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Malawi: Letter of Intent, Memorandum of Economic and Financial Policies and Technical Memorandum of Understanding

August 7, 2006

The following item is a Letter of Intent of the government of Malawi, which describes the policies that Malawi intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Malawi, is being made available on the IMF website by agreement with the member as a service to users of the [IMF](#) website.

LETTER OF INTENT

August 7, 2006

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

Dear Mr. de Rato:

1. The first review of the economic program supported by Malawi's arrangement with the Fund under the Poverty Reduction and Growth Facility (PRGF) was completed on February 6, 2006. In the attached Supplement to the Memorandum of Economic and Financial Policies (MEFP) and Technical Memorandum of Understanding, we review progress in implementing the program in the fiscal year 2005/06 and update the macroeconomic framework and policy measures for 2006/07. The Government of Malawi believes that implementation of the PRGF-supported program through end-December 2005 was satisfactory: we met all the quantitative performance criteria for end-December 2005 by a comfortable margin.
2. The government of Malawi requests the completion of the second review and the third disbursement under the PRGF arrangement in the amount of SDR4.9245 million. In this connection, the Government also requests the IMF Executive Board to grant waivers for the nonobservance of the structural performance criteria relating to the budget ceilings module in the payment system and the new travel policy. The government expects that the new travel policy will be implemented by end-September 2006, and agrees that this should be a structural benchmark for the third review scheduled for mid-December 2006. The fifth disbursement will be subject to the fourth review expected to be completed in May 2007.
3. The Government of Malawi is committed to continued strong performance under the economic program supported by the PRGF arrangement. The Government has also been diligently implementing its poverty reduction strategy, and has made good progress in meeting most of the triggers for reaching the completion point under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative. The Government of Malawi therefore believes that Malawi should reach the HIPC Initiative completion point at the time of the second review of the PRGF. Reaching the HIPC Initiative completion point would also immediately qualify Malawi for further debt relief under the Multilateral Debt Relief Initiative. The debt relief provided under these two initiatives will assist Malawi in achieving its growth and poverty reduction objectives.

4. The Government of Malawi believes that the policies set forth in the attached MEFP are adequate to achieve the objectives of its 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 IMF's policies on such consultation.

5. 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 Gondwe
Minister of Finance

/s/
Victor Mbewe
Governor
Reserve Bank of Malawi

Attachments

ATTACHMENT I

**Supplement to the Memorandum of Economic and
Financial Policies of the Government of Malawi**

August 7, 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) and February 2006 (Country Report No. 06/94).** This memorandum covers remaining policies for FY2005/06, the FY2006/07 budget, key structural measures, and progress in implementing the HIPC completion point triggers.

I. FY 2005/06 UPDATE

2. **We welcome the IMF's recognition of Malawi's satisfactory performance under the PRGF arrangement at the Executive Board discussion on the first review in February 2006.** We particularly welcomed the views of some Executive Directors that our performance warranted commendation and that Malawi deserves to reach the HIPC completion point by mid-2006. Regarding the current review, we met all the quantitative performance criteria targets for end-December, 2005, as well as the indicative targets on reserve money (Table 1). However, we missed the indicative target on discretionary government spending, mainly because of food security outlays. As to the structural performance criteria, a new travel policy was developed by a consultant, but was not implemented as it did not adequately address our objectives (Table 2). We now aim to implement this measure by end-September 2006 (structural benchmark). Efforts to fully implement the budget ceilings module were overtaken by the rollout of the Integrated Financial Management Information System (IFMIS) and the centralized payment system.

3. **The food crisis continued to affect policy implementation.** The crisis was much deeper than was forecast at the time the budget was prepared. Maize and fertilizer operations in the second quarter were delayed by severe logistical difficulties and costs rose significantly. Since the last update, we increased our food operations to meet higher needs during the lean period before the new crop was harvested starting in March 2006 (Box 1). As a result, budget expenditures in FY05/06 are projected to have increased by MK 4.5 billion, which will be offset by MK 3.6 billion in higher donor support and commercial maize sales receipts.

4. **Yet prospects for 2006 are good.** Crop estimates point to a significant rebound in agricultural output resulting in GDP growth around 8½ percent. Despite delays in the auctions for the tobacco crop, the onset of tobacco and tea exports, together with the exchange rate depreciation by end-May 2006 of over 12 percent since mid-January 2006, will enable us to eliminate the import backlog that accumulated in 2005. A good harvest

combined with tight monetary policies will contribute to reducing inflation to 7.9 percent by December 2006.

