,486	2,479	-623	4,183
II. Fiscal Targets (Millions of Malawi kwacha)										
3. Ceiling on central government's net domestic borrowing[2 4 5]	PC[3]	53,923	3,206	-2,033	1,174	-146	6,010	-806	-1,289	-5,387
4. Ceiling on central government wages and salaries[4]	PC[3]	...	26,158	-128	26,030	25,921	31,956	31,716	38,026	44,236
5. Ceiling on central government discretionary expenditures[4]	IT	...	73,898	1,650	75,548	72,735	90,413	92,878	108,363	120,846
III. External Targets (Millions of U.S. dollars)										
6. Floor on net foreign assets of the monetary authorities[2]	PC[3]	33.0	71.4	-13.3	58.1	44.2	41.7	95.9	85.2	90.9
7. Ceiling on the accumulation of external payments arrears[6]	PC[3]	...	0.0	...	0.0	0.0	0.0	0.0	0.0	0.0
8. Ceiling on new nonconcessional external debt with a maturity of one year or m	PC[3]	...	0.0	...	0.0	0.0	0.0	0.0	0.0	0.0
9. Ceiling on new nonconcessional external debt with a maturity of less than one	PC[3]	...	0.0	...	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Balance of payments support (in millions of U.S. dollars)			159.0	-10.0	...	139.6	167.4	181.1	196.1	216.1
Debt service payments to the WB and the ADB (in millions of US dollars)			7.0	3	...	10.3	7.4	10.8	11.0	11.5
IMF debt relief transfers from the RBM to the CG (in millions of US dollars)			4.5	40	...	44.7	13.2	47.4	52.1	59.9
Health SWAp wage expenditures (in millions of kwacha)			977	-128	...	849	1,230	1,102	1,360	1,621
Health SWAp ORT expenditures (in millions of kwacha)			4,413	1,650	...	6,063	7,050	7,050	8,763	10,756
Net Movement in special accounts (in millions of kwacha)			3,590	-1,698	...	1,892	1,915	2,515	2,515	1,091
Cash payment of arrears (in millions of kwacha)			2,500	0	...	3,689	3,000	4,384	4,603	4,822
Liquidity Reserve Requirement (percent)			20.0	0	...	20.0	20.0	20.0	20	20
Program exchange rate		123	123	123	123	123	123	123	139	139

PC - performance criteria; IT - indicative target
[1] Targets are defined in the technical memorandum of understanding (TMU).
[2] Targets are subject to an adjuster for BOP support.
[3] Targets for end-September 2006 and end-March 2007 are indicative.
[4] Targets are subject to an adjuster for donor-funded health expenditures.
[5] Targets are subject to adjusters for maize revenue and cash payment of arrears.
[6] Evaluated on a continuous basis.

Table 5c. Malawi: Proposed Structural Performance Criteria and Benchmarks,
June 2006 –June 2007

Number	Description	Date	Status
Performance Criteria			
1	Implemention of a centralized IFMIS mechanism for paying central government utility bills.	End-March 2007	
Structural Benchmarks			
1	Eliminate import backlog of commercial bank foreign exchange applications for import-related payments.	End-Jun. 2006	Implemented with a delay
2	Develop and implement new travel policy, which includes mechanisms for monitoring adherence.	End-Sept 2006	Implementation imminent
3	Formulate an action plan to address weaknesses in the area of PFM.	End-Oct. 2006	Implemented
4	Compile quarterly financial reports for key public sector enterprises and publish their audited annual financial statements.	End-March 2007	
5	Compile monthly reports on payroll execution.	End-March 2007	
6	Issue external debt management guidelines.	End-June 2007	
7	Submit legislation to Cabinet governing the microfinance sector.	End-June 2007	

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

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

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

Table 6b: Malawi: Indicators of Fund Credit, 2004 – 2015 [1/]
(Millions of SDRs, unless otherwise indicated)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Fund credit outstanding[2]												
Millions of SDRs	59.6	52.6	12.9	31.1	35.8	35.8	35.8	35.4	32.0	25.1	17.4	9.8
Millions of U.S. dollars	89.7	80.4	19.8	47.6	54.9	54.9	54.9	54.1	49.1	38.4	26.7	15.0
Percent of quota	85.8	75.8	18.6	44.8	51.6	51.6	51.6	50.9	46.2	36.1	25.1	14.1
Existing stock												
Millions of SDRs	59.6	52.6	12.9	12.9	12.9	12.9	12.9	12.4	10.5	7.6	4.5	1.5
Millions of U.S. dollars	89.7	80.4	19.8	19.8	19.8	19.8	19.8	19.1	16.0	11.6	6.9	2.3
Percent of quota	85.8	75.8	18.6	18.6	18.6	18.6	18.6	17.9	15.1	10.9	6.5	2.1
Proposed disbursement												
Millions of SDRs	0.0	5.4	9.8	18.1	4.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Millions of U.S. dollars	0.0	8.3	15.1	27.8	7.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Percent of quota	0.0	7.8	14.2	26.1	6.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fund obligations	9.9	13.2	18.1	0.6	0.6	0.6	0.6	1.1	3.9	7.5	8.1	8.1
Fund total charges and interest[3]	0.7	0.8	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.5	0.5	0.5
Existing drawings	0.7	0.8	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.4
Prospective drawings	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0
Fund total repayment/repurchase[4]	9.2	12.4	17.5	0.0	0.0	0.0	0.0	0.5	3.3	7.0	7.6	7.6
Existing drawings	9.2	12.4	17.5	0.0	0.0	0.0	0.0	0.5	2.0	2.9	3.1	3.1
Prospective drawings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.3	4.1	4.6	4.6
Net Fund credit	-9.2	-6.9	-7.7	18.1	4.8	0.0	0.0	-0.5	-3.3	-7.0	-7.6	-7.6
Net use of Fund resources, excluding HIPC assistance	-9.9	-7.8	-8.2	17.5	4.2	-0.6	-0.6	-1.1	-3.9	-7.5	-8.1	-8.1
Fund HIPC-MDRI assistance	0.0	1.4	-39.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net use of Fund resources, after HIPC assistance	-9.9	-6.4	-47.9	17.5	4.2	-0.6	-0.6	-1.1	-3.9	-7.5	-8.1	-8.1
Fund credit outstanding in percent of												
Exports of good and nonfactor services	11.7	10.3	3.8	9.1	10.1	9.7	9.3	8.7	7.3	5.3	3.5	1.8
Gross official reserves	53.2	43.6	13.8	19.7	16.9	14.6	12.1	10.7	9.2	6.8	4.4	2.4
Fund obligations in percent of												
Exports of good and nonfactor services	2.8	3.6	5.4	0.2	0.2	0.2	0.2	0.3	0.9	1.6	1.6	1.5
Gross official reserves	12.5	15.4	19.3	0.4	0.3	0.2	0.2	0.3	1.1	2.0	2.1	1.9
Memorandum items:												
Quota (millions of SDR)	69.4	69.4	69.4	69.4	69.4	69.4	69.4	69.4	69.4	69.4	69.4	69.4
Export of goods and nonfactor services (millions of U.S. dollar	540	554	515	522	543	567	592	626	676	719	766	818
Gross official reserves (millions of U.S. dollars)	119	131	143	242	325	376	453	505	536	568	602	638

Sources: Malawi authorities; and Fund staff estimates and projections

[1] Includes only board-approved HIPC assistance and excludes expected MDRI debt relief.

[2] Includes the prospective disbursement under the Poverty Reduction and Growth Facility arrangement for a total of SDR 38.2m (55 percent of quota) and the repurchase of of the outstanding General Resources Account drawings under the emergency post-conflict assistance.

[3] Before the subsidization of charges.

[4] Excludes HIPC assistance.

APPENDIX I

November 14, 2006

Mr. Rodrigo de Rato y Figaredo
Managing Director
International Monetary Fund
Washington, DC 20431

Dear Mr. de Rato:

1. The government of Malawi requests the completion of the third review and the fourth disbursement under the PRGF arrangement in the amount of SDR6.68 million. In this connection, the Government also requests the IMF Executive Board to grant a waiver for the nonobservance of the quantitative performance criterion relating to central government domestic borrowing for end-June 2006. The fifth disbursement will be subject to the fourth review expected to be completed in May 2007. The sixth disbursement will be subject to the fifth review to be completed in November 2007.

2. The second review of the economic program supported by Malawi's arrangement with the Fund under the Poverty Reduction and Growth Facility (PRGF) was completed on August 30, 2006. At that time, Malawi also reached the completion point under the HIPC Initiative and became eligible for relief under the MDRI. In the attached Supplement to the Memorandum of Economic and Financial Policies (MEFP) and Technical Memorandum of Understanding, we review performance in implementing the program in the fiscal year 2005/06 and the first quarter of 2006/07, and update the macroeconomic framework and policy measures for 2006/07 as a whole. The Government of Malawi believes that implementation of the PRGF-supported program through end-June 2006 was satisfactory.

3. The Government of Malawi remains strongly committed to implementing the economic program supported by the PRGF arrangement. The program outlined in the attached MEFP presents quantitative performance and indicative targets through to the end of June 2007. We believe that the policies set forth in the attached MEFP are adequate to achieve the objectives of the program, but will take any further measures that may become appropriate for this purpose. We will consult with the IMF on the adoption of these measures, and in advance of revisions to the policies contained in the supplementary MEFP, in accordance with the agreed IMF's policies on such consultation.

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

Sincerely yours,

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

/s/
Victor Mbewe
Governor
Reserve Bank of Malawi

Attachments

APPENDIX I—ATTACHMENT I

SUPPLEMENT TO THE MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES OF THE GOVERNMENT OF MALAWI

December 20, 2006

1. **The current memorandum supplements the policies presented in our Memorandum of Economic and Financial Policies (MEFP) of July 2005 (Country Report No. 05/285), February 2006 (Country Report No. 06/94) and August 2006 (Country Report No. 06/445).** This memorandum covers macroeconomic performance for FY2005/06, updates policies for FY2006/07, and outlines our structural reform agenda.

2. **We welcome the IMF Executive Board's recognition of Malawi's continued satisfactory performance under the PRGF arrangement** during its discussion of the second review in August 2006. We also welcome the recognition by the Executive Boards of the IMF and the World Bank that Malawi met the conditions to reach the completion point under the HIPC Initiative and to receive relief under the Multilateral Debt Relief Initiative.

3. **Malawi is at an important juncture**. We have made good progress in restoring macroeconomic stability, have received significant debt relief, and have recently launched the Malawi Growth and Development Strategy (MGDS). This provides Malawi with an opportunity to advance an ambitious agenda of structural reform to enhance growth. At the same time, we remain committed to sound macroeconomic policies and recognize that deepening our performance in this area will require strengthening economic management capacity.

I. UPDATE OF 2005/06

4. **Despite the severe challenges faced during 2005/06**, we met most of the program targets for end-June 2006. Largely because of unanticipated spending on food security, we exceeded the program targets on government domestic borrowing and discretionary government spending.

5. **Overall macroeconomic performance during 2005/06 was broadly as anticipated**. Real GDP growth was 5.3 percent, and non-food inflation fell below 13 percent. However, overall inflation remained above 15 percent, exceeding our expectations, mainly because urban food prices were slow to reflect the bumper harvest and were more susceptible to the exchange rate depreciation.

6. **Domestic borrowing, our key fiscal target, was 0.3 percent of GDP, about 0.9 percentage points higher than programmed, but domestic debt nevertheless fell below 20 percent of GDP**. Scaled-up food security operations, higher logistical costs related to the purchase and distribution of maize and fertilizer, and accelerated repayment of domestic

arrears accounted for most of the overrun. The third-quarter overrun in the wage bill was corrected in the fourth quarter, and for the fiscal year as a whole was comfortably within the program target.

7. **Pressures on the foreign exchange market eased during the second half of 2005/06**. In January 2006, we adopted a more flexible exchange rate policy and the resulting depreciation—over 12 percent by early June—helped clear the backlog of external private payment arrears by the end of July. Clearance of the backlog by end-June 2006 was delayed by weak foreign exchange inflows following the disruptions to the tobacco auctions in May.

