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Malawi: Selected Issues and Statistical Appendix

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MALAWI

Selected Issues and Statistical Appendix

Prepared by a staff team consisting of Alfred Kammer (head), Kristina Kostial, Johan Mathisen, Girma Begashaw, Kahwa Douoguih (all AFR), Thomas Baunsgaard (FAD), and Arnold McIntyre (PDR)

Approved by the African Department

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Contents Page

Boxes

Tables

Figures

Statistical Appendix Tables

I. Estimation of the Equilibrium Real Exchange Rate for Malawi[1]

1. **This section estimates the path of the equilibrium real exchange for Malawi.** Based on a dynamic model of a small open economy, the section identifies and discusses the dynamics between certain fundamental variables and the real exchange rate. It also investigates the presence of a long-run relationship between the real exchange rate and the explanatory variables and estimates both the equilibrium real exchange rate and the speed at which it converges towards its equilibrium level. The section concludes with a short discussion on episodes of discrepancies between the real effective exchange rate and its equilibrium level.

2. **The Malawi equilibrium exchange rate is treated as time varying defined by a set of long-run fundamental determinants.** This approach is chosen for two reasons. First, the real effective exchange rate (REER) series[2] contains a unit root (i.e., it is I(1)), so a traditional purchasing power parity (PPP) approach is not applicable. Second, certain characteristics of the Malawian economy, such as the importance of one export commodity (tobacco), capital account restrictions, and the lack of a forward foreign exchange market, affect the plausibility of interest rate parities and render industrial country models less useful. As a result, this section uses an error-correction model and a technique developed by Gonzalo and Granger (1995) to analyze the fundamental factors affecting the equilibrium real exchange rate and to construct this rate.

A. Definition and Determinants of the Real Exchange Rate

3. **This section defines the equilibrium real exchange rate (ERER) as the relative price of nontradables to tradables, which, for given sustainable values of certain fundamental variables, results in internal and external equilibrium.** Internal equilibrium occurs when the market for nontradables clears in the present and is expected to clear in the future, while external equilibrium holds when present and future tradable goods markets clear.

4. **Edwards's (1988 and 1989) dynamic model of a small, open economy in which both tradables and nontradables are exchanged, provides a coherent framework to identify the fundamental variables that are associated with an ERER.**[3] In its empirical version, the model allows for both real and nominal factors, but only real factors—the "fundamentals"—can influence the equilibrium exchange rate. Edwards's original model was used to describe nominal misalignment in fixed exchange rate regimes, in particular in small, low-income, open economies.

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[1] Prepared by Johan Mathisen.

[2] Not seasonally adjusted. Based on IMF, Information Notice System (INS) methodology and Malawian authorities' 1994 trade weights.

[3] The model is discussed in depth in Williamson (1994).

5. **Edwards's model is particularly suited to identify the fundamental variables that determine the Malawian equilibirum real exchange rate.** First, Malawi is a low-income country, where public expenditure accounts for almost one-third of GDP, driven partly by large flows of development assistance. It is also relatively open, with imports and exports exceeding 50 percent of GDP, and dependent on international tobacco exports. Malawi has an underdeveloped industrial base and is very dependent on imported goods, both for consumption and investment. Finally, although the kwacha was floated in the mid-1990s, it has since undergone periods of remarkable stability vis-à-vis the U.S. dollar. The key long-term explanatory variables derived from Edwards's model and used in this analysis are briefly discussed below, as are the expected signs of their coefficents:

- **Government consumption excluding salaries and wages as a share of GDP.**[4] The expected sign is ambiguous, depending on the share of tradables and nontradables in government consumption. If government spending is mainly directed toward nontraded (traded) goods, the effect is expected to be positive (negative). Empirical studies, based on a similar framework to this section, including Cerra and Saxena (2000) on India and Mongardini (1998) on Egypt, found that the impact of government spending on the real exchange rate was positive.

- **Government salaries and wages as a share of GDP.** The expected sign is negative, as civil servants constitute the middle-income class, and any real increment in wages and salaries is expected to increase consumption of (imported) tradables more than nontradables.

- **Investment.** The expected sign is ambiguous, as supply-side effects depend on the relative ordering of factor intensities across sectors. However, for Malawi, which has a low industrial base and low cost of labor, the sign is most likely negative as investment largely finances tradable (and imported) goods.