A. Monetary and Exchange Rate Policies

5. **The objective of monetary policy continues to be price stability** anchored by a reserve money target. This framework requires the continued flexibility of interest and foreign exchange rates, which is necessary to meet the foreign reserve and reserve money targets.

6. **We reduced the liquidity reserve requirement (LRR) in February 2006.** This resulted in an increase in excess reserves in the banking system. In order to prevent this action from threatening our inflation objectives, we have taken steps to mop up the excess reserves. The LRR reduction aims to lower the intermediation costs of commercial banks. Following the rate reduction, deposit rates offered at most commercial banks increased, lowering the interest rate spread between lending and borrowing rates. Moreover, the reduced LRR will contribute to the program objective of shifting the implementation of monetary policy from a reliance on direct instruments, such as the LRR, towards the use of indirect instruments, such as sales of treasury and RBM bills.

7. **We are committed to a flexible exchange rate regime,** as required by our monetary framework and limited reserves. At the same time, we recognize the need to avoid excessive volatility in a shallow market and the need to smoothen seasonal fluctuations. Moving forward, we are committed to a more transparent and flexible exchange rate regime—as demonstrated by the more than 12 percent depreciation in the exchange rate from mid-January to end-May 2006—in which the exchange rate fully reflects underlying demand and supply conditions.

8. **Reducing the import backlog is of utmost importance.** The reduction of the backlog was complicated by the food crisis that turned out to be worse than previously projected. We are now systematically monitoring the backlog on a weekly basis and agreed with commercial banks to record the exchange control numbers of all import orders to help eliminate double counting in our backlog estimate. We reduced the backlog from approximately US\$78 million in early 2006 to US\$54 million at end-March 2006 (a structural benchmark). Further reductions were hampered by low export receipts on account of delays in the tobacco auctions. The backlog was nevertheless reduced to US\$12.7 million by end-June 2006 and was subsequently eliminated in late July 2006.

9. **Our foreign exchange position is expected to remain on track.** This is largely due to an increase in projected exports, which will offset the additional maize imports earlier in the year. Through end-2006, additional IMF debt relief under the Multilateral Debt Relief Initiative (MDRI) will allow us to build reserves to about two months import coverage.

B. Fiscal Policies

10. **Fiscal performance through the second quarter was better than programmed.** This was mainly because of a refund of debt service from the AfDB (interim HIPC assistance due in 2004), delays in food security outlays and the postponement of planned wage increases, which offset an increase in other recurrent spending. Fiscal performance in the third quarter was negatively affected by the large increase in food security transactions (see above and Box 1). There were also further increases in other recurrent expenditures that were partly curtailed during the fourth quarter.

11. **In February 2006, we implemented the FY2005/06 wage increase retroactive from December 2005.** Delays in implementation stemmed from difficulties in contracting an appropriate consultant. Prior to the exercise, a database of all government employees was compiled (a performance criterion), and a wage schedule was completed (a structural benchmark). Still, some government employees were erroneously overcompensated and errors in the calculation of the payroll led to a projected overrun of approximately MK 700 million for the fiscal year in the absence of corrective measures. The overpayment was clawed back in the fourth quarter. In addition, we have identified and corrected other sources of unauthorized compensation in the payroll. These actions together eliminated the wage overrun.

12. **For the whole fiscal year, however, we will not be fully able to achieve the target for domestic borrowing.** This is largely explained by the increase in food security transactions noted above. In addition, expenditures were increased to pay university salaries, higher Parliamentary sitting costs, and larger-than-anticipated costs of terminating housing contracts following changes to the pay policy. Buoyant tax revenues and the AfDB debt relief refund will offset part of the additional expenditures.

II. THE FY2006/07 BUDGET

13. **The FY2006/07 budget will aim to repay domestic debt.** Tax cuts in the individual income tax will be accompanied by expenditure restraint to achieve an improvement in the underlying balance (a measure of domestic adjustment effort) to over 1 percent of GDP and to support a further reduction of domestic debt to about 16 percent of GDP. Passage of a budget in line with the program is a prior action for the second review.