8. **Following the reduction in the liquidity reserve ratio (LRR) in February 2006, we also tightened reserve money growth** to reduce excess liquidity and contain inflationary risks. By the end of June, we eliminated most of the excess liquidity, but not all of it as intended, so that the year ended with a modest monetary overhang. Nevertheless, broad money growth stayed largely in line with targets. As intended, lowering the LRR has eased financial intermediation costs, raising deposit rates and marginally reducing interest rate spreads. It also triggered lower yields on treasury bills, which have remained about 5 percentage points lower than at the start of the year.

II. Macroeconomic Policies in 2006/07

9. **The government's key macroeconomic objectives for 2006/07 are largely unchanged from those agreed under the program**. Final crop estimates have confirmed a bumper harvest that is larger than anticipated and which will support a rebound in real GDP growth above 8 percent in 2006 and to 6 percent in 2007. We have revised the fiscal year outlook for overall inflation modestly upwards to about 8 percent because of a slower than expected decline in non-food inflation.

10. **Preliminary data indicate that we met most of the indicative targets for end-September 2006**. However, the monetary program came under pressure. Although reserve money was on target, we missed the target on net foreign assets of the RBM, mainly because of unexpected administrative delays in budget support (equaling about US$28 million), which was only partially covered by a program adjustor. As a result, we also missed the target on net domestic assets. The budget support was received in early October and we now expect to meet the monetary as well as other targets for end-December.

A. Consolidating Debt Reduction

11. **We are committed to implementing the budget approved by Parliament in August 2006**. Preliminary data indicate that budget performance during the first quarter of 2006/07 was stronger than envisaged. Expenditures were broadly within budget, but domestic tax revenues were substantially higher than projected. The strength in tax revenues continues the strong performance in the last quarter of 2005/06 and reflects the rebound in economic activity and continued improvements in tax administration.

12. **Projections of debt service payments net of debt relief remain broadly as anticipated in the budget.** However, there is the possibility of additional debt relief during this fiscal year, as a result of topping up of HIPC debt assistance at the HIPC completion point. We welcome the decision by Paris Club creditors to provide 100 percent debt relief on pre-cutoff debt. We will approach these and other bilateral and multilateral creditors to conclude bilateral agreements on debt relief. The debt relief from the IMF under the MDRI was received by the RBM in September and November 2006. As envisaged, a portion will be transferred to the budget on a flow basis according to the former schedule of debt service payments to the IMF. In addition, the remainder will now also be transferred to the government this fiscal year and used to pay down domestic debt.

13. **We have revised our food security operations since the budget was approved**. The unexpected size of the harvest has provided us with the opportunity to increase our maize purchases to replenish the Strategic Grain Reserve, at an additional cost to the budget of about MK 0.8 billion. Part of these stocks have already been released to the World Food Program to provide humanitarian relief in areas hit by drought. In addition, to develop the capacity of the Agricultural Development and Marketing Corporation to function as a commercial entity, we have authorized it to finance its maize purchases for commercial resale through off-budget domestic commercial borrowing. We are accelerating fertilizer operations to ensure timely delivery during the crop cycle.

14. **The government payroll in 2006/07 is projected to be about 0.1 percent of GDP larger than budgeted**. This is due to additional hiring, primarily in health and education, as well as additional compensation for the judiciary and the National Assembly, pending the recommendation of the Public Service Remuneration Board. These changes will be implemented in the second half of 2006/07.

15. **We plan to securitize a portion of the stock of domestic arrears** into government bonds with a maturity of 1 to 3 years. We expect to initiate discussions with creditors and complete the securitization by end-June 2007.

16. **The outlook for the fiscal year as a whole remains positive.** We expect the strong revenue performance of the first quarter to continue. Furthermore, the World Bank is planning to provide US$20 million in additional program support in the second half of the fiscal year. This will more than offset additional spending of about MK1.6 billion during the second half of the fiscal year. Domestic debt, excluding any securitization of domestic arrears, is now projected to fall to 14.8 percent of GDP, about 2 percentage points lower than programmed.

B. Reducing Inflation and Restoring External Reserves

17. **Monetary policy remains anchored by a reserve money growth target and geared to reducing inflation.** By end-September 2006, the RBM had mopped up the excess liquidity generated by the reduction in the LRR and had brought reserve money back on

track. Because of the unanticipated monetary overhang at the end of June, we will constrain reserve money growth to ensure that the money stock target for the end of June 2007 is met. In recent months, commercial bank lending to the private sector has responded to the reduction in the LRR, lower T-bill yields, and lower banking sector financing of the budget. By the end of September, private sector credit had increased 28 percent over a year before on a seasonally adjusted basis.

18. **Overall 12-month inflation has dropped sharply since June to 11.6 percent at the end of September 2006**. Inflation nevertheless remains stronger than we had projected so that we have revised our outlook for the fiscal year upwards. Even so, the strong agricultural crop, the moderation in world oil prices, and a projected deceleration in reserve money growth are expected to push inflation below 10 percent. Lower inflation, if sustained, provides the basis for lower interest rates, but any reductions will be modest and measured and we will be prepared to raise interest rates if the inflation target comes under threat.

19. **We are committed to a flexible exchange rate policy consistent with the monetary framework and Malawi's low level of external reserves.** Net foreign assets increased steeply in September 2006, as a result of IMF debt relief under the MDRI. However, gross official reserves remained low as a result of the food crisis, the disruption to the tobacco market, and pressures on the foreign exchange market earlier this year. Restoring our import coverage remains an important priority. The stability of the exchange rate and modest appreciation since reaching the HIPC completion point will, if continued, provide opportunities to build reserves. We now expect gross official reserves to rise to about 1.7 months of imports at the end of the fiscal year, up from 1.5 months at the end of June 2006.

III. Structural Measures

20. **The MGDS provides the basis for the government to advance an ambitious medium-term agenda of structural reform**. Within the context of the PRGF-supported program, we will focus our efforts on measures to enhance growth and to strengthen our economic management capacity.

A. Enhancing Growth

21. **The MGDS emphasizes the need to improve Malawi's weak record on output growth by improving the environment for private sector activity**. Following consultations with the private sector and donors, we have identified five major impediments to growth: the perception of macroeconomic instability, inadequate access to credit, unreliable supply of power, the high costs of doing business, and the lack of skilled labor. We have made significant strides in restoring macroeconomic stability. To address the remaining concerns, we will, among other measures, aim to finalize a Private Sector Development Program in early 2007, whose implementation will be supported by the World Bank.

22. **Malawi ranks low on the ease of doing business** and the private sector has cited the administrative costs of dealing with public institutions as a significant burden—especially with respect to obtaining licenses, cross-border trade, and closing businesses. We have initiated steps to identify and implement measures to streamline procedures in these areas (such as consolidating business licenses) during this fiscal year. To further facilitate doing business, we are reviewing selected commercial laws in the current fiscal year.

23. **Improving access to credit is a key objective**. Continued fiscal consolidation is fundamental to this objective, as it will permit a further reduction in the government's domestic borrowing. In addition, we are developing a comprehensive strategy to strengthen financial intermediation, which will be refined after the Financial Sector Assessment Program is conducted in mid-2007. Key elements of this strategy include enhancing financial stability, strengthening creditor rights, increasing the availability of information in credit markets, and reducing intermediation costs. In addition, passage of the Land Reform Bill will increase access to collateral-based lending in the rural sector. We are also revising the RBM Act to strengthen banking supervision and, as part of a SADC initiative, to give the RBM greater autonomy. We are considering legislation to govern the microfinance sector in order to expand access to the financial sector for the rural poor (structural benchmark for end-June 2007). We have taken preliminary steps to introduce commercial courts to facilitate the resolution of commercial disputes and foster a credit culture.

24. **Improving the performance of Malawi's public sector enterprises is also key to growth.** We will continue to take steps to improve their efficiency and financial performance by introducing clear lines of accountability for responsible ministers, the Board of Directors, and chief executives and by allowing these enterprises greater operational and financial autonomy and introducing better practices. As a first step toward better monitoring the fiscal risks, we will compile quarterly financial reports for the major public sector enterprises, including the utilities and ADMARC, and publish their audited annual financial statements (structural benchmark for end-March 2007).

B. Building Economic Management Capacity

25. **The progress in macroeconomic management since mid-2004** has, in large part, relied on the government taking essential steps to address an unstable macroeconomic environment. Deepening this performance will now depend on strengthening our economic management capacity.

26. **We have developed an action plan to strengthen public financial management** (structural benchmark for end-October 2006). On the basis of this action plan, we will continue the phase-in of the IFMIS and will strengthen budget comprehensiveness, internal controls and reconciliation in budget execution, and audited financial reports. We will make use of the IFMIS to ensure that the utility bills of all central government entities are paid on a timely basis (performance criterion for end-March 2007). In other areas, we will strengthen

our control of the wage bill by compiling monthly reports of payroll execution (structural benchmark for end-March 2007)

27. **An external debt management strategy** is needed to ensure that Malawi does not return to debt distress. A comprehensive strategy will take time to put in place. As a first step, we will develop and issue guidelines for the entire public sector to ensure that new borrowing is sufficiently concessional and accumulated within sustainable levels (structural benchmark for end-June 2007).

28. **Weaknesses in statistical reporting capacity impede economic management**. We are revising the national accounts and the balance of payments (with Fund technical assistance) and expect to complete these revisions by the end of the fiscal year. We will also strengthen the compilation of the consumer price index and aim to complete the revision of the weights using the 2004 Integrated Household Survey by end-June 2007. We are also improving data collection on project inflows, albeit not all donors are fully engaged.

29. **In other areas, the new travel policy focuses on accountability and transparency (structural benchmark for end-September 2006)**. A circular implementing the new policy will be issued shortly in the new year. Key elements of the policy include tighter procedures for travel authorization, enhanced ex-post monitoring, audit and validation of travel claims. Daily subsistence allowances have been streamlined. The new policy aims to reduce government travel spending from about 5½ percent of total expenditure to about 3 percent.

30. **International oil prices have increased significantly in recent years and are likely to remain high into the foreseeable future.** This development represents a challenge to which we will need to adapt. The government is therefore reviewing the pricing and taxation arrangements for oil products. We are discussing options with industry participants to ensure the timely pass-through of changes in world oil prices, while smoothing the impact of sudden and large oil price shocks.

Table 1. Malawi: Quantitative Targets[1]

	Criteria	Jun. 2005 Stock Actual	End-Sep. 2006 CR 06/445	End-Sep. 2006 Adjusters	End-Sep. 2006 Adjusted Target	End-Sep. 2006 Act.	End-Dec. 2006: Test Date CR 06/445	End-Dec. 2006: Test Date Proj.	End-Mar 2007 Prog.	End-June 2007: Test Date Prog.
I. Monetary Targets (Mllions of Malawi kwacha)										
1. Ceiling on net domestic assets of the monetary authorities[2]	PC[3]	15,520	-7,201	1,634	-5,567	-4,673	-2,640	-9,312	-12,499	-8,478
2. Ceiling on reserve money	IT	19,580	1,582	...	1,582	760	2,486	2,479	-623	4,183
II. Fiscal Targets (Millions of Malawi kwacha)										
3. Ceiling on central government's net domestic borrowing[2 4 5]	PC[3]	53,923	3,206	-2,033	1,174	-146	6,010	-806	-1,289	-5,387
4. Ceiling on central government wages and salaries[4]	PC[3]	...	26,158	-128	26,030	25,921	31,956	31,716	38,026	44,236
5. Ceiling on central government discretionary expenditures[4]	IT	...	73,898	1,650	75,548	72,735	90,413	92,878	108,363	120,846
III. External Targets (Millions of U.S. dollars)										
6. Floor on net foreign assets of the monetary authorities[2]	PC[3]	33.0	71.4	-13.3	58.1	44.2	41.7	95.9	85.2	90.9
7. Ceiling on the accumulation of external payments arrears[6]	PC[3]	...	0.0	...	0.0	0.0	0.0	0.0	0.0	0.0
8. Ceiling on new nonconcessional external debt with a maturity of one year or more[6]	PC[3]	...	0.0	...	0.0	0.0	0.0	0.0	0.0	0.0
9. Ceiling on new nonconcessional external debt with a maturity of less than one year[6]	PC[3]	...	0.0	...	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Balance of payments support (in millions of U.S. dollars)			159.0	-10.0	...	139.6	167.4	181.1	196.1	216.1
Debt service payments to the WB and the ADB (in millions of US dollars)			7.0	3	...	10.3	7.4	10.8	11.0	11.5
IMF debt relief transfers from the RBM to the CG (in millions of US dollars)			4.5	40	...	44.7	13.2	47.4	52.1	59.9
Health SWAp wage expenditures (in millions of kwacha)			977	-128	...	849	1,230	1,102	1,360	1,621
Health SWAp ORT expenditures (in millions of kwacha)			4,413	1,650	...	6,063	7,050	7,050	8,763	10,756
Net Movement in special accounts (in millions of kwacha)			3,590	-1,698	...	1,892	1,915	2,515	2,515	1,091
Cash payment of arrears (in millions of kwacha)			2,500	0	...	3,689	3,000	4,384	4,603	4,822
Liquidity Reserve Requirement (percent)			20.0	0	...	20.0	20.0	20.0	20	20
Program exchange rate		123	123	123	123	123	123	123	139	139

PC - performance criteria; IT - indicative target

[1] Targets are defined in the technical memorandum of understanding (TMU).