- **Terms of trade of goods.** The expected sign is positive. The income effect stipulates that, in the case of a positive terms of trade shock, there will be an increase in the real wage in the export sector, and this sector subsequently expands, leading to a trade surplus, to be restored by a REER appreciation.

- **Technological progress.** The expected sign is positive. The Balassa-Samuelson effect stipulates that higher differential productivity growth in the tradables sector improves wages in this sector, which subsequently expands, causing a trade surplus. To restore the internal and external balance, the REER must appreciate. Although the Malawi industrial production index measures production volume, it is used here as a proxy for technological progress, as it measures an expansion or contraction in the tradables sector.

[4] As data on government consumption of nontradables and tradables are unavailable, spending on public wages and salaries is excluded because the impact on the real exchange rate may differ from general government consumption.

- **Capital flows.** The expected sign is positive. Although an incomplete measure, changes in net foreign assets are used as a proxy for capital flows. Moreover, larger net foreign assets would allow running a larger trade deficit and a more appreciated exchange rate in the future.

B. Data and Key Observations

6. **The data reveal a shock to several of the variables in the mid-1990s (Figure I.1).** This period was marked by the turmoil associated with the transition to a multiparty democracy and the initiation of an economic reform program, including the flotation of the exchange rate.[5]

C. The Empirical Model

7. **Edwards's theoretical model identifies the following "fundamental variables" as the most important ones in determining the ERER: the level and composition of government consumption, external terms of trade, investment, and capital flows.**[6] In addition, a variable has been introduced to capture the Balassa-Samuelson effect (MacDonald and Ricci, 2001 and 2002). Hence, the empirical model for the ERER is

$$\text{Log}\,(e_t^*) = \beta_0+\beta_1\log(\text{gnwsgdp})+\beta_2\log(\text{gcwsgdp})+\beta_3\log(\text{invgdp})+\beta_4\log(\text{totg})+\beta_5\log(\text{techpro})+\beta_6\log(\text{NFA})+\varepsilon_t, \qquad (1)$$

where the evolution of the logarithm of the real exchange rate (e_t^*) is a function of the logarithms of government spending on wages and salaries as share of GDP (gnwsgdp), government consumption (excluding wages and salaries) as share of GDP (gcwsgdp), investment as share of GDP (invgdp), terms of trade of goods (totg), technological progress (techpro), and capital flows (Δnfa), as well as an error term ε.

8. **This analysis focuses on permanent changes in the explanatory variables that bring about changes in the long-run ERER.** The observed real exchange rate is composed of two components — the ERER and deviations from the ERER. The ERER is associated with the fundamental variables in their steady state level. Deviations of these variables from their respective steady state level result in deviations from the ERER. Thus, estimating the long-run cointegrating relationship between the real exchange rate and the fundamentals, using the observed values, would yield a biased estimate of the ERER. The econometric approach used in the analysis is described in Appendix II.