14. **Expenditures will be contained in the following key areas:**

- **Wages:** We will seek to limit wage increases to compensate for overruns in the previous two fiscal years. This will help bring our wage bill as a percent of GDP, to a lower level as that programmed for FY2005/06.

- **Pensions:** Under the current formula, pension costs are expected to increase significantly in FY06/07 because of the October 2004 wage reform. We will adjust the pension formula, mainly by adopting a lower accrual rate to limit the increase in the pension bill for FY06/07 (a prior action), with a view to ensuring the long-term viability of the existing pension system.
- **Recurrent Expenditures:** We have developed and implemented new policies on housing, the use of government vehicles, and administrative measures to prevent new utility arrears.

15. **Other important expenditure policies that will be part of the budget include maize, fertilizer, arrears repayment, and the construction of the parliament building.** We will intensify our dialogue with the World Bank and other bilateral donors on ways to improve the effectiveness of food policies, while paying close attention to containing the costs to the budget.

- **Maize:** Maize operations will remain an integral component of the budget. As we are expecting a bumper crop this year, our operations will be limited to replenishing 60,000 tons in the Strategic Grain Reserve, with donor support as well as our own resources, and continuing sales of maize through ADMARC depots (40,000 tons). Maize will be sold at market prices to ensure full cost recovery.
- **Fertilizer:** We will aim to import 150,000 tons of fertilizer for sale at a subsidized price. The total cost of the subsidy is projected at MK 7.3 billion.
- **Arrears Repayment:** In 2005, Cabinet approved a policy paper to address the large stock of domestic arrears and the policy is now being implemented. With the success of this strategy, we have increased the budget allocation to MK2 billion for domestic arrears reduction.
- **Parliament Building:** The budget will include MK 0.7 billion for preliminary construction costs. Early estimates suggest that the total cost of the parliament building could be MK 6 billion spread over several budget cycles. We will ensure costs are manageable, including through efforts to identify donor support. We will make sure all expenses are properly budgeted.

16. **We are in the process of restructuring the Malawi Development Corporation (MDC) reflecting its poor performance.** This has become more pressing following MDC's failure to service its debts. The privatization commission will prioritize and liquidate assets sufficient to cover the outstanding debt.

III. STRUCTURAL REFORMS

17. **We have started to flesh out several areas of the structural reform agenda for FY2006/07 and beyond**, as outlined in our Malawi Growth and Development Strategy (MGDS). In particular, we would highlight areas in public financial management (PFM), central bank independence, and the financial sector.

Public Financial Management

18. **In the context of both the Multilateral Debt Relief Initiative (MDRI) and possible future scaling-up of donor flows, improving PFM systems is imperative.** In 2004, Malawi met about one-third of the benchmarks in the Assessment and Action Plan for HIPC. Areas highlighted for improvement included budget comprehensiveness, internal control and reconciliation in budget execution, and audited financial reports. In collaboration with donors, we are developing an action plan that prioritizes reforms, describes existing donor support, and identifies remaining areas of need for technical assistance and expect to have this completed by end-October 2006 (structural benchmark).

19. **We have embarked on our reforms by phasing in a new Integrated Financial Management Information System and centralized payment system.** This system will improve expenditure control and tracking. In the coming months, we will closely monitor the implementation of IFMIS with support from both IMF technical assistance, including to help set up a Government Finance Statistics module, and the U.S. Millennium Challenge Threshold program.

20. **The new system, on the other hand, makes certain structural agenda items less important.** We will not devote further resources toward implementing the budget ceiling module (a performance criteria) or measures to strengthen management and expenditure monitoring procedures (structural benchmark) as payments will now largely pass through the centralized payment system (IFMIS). Though with some delay, we have published reports on the budget and expenditure arrears (structural benchmarks).

Financial Sector and Central Bank Independence

21. **We are committed to improving banking supervision operations as a step toward enhancing financial intermediation.** As an initial step, we have recently completed an impact analysis of commercial bank balance sheets (a structural benchmark) using asset classifications consistent with international best practice (a structural benchmark). Based on these results, we have subsequently implemented the new directives governing classification and provisions. We have also begun liquidation procedures for Finance Bank and expect the process to be completed within six months. This bank was initially closed and placed under RBM management in mid-2005, but due to the lack of a suitable buyer, we have now decided to liquidate the bank. We anticipate receiving an FSAP in early 2007.