[2] Targets are subject to an adjuster for BOP support.

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

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

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

[6] Evaluated on a continuous basis.

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

Number	Description	Date	Status
Performance Criteria			
1	Implemention of a centralized IFMIS mechanism for paying central government utility bills.	End-March 2007	
Structural Benchmarks			
1	Eliminate import backlog of commercial bank foreign exchange applications for import-related payments.	End-Jun. 2006	Implemented with a delay
2	Develop and implement new travel policy, which includes mechanisms for monitoring adherence.	End-Sept 2006	Implementation imminent
3	Formulate an action plan to address weaknesses in the area of PFM.	End-Oct. 2006	Implemented
4	Compile quarterly financial reports for key public sector enterprises and publish their audited annual financial statements.	End-March 2007	
5	Compile monthly reports on payroll execution.	End-March 2007	
6	Issue external debt management guidelines.	End-June 2007	
7	Submit legislation to Cabinet governing the microfinance sector.	End-June 2007	

APPENDIX I—ATTACHMENT II

MALAWI: TECHNICAL MEMORANDUM OF UNDERSTANDING

1. This memorandum sets out the definitions for the quantitative and structural targets under which Malawi's performance under the Poverty Reduction and Growth Facility arrangement will be assessed. Monitoring procedures and reporting requirements are also specified.

2. **Coverage:** The central government includes all units of government that exercise authority over the entire economic territory. However, in contrast to the *System of National Accounts 1993 (SNA 1993)* and *Government Finance Statistics Manual 2001 (GFSM 2001)* standards, nonprofit institutions that are controlled and financed by the central government are excluded for the purposes of this memorandum. The accounts of the monetary authorities include those of the Reserve Bank of Malawi (RBM) and the central government's holdings of international reserves. Monetary aggregates under the program are based on the three-bank monetary survey.

I. QUANTITATIVE PERFORMANCE CRITERIA

A. Floor on Net Foreign Assets of the Monetary Authorities

3. **Definition of net foreign assets (NFA) of the monetary authorities:** NFA of the monetary authorities are defined as the difference between gross foreign assets and liabilities. NFA will be valued in U.S. dollars, and monetary gold will be valued at the fixed RBM accounting rate. The counterpart entry to the central government's international reserve assets will be classified as a negative entry under "net credit to central government".

4. **Gross foreign assets** of the monetary authorities, or reserve assets are defined in the *International Reserve and Foreign Currency Liquidity Guidelines for a Data Template (Guidelines).* This concept includes the following: (1) monetary gold holdings of the RBM; (2) holdings of SDRs; (3) the reserve position in the IMF; (4) central government (treasury) holdings with crown agents; and, (5) holdings of convertible, liquid, and unpledged claims on non-residents, such as deposits abroad, and foreign securities. Excluded are any foreign currency claims on residents, capital subscriptions in international institutions, assets in nonconvertible currencies, and gross reserves that are in any way encumbered or pledged, including, but not limited to, reserve assets used as collateral or guarantee for third-party external liabilities. It also excludes transfers of foreign currency claims to the monetary authorities by other institutional units in Malawi just prior to reporting dates with accompanying reversals of such transfers soon after those dates (*Guidelines*, Chapter 2).

5. **Gross foreign liabilities** of the monetary authorities are defined as the sum of the following: (1) outstanding liabilities of the RBM to the IMF; and, (2) all short-term foreign

currency liabilities of the RBM to non-residents with an original maturity of up to, and including, one year.

6. **Adjustment clause on net foreign assets—balance of payments support:** The floor on NFA of the monetary authorities will be adjusted upward (downward) by the full amount by which the cumulative receipts from the balance of payments support are greater (less) than the program baseline (see Table 1). The downward adjustment will be capped at US$10 million.

7. **Definition of balance of payments support:** Balance of payments support includes all grants and foreign financing that is not linked to additional budgetary expenditure. Excluded from this definition is external project financing to fund particular activities, including food security funding from the European Union and usage of the Tokyo-Mitsubishi account, and loan financing from the IMF. Balance of payments support is measured as the cumulative flow from June 30, 2005.

8. **Adjustment clause on net foreign assets—debt service payments:** The floor on NFA of the monetary authorities will be adjusted upward (downward) by the full cumulative amount by which debt service payments to the World Bank and the ADB falls short of (exceed) the program baseline (Table 1). The cumulative amount will be measured from June 30, 2006.

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

9. **Definition of net domestic assets (NDA) of the RBM:** NDA of the RBM is defined as reserve money minus net foreign assets valued at the program exchange rate of MK139 per US$1. Reserve money consists of currency issued by the RBM and balances of commercial banks accounts with the RBM. It includes required reserves held for Malawi kwacha deposits and any other domestic currency reservable liabilities and other demand and time deposits held with the RBM.

10. **Adjustment clause on net domestic assets—balance of payments support:** The ceiling on NDA of the RBM will be adjusted downward (upward) by the full amount by which the cumulative flow of receipts from balance of payments support is greater (less) than the program baseline. The upward adjustment will be capped at US$10 million. Balance of payments support will be converted to Malawi kwacha using the program exchange rate (see para. 7 for the definition of balance of payments support).

11. **Adjustment clause on net domestic assets—liquidity reserve requirement:** The ceiling on NDA of the RBM will be adjusted downward for a decrease in the reserve requirement ratio, and the ceiling will be adjusted upward for an increase in the ratio. The adjuster will be calculated as follows: (one minus the percentage of reserve assets held at the discount houses) multiplied by (the program baseline required reserve ratio minus the new

required reserve ratio) multiplied by (the amount of reservable deposit liabilities in commercial banks as at the end of the quarter prior to the change in regulation).

12. **Adjustment clause on net domestic assets—debt service payments:** The ceiling on NDA of the RBM will be adjusted downwards (upwards) by the full cumulative amount by which debt service payments to the World Bank and the ADB falls short of (exceed) the program baseline (Table 1). The cumulative amount will be measured from June 30, 2006. Debt service payments will be converted to Malawi kwacha using the program exchange rate.

C. Ceiling on Central Government's Domestic Borrowing

13. **Definition of central government's domestic borrowing (CGDB):** CGDB is computed as the sum of (i) net borrowing from the RBM (including ways and means advances, loans, holdings of local registered stocks, and holdings of treasury bills minus deposits), (ii) net borrowing from commercial banks (including advances, holdings of local registered stocks and holdings of treasury bills minus deposits), (iii) net borrowing from nonbanks (including holding of local registered stocks, holdings of treasury bills, and supplier credits minus government deposits held at the Malawi Savings Bank), and (iv) holdings of promissory notes. The treasury bills and local registered stocks are valued at cost rather than face value. Excluded are promissory notes issued to cover RBM's operational losses in 2002 and 2003. The ceiling is measured as the cumulative flow from June 30, 2005.

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

15. **Definition of domestic arrears**: Domestic arrears are overdue payment obligations by central government other than external payment arrears (see section I.E.), including on wages and salaries, pensions, transfers, domestic interest, goods and services, obligations arising from court cases, legally established compensation claims, and payments to the Malawi Revenue Authority (MRA) for tax refunds. Payments on wages and salaries, pensions, transfers, court established obligations, and compensations are in arrears when they remain unpaid for more than 30 days beyond their due date. Domestic interest payments are in arrears when the payment is not made on the due date. Payments for goods and services are deemed to be in arrears if they have not been made within 30 days of the date of invoice, or—if a grace period has been agreed—within the contractually agreed grace period.

16. **Adjustment clause on CGDB—balance of payments support:** The ceiling on CGDB will be adjusted downward (upward) by the full amount by which the cumulative receipts from balance of payments support is greater (less) than the program baseline (see para. 7 for the definition of balance of payments support). The upward adjustment will be capped at US$10 million.

17. **Adjustment clause on CGDB—securitization of arrears:** The ceiling on CGDB will be adjusted upward by the full amount by which pre-2005 domestic arrears are securitized.

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

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

20. **Adjustment clause on CGDB—donor pool account for the health SWAp:** The ceiling on CGDB will be adjusted downward (upward) by the full amount by which the change (in kwacha) of the stock in the U.S. dollar denominated donor pool account for the health SWAp at the RBM is larger (smaller) than the change (in kwacha) of the stock in that account in the program baseline (Table 2). The change in stock is measured relative to the stock as of June 30, 2005. Stocks in the account are stated with a positive sign.

21. **Adjustment clause on CGDB—National Aids Commission (NAC) accounts:** The ceiling on CGDB will be adjusted downward (upward) by the full amount by which the change (in kwacha) of the stock in the accounts of the NAC held in the Malawi banking system is larger (smaller) than the change (in kwacha) of the stock in those accounts in the program baseline (Table 2). The stock of the NAC accounts will be determined on the basis of the quarterly financial reports of the NAC. The change in stock is measured relative to the stock as of June 30, 2005. Stocks in the accounts are stated with a positive sign.

22. **Adjustment clause on CGDB—transfer of IMF debt relief from the RBM:** The ceiling on net CGDB will be adjusted downwards (upwards) by the full amount by which the full cumulative amount of debt relief provided by the IMF under the HIPC Initiative and the MDRI at the HIPC completion point and transferred by the RBM to the Government of Malawi exceeds (falls short of) the program baseline (Table 1). The cumulative amount will be measured from June 30, 2006.

23. **Adjustment clause on CGDB—debt service payments:** The ceiling on net CGDB will be adjusted downwards (upwards) by the full cumulative amount by which debt service payments to the World Bank and the ADB falls short of (exceed) the program baseline (Table 1). The cumulative amount will be measured from June 30, 2006.

D. Ceiling on Central Government Wages and Salaries

24. **Definition of central government wages and salaries:** Central government wages and salaries include all payments that are classified as personnel emoluments in government budgets and accounts, including payments on arrears of personnel emoluments and allowances. The ceiling is measured as a cumulative flow from June 30, 2005.

25. **Adjustment clause on central government wages and salaries—donor-funded wages and salaries in the health sector:** The ceiling on central government wages and salaries will be adjusted upward (downward) by the full amount of donor-funded supplementary wages and salaries for the health sector that is greater (less) than the program baseline (Table 2).

E. Ceiling on External Payments Arrears

26. **Definition of external payment arrears:** External payment arrears consist of external debt-service obligations (principal and interest) that have not been paid at the time they are due, as specified in the contractual agreements, except on external debt subject to rescheduling or restructuring. A continuous performance criterion applies on the nonaccumulation of external payment arrears on external debt contracted or guaranteed by the central government, the RBM, or other agencies on behalf of the central government or the RBM.

F. Ceiling on Nonconcessional External Debt

27. **Definition of nonconcessional external debt:** The definition of debt, for the purpose of the limit, is set out in Executive Board Decision No. 6230-(79/140) of August 3, 1979, and as amended by Decisions No. 11096-(95/100), October 25, 1995; and 12274-(00/85) August 24, 2000. For program purposes, a short- and medium- and long-term debt is nonconcessional if it includes a grant element less than 35 percent, as indicated in Decision No. 11248-(96/38), April 15, 1996. The ceiling on nonconcessional debt applies to the contracting and guaranteeing by the central government, the RBM, or other agencies on behalf of the central government or the RBM on debt with nonresidents. The ceiling applies to debt and commitments contracted or guaranteed for which value has not been received. The ceiling is measured cumulatively from June 30, 2005.