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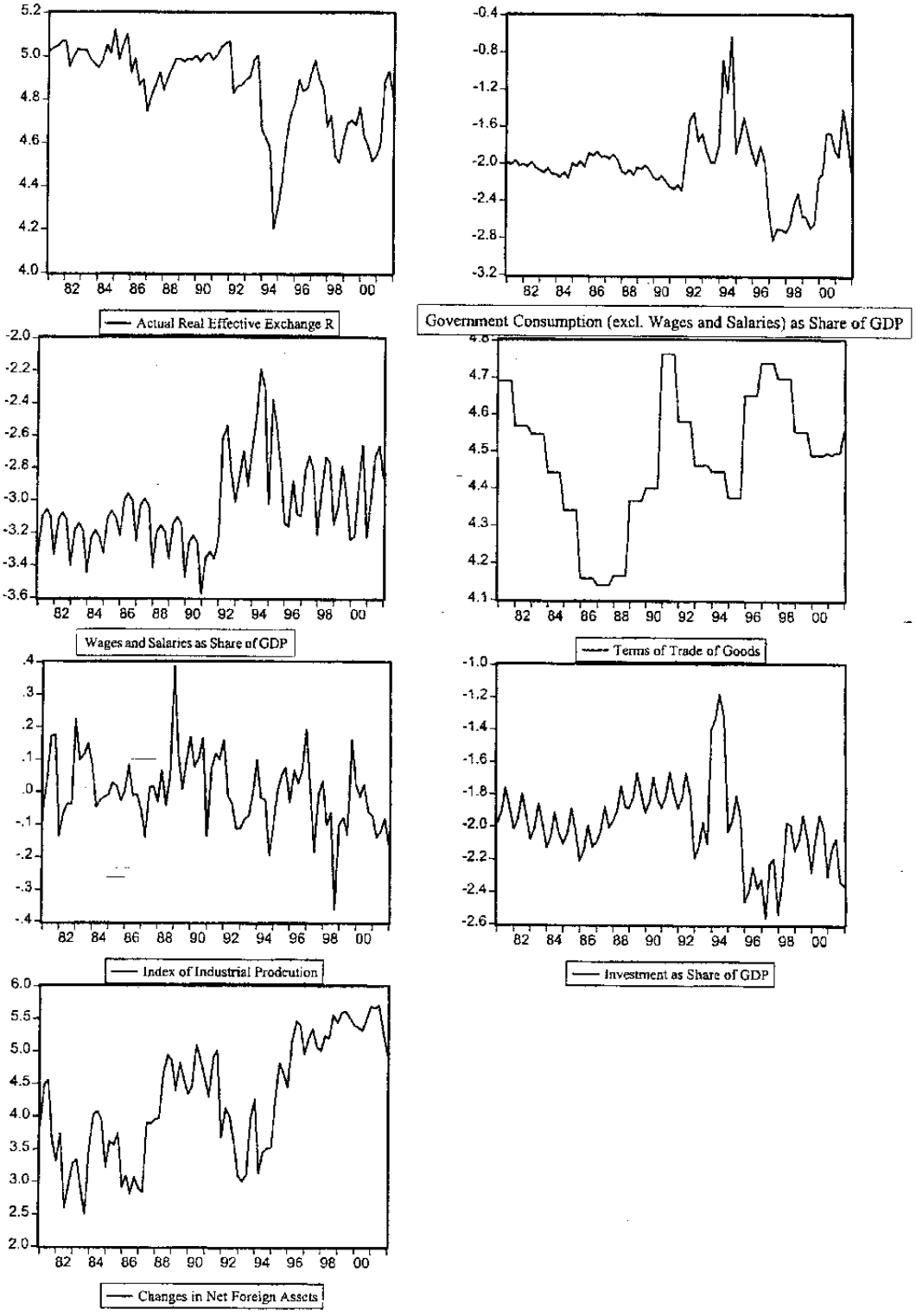
[5] The analysis uses quarterly data from the *International Finance Statistics (IFS)*, staff estimates, and Malawian authorities and, in some cases are interpolated from annual data. The variables and the data sources are listed in Appendix I.

[6] In addition to these long-run fundamentals, Edwards identifies macroeconomic policies (monetary and fiscal) as the source of short-term deviations of the exchange rate from the ERER.

Figure I.1. Malawi: Real Effective Exchange Rate and its Determinants



D. Econometric Characteristics

9. In order to estimate the empirical model as shown in equation (1), we first test for stationarity of the fundamental variables, then for cointegration, using the Johansen cointegration test (Johansen, 1988), and finally we proceed with the estimation procedure as outlined in Appendix II.

10. **Using augmented Dickey-Fuller statistics and selecting the number of lags based on the Schwarz criterion, the results show that all explanatory variables are stationary in the first differences, as is the REER.** The difference stationarity of the REER is consistent with other studies of the real exchange rate, and renders the PPP, in its traditional form at least, less useful. In all model specifications tested by using the Johansen cointegration test, the null hypothesis of zero cointegrating equations can be rejected; in some cases there appear to be two cointegrating equations.[7] The lag length for the error-correction model (ECM) was determined by backward selection, beginning with a lag of four to economize on degrees of freedom. Table I.1 shows the elasticities of two of the ECMs tested with model 1, including all the variables derived from the theoretical model, and model 2 omitting the two variables that were found to be not significant.

E. Results

11. **The results of the estimation are largely consistent with the theoretical model (Tables I.1 and I.2).** Public consumption, excluding wages and salaries, has a positive (appreciating) impact on the real exchange rate, indicating that most government spending in Malawi is directed toward nontradables. In contrast, the long-run impact of wages and salaries on the real exchange rate is negative, confirming that a larger wage bill in terms of GDP tends to put pressure on the external current account. The terms of trade of goods is positively correlated with the real exchange rate, confirming the impact of the income effect. Finally, investment is negatively correlated with the real exchange rate.