22. **We have begun to implement the recommendations in the safeguards assessment.** We reconstituted the Board of Directors of the RBM in March 2006, re-established an audit committee, and formally adopted a rotation policy for external auditors. We have also expanded the disclosures in the financial statement, including disclosures on the amount of foreign reserves that are under the control of the Treasury.

23. **The final recommendation of the safeguard assessment, central bank independence, will be guided by the regional SADC initiative in this area.** A SADC model law is expected to be finished shortly and we will aim to adopt a version for Malawi as soon as is feasible. The law should ensure that the Board of Directors, including the Governor and the Deputy Governor, can be removed only for legal cause and after due process.

IV. HIPC COMPLETION POINT

24. **We are determined to reach the HIPC Initiative completion point by mid-2006.** In preparation, we have made progress on HIPC completion point triggers, our poverty reduction strategy, and on debt reconciliation.

- **HIPC triggers:** We have implemented most triggers, but anticipate the need to request two waivers—one for student enrolment in teacher training institutions and one for the percentage of recurrent expenditures spent on health. Performance on the latter, however, has significantly improved since the implementation of the Health SWAp.
- **Poverty-reduction strategy:** As the Malawi Poverty Reduction Strategy expired in mid-2005, our efforts to reduce poverty and enhance development will henceforth be guided by a new strategy outlined in the MGDS, which was submitted to Cabinet in May 2006. In addition, we have finalized the third Annual Progress Report covering July 2004 to end-2005.
- **External debt:** We have now reconciled and confirmed with creditors debt data used at the HIPC decision point for end-1999, and debt data for end-2005.

25. **At the HIPC Initiative completion point, we will qualify for debt relief under the MDRI.** Debt relief from the IMF will be transferred to the government on a flow basis as the debt service falls due. The budget will incorporate debt relief under the MDRI from the World Bank and also from the AfDB later in the fiscal year. Any increase in resource inflows will be incorporated in a supplementary budget. Resources are expected to be used to help Malawi meet the Millennium Development Goals. In cooperation with donors, civil society, and other important stakeholders, we have revised our definition of pro-poor expenditures as well to help better target the use of resources.

V. PROGRAM MONITORING

26. The PRGF-supported program will continue to be monitored quarterly, based on the quantitative and structural measures indicated in tables 1 and 2. These targets are defined in the attached Technical Memorandum of Understanding (TMU).

Box 1: Food Security in FY05/06

Our food security efforts through the food crisis were hampered by severe logistical difficulties and higher purchase and transportation costs. In early 2006, we increased our food security operations to meet the higher estimates of food needs during the lean period before the new crop (that has turned out be larger than normal) could be harvested starting in late March. To help meet these needs, we imported additional maize for sale at subsidized prices through Admarc and added the distribution of food supplements at no cost to the most vulnerable. As a result, budget expenditures are estimated to have increased by MK 4.5 billion (to about MK 17.5 billion), the larger part of which was financed by donors (mostly the UK) and higher sales receipts. The net cost to the budget is estimated to have increased by MK 0.9 billion from MK 3.6 billion to MK 4.5 billion.

Humanitarian Our relief efforts through the Strategic Grain Reserve (SGR) did not change significantly since late 2005 and the higher purchase and transportation costs were fully met by donors. Taking into account stocks carried over from FY04/05, we distributed about 167,000 tons of maize, of which we purchased 40,000 tons using our own resources. The relief effort was also complemented by the purchase and distribution of food supplements that was fully funded by donors.

Commercial: Taking into account stocks carried over from FY04/05, the budget also allowed for the purchase and sale of 50,000 tons at subsidized prices by Admarc using our own resources. Under pressure from the food crisis, this amount was raised to 68,000 tons by November and was increased further to 93,000 tons. This has increased the subsidy cost to the budget by MK 0.7 billion to MK 1.2 billion.

Fertilizer: The depletion of farmers' resources by the drought made it imperative to provide affordable fertilizer and maize seeds to ensure an adequate crop in FY06/07. The budget allowed for 137,000 tons of fertilizer to be imported and sold at subsidized prices; an amount that was later increased by 10,000 tons. The scheme also allowed for the sale of 6000 tons of seeds. These amounts were unchanged, but higher costs increased the estimated subsidy costs for fertilizer and seeds by MK 1.5 billion to MK 6.9 billion.