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

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

30. Excluded from the limit is the use of Fund resources, and any kwacha-denominated treasury bill and local registered stock holdings by nonresidents. Excluded from the limit are

also (i) debts classified as international reserve liabilities of the RBM; (ii) new debt issued to restructure, refinance, or repay existing debt up to the amount actually used for the above-mentioned purposes; (iii) normal import financing; and (iv) arrangements to pay over time obligations arising from judicial awards to external creditors. A financing arrangement for imports is considered to be "normal" when the credit is self-liquidating.

II. Quantitative Indicative Targets

A. Ceiling on Reserve Money

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

B. Ceiling on Central Government Discretionary Expenditures

32. **Definition of central government discretionary expenditures:** These are defined as all expenditures excluding (i) wages and salaries, (ii) interest payments, and (iii) foreign-financed development expenditures (development Part I expenditures) which are related to specific projects. Central government discretionary expenditures include statutory (i.e., nonvoted) expenditures for pensions and gratuities, and compensation and refunds; but exclude tax refunds (which are treated as a negative revenue). Central government discretionary expenditures also include other recurrent expenditures (ORT), domestically financed development expenditures (development Part II expenditures), and net lending (if any). Included in this definition are also recurrent expenditures and development Part II expenditures for which cash financing is or was made available by donors. Included in particular are all maize purchases for the Strategic Grain Reserve, purchases financed from the Japan debt relief account, and expenditures in the health sector financed from the donor pool account in the RBM for the health SWAp. The ceiling is measured as a cumulative flow from June 30, 2005.

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

III. Structural Prior Actions, Performance Criteria and Benchmarks

A. Measures Agreed Before the Third Review

34. **Travel Policy:** The Ministry of Finance will develop and implement (by issuing a circular) a travel policy that will aim to ensure accountability and control for all expenditure on travel.

35. **PFM action plan**: The Ministry of Finance will develop an action plan that prioritizes reforms, describes existing donor support, and identifies remaining areas of need for technical assistance in the area of public financial management.

B. Measures Agreed During the Third Review

36. **Payroll**: The Ministry of Finance will produce monthly reports on the execution of the payroll. The report will include information on the establishment, total number of employees, entries, exits, and promotions for the central government. The report will be produced within two weeks of the end of the month.

37. **IFMIS**: The Ministry of Finance will develop a mechanism within IFMIS for payment on a monthly basis of the utility bills of all central government entities (water, electricity, telephones). The mechanism will be managed by the accountant general. Implementation will be assessed by the delivery of centralized IFMIS payment receipts.

38. **Public Sector Enterprises**: The Ministry of Finance will compile quarterly financial reports of the key public sector enterprises and will publish their audited annual financial statements. The public enterprises covered include ESCOM, the five Water Boards, ADMARC, Air Malawi, the Malawi Postal Corporation, and the Malawi Housing Corporation.

39. **Microfinance sector**: The government will submit legislation to Cabinet governing the microfinance sector in Malawi. The legislation will establish the capital requirements of the microfinance institutions and provide a regulatory framework for accepting deposits and make loans. It will also provide reporting requirements to the RBM by these institutions and will establish the prudential norms under which these institutions will operate.

40. **External debt management guidelines**: The Ministry of Finance will develop and issue external debt management guidelines for the public sector (central government and public sector enterprises). The document will provide guidance on the level of concessionality at which new loans are to be contracted and the level of new borrowing. It will also outline procedures for contracting new loans through the Ministry of Finance, the responsibility of the Ministry of Finance for assessing the terms of the loan—including its concessionality—and the responsibility of the Ministry of Economic Planning and

Development in conjunction with the Ministry of Finance for evaluating the costs and benefits of the project or the use for which the loan is intended.

IV. REPORTING OF CERTAIN TRANSACTIONS IN THE FISCAL ACCOUNTS

41. **Operations of the National Aids Commission (NAC)**. Financial operations of the NAC are included in the fiscal accounts according the NAC's financial reports. Expenditures are typically classified as development Part I expenditures. Government ministries and departments that execute projects financed by NAC report these activities to NAC for inclusion in the NAC's financial reports.

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

V. REPORTING REQUIREMENTS

43. Monitoring of the program requires that the information listed in the tables shown below be reported to the IMF within the timeframe indicated in the table. The new data requirement for a list of the backlog of import applications for foreign exchange will include data by bank, and amounts separated by the following three categories: imports not yet delivered, imports delivered but within the grace period, and imports delivered but outside of the grace period.

Malawi: Reporting Requirements

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

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

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

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

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

Table 1. Malawi: Program Balance of Payments Support and Debt Service Obligations, FY2005/06 and FY2006/07
(Millions of U.S. dollars)

	FY05/06								FY06/07					
	Q1		Q2		Q3		Q4		Q1		Q2		Q3	Q4
	CR 05/285	Act.	CR 05/285	Act.	CR 06/94	Act.	CR 06/94	Act.	CR 06/445	Act.	CR 06/445	Proj.	Prog.	Prog.
Balance of payments support														
Grants	60.2	35.7	20.0	52.7	3.0	3.0	28.1	19.0	21.2	4.7	0.0	41.5	15.0	0.0
EU	18.8	0.0	0.0	17.5	0.0	0.0	28.1	19.0	0.0	0.0	0.0	13.1	2.6	0.0
IDA	0.0	0.0	20.0	29.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
UK	38.2	35.7	0.0	0.0	0.0	0.0	0.0	0.0	17.5	0.0	0.0	28.4	9.3	0.0
Norway	3.2	0.0	0.0	5.3	3.0	3.0	0.0	0.0	3.7	4.7	0.0	0.0	3.2	0.0
Loans	0.0	0.0	25.0	0.0	25.0	0.0	0.0	24.5	0.0	0.0	8.4	0.0	0.0	20.0
IDA	0.0	0.0	25.0	0.0	25.0	0.0	0.0	24.5	0.0	0.0	0.0	0.0	0.0	20.0
ADB	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	8.4	0.0	0.0	0.0
Total	60.2	35.7	45.0	52.7	28.0	3.0	28.1	43.5	21.2	4.7	8.4	41.5	15.0	20.0
Cumulative total	60.2	35.7	105.2	88.4	116.4	91.4	144.5	134.9	159.0	139.6	167.4	181.1	196.1	216.1
Debt service payments														
IDA									5.1	5.1	0.2	0.4	0.3	0.4
AfDB									1.9	5.2	0.2	0.0	0.0	0.0
Total									7.0	10.3	0.4	0.4	0.3	0.4
Cumulative									7.0	10.3	7.4	10.8	11.0	11.5
Pass-through of debt relief from the RBM to the GoM														
IMF									4.5	44.7	8.7	2.7	4.7	7.8
Cumulative									4.5	44.7	13.2	47.4	52.1	59.9

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

Table 2. Malawi: Program Maize revenue, Health SWAp, and NAC Funds, FY2005/06 and FY2006/07
(Millions of Malawi Kwacha)

	FY05/06								FY06/07					
	Q1		Q2		Q3		Q4		Q1		Q2		Q3	Q4
	CR 05/285	Act.	CR 05/285	Act.	CR 06/94	Act.	CR 06/94	Act.	CR 06/445	Act.	CR 06/445	Proj.	Prog.	Prog.
Maize revenue														
Quarterly receipts	170	300	334	454	391	298	0	124	40	0	320	0	0	0
Cumulative receipts	170	300	504	753	1,157	1,051	1,157	1,175	1,091	1,175	1,411	1,175	1,175	1,175
Health SWAp														
RBM accounts														
Revenues	754	1,488	1,840	584	883	2,102	2,159	2,067	2,163	819	928	1,863	1,970	2,045
Expenditures	1,193	1,556	1,227	0	1,164	952	1,882	2,883	0	1,732	2,923	1,240	1,970	2,254
Change in account balance	-439	-67	613	584	-281	1,150	277	-816	2,163	-912	-1,995	623	0	-209
Cumulative receipts	754	1,488	2,594	2,073	2,980	4,175	5,139	6,242	7,955	7,062	8,883	8,925	10,895	12,939
Cumulative expenditures	1,193	1,556	2,420	1,556	2,721	2,507	4,603	5,390	5,457	7,122	8,379	8,362	10,332	12,586
Cumulative change in account balance	-439	-67	174	517	259	1,668	536	852	2,498	-60	503	563	563	354
Fiscal accounts														
Wage expenditures	177	138	181	199	184	159	408	106	247	247	253	253	257	261
ORT Expenditures	1,016	1,417	1,046	-199	980	793	1,474	3,066	-247	986	2,637	987	1,713	1,993
Cumulative fiscal expenditures	1,193	1,556	2,420	1,556	2,721	2,507	4,603	5,679	5,390	6,913	8,280	8,153	10,123	12,376
Cumulative wage expenditures	177	138	358	337	322	496	730	602	977	849	1,230	1,102	1,360	1,621
Cumulative ORT expenditures	1,016	1,417	2,062	1,218	2,399	2,011	3,873	5,077	4,413	6,063	7,050	7,050	8,763	10,756
Inflows to RBM (US$ millions)	**5.9**	12.1	14.1	4.7	6.6	16.2	15.8	15.0	10.4	5.9	20.6	13.4	13.9	14.2
Cumulative inflows	5.9	12.1	20.0	16.8	23.6	33.0	39.4	48.0	49.8	53.9	70.4	67.3	81.2	95.4
National AIDS Commission (NAC)														
NAC Accounts														
Revenues	1,269	455	1,309	1,928	1,340	264	1,364	508	1,413	1,745	1,445	3,475	1,027	20
Expenditures	1,269	768	1,309	1,706	1,340	506	996	614	1,413	530	1,445	3,475	1,027	1,235
Change in account balance	0	-313	0	222	0	-241	368	-106	0	1,215	0	0	0	-1,215
Cumulative change in account balance	0	-313	0	-91	-368	-333	0	-438	0	776	0	776	776	-438
Inflows to RBM (US$ millions)	10.0	2.6	10.0	2.1	10.0	0.2	10.0	0.2	10.0	10.7	10.7	14.4	7.0	0.0
Cumulative inflows	10.0	2.6	20.0	4.6	14.6	4.8	24.6	5.0	34.6	15.7	45.3	30.1	37.1	37.1

INTERNATIONAL MONETARY FUND

MALAWI

2006 Article IV Consultation and Third Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, and Request for Waiver of Nonobservance of Performance Criterion—Informational Annex

Prepared by the African Department

(In consultation with other departments)

Approved by Robert Corker and Michael Hadjimichael

February 2, 2007

Discussions: Discussions for the Article IV Consultations and the third review of the three-year Poverty Reduction and Growth Facility (PRGF) arrangement were held in Lilongwe October 24–November 7, 2006. The staff met with President Bingu wa Mutharika, Minister of Finance Goodall Gondwe, Governor of the Reserve Bank of Malawi Victor Mbewe, and other senior government officials. The staff also met with donors, private sector representatives, and civil society organizations. The staff team comprised Mr. McDonald (head), Mr. Staines, Ms. Teferra (all AFR), Mr. Dalsgaard (FAD), Mr. Tolosa (PDR), and Mr. Baunsgaard (resident representative).

PRGF arrangement: A PRGF arrangement (SDR 38.2 million, 55 percent of quota) was approved on August 5, 2005 (Country Report 05/285), of which SDR 15.3 million has been disbursed. Most quantitative end-June 2006 performance criteria were met, but the authorities request a waiver for the nonobservance of the performance criterion on government domestic borrowing. Malawi is requesting the fourth disbursement under the current PRGF arrangement (SDR 6.68 million). The authorities' program for the second half of 2006/07 (July–June) is outlined in the attached Supplement to the Memorandum of Economic and Financial Policies (MEFP).

Key policy issues: Medium-term challenges are to enhance growth and improve economic management capacity. The latter is also essential to deal with a possible scaling-up of aid. In the short term, the government will need to manage expectations about how much the budget can deliver in the wake of debt relief delivery.