12. **The finding that the industrial production index and net foreign assets were not significant might be due to the choice of these variables as proxies for technological progress and capital flows, respectively.** Real GDP per capita could have been an alternative proxy for technological progress. However, given that GDP also captures nontradables and agricultural value added that is largely subsistence farming or not exported owing to high transportation costs, the industrial production index appears a more suitable proxy for technological progress. The finding that net foreign assets are not significant in a data set starting in 1980 might be due to tobacco export earnings and balance of payments assistance becoming a substantial part of net foreign assets only during the 1990s.

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[7] The results in Tables I.1 and I.2 are obtained by estimating the ECM by imposing one cointegrating vector for ease of interpretation.

Table I.1. Malawi: Results from the Cointegrating Equation

	Model 1	Model 2
LGCNSWGDP(-1)	-0.42	-0.66
Standard error	0.12	0.16
t-statistics	-3.76	-4.07
LGSWGDP(-1)	0.89	1.17
Standard error	0.13	0.16
t-statistics	7.00	7.27
LTOTG(-1)	-0.21	-0.50
Standard error	0.10	0.17
t-statistics	-2.04	-2.84
LTECHPRO(-1)	0.09	
Standard error	0.26	
t-statistics	0.34	
LINVGDP(-1)	0.19	0.32
Standard error	0.09	0.15
t-statistics	2.06	2.11
LΔNFA	0.01	
Standard error	0.03	
t-statistics	0.34	
C	-1.75	-0.21
Standard error	0.59	0.99
t-statistics	-3.00	-0.21

Table 1.2. Malawi: Results from Error correction Models with d(LREER) as Dependent Variable

Variable	Model 1	Model 2
CointEq1	-0.39	-0.27
Standard error	0.08	0.06
T-statistics	-5.20	-4.67
DLREER(-1)	0.03	-0.02
Standard error	0.11	0.10
T-statistics	0.30	-0.20
DLREER(-2)	0.10	0.03
Standard error	0.12	0.10
T-statistics	0.91	0.32
DLGCNWSGDP(-1)	-0.22	-0.22
Standard error	0.06	0.06
T-statistics	-3.71	-3.67
DLGCWSGDP(-2)	-0.22	-0.22
Standard error	0.05	0.05
T-statistics	-4.13	-4.28
DLGWSGDP(-1)	0.18	0.14
Standard error	0.07	0.07
T-statistics	2.60	2.02
DLGWSGDP(-2)	0.12	0.09
Standard error	0.06	0.06
T-statistics	1.89	1.54
DLTOTG(-1)	0.03	0.01
Standard error	0.14	0.13
T-statistics	0.19	0.06
DLTOTG(-2)	-0.22	-0.19
Standard error	0.14	0.13
T-statistics	-1.46	-1.43
DLTECHPRO(-1)	0.02	
Standard error	0.09	
T-statistics	0.17	
DLTECHPRO(-2)	0.01	
Standard error	0.09	
T-statistics	0.09	
DLINVGDP(-1)	0.11	0.12
Standard error	0.08	0.07
T-statistics	1.37	1.71
DLINVGDP(-2)	0.11	0.11
Standard error	0.08	0.07
T-statistics	1.44	1.57
DΔLNFA(-1)	-0.01	
Standard error	0.02	
T-statistics	-0.47	
DΔLNFA(-2)	0.02	
Standard error	0.02	
T-statistics	0.96	
Memorandum items:		
R-squared	0.41	0.33
Adj. R-squared	0.29	0.23
Sum sq. resids	0.49	0.56
S.E. equation	0.094	0.09
F-statistic	3.34	3.57
Log likelihood	93.66	92.83
Akaike AIC	-1.92	-1.93
Schwarz SC	-1.48	-1.61
Mean dependent	-0.00	-0.00
S.D. dependent	0.10	0.10

13. **The long-run relationship between the REER and the key explanatory variables can be summarized as follows (Table I.1)**:

- A 1 percent increase in the level of government consumption, excluding wages and salaries, as a share of GDP is associated with an appreciation of the REER of 0.4-0.7 percent.

- A 1 percent increase in the level of government wages and salaries as a share of GDP is associated with a depreciation of the REER of 0.9-1.2 percent.

- A 1 percent increase in the terms of trade of goods is associated with an appreciation of the REER of 0.2-0.5 percent.

- A 1 percent increase in investment as a share of GDP is associated with a depreciation of the REER of 0.2-0.3 percent.

F. Adjustment Speed

14. **When there is a gap between the value of the real exchange rate and its equilibrium level, the real exchange rate will tend to converge to its equilibrium level.** Depending on the cause of the gap, the adjustment requires that the real exchange rate either move progressively toward a new equilibrium level, or return from its temporary deviation to the original equilibrium value.