Malawi: Government Maize Transactions in FY05/06
Thousand of metric tons

	EBS/05/113:BS/06/118		
	August 2005	February 2006	Current
Carry over	51	51	51
SGR	31	31	31
Commercial	20	20	20
Purchases for FY05/06	149	190	209
SGR	119	142	136
Replenishment FY05/06	29	31	31
Other SGR purchases	90	111	105
of which GoM	12	40	40
Commercial	30	48	73
Total distribution	200	241	260
SGR	150	173	167
Commercial	50	68	93

Sources: Government of Malawi, Donors and IMF Staff

Table 1. Malawi: Quantitative Targets, June 2005-March 2006 1/
(Cumulative flows from June 30, 2005)

Criteria	Jun. 2005 Stock Actual	End-Sep. 2005				End-Dec. 2005: Test Date				End-Mar. 2006				
		EBS/05/113	Adjusters	Adjusted Target	Actual	EBS/05/113	Adjusters	Adjusted Target	Actual	EBS/06/18	Adjusters	Adjusted Target	Est.	
I. Monetary Targets (Millions of Malawi kwacha)														
1. Ceiling on net domestic assets of the monetary authorities 2/	PC 3/	15,520	-3,133	0	-3,133	-4,466	-1,839	2,070	231	-1,781	-1,564	-1,278	-2,842	-1,197
2. Ceiling on reserve money	IT	19,580	1,314	...	1,314	534.1	1,324	...	1,324	1,029	-1,690	...	-1,690	-2,080
II. Fiscal Targets (Millions of Malawi kwacha)														
3. Ceiling on central government's net domestic borrowing 2/ 4/ 5/	PC 3/	53,923	-783	-188	-971	-1,644	-599	1,578	979	-88	180	474	653	6,857
4. Ceiling on central government wages and salaries 4/	PC 3/	...	4,848	-38	4,809	4,802.3	9,934	-21	9,913	9,592	14,914	174	15,087	15,356
5. Ceiling on central government discretionary expenditures 4/	IT	...	15,123	401	15,524	12,311.3	29,424	-844	28,580	29,768	40,873	-387	40,486	47,078
III. External Targets (Millions of U.S. dollars)														
6. Floor on net foreign assets of the monetary authorities 2/	PC 3/	33.0	36.1	0.0	36.1	40.7	25.7	-16.8	8.9	22.9	-1.0	-10.0	-11.0	-7.2
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 more 6/	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 year 6/	PC 3/	...	0.0	...	0.0	0.0	0.0	...	0.0	0.0	0.0	...	0.0	0.0
Memorandum items (Millions of Malawi kwacha):														
Balance of payments support (In millions of U.S. dollars)			60.2	0.0	...	35.7	105.2	-16.8	...	88.4	116.4	-10.0	...	91.4
Health SWAp wage expenditures			177	-38	...	138.2	358	-21	...	337	322	174	...	496
Health SWAp ORT expenditures			1,016	401	...	1,417.4	2,062	-844	...	1,218	2,399	-387	...	2,011
Net Movement in special accounts			-269	-188	...	-81	678	-502	...	1,180	1,049	-783	...	1,832
Net movement in NAC account			0	313	...	-312.8	0	91	...	-91	-368	-35	...	-333
Maize revenue			170	-130	...	299.57	504	-249	...	753	1,157	106	...	1,051
Net movement in Health SWAp account			-439	-371	...	-67.6	174	-343	...	517	259	-853	...	1,113
Swap receipts			754		...	1,495.6	2,594		...	2,081	2,980		...	3,656
Swap payments			-1,193		...	-1,563.2	-2,420		...	-1,563	-2,721		...	-2,543
Cash payment of arrears			500	0	...	636.70	1,000	0	...	1,536	1,604	0	...	1,969
Liquidity Reserve Requirement			27.5	0	...	27.5	27.5	0	...	27.5	27.5	2,508	...	20.0
Program exchange rate			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 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 1. Malawi: Quantitative Targets, June 2005-December 2006 1/ (concluded)
(Cumulative flows from June 30 2005)