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MALAWI: RELATIONS WITH THE FUND
(As of November 30, 2006)

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

II. **General Resources Account**:	SDR million	Percent Quota
Quota	69.40	100.0
Fund holdings of currency	67.11	96.70
Reserve position in Fund	2.31	3.34

III. **SDR Department**:	SDR million	Percent Allocation
Net cumulative allocation	10.98	100.0
Holdings	0.52	4.76

IV. **Outstanding Purchases and Loans**:	SDR million	Percent Quota
PRGF arrangements	23.18	33.40

V. **Financial Arrangements**:

Type	Approval Date	Expiration Date	Amount Approved (SDR million)	Amount Drawn (SDR million)
PRGF	8/5/2005	8/4/2008	38.17	15.27
PRGF	12/21/2000	12/20/2004	45.11	12.88
PRGF	10/18/1995	12/16/1999	50.96	50.96

VI. **Projected Obligations to Fund**
(millions of SDRs; based on existing use of resources and present SDR holdings):

	Forthcoming				
	2006	2007	2008	2009	2010
Principal				1.47	2.58
Charges/Interest	0.07	0.54	0.54	0.54	0.53
Total	0.07	0.54	0.54	2.01	3.10

VII. **Implementation of HIPC Initiative:**

	Enhanced Framework
A. Commitment of HIPC assistance	
Decision point date	12/21/00
Assistance committed (NPV terms) [1/]	
Total assistance (US$ million)	646.00
Of which: Fund assistance (SDR million) [2/]	23.30
Completion point date	8/31/06
B. Delivery of Fund assistance (SDR million)	
Amount disbursed	23.30
Interim assistance	11.57
Completion point	11.73
Additional disbursement of interest income [3/]	3.65
Total disbursements	26.95

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

I. MDRI-eligible debt (SDR Million)[/4 5/]	29.96
Financed by: MDRI Trust	14.53
Remaining HIPC resources	15.43

II. Debt Relief by Facility (SDR Million)

	Eligible Debt		
Delivery Date	**GRA**	**PRGF**	**Total**
September 2006	10.84	19.12	29.96

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[1] NPV terms at the completion point under the original framework; and NPV terms at the decision point under the enhanced framework.

[1] Excludes commitment of additional enhanced HIPC assistance of SDR 10.070 million subject to reciept of satisfactory financing assurance from other creditors.

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

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

[5/]Excludes the portion of debt relief to be financed by additional enhanced HIPC assistance, which is subject to receipt of satisfactory financing assurances from other creditors.

IX. **Safeguards Assessments**:

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

X. **Exchange Arrangements**:

The exchange rate of the Malawi kwacha is a managed-float. On December 18, 2006, the exchange rate was MK 138.61 = US$1.00.

XI. **Article IV Consultation**:

Malawi is on the standard 12-month Article IV consultation cycle. The last Article IV consultation (SM/04/355) was concluded by the Executive Board on October 18, 2004.

XII. **Technical Assistance**:

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

XIII. **Resident Representative**:

Mr. Thomas Baunsgaard since August 16, 2004.

MALAWI: IMF-WORLD BANK RELATIONS

Contact person: Ms. Yisgedullish Amde, Tel. 202 473 2203

A. World Bank Country Assistance Strategy (CAS)

1. The Malawi CAS was approved by the Bank's board on May 14, 2003. The gray cover report (Report # 25906 MAI) proposed the World Bank's strategy for Malawi for the next three years (FY04–06), and aims to help the government to address urgent development issues.

2. This current CAS program is organized under three pillars: i) strengthening economic management; ii) establishing a platform for growth; and iii) improving service delivery and strengthening the safety net. Two ongoing projects (Financial Management Transparency and Accountability and Privatization and Utility Reform[2]), and a Structural Adjustment Credit (Fiscal Management and Accelerating Growth Project[3]) aim to assist Malawi in attaining the objectives under pillar one. In addition, in response to the drought-induced emergency in early 2005, an Emergency Recovery Grant was approved in September 2005 to support the restoration of assets and production. To support the objectives of pillar two, the ongoing Community Based Land Reform; Irrigation, Rural Livelihoods Road Maintenance, and Rehabilitation; and Road Maintenance and Rehabilitation Projects, well as the just-approved Rural Infrastructure Services Project are under the base case. The World Bank also supports Malawi's participation in the Southern Africa Power Market Project, which contributes to the achievement of pillar two. Core Bank interventions under pillar three include the HIV/AIDS (MAP) Project, Third Malawi Social Action Fund Project; Secondary Education Project (since closed in December 2005), and two new Projects, Education Sector Support Project, and Health Sector Program with a sector-wide approach (the first SWAp in Malawi, supplemented by a Malaria Booster Project in July 2006). Finally, Malawi also benefits from the Bank-funded Regional Trade Facilitation Project, which contributes to poverty alleviation through private-sector-led growth by improving access to financing for productive transactions and cross-border trade.

3. A new CAS will be presented to the Board on February 16, 2007 and outlines a program of Assistance covering FY07-10 in support of implementation of the Malawi Growth and Development Strategy (MGDS). The Bank's proposed assistance program is

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[2] Global Development and Learning Network Project was cancelled in November 2005 per the Government's request.

[3] The Fiscal Management and Accelerating Growth Project was closed on June 30, 2006.

focused on identified MGDS priorities of agriculture and food security, infrastructure development, combating HIV/AIDS, and governance and public sector management.

B. Financial Relations with the World Bank Group

4. The World Bank has been active in Malawi since 1966. Total lending and grants to Malawi from the World Bank as of January 2007 is US$2,720 million, of which US$2,525 million has been disbursed. As of December 2007, there were 10 active projects in Malawi with a net commitment of US$322 million and an undisbursed balance of US$170 million. Sectoral breakdown is as follows: Social Sectors at 48%, Agriculture at 22 percent, Energy, Infrastructure, and Private Sector Transport at 22 percent, and Macro and multi-sectoral activities at 8%.

5. IFC has one company in its portfolio in Malawi, National Insurance Company (NICO) for a meager US$0.523 million in equity. Future focus will be on expanded IFC assistance for the private sector, especially in manufacturing, mining, and tourism, areas that Malawi has chosen as targets to reduce its dependence on agriculture.

C. Areas in Which the Bank Leads

Education and Health

6. The Multi-Sectoral AIDS Project (US$35 million in grants) was approved in FY04. The project supports efforts by the Government of Malawi to reduce HIV transmission and mitigate the impact of the disease throughout Malawian society, thus also fighting the poverty AIDS brings to families and societies. A major study of Malawi's HIV/AIDS problem revealed 10 important constraints that the project, scheduled to begin in 2004 and run through 2008, will address through a range of activities, including capacity building in public, private, and civil society organizations; educational work for prevention; and increased support for AIDS orphans. Many of Malawi's other development partners are also active in this effort, pooling their funds to support this critical effort.

7. The Health Sector Support Project for Malawi (the first project with a Sector Wide Approach in Malawi), approved in December 2004, aims to improve the effectiveness, efficiency, and equity of Malawi's essential health care delivery system. The project (with US$15 million in grants, and a supplementary Malaria Booster project of US$5 million to strengthen the Bank's response to Malaria, approved in July 2006), has the following three components: Component 1. Increasing access to quality essential health services by making the already-defined Essential Health Package (EHP) accessible to all, especially to the poorest and most vulnerable populations, including those living in rural districts. Component 2. Increasing the number of staff available through the continuation of the six-year emergency training plan, a concerted recruitment campaign, the financing and filling of

current vacancies, the use of volunteers and contractual staff, and other stop-gap staffing strategies. Component 3. Improving the effectiveness and efficiency of both the health system and the referral network to support EHP delivery. The supplementary Malaria Booster project will focus on monitoring and evaluation.

8. The Education Sector Support Project for Malawi (with US$32.2 million in grants), approved in May 2005, provides immediate financing to support the education sector in Malawi. The project has the following six components: Component 1. Complementing government and donors' efforts to improve quality and expand teacher development and training at all levels. Component 2. Improving the conditions of learning at selected secondary schools staffed with trained teachers or newly trained teachers. Component 3. Providing a School Health and Nutrition package to all primary schools that will include: distribution of vitamin A and iron-folic acid to school children under 10-years-old, de-worming, treatment of malaria and fever, and the promotion of good health and nutrition practices. Component 4. Supplying basic learning materials directly to schools while strengthening the participation of communities in school management. Component 5. The project's Capacity Building and Policy Development will cover: (i) national education policy consolidation and capacity building; and (ii) support for the implementation of the government's decentralization policy in education. Component 6. Supporting the physical implementation and management of fiduciary and procurement issues.

Social Protection and Community Development

9. The Malawi Social Action Fund (MASAF) is a long-term, wide-ranging poverty-reduction project that supports decentralization and community capacity building. The project aims to empower individuals, households, communities, and their development partners in the implementation of measures that can assist them in better managing the risks associated with health, education, sanitation, water, transportation, energy and food insecurity, and to provide support to critically vulnerable populations through a variety of sustainable interventions. The current Project, MASAF III (US$60 million, of which US$27 million is in the form of an IDA grant) was approved in FY03. The project encourages communities to develop social safety nets for their most vulnerable members (such as skills training for AIDS orphans), facilitates delivery of the most needed social services, and stimulates communities to save and invest.

Infrastructure

10. The Integrated Infrastructure Services Project, which primarily supports rural energy and transport needs, was approved on June 27, 2006. In addition, Water (FY07) and Infrastructure (FY08) projects are in the pipeline. Another infrastructure project, The Road Maintenance Project (US$30 million) was approved in FY99 and closed on June 2006 after a successful run.

Private Sector

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

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

Agriculture

13. A Community-Based Rural Land Development Project (US$27 million) was approved by the Board in April 2004. Based on positive community-level experience gained through the MASAF projects, and in partnership with the Government and UK's Development agency, DFID, this project will acquire idle land and transfer it to small farmers, thus enabling such farmers to feed their families and try to grow surpluses for commercial sale. It is urgent that Malawi move toward a more equitable distribution of land that will provide food security for small farmers. The recently closed Structural Adjustment Credit, FIMAG, also supported agricultural policy reforms (see further details in paragraph 19).

14. An Irrigation, Rural Livelihoods, and Agriculture project (US$40 million), approved in November 2005, aims to complement other activities on the ground. The overarching development objective of the proposed project is to raise the agricultural productivity and net incomes of poor rural households in target districts by providing an integrated package of support, including irrigation, agricultural/ irrigation advisory services, marketing and post-harvest assets and services, and capacity building.

Environment

15. Direct Bank involvement in the environment sector is currently limited to the Mulanje Mountain Biodiversity Conservation Project (US$7 million), which was approved in FY01. The Project aims to raise awareness about conservation needs, strengthen the capacity of the Forest Department and of local communities to carry out conservation measures, and encourage more local community participation in managing the forest reserve. In addition, especially within the framework of MASAF, the project promotes environmentally sound community development initiatives and funds community resource management projects.

Poverty Monitoring

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

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

Poverty Reduction Strategy

17. The Government of Malawi finalized its first PRSP in April 2002. Following the initial three years of implementation (which have been documented in the government's Annual Progress Reports) in 2006 the government carried out a comprehensive review of the lessons learned in its implementation. Using the findings of the comprehensive review and the information presented in the Poverty and Vulnerability Assessment, the government has prepared its second PRSP (the "Malawi Growth and Development Strategy") in Fall 2006. A joint IDA-IMF staff assessment was presented to the Boards of the IMF and the Bank in January 2007, and the Boards have subsequently endorsed the strategy. The IMF and the Bank staffs maintained a collaborative relationship in supporting the government in the process.

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

18. Staff of the IMF and the Bank prepared "Malawi: Completion Point Document for the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative," which was presented to the Boards of the World Bank and the IMF in August 2006. Malawi's debt sustainability

outlook after HIPC assistance deteriorated substantially since the decision point as a result of a fundamental change in Malawi's economic circumstances due to exogenous factors. Therefore, the Boards approved the provision of topping-up assistance at the completion point consistent with the guidelines under the enhanced HIPC Initiative. In addition, upon approval of the completion point under the Enhanced HIPC Initiative, Malawi qualified for additional debt relief from IDA, the IMF and the AfDF under the MDRI.