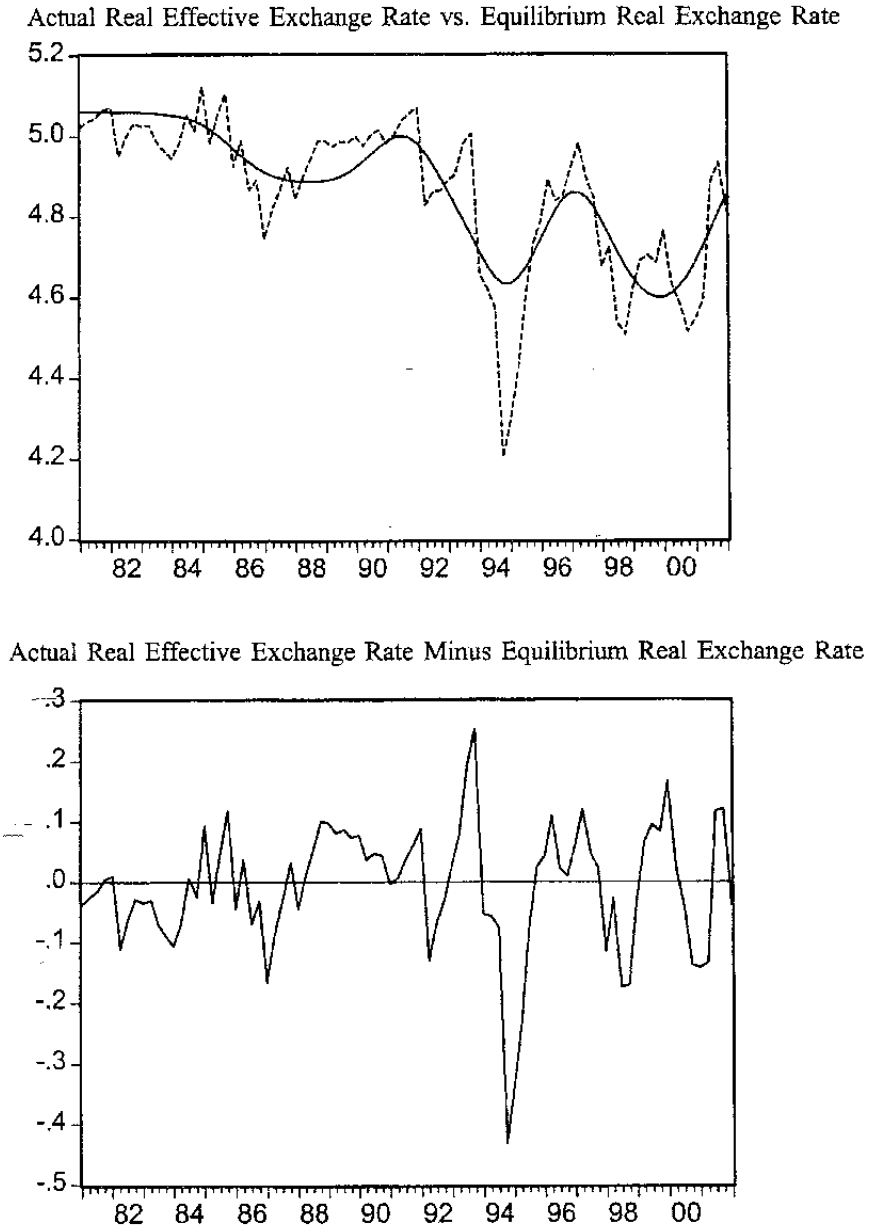
15. **This study estimates that between 26 percent and 39 percent of the gap is eliminated every quarter, implying that, in the absence of further shocks, half of the gap would be eliminated within five to eight months**. This adjustment speed is relatively fast, compared to the half-life of a shock to the real exchange rate in South Africa, estimated to be about 2½-3 years (Ricci, 2002).