Criteria	Jun. 2005 Stock Actual	End-Jun. 2006: Test Date		End-Sep. 2006	End-Dec. 2006:	
		EBS/06/18	Proj.	Target	Test Date Target	
I. Monetary Targets (Millions of Malawi kwacha)						
1. Ceiling on net domestic assets of the monetary authorities 2/	PC 3/	15,520	-375	-2,577	-7,201	-2,640
2. Ceiling on reserve money	IT	19,580	3,170	613	1,582	2,486
II. Fiscal Targets (Millions of Malawi kwacha)						
3. Ceiling on central government's net domestic borrowing 2/ 4/ 5/	PC 3/	53,923	-1,661	1,081	3,206	6,010
4. Ceiling on central government wages and salaries 4/	PC 3/	...	20,448	20,448	5,710	11,508
5. Ceiling on central government discretionary expenditures 4/	IT	...	53,054	59,209	14,689	31,204
III. External Targets (Millions of U.S. dollars)						
6. Floor on net foreign assets of the monetary authorities 2/	PC 3/	33.0	28.8	25.9	71.4	41.7
7. Ceiling on the accumulation of external payments arrears 6/	PC 3/	...	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
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
Memorandum items (Millions of Malawi kwacha):						
Balance of payments support (In millions of U.S. dollars)			144.5	137.8	159.0	167.4
Debt service payments to the WB and the ADB					7.0	0.4
IMF debt relief transfers from the RBM to the CG					4.5	8.7
Health SWAp wage expenditures			730	730	247	500
Health SWAp ORT expenditures			3,873	4,660	-247	2,390
Net Movement in special accounts			1,693	1,387	3,590	1,915
Net movement in NAC account			0	0	0	0
Maize revenue			1,157	1,051	1,091	1,411
Net movement in Health SWAp account			536	335	2,498	503
Swap receipts			5,139	5,792	7,955	8,883
Swap payments			-4,603	-5,457	-5,457	-8,379
Cash payment of arrears			2,000	2,000	2,500	3,000
Liquidity Reserve Requirement			27.5	20.0	20.0	20.0
Program exchange rate		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-September are indicative.

4/ Targets are cumulative from the start of the fiscal year and 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 Prior Actions, Structural Performance Criteria and Benchmarks
December 2005–December 2006

Number	Description	Date	Status
Prior Actions for completion of the Second Review under the PRGF arrangement			
1	Parliament approval of 2006/07 budget in line with macroeconomic framework specified in the TMU (para. 34)	August 2006	Implemented
2	Implement adjustment formula to the current pension system. (TMU para 35)		
Performance Criteria			
1	Make budget ceilings module in payment system fully operational (TMU, para. 36)	End-Dec. 2005	Not implemented
2	Develop and implement new travel policy, which includes mechanisms for monitoring adherence (TMU, para. 37).	End-Mar. 2006	Not implemented
Structural Benchmarks			
1	Develop detailed schedule of wage adjustments by grade for 2005/06	End-Sep. 2005	Implemented in February 2006
2	Publish monthly fiscal reports with one month lag (TMU, para. 38)	End-Dec. 2005	Implemented with a delay
3	Prepare quarterly reports (with one month lag) on status of arrears.(TMU para. 38)	End-Dec. 2005	Implemented with a delay
4	Strengthen cash management and expenditure monitoring procedures by preparing reports as indicated in the TMU (para. 40)	End-Mar. 2006	Not implemented
5	Complete impact analysis of tighter credit quality classifications on commercial bank balance sheets (TMU, para. 39)	End-Mar. 2006	Implemented
6	Reduce import backlog of commercial bank foreign exchange applications for import-related payments, as defined in the TMU (para. 46)	End-Mar. 2006	Implemented
7	Eliminate import backlog of commercial bank foreign exchange applications for import-related payments (TMU para. 46)	End-Jun. 2006	Implemented
8	Develop and implement new travel policy, which includes mechanisms for monitoring adherence (TMU, para. 37)	End-Sept 2006	
9	Formulate an action plan to address weaknesses in the area of PFM (TMU para. 45)	End-Oct. 2006	

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 (end-March 2006) of MK123 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.