Budgetary Planning, Revenues Administration, and Public Expenditure Reforms

19. The Bank's assistance in improving public expenditure management has been channeled mainly through its structural adjustment credits. The most recent one, the Fiscal Management and Accelerating Growth (FIMAG, US$50 million) credit, which closed in June 2006, focused on four areas: (i) strengthening public expenditure management, (ii) privatizing state-owned enterprises, (iii) supporting small-holder agriculture and land reform, and (iv) addressing HIV/AIDS.

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

Civil Service and Wage Reform

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

Emergency Assistance

22. In addition to technical assistance and the reallocation of existing uncommitted funds as appropriate, an Emergency Recovery Project was approved in September 2005 and closed in December 2006. This project supported the restoration of assets and production following the drought-induced emergency in early 2005 and thus supported the core growth strategy of the macroeconomic program adopted by the new administration in May 2004. This emergency grant provided funds to allow critical private sector imports that support the restoration of assets, investment, and production to take place with minimal disruption to the economy.

E. Areas in Which the Fund Leads

Macroeconomic Stability, Fiscal Policy, and Monetary Policy

23. Malawi is confronted with a number of macroeconomic challenges, including a history of repeated fiscal slippages and unpredictable monetary policies, a rapidly rising level of domestic debt, and a persistently high level of real interest rates. The Fund will work with the authorities to master these challenges, both through financial support and technical assistance.

Malawi--Millennium Development Goals

	1990	1995	1998	2001	2004
Goal 1: Eradicate extreme poverty and hunger					
Income share held by lowest 20%	..	..	*5*	..	..
Malnutrition prevalence, weight for age (% of children under 5)	..	30	..	*22*	..
Poverty gap at $1 a day (PPP) (%)	..	..	15	..	..
Poverty headcount ratio at $1 a day (PPP) (% of population)	..	..	42	..	..
Poverty headcount ratio at national poverty line (% of population)	*54*	..	65	..	..
Prevalence of undernourishment (% of population)	..	..	*40*	..	*34*
Goal 2: Achieve universal primary education					
Literacy rate, youth total (% of people ages 15-24)	63	..	..	..	76
Persistence to grade 5, total (% of cohort)	*64*	..	44	44	..
Primary completion rate, total (% of relevant age group)	29.1	52.9	65.6	67.3	58.5
School enrollment, primary (% net)	*48*	..	*98*	..	95
Goal 3: Promote gender equality and empower women					
Proportion of seats held by women in national parliament (%)	10	..	6	9	9
Ratio of girls to boys in primary and secondary education (%)	*81.1*	..	91	92.9	98.5
Ratio of young literate females to males (% ages 15-24)	67.6	..	..	..	86.1
Share of women employed in the nonagricultural sector (% of total nonagricult	11	11	12	12	*13*
Goal 4: Reduce child mortality					
Immunization, measles (% of children ages 12-23 months)	81	90	90	82	80
Mortality rate, infant (per 1,000 live births)	146	133	..	*117*	110
Mortality rate, under-5 (per 1,000)	241	216	..	*188*	175
Goal 5: Improve maternal health					
Births attended by skilled health staff (% of total)	..	..	..	*61*	..
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	..	*1800*	..
Goal 6: Combat HIV/AIDS, malaria, and other diseases					
Children orphaned by HIV/AIDS	..	..	..	..	*550000*
Contraceptive prevalence (% of women ages 15-49)	..	*22*	..	*31*	..
Incidence of tuberculosis (per 100,000 people)	257.2	..	..	..	412.8
Prevalence of HIV, female (% ages 15-24)	..	..	..	..	*10*
Prevalence of HIV, total (% of population ages 15-49)	..	..	..	..	*14*
Tuberculosis cases detected under DOTS (%)	..	38.3	47	40.6	39.8
Goal 7: Ensure environmental sustainability					
CO2 emissions (metric tons per capita)	0.1	0.1	0.1	0.1	..
Forest area (% of land area)	41	..	..	*38*	*36*
GDP per unit of energy use (constant 2000 PPP $ per kg of oil equivalent)	..	..	..	..	..
Improved sanitation facilities (% of population with access)	47	..	..	..	61
Improved water source (% of population with access)	40	..	..	..	73
Nationally protected areas (% of total land area)	..	..	..	..	11.2
Goal 8: Develop a global partnership for development					
Aid per capita (current US$)	53.2	43	39.9	34.3	37.8
Debt service (PPG and IMF only, % of exports of G&S, excl. workers' remittan	28	24	16	15	14
Fixed line and mobile phone subscribers (per 1,000 people)	2.8	3.4	4.4	9.4	25
Internet users (per 1,000 people)	0	..	0.2	1.7	3.7
Personal computers (per 1,000 people)	..	..	0.7	1.1	1.6
Total debt service (% of exports of goods, services and income)	29	25	15	9	..
Unemployment, youth female (% of female labor force ages 15-24)	..	..	..	..	..
Unemployment, youth male (% of male labor force ages 15-24)	..	..	..	..	..
Unemployment, youth total (% of total labor force ages 15-24)	..	..	..	..	..
Other					
Fertility rate, total (births per woman)	7	6.6	*6.4*	*6.1*	5.9
GNI per capita, Atlas method (current US$)	180	160	200	140	160
GNI, Atlas method (current US$) (billions)	1.7	1.6	2.1	1.7	2.1
Gross capital formation (% of GDP)	23	17.4	13.5	14.9	15.3
Life expectancy at birth, total (years)	45.7	43.1	*41.7*	*39.6*	40.2
Literacy rate, adult total (% of people ages 15 and above)	51.8	..	..	..	64.1
Population, total (millions)	9.5	10.1	10.9	11.8	12.6
Trade (% of GDP)	57.2	78.5	70.9	67.1	78

Source: World Development Indicators database, September 2006

MALAWI: STATISTICAL ISSUES

1. The economic statistics show serious deficiencies that have affected program monitoring. The data module of the Report on the Observance of Standards and Codes (data ROSC), published February 17, 2005, found that, while the legal and institutional framework for the production of macroeconomic statistics was broadly adequate, there were shortcomings in the scope, accuracy, and reliability of data as well as scope for strengthening the provisions of the Statistics Act. There is a need to formally assign the responsibility for the compilation of government finance statistics to the Ministry of Finance, and responsibility for the compilation of monetary statistics to the Reserve Bank of Malawi. The authorities are making efforts to improve the quality and timeliness of economic and financial data through participation in the GDDS. As one of fifteen countries participating in the Fund's General Data Dissemination System (GDDS) Project for Anglophone African Countries, Malawi has undertaken to use the GDDS as a framework for the development of national statistical systems. Malawi's metadata have been posted on the Fund's Dissemination Standards Bulletin Board (DSBB) since December 2002. The Anglophone Africa project (funded by the U.K. Department for International Development (DFID)) aims to assist participating countries to meet GDDS recommended statistical practices and to improve the metadata. Since the original posting, the metadata of the fiscal sector and the socio-demographic data for health and education were updated in March 2004, and those for other sectors, in February 2005.

F. Real Sector Statistics

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

National accounts

3. The NSO is responsible for compiling the national accounts data. However, while the final estimates are comprehensive,[4] the source data underpinning these estimates are inadequate, due to gaps in coverage, especially for medium- and small-scale establishments,

[4] Covering GDP from the production side at constant prices, GDP by expenditure at current prices, gross national income and its components, national disposable income and use of disposable income, and the capital and financial accounts.

and informal sector activities. Use is not made of relevant surveys and financial statements to prepare estimates of changes in inventories and household final consumption expenditures. Statistical techniques for compilation are deficient, and processes to assess and validate source, intermediate, and final data are generally limited. The framework used is largely based on the *1968 System of National Accounts* (*SNA*) which is in need of updating to the *1993 SNA*. The constant price estimates are mainly derived using an index of industrial production (IIP) with 1984 weights, based on production data of 50 large-scale firms**,** and the consumer price index. There is a recognized need to both update the weights of the IIP and develop a producer price index to improve the constant price series. The national accounts are published in Malawi's *Statistical Yearbook* and *Quarterly Statistical Bulletin* with a significant lag.

Prices

4. A consumer price index (CPI) is available on a timely basis. The CPI is based on the 1997/98 household survey, and data are collected on a monthly basis by regional price collectors. The effectiveness of the index could be improved by using the geometric mean as the elementary aggregate index formula and by applying systematic, comprehensive, and consistent approaches to the quality adjustment of product prices.

Trade

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

G. Government Finance Statistics

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

- While **tax revenue data** are received in a timely fashion, it is not always possible to reconcile them with deposits in the Malawi Government (MG) Account No. 1.

- **Nontax revenue** collected by line ministries is not properly accounted for in the fiscal reports prepared by the Ministry of Finance. It also includes capital revenue.

- Data on **recurrent expenditure** suffer from serious shortcomings partly related to insufficient bank reconciliation at the level of line ministries (between spending records and financing information). The fiscal reports prepared by the Ministry of Finance show spending based on funding data (from the Credit Ceiling Authority). Line ministries subsequently submit spending reports to the Ministry of Finance based on recorded expenditure. At times there are sizable discrepancies between these two sources of data for both wages and other recurrent transactions—to some extent reflecting the widespread practice of reallocation across budget lines.

- Domestically-financed **development expenditure** is based on funding released to line ministries, and data on externally-funded expenditure are based on reported project grants and loans. Owing to differences in timing and financing modalities (e.g., some donors require prefinancing of expenditure before reimbursement), there are substantial differences between the flow of expenditure and corresponding financing data. Thus, there are substantial errors in the reporting of capital spending. Also, many donor projects are still not incorporated in the budget, and hence the corresponding expenditure is not captured. Some externally funded development expenditures are likely recurrent and, reported capital expenditure could be overstated.

- Data on **expenditure arrears** are likely incomplete, as reporting from the Commitment Control System appears to be only partial, and ministry level data are not consistent from report to report. Previously unknown arrears have repeatedly been cleared through the "special activities" vote, thus calling into question the accuracy of arrears data and the data on clearances.

- The **budget classification and chart of accounts** may be adequate for some administrative, economic, functional and program classifications. An output-oriented activities-based budget classification (ABB) is used for the presentation of the budget. However, **pro-poor expenditures** that have been protected in line with the PRSP are only identified in the ABB classification. As no bridge table exists to map the ABB classification into the program classification used for expenditure reporting and accounting, pro-poor expenditures cannot be monitored.

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

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

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

H. Monetary and Financial Statistics

9. The Reserve Bank of Malawi (RBM) reports monetary and financial statistics (MFS) to STA on a regular basis, however, the latest data available are for September 2006.

10. The MFS mission that took place in April-May 2004 noted that significant progress was achieved in implementing the recommendations made by the MFS mission conducted in August-September 2002. One of the most notable achievements was the improved coverage of the monthly monetary survey that now accounts for more than 90 percent of the banking sector. On the other hand, the mission also noted that some important recommendations were yet to be implemented, such as the sectorization of the domestic economy, and classification of financial instruments to ensure that the MFS of the RBM adhere fully to the methodology of the *Monetary and Financial Statistics Manual*.

11. Concurrently, the mission completed the development of an integrated database that would be used by the RBM, STA, and AFR for publication and operational needs. The mission also discussed the standardized forms (SRF) that are being adopted by all countries for reporting monetary data to STA. The authorities submitted the SRF test data; however, there has not been further progress after STA provided comments on these test data in October 2005.

I. External Sector Statistics

12. Concepts and definitions used to compile the balance of payments statistics are in broad conformity with the guidelines presented in the fourth edition of the *Balance of Payments Manual* (*BPM4)*. The NSO has made progress in the transition to the methodology of *BPM5*. The most recent data reported to STA for publication in the *Balance of Payments Statistics Yearbook* pertains to 2002. The authorities have advised that updated information

will be provided following implementation of several improvements to existing methodology and data sources. Mainly as a result of the liberalization of exchange controls, the compilation of data relies on surveys as the source of information for major components in the balance of payments, such as services, direct investment flows, and other financial transactions of the private sector. Data from primary sources (surveys and/or International Transaction Reporting System reports) are supplemented with information from secondary data sources, such as foreign trade statistics collected by the MRA through customs declarations, debt statistics from the MOF, net foreign assets from the RBM, and information on grants collected from main donors.