G. The Gap Between the Real Exchange Rate and the Equilibrium Level

16. **During the last decade, there were several episodes when the ERER and REER were misaligned (Figure I.2).**[8] Two major droughts, in 1992 and 1994, caused food prices to rise substantially, reversing the gains made in reducing inflation. In 1995, the flotation of the exchange rate and the sharp depreciation of the nominal exchange rate, led to an undervaluation of the REER. This was reversed in 1996, when the REER peaked as the Reserve Bank of Malawi (RBM) maintained the nominal exchange rate at MK15.3 per U.S. dollar and the expansionary monetary and fiscal policies resulted in high inflation. A

[8] Based on the long-run relationship summarized above and some short-run deviations as shown in Table I.2, the ERER has been estimated for 1980-2002. As the estimated ERER shows a high degree of volatility—partly owing to shocks to the "fundamentals" as shown in Figure I.1—the ERER has been smoothed using a Hodrick-Prescott filter with a smoothing factor of 500. Although Hodrick-Prescott filters tend to perform poorly at both ends of the series, the results for 2001 and 2002 are broadly consistent with the estimated series.

Figure I.2. Malawi Actual and Real Effective and Equilibrium Real Exchange Rates
(March 1981 - March 2002, in logs)



subsequent adjustment program had some initial success in bringing down inflation, which was, however, lost in 1999, when the RBM maintained a nominal exchange rate to the U.S. dollar. The REER appears to have been in equilibrium in late 2001 and early 2002.

H. Conclusion

17. **The section shows that the ERER in Malawi is affected by various factors.** Government consumption, excluding wages and salaries has a positive impact on the real exchange rate, indicating that most government spending is directed toward nontradables. In contrast, the long-run impact of wages and salaries on the real exchange rate is negative, indicating that a larger wage bill in terms of GDP tends to put pressure on the external current account. The terms of trade of goods is positively correlated with the real exchange rate, confirming the impact of the income effect. Investment appears to be negatively correlated with the real exchange rate.

18. **The results also indicate a rapid adjustment speed from any deviation to the real exchange rate from its equilibrium value.** The section shows that, in the absence of further shocks, about half the gap between the actual value of the REER and its equilibrium values could be eliminated within five to eight months.

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Variables: Definitions and Sources

19. The quarterly data set from March 1980 to March 2002 consists of the following variables:

- LGNSWGDP: Natural logs of government consumption excluding wages and salaries as share of GDP. Sources: *IMF, International Financial Statistics (IFS)*; and staff estimates.

- LGSWGDP: Natural logs of government wages and salaries as share of GDP. Sources: IFS; and staff estimates.

- LINVGDP: Natural logs of investment as share of GDP. Source: National Statistical Office, Malawi.

- LTOTG: Natural logs of terms of trade of goods. Sources: IFS; and staff estimates.

- LTECHPRO: Natural logs of the index of industrial production. Source: National Statistical Office, Malawi.

- LΔNFA: Natural logs of changes in net foreign assets. Sources: IFS; and Reserve Bank of Malawi.

Cointegration and Orthogonal Decomposition

20. This section relies on an econometric technique developed by Gonzalo and Granger to decompose the observed real exchange rate (RER) into a transitory and a permanent component. The estimated ERER is taken to be the permanent component, while the transitory component reflects deviations from equilibrium.

21. In order to understand the link between equilibrium and cointegration, it is useful to depart from the theory of purchasing power parity (PPP), which implies a constant value of ERER. In econometric terms, PPP implies a stationary process for the RER (i.e., that the RER is integrated of order zero (I(0)). However, if the RER contains a unit root (i.e., it is an I(1) variable), no constant equilibrium can be defined for RER, and the PPP hypothesis is rejected.

22. Failure of PPP to hold does not necessarily imply that no equilibrium exist,, but rather that the equilibrium may be time varying. In this case, if log(gnwsgdp), log(gwsgdp), log(invgdp), log(totg), log(techpro), and log(nfa) are cointegrated, the RER will fluctuate around a time-varying equilibrium characterized by the long-run cointegrating relationship $[1-\beta_1-\beta_2-\beta_3-\beta_4-\beta_5-\beta_6]$. Thus, the presence of cointegration among a set of variables allows for the presence of a time-varying equilibrium and presents a very desirable property: it allows for the decomposition of the relationship among the variables into two components. The permanent component, which would be I(1), describes the long-run properties of the relationship among the variables and can be identified with a time-varying equilibrium path; a transitory component, which would be I(0), corresponding to deviations over time from the permanent component and would represent departures of the fundamentals from their steady state values.

23. Gonzalo and Granger (1995) propose a way of solving the econometric problem so that the permanent (equilibrium) component of the key endogenous variable, the real exchange rate, can be constructed by means of the permanent components, rather than the actual values of the fundamental determinants. Their approach is to derive a decomposition where the transitory component does not "Granger cause" the permanent component in the long run, and where the permanent component is a linear component of contemporaneous observed variables. The first restriction implies that the changes in the transitory component will not have an effect on the long–run values of the variables. The second restriction makes the permanent component observable and assumes that the contemporaneous observations contain all the information necessary to extract the permanent component.