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 debt: 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 (see para. 44), 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

34. **Approval of FY2006/07 budget:** The FY2006/07 budget passed by parliament should be in line with the program.
35. **Formula adjustment to pension formula:** Adjustments to the formula used to calculate an individual’s benefit should allow for a total cost of pensions lower than MK 4.8 billion in 2006/07.
36. **Budget ceiling module:** For the purposes of expenditure management, the budget module of the payments system at the RBM should be made fully operational. This requires that the following three steps are completed: (1) All bank accounts are reconciled between the RBM and commercial banks; (2) All data are reconciled between the RBM holding accounts and the fiscal data according to the Ministry of Finance ledgers; and (3) the Accountant General’s office provides the RBM with a list of check numbers for outstanding checks issued against the 2004/05 budget. These checks should be entered into the payment system in order to identify the float from the 2004/05 budget into fiscal year 2005/06 for the CCA system. Finally, the RBM should produce tables by CCA category listing funded amounts against total reimbursement for the current fiscal year. In the future, the Accountant General should develop a concordance between budget votes, cost centers, and RBM holding accounts into which CCAs are credited, and produce tables by budget vote.
37. **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.
38. **Publication of Fiscal Reports:** The Ministry of Finance will publish the following documents on a monthly basis: the GFS fiscal table, the arrears clearance report, and the report on pro-poor expenditures.
39. **Impact Analysis:** Collect information on credits overdue 30 days or more but less than 180 days. Based on this information, an analysis should be completed of tightening credit quality classification to 90 days for substandard, 180 days for doubtful, and one year for loss.
40. **Strengthening cash management:** Prepare and implement the following two reports: (1) a budget execution report based on a new monthly table by ministry and expenditure type (PE, ORT, and development, including below the line accounts like advances and imprests) that shows (i) approved budget per vote/ministry, (ii) funding released to ministries per funding table, (iii) commitments made as reported by ministries on commitment control

system reports (iv) expenditures as reported by ministries on expenditure returns, and (v) payments made according to CCA system; and (2) an amended funding table that indicates the allocation of funding based on three sources: the MG1 account, automatic payment by standing instruction (e.g., regular foreign payments or withholding), and foreign financing sources.

41. **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.

IV. TREATMENT IN THE FISCAL ACCOUNTS AND BALANCE OF PAYMENTS OF CERTAIN CENTRAL GOVERNMENT (CG) ACCOUNTS HELD ABROAD

42. **The account held with the Bank of Tokyo-Mitsubishi in Japan:** The account was set up for the delivery and administration of Japanese debt relief. Disbursements of cash debt relief into the account are accounted as grants with corresponding amounts of foreign financing (increases in the deposit account). Withdrawals from the Bank of Tokyo-Mitsubishi account are accounted as central government expenditures with corresponding amounts of foreign financing (decreases in the deposit account). Expenditures financed from this account are included in spending agencies budgets under current expenditures, or as development Part II expenditures (development expenditures financed by the Government of Malawi). Flows are valued at the end-month exchange rate.

43. **The European Union grants for food security purposes and the food reserve account.** These grants are given to provide a cash reserve to the Government of Malawi for the purchase of food stuff (in particular maize) at times of food shortages. Access to foreign or domestic accounts that have been or are being established to administer these resources is determined by agreements between the European Union and the Government of Malawi. Deposits into the account held abroad are recorded as grants with corresponding amounts of foreign financing (increase in deposit accounts). Withdrawals from the account held abroad are recorded as increase in foreign financing. If and when the resources are transferred to Malawi, they are to be held in a bank account in the banking system until needed, and are counted as part of net credit to government. Withdrawals from the foreign or domestic accounts for payments to suppliers are recorded as an appropriate expenditure item (e.g., purchase of food stuffs), and a decrease in the respective deposit account. Should the food reserve account be operated like a revolving fund, all cash inflows are accounted as appropriately classified revenue, and an increase in the deposit account. The balance in the foreign and domestic food reserve accounts is reported separately in the monetary data.

V. REPORTING OF CERTAIN TRANSACTIONS IN THE FISCAL ACCOUNTS

44. **Operations of the National Aids Commission (NAC).** Financial operations of the NAC are included in the fiscal accounts according to 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.

45. **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 transactions are estimated as the residual of outflows less expenditures for wages and salaries less expenditures for development Part II.

VI. REPORTING REQUIREMENTS

46. 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.