MALAWI: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE (AS OF JANUARY 11, 2007)

	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication[6]	Memo Items: Data Quality – Methodological Soundness[7]	Memo Items: Data Quality – Accuracy and Reliability[8]
Exchange Rates	30/09/06	30/09/06	D	W	M		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	09/06	10/31/06	M	M	M		
Reserve/Base Money	09/06	11/06/06	D	W	M	LO, LO, LO, LO	LO, O, O, O, O
Broad Money	09/06	11/08/06	M	M	M		
Central Bank Balance Sheet	09/06	11/06/06	W	W	Q		
Consolidated Balance Sheet of the Banking System	09/06	11/08/06	M	M	M		
Interest Rates[2]	09/06	11/01/06	W	W	W		
Consumer Price Index	8/06	07/06	M	M	M	O, LO, O, O	LO, LO, LNO, LO, LO
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	NA	NA	NA	NA	NA	LO, LNO, LNO, LO	LNO, O, LO, O, LO
Revenue, Expenditure, Balance and Composition of Financing[3] – Central Government	11/05	12/05	M	M	I		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	12/03	07/04	M	NA	NA		
External Current Account Balance	11/04	04/05	A	Q	A	LO, LO, LNO, LO	LNO, LNO, LO, LO, LO
Exports and Imports of Goods and Services	2005	6/06	A	A	A		
GDP/GNP	2005	6/06	A	A	A	LO, LO, LNO, LO	LNO, LNO, LNO, LO, LO
Gross External Debt	12/03	07/04	M	NA	NA		

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).
[7] Reflects the assessment provided in the data ROSC (published February 17, 2005, and based on the findings of the mission that took place September 1–16, 2003) for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O); largely observed (LO); largely not observed (LNO); not observed (NO); and not available (NA).
[8] Same as footnote 7, except referring to international standards concerning source data, statistical techniques, assessment and validation of source data, assessment, and revision studies.

Statement by the IMF Staff Representative
March 14, 2007

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

On February 12, the Malawian authorities advised staff about changes to the planned supplementary budget that deviated in some important respects from the understandings reached with staff and reflected in the revised program being proposed to the Board. In staff's view, these deviations warranted a postponement of the Board discussion to allow staff to better understand the policies underlying the supplementary budget and to recommend revisions to ensure that the program remains on track. A supplementary budget, consistent with these understandings was submitted to Parliament on February 19.

The supplementary budget increases spending by about MK6 billion beyond the expansion already proposed under the revised program. In roughly equal measure, it allows for additional spending on foreign-financed development spending, the fertilizer subsidy program and on generic goods and services. In the latter category, the government has increased its contribution to health spending, partially meeting an earlier commitment made to donors, and has increased funding for spending on utilities and rents to avoid the accumulation of domestic arrears. As a result, the government will miss the end-June 2007 spending target under the proposed revised program in the staff report.

In other respects, the supplementary budget is consistent with the revised program. In particular, the additional spending will be fully financed by higher foreign project financing, tax revenue projections that have been increased to reflect the strong performance in the second fiscal quarter, additional revenues from a revision to the fuel pricing formula implemented in February 2007, receipts from the sale of excess fertilizer to a commercial bank under a repurchase agreement, and savings from postponing local elections. As a result, domestic debt repayments in 2006/07 will be consistent with the proposed revised program.

In other areas:

The Reserve Bank of Malawi reduced the liquidity reserve requirement in February 2007. This follows the reduction last February and again aims at reducing the costs of financial intermediation. To constrain monetary growth and ward off inflationary pressures, and as required under the program, the RBM has agreed to mop up the excess liquidity caused by this measure.

The overall macroeconomic outlook remains positive. First round crop estimates were recently released that suggest another bumper harvest in 2007 and which, once confirmed by subsequent crop reports, will warrant an upward revision to the output growth projections. 12-month inflation fell below 10 percent in January 2007, benefiting from the bumper harvest of 2006, the stability of the exchange rate and the continued moderation in international oil prices.

Press Release No. 07/50
FOR IMMEDIATE RELEASE
March 14, 2007

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Third Review Under the Three-Year PRGF Arrangement for Malawi, Approves US$10 Million Disbursement, and Grants Waiver of Nonobservance of a Performance Criterion

The Executive Board of the International Monetary Fund (IMF) completed the third review of Malawi's economic performance under the three-year Poverty Reduction and Growth Facility (PRGF) arrangement. The completion of the review enables the release of SDR 6.7 million (about US$10 million), bringing total disbursements under the arrangement to SDR 22.0 million (about US$33 million). The Board also granted Malawi's request for a waiver of nonobservance of the performance criterion on government domestic borrowing.

The Executive Board approved the three-year arrangement on August 5, 2005 (see Press Release No. 05/188), for a total amount of SDR 38.2 million (about US$57.4 million) to support the government's economic program for 2005-2007.

After the Executive Board discussion on Malawi, Mr. Takatoshi Kato, Deputy Managing Director and Acting Chair, said:

"The Malawian authorities are to be commended for the satisfactory performance of the economy under the PRGF-supported program, which is especially notable given the severe food crisis experienced during 2005/06. Increased public spending on food security helped to avert a humanitarian crisis.

"Monetary policy has been restrained and has helped to reduce inflation. Management of the exchange rate system has improved significantly. It will be important for the authorities to maintain their commitment to a flexible exchange rate policy to prevent a return to private arrears on import payments and to protect Malawi's relatively low international reserve cover.

"The program objectives for the remainder of 2006/07 are realistic. The bumper harvest should support a rebound in output growth. The authorities' continued commitment to reducing the domestic debt burden will be critical for long-term fiscal sustainability and to free resources for private sector development. The authorities will need to manage rising expectations regarding public spending following the delivery of substantial debt relief under the enhanced Heavily Indebted Poor Countries Initiative and the Multilateral Debt Relief Initiative in order to keep the fiscal position sound.

"Malawi is at an opportune juncture given its progress toward macroeconomic stabilization, the delivery of debt relief, and the launch of the Malawi Growth and Development Strategy (MGDS)—the new poverty reduction strategy. To make serious inroads in reducing poverty, Malawi must now implement an ambitious agenda of structural reforms, while staying focused on securing macroeconomic stability. The authorities have appropriately made enhancing growth and reducing the costs of doing business the focus of the MGDS. To meet its development goals, Malawi will need the continued support of the international community," Mr. Kato said.

The PRGF is the IMF's concessional facility for low-income countries. PRGF-supported programs are based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners and articulated in a PRSP. This is intended to ensure that PRGF-supported programs are consistent with a comprehensive framework to foster growth and reduce poverty. PRGF loans carry an annual interest rate of 0.5 percent and are repayable over 10 years with a 5½-year grace period on principal payments.

**Statement by Peter Gakunu, Executive Director for Malawi
and Joseph L. Masawe, Senior Advisor to Executive Director
March 14, 2007**

On behalf of the Malawian authorities, I take this opportunity to welcome the Board's discussion on the 2006 Article IV review of Malawi and third review of Malawi's three year PRGF arrangement with the Fund. The authorities appreciate the Fund Board's support and the continued engagement with the Fund management and staff in economic policy management. They welcome the Executive Board's recognition of the commitment of the authorities in implementing prudent macroeconomic policies and achieving good performance under the PRGF arrangement, and extend their sincere gratitude to the IMF Board for approving debt relief to Malawi under the HIPC and Multilateral Debt Relief Initiatives. I would also like to thank management and staff for their expeditious rescheduling of the Board discussion subsequent to the satisfactory resolution of the issue for the postponement. I would hope that this exemplary action would set a precedent for other similar circumstances.

The Malawian authorities remain fully committed to the economic program supported by the PRGF arrangement and believe that the policies set forth in the memorandum of economic and financial policies (MEFP) are adequate to achieve the objectives of the program. Nevertheless, they stand ready to take any additional measures that may deem necessary in the course of implementing the program. My authorities request the completion of the third review of the economic program supported by the PRGF arrangement and a waiver of non-observance of a performance criterion related to central government borrowing for end June 2006. The authorities have taken note of staff's comments and recommendations in the reports and will take all necessary measures to implement them.

Recent Economic Developments

It is noteworthy that over the past three years, government efforts have been directed towards restoring macroeconomic stability, strengthening public financial management, improving food security and restructuring public sector enterprises to improve the quality of service. This policy focus has been built on previous Article IV consultations and recommendations by the Executive Board. Over the period, real GDP growth rose from a four year average of only 1.4 percent recorded between 1999/2000 and 2003/04 to an average of 4.4 percent recorded between 2004/05 and 2005/06. Over the same period, end of period inflation declined from 18.1 percent to 15.5 percent. During 2005/06, real GDP grew by 5.3 percent, but inflation remained high at around 15 percent, despite a bumper crop. The high level of inflation reflected the slow decline in urban food prices, mainly due to the depreciation of the Malawi Kwacha.

On the fiscal front, performance during 2005/06 remained satisfactory, but the performance criterion on government domestic borrowing was not achieved due to unanticipated food security spending and accelerated payments to clear domestic arrears. As a result, despite the higher than projected borrowing, domestic debt still fell below 20 percent as projected under the program.

Monetary policy remained well focused with the floating exchange rate policy being maintained. Consequently, over the period, the Reserve Bank of Malawi (RBM) continued to direct its intervention in the foreign exchange market towards smoothing short term overshooting of the exchange rate. During the second half of 2005/06, the Kwacha depreciating by12 percent, helping the RMB clear the backlog of import payments by the end of July 2006. Clearance of the backlog was programmed for end June 2006, but could not be achieved, due to lower than projected foreign exchange inflows caused by disruptions in tobacco exports.

During the period, the RBM also continued to implement measures to improve financial intermediation. In February 2006, the RBM reduced the liquidity ratio to reduce the cost of borrowing and stimulate credit growth to the private sector. The reduction in the liquidity ratio triggered lower yields on treasury bills while deposit rates edged upwards, reducing considerably, the wide spread between lending and deposit rates. On the other hand however, this measure caused a temporary liquidity pressure in the economy, compelling the RBM to step up liquidity mop-up operations. Despite the efforts, the year closed with a slight monetary overhang, but with broad money growth remaining within programmed levels.

Despite the recent policy improvements and the resulting achievements, my authorities recognize that medium term challenges remain. My authorities have included in the PRGF supported program some medium term policy initiatives, which are basically directed towards higher growth through the removal of major impediments to private sector growth, deepening financial intermediation and improving the efficiency of public service delivery.

Policies for 2006/07

During 2006/07, the government will continue to pursue policies agreed under the program. The main focus will continue to be macroeconomic stabilization and a carefully sequenced structural reform agenda, which will seek to address administrative capacity constraints. Within the context of the PRGF supported program, the government will primarily focus on measures to promote growth and improve overall economic management.

In order to promote growth, the government will take measures to enhance the role of the private sector in the economy as stated in the Malawi Growth and Development Strategy (MGDS). In a broader context, the measures will aim at addressing the impediments to growth, which have already been identified as macroeconomic instability, inadequate access to credit, unreliable sources of power, high cost of doing business and the lack of skilled labor. Over the near term, my authorities expect that output growth will reach 5.5 percent, driven mainly by a rise in gross investment.

Fiscal Policy

During the remaining period of 2006/07, the authorities will continue implementing the budget as approved by the parliament in August 2006. My authorities will take the advantage of the increasing level of economic activity coupled with improvements in tax administration to step up revenue collection. So far, the performance of the budget has been satisfactory. Reliable information shows that by the end of the first quarter, domestic revenue collection was higher than projected, while expenditures were within programmed levels. It was with the intention of investing the anticipated revenue surplus for development that the authorities drafted a larger supplemental budget than programmed. The authorities have now, in light of discussion with staff, submitted a revised supplemental budget which is being discussed in parliament.