24. The Gonzalo and Granger procedure is as follows:

Let X_t be a (px1) vector of I(1) series with mean 0 and assume that there exists a matrix α_{pxr} of rank r such that $\alpha' X_t$ is I(0). Then the vector X_t has the following ECM representation:

$$\Delta X = \underset{pxr}{\gamma}\ \underset{rxp}{\alpha'} X_{t-1} + \sum_{i=1}^{\infty} \Gamma_i \Delta X_{t-i} + \varepsilon_t , \qquad (A1)$$

where Δ is the lag operator. The elements of X_t consist of $(p\text{-}r)$ *I(1)* variables, f_t, known as the common factors, plus some *I(0)* components, as follows:

$$\underset{px1}{X_t} = \underset{pxk}{A_1}\ \underset{kx1}{f_t} + \underset{px1}{\tilde{X}} , \qquad (A2)$$

where $k = p\text{-}r$. Gonzalo and Granger define $A_1 f_t$ and $\tilde{X}_t$ as the permanent and temporary components of X_t, respectively, such that only the innovations from the permanent component can affect the long-run forecast of X_t. Innovations to the temporary components of all the endogenous variables, including the fundamental determinants, do not affect the long-run, i.e., "equilibrium" forecast of X_t.

25. The only linear combination of X_t that precludes $\tilde{X}_t$ from having any long-run impact on X (the conditions sufficient to identify the common factor f_t) is given by:

$$f_t = \underset{kxp}{\gamma_\perp'}\ \underset{px1}{X_t} , \qquad (A3)$$

where $\gamma_\perp$ is the orthogonal complement of γ (i.e. $\gamma_\perp' \gamma = 0$) and $k = p\text{-}r$. Once the common factors f_t have been identified, the matrix $(\gamma_\perp\ \alpha)'$ can be inverted to obtain the P-T decomposition as follows:

$$\underset{px1}{X_t} = \underset{pxk}{A_1}\ \underset{kxp}{\gamma_\perp'}\ X_t + \underset{pxr}{A_2}\ \underset{rxp}{\alpha'} X_t , \qquad (A4)$$

where $A_1 = (\gamma_\perp'\ \alpha_\perp)^{-1}$ and $A_2 = (\alpha'\gamma)^{-1}$. The first term on the right-hand side provides the permanent component at each point in time, t, for the vector of endogenous variables (the RER and the fundamental variables).

II. Tax Policy[9]

A. Introduction

26. **The Malawian poverty reduction strategy envisages tax policy to contribute to economic growth by improving the efficiency of the tax system while maintaining revenue collections with a broader tax base at reduced tax rates.** It also highlights the need to rationalize expenditure to keep the overall tax burden at a reasonable level.[10]

27. **The tax policy approach in the poverty reduction strategy paper (PRSP)—in line with sound policy prescriptions—focuses predominantly on collecting revenue with the least possible inefficiency impact, leaving equity concerns to be addressed through expenditure interventions.** In other words, economic growth will be higher the lower the distortive impact of the tax system. More growth will reduce poverty, a process that can be further accelerated by increasing poverty alleviating expenditure. However, the expenditure needs in Malawi may be so large that there is a need to further boost domestically-generated revenue to finance additional poverty alleviating expenditure in a sustainable manner. In these circumstances, more progressive taxes may have a role to play. Moreover, if there are insufficiently targeted expenditure instruments, and the government has strong equity considerations, a case can be made for supplementing the efficiency objective with equity concerns when designing tax policy.

28. This section reviews recent tax policy changes in Malawi, in general supporting the direction of the ongoing tax reform. However, the tax base could be further broadened (particularly for surtax and income taxes), and there may be a case for simplifying the excise regime. Moreover, the recent moderate increase in the progressivity of the tax system to complement poverty alleviation achieved from the expenditure side would seem justified.

B. Taxes and Poverty

29. **The most immediate impact of taxes on poverty is by raising funds in a sustainable manner to finance pro-poor expenditure.** In order to sustainably finance expenditure, a certain level of revenue is required. The most effective way to increase revenue without increasing distortions and the disincentive impact of taxes excessively, is by broadening the tax base, either by changes in policy or administration. However, more recent contributions to the tax policy literature have focused attention on the role more progressive tax policies could play, particularly in low-income countries, as an effective tool to increase revenue while achieving certain equity objectives.[11]

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[9] Prepared by Thomas Baunsgaard.