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

	FY05/06										FY06/07		
	Q1		Q2		Q3		Q4		Total		Q1	Q2	
	EBS/05/113	Act.	EBS/05/113	Act.	EBS/06/18	Act.	EBS/06/18	Rev.	EBS/05/113	EBS/06/18	Rev.	Prog.	Prog.
Balance of payments support													
Grants	60.2	35.7	20.0	52.7	3.0	3.0	28.1	21.9	116.3	119.5	91.4	21.2	0.0
EU	18.8	0.0	0.0	17.5	0.0	0.0	28.1	21.9	51.7	45.6	17.5	0.0	0.0
IDA	0.0	0.0	20.0	29.9	0.0	0.0	0.0	0.0	20.0	29.9	29.9	0.0	0.0
UK	38.2	35.7	0.0	0.0	0.0	0.0	0.0	0.0	38.2	35.7	35.7	17.5	0.0
Norway	3.2	0.0	0.0	5.3	3.0	3.0	0.0	0.0	6.4	8.3	8.3	3.7	0.0
Loans	0.0	0.0	25.0	0.0	25.0	0.0	0.0	24.5	25.0	25.0	24.5	0.0	8.4
IDA	0.0	0.0	25.0	0.0	25.0	0.0	0.0	24.5	25.0	25.0	24.5	0.0	0.0
ADB	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	8.4
Total	60.2	35.7	45.0	52.7	28.0	3.0	28.1	46.4	141.3	144.5	116.0	21.2	8.4
Cumulative total	60.2	35.7	105.2	88.4	116.4	91.4	144.5	137.8	141.3	144.5	116.0	159.0	167.4
Debt service payments													
IDA												5.1	0.2
AfDB												1.9	0.2
Total												7.0	0.4
Cumulative												7.0	7.4
Pass-through of debt relief from the RBM to the GoM													
IMF												4.5	8.7
Cumulative												4.5	13.2

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

Table 2. Malawi: Program Maize Revenue, Health SWAp, and NAC Funds, FY2005/06 and FY2006/07
(In millions of Malawi kwacha)

	FY05/06										FY06/07		
	Q1		Q2		Q3		Q4		Total		Q1	Q2	
	EBS/05/11 3	Act.	EBS/05/113	Act.	EBS/06/18	Act	EBS/06/18	Rev.	EBS/05/113	EBS/06/18	Rev.	Prog.	Prog.
Maize revenue													
Quarterly receipts	170	300	334	454	391	298	0	0	1,344	1,157	1,051	40	320
Cumulative receipts	170	300	504	753	1,157	1,051	1,157	1,051	1,344	1,157	1,051	1,091	1,411
Health SWAp													
Revenues	754	1,496	1,840	585	883	1,576	2,159	2,136	5,466	5,139	5,792	2,163	928
Expenditures	1,193	1,563	1,227	0	1,164	980	1,882	2,913	4,930	4,603	5,457	0	2,923
Wage expenditures	177	138	181	199	184	159	408	234	730	730	730	247	253
ORT Expenditures	1,016	1,417	1,046	-199	980	793	1,474	2,649	4,200	3,873	4,660	-247	2,637
Change in account balance	-439	-68	613	585	-281	595	277	-778	536	536	335	2,163	-1,995
Cumulative receipts	754	1,496	2,594	2,081	2,980	3,656	5,139	5,792	5,466	5,139	5,792	7,955	8,883
Cumulative expenditures	1,193	1,563	2,420	1,563	2,721	2,543	4,603	5,457	4,930	4,603	5,457	5,457	8,379
Cumulative change in account bal	-439	-68	174	517	259	1,113	536	335	536	536	335	2,498	503
Inflows to RBM (US\$ millions)												10	21
Cumulative total												10	31
National AIDS Commission (NAC)													
Revenues	1,269	455	1,309	1,928	1,340	264	1,364	564	5,282	3,320	3,211	1,413	1,445
Expenditures	1,269	768	1,309	1,706	1,340	506	996	231	5,282	3,320	3,211	1,413	1,445
Change in account balance	0	-313	0	222	0	-241	368	333	0	0	0	0	0
Cumulative change in account bal	0	-313	0	-91	-368	-333	0	0	0	0	0	0	0
Inflows to RBM (US\$ millions)												10	10
Cumulative total												10	20

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

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Table 3. Malawi: Reporting Requirements

Data description	Data Freq.	Reporting		Delivery		
		Agency	Freq.	lag	date	Mode
Gross international reserves, exchange rate, and foreign exchange purchases and sale	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 I	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	T16	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.