Over the medium term, my authorities will take measures to further consolidate domestic debt and free resources to the private sector. The objective is to attain a reduction of domestic debt to around 10 percent of GDP. This is also expected to provide more fiscal space for poverty related spending. My authorities express their sincere appreciation to the Paris Club for providing 100 percent debt cancellation to Malawi and also to the international community for the relief under the MDRI. My authorities will ensure that the savings as well as additional resources arising form these initiatives will be properly incorporated in the budget for pro-poor spending. The government has developed an action plan to strengthen public financial management, which will facilitate the phasing in of IFMIS and strengthen budget management. On the other hand, as a first step, my authorities will develop and issue guidelines for new borrowing to all ministries that will emphasize concessional and sustainable borrowing.

Monetary Policy

My authorities will, through the RBM, continue to implement prudent monetary policy, geared towards reducing inflation. The recent lowering of the liquidity ratio has provided positive results in the cost of borrowing and consequent increase in credit to the private sector. Overall annual rate of inflation has dropped significantly to only 11.6 percent in September 2006. Although still higher than projected, the declining inflation is expected to provide additional scope for interest rate reductions and higher returns on investment.

Malawi remains committed to a flexible exchange rate regime which is consistent with the current monetary policy framework and the authorities' objective of building reserves. My authorities recognize that Malawi remains vulnerable to external shocks, especially due unreliable weather conditions, and will therefore strengthen its external reserves position to insulate the economy from adverse effects arising from such shocks.

Structural Measures

The government will continue to implement measures directed towards promoting growth as set out in the MGDS. My authorities will, over the coming fiscal year, finalize a Private Sector Development Program. In this connection, efforts will be stepped to ensure that administrative costs of dealing with public institutions, which have imposed significant burden on investors, thereby labeling Malawi as a country with high costs of doing business, are minimized. My authorities are restructuring the Agricultural Development and Marketing Corporation (ADMARC) to make more efficient and financially sound and have finalized the Land Reform Bill to facilitate enhanced credit growth to the private sector.

My authorities are committed to measures aimed at deepening the financial sector. A comprehensive strategy to strengthen financial intermediation through improved supervisory capacity, enhanced creditor rights and development of a creditor information system will be completed soon. The government will also initiate a revision of the RBM Act in line with the SADC initiative, to provide for more independence and accountability. Given that the majority of the Malawian population is small scale borrowers, the government will step up measures to develop microfinance institutions, which will spearhead the expansion of credit to the rural poor.

My authorities recognize that an efficient public sector is vital to growth. In this regard, measures to improve the efficiency and financial viability of public institutions will be stepped up, especially through the introduction of more accountability.

Finally, I would like to assure you that my authorities will continue to take measures aimed at strengthening Malawi's statistical base, given the importance of reliable data to economic management. They are currently reviewing the national accounts and balance of payments statistics with the assistance of the Fund and also intend to take measures to strengthen the compilation of consumer price index.

Conclusion

The Malawian authorities remain committed to measures agreed with the Fund under the PRGF supported economic program. During the review period the implementation of the program has been in line with the objectives and targets, despite that the economy remains vulnerable to exogenous shocks. GDP has remained fairly impressive and inflation has continued to decline.

Going forward, my authorities will continue to take measures to ensure the success of the program. Reducing poverty remains the major objective of government's medium term policy, and hence the need to maintain macroeconomic stability. Fiscal policy will continue to be supportive to the structural reform agenda, while ensuring that revenue is enhanced and expenditure is streamlined. The authorities will ensure that inflation is further brought down and the financial system is more supportive to economic activity and resilient to shocks. In this connection, measures to strengthen and deepen financial markets will continue to be implemented.

We look forward to the authorities reaching agreement with Malawi's other bilateral creditors for debt relief similar to Paris Club terms, so that the benefits of the HIPC initiative are fully realized. My authorities trust that they will continue to enjoy the support and encouragement of the Fund in this endeavor. On the basis of the good performance during the period under review and the strong measures to be implemented during the remaining period of the fiscal year, my authorities request the completion of the third review under PRGF arrangement.

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International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2006 Article IV Consultation with Malawi

On March 14, 2007, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Malawi.[1]

Background

Malawi is at a critical juncture following its progress on macroeconomic stability, attainment of the Heavily Indebted Poor Countries (HIPC) completion point in August 2006, and the recent launch of the Malawi Growth and Development Strategy, which outlines an ambitious agenda of structural reform to enhance growth and reduce poverty.

The Article IV discussions focused on the three key challenges facing Malawi over the medium term, which frame macroeconomic policy over the near term. The three challenges that need to be addressed include raising growth rates, improving economic management capacity, and managing a possible scaling up of external aid. Malawi also needs a large increase in external private capital and aid flows to finance its medium-term development goals.

Malawi's macroeconomic performance has improved for the past two years. This follows a prolonged period of weak policy implementation, aggravated by drought and deteriorating terms of trade that resulted in anemic growth, a domestic debt spiral, accelerating inflation, and dwindling external reserves. Over the previous five years,

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

Malawi experienced per capita output growth that was on average negative. By the end of the fiscal year 2003/04, domestic debt had reached almost 25 percent of GDP and domestic interest costs consumed almost a quarter of the budget. Official external reserves had fallen below one month of imports.

In 2005/06, Malawi continued to make progress in stabilizing the macroeconomic environment and economic policy implementation was broadly satisfactory. Real GDP growth reached 5.3 percent, while overall inflation was around 15 percent. Overall fiscal performance was satisfactory given the food crisis. Domestic borrowing was larger than programmed, largely because of unanticipated food security spending and accelerated repayments of domestic arrears, but domestic debt still fell below 20 percent of GDP. The Reserve Bank of Malawi pegged the exchange rate through the second half of 2005, resulting in a shortage of external reserves and unpaid private external arrears, but instituted a more flexible exchange rate policy in January 2006. The resulting depreciation helped clear the private external arrears by the end of July, despite weak foreign exchange inflows following the May disruptions to the tobacco auctions. Following the February reduction in the liquidity reserve ratio, the authorities tightened reserve money growth to reduce excess liquidity and contain inflationary risks. The mop-up, however, was incomplete, and the fiscal year ended with a modest monetary overhang—though broad money stayed on target. As intended, lowering the reserve ratio eased financial intermediation costs, raising deposit rates and reducing interest rate spreads.

The government's keyeconomic objectives for 2006/07 are largely the same as those presented in the budget. A bumper harvest will support a rebound in real GDP growth to 7 percent, prospects for inflation falling below 10 percent remain positive, and official external reserves are expected to rise to 1.7 months of imports. Macroeconomic performance in the first fiscal quarter of 2006/07 was broadly satisfactory, though a delay in donor budget support put the monetary program under pressure. The government has adjusted its fiscal program for 2006/07. IMF debt relief under the Multilateral Debt Relief Initiative will now be used to reduce domestic debt this year, though this should not affect planned expenditures substantially. The government has increased planned expenditures on maize purchases, wages and development projects, because of an increase in projected tax revenues and budget support.

The key medium-term macroeconomic objective is to consolidate macroeconomic stability—reducing domestic debt and inflation—to lay the foundation for higher growth and poverty reduction. The outlook assumes that the economy becomes less prone to external shocks and that the costs of doing business decline. It is cautiously based on current information concerning aid commitments. Output growth could be high because of the scope for catch-up from recent years and prospects of increased investment. Further reduction of domestic debt to below 10 percent of GDP is the key fiscal objective, as this would free resources for the private sector. Higher aid flows and lower domestic interest costs would also allow higher priority spending.

Executive Board Assessment

Executive Directors welcomed Malawi's satisfactory macroeconomic performance under its Poverty Reduction and Growth Facility-supported program, notwithstanding the pressures arising from the food crisis of 2005/06, which was eased by additional spending on food security. The economic prospects for 2006/07 are favorable, and the recent bumper harvest should support a rebound in growth and a reduction in inflation. Nevertheless, Malawi's economy remains vulnerable to weather-related shocks, dependence on external budget support, and volatile world oil prices. Directors encouraged the authorities to maintain fiscal discipline and strengthen the level of external reserves to provide a cushion against shocks, while protecting pro-poor spending.

Directors considered that the delivery of debt relief and the launch of the Malawi Growth and Development Strategy (MGDS) position Malawi well to make faster progress toward macroeconomic stability and poverty reduction. At the same time, rising expectations of spending on infrastructure and social priorities stemming from the granting of debt relief need to be contained, and measures taken to ensure that all public spending is efficient and effective. In that connection, Directors urged the authorities to complete the public expenditure review being undertaken with the World Bank, and incorporate the findings of annual performance reviews of the MGDS into the budget. They also called for a reduction in the domestic debt burden, which will help promote long-term fiscal sustainability, lower interest costs to the budget, and make room for larger poverty-reducing, health care, and education spending.

Directors observed that higher aid and private capital flows will be critical to meeting Malawi's development objectives, but that absorbing these flows while maintaining prudent monetary and fiscal policies will be a challenge. Against that background, an appropriate balance needs to be struck between using these resources immediately and setting some aside as reserves until they can be used efficiently. Directors welcomed the authorities' commitment to improving governance and economic management capacity, especially public financial management.

Directors welcomed the improvement in the management of the exchange rate system, and the authorities' commitment to a flexible exchange rate regime. The current level of the real exchange rate appears to be broadly appropriate.

Directors welcomed the authorities' intention to strengthen financial intermediation, which is a prerequisite for private sector growth. Improving the regulatory framework, better protecting creditor rights, and encouraging greater competition in the financial sector should be important elements of the authorities' strategy in this regard. Directors looked forward to the recommendations of the Financial Sector Assessment Program to be completed later in the year.

Directors supported the authorities' medium-term emphasis on improving Malawi's growth potential while maintaining macroeconomic stability. At the same time, an ambitious agenda of structural reforms needs to be implemented rapidly if serious inroads are to be made in reducing poverty. In this vein, the cost of doing business needs to be lowered, access to credit enhanced, and the delivery of public services improved.

Malawi: Selected Economic Indicators, 2004–06

	2004 Act.	2005 Act.	2006 Est.
National income and prices			
GDP at constant market prices	5.1	2.1	8.5
Nominal GDP (billions of kwacha)	207.2	245.7	305.1
Nominal GDP per capita (U.S. dollars)	150.9	161.4	170.7
GDP deflator	12.5	15.4	14.4
Consumer prices (end of period)	13.7	16.5	9.9
Food	14.1	17.2	10.0
Nonfood	13.3	15.8	9.7
Consumer prices (annual average)	11.4	15.5	14.0
Investment and savings (percent of GDP)			
National savings	4.5	-3.1	7.6
Of which: domestic savings	-10.6	-23.9	-13.1
unrequited transfers	17.3	22.8	22.4
Gross investment	14.4	13.0	14.6
Foreign savings	9.9	16.1	7.0
Central government (percent of GDP)			
Revenue (excluding grants)	23.2	25.5	24.3
Expenditure and net lending	44.0	43.1	43.6
Underlying balance 1/	0.8	-0.7	0.9
Overall balance (excluding grants)	-20.8	-17.6	-19.3
Overall balance	-6.6	-1.5	-3.4
Money and credit (change in percent of beginning-of-year M2)			
Money and quasi money	29.8	14.3	22.0
Net foreign assets	6.0	5.1	24.4
Net domestic assets	23.8	9.2	-2.4
Credit to the government	10.3	2.1	-2.1
Credit to the rest of the economy	11.3	5.6	7.7
Velocity	4.5	4.7	4.8
External sector (millions of U.S. dollars)			
Exports, f.o.b.	501.5	507.4	466.5
Imports, c.i.f.	810.2	-1,069.6	-889.3
Usable gross official reserves	119.3	131.2	143.4
(months of imports)	1.1	1.4	1.6
Current account (excluding transfers)	-27.3	-38.9	-29.4
Nominal effective exchange rate	-4.3	-11.4	...
Real effective exchange rate	5.5	0.1	...
Terms of trade	-2.5	-10.2	-1.2
Debt stock and service (percent of GDP)			
External debt (public sector)	155.3	143.0	50.6
NPV of debt (percent of avg. exports)	257.7	361.0	33.6
External debt service (percent of exports)	21.6	22.1	30.7
Net domestic debt (central government)	22.6	21.9	17.4
Domestic interest payment	8.4	6.3	4.9
Treasury bill rate (period average)	28.6	24.39	...

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

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