[10] See Republic of Malawi, Poverty Reduction Strategy Paper, 2002, section 4.1.2.6.

[11] Zee (1999) presents a model where it is optimal to finance an expenditure program with progressive taxation, and the optimal progressivity increases the higher the income inequality and the lower aggregate income. In other words, in designing equity-oriented expenditure programs in low-income countries, progressive taxation

(continued...)

30. **Tax policy may also complement expenditure policy if there are constraints on how effectively expenditure instruments can be targeted.** While the most direct way for fiscal policy to reduce poverty is through the expenditure side—either redistributing resources to improve equity or by strengthening the growth potential by building up human capital—in many low-income countries expenditure programs are poorly targeted. Often there are also a more limited number of instruments available to the policymaker. For example, effective transfer programs targeted at the poor are rare and human capital enhancing spending, such as health and education programs, is often not aimed at the poor. This is in spite of empirical evidence suggesting that the incidence of, for example, primary education and preventive health care is more progressive.[12] Implementing more progressive tax policies may therefore, in addition to raising revenue, complement the extent to which expenditure policies can make the budget more effective in alleviating poverty.

31. **However, since poverty can only be sustainably reduced by increasing growth, policymakers must ensure that any benefits from giving more weight to equity concerns are not offset by an excessive efficiency loss.** There are few, if any, countries that have reduced poverty in a sustained manner without improving the economic growth performance. In other words, while economic growth may not be sufficient to reduce poverty, it is almost always a necessary condition. The policymaker must therefore carefully assess the effect of increasing the progressivity of the tax system on the inefficiency impact of taxes (Box II.1). Modest increases in progressivity may be feasible, however, without incurring excessive efficiency losses, particularly if the additional revenue is spent on growth-enhancing programs (such as health and education).

32. **The weak administrative capacity in many low-income countries limits the progressivity of a tax system, as tax evasion could increase.** If higher statutory tax rates cause an increase in tax evasion, so as to leave the effective tax burden unchanged (or perhaps even decline), nothing will have been gained. This highlights the need to simultaneously strengthen tax administration. But even with progress in strengthening the tax administration, the economic characteristics of most low-income countries will limit the ability to increase the progressivity of tax systems. These economies have typically a very narrow formal sector, with most employment and economic activities being carried out in the informal—and mostly untaxed—economy. In many countries, therefore, the number of taxpayers is small, which imposes limits on how much tax collections can be increased.[13] Over time, the only solution will be to broaden the tax base by bringing into the tax net more of the informal sector activities. However, this can be achieved only gradually, and real gains are likely to be conditional on realizing broad-based economic development. Accelerated efforts to spread the tax net—for example, by relying on presumptive taxes—must be

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may have a role to play, not only to reduce inequity, but as the most efficient means for raising the revenue to finance the expenditure programs.

[12]See the review of the empirical evidence in Chu, Davoodi and Gupta (2000).

[13] Although the low tax-to-GDP ratios suggest that the tax burden is modest, if the number of taxpayers is also very small, an aggregate view could disguise an excessive tax burden per taxpayer.

carefully assessed so as not to incur excessive administrative costs relative to the additional revenue that can be gained in the short term.

Box II.1. Tax Policy and Growth

Given the importance of economic growth as a necessary condition for sustained poverty alleviation, a key question is whether more progressive tax policies would slow down growth. While one would intuitively expect this, the empirical evidence on this is spotty. The impact on growth from tax policies is highly correlated with the impact on growth from the expenditure financed by the taxes collected. Were revenue to be spent in a way that increased economic growth one could expect a positive correlation between taxes and growth. However, in many instances, public expenditure is undertaken in less productive manners—crowding out the private sector rather than crowding it in—resulting in negative correlations between tax and growth.

From a theoretical point of view, there are at least four different ways in which taxes may affect growth negatively. First, investment activities can be discouraged by high income tax rates, capital gains taxes, and low depreciation allowances. Second, high personal income tax rates may slow down labor supply growth by discouraging labor participation. Third, tax policy can reduce productivity growth, for example if it negatively impacts on research and development activities. Fourth, taxes can influence the marginal productivity of capital (physical as well as human) by influencing the allocation of resources in favor of more lightly taxed sectors that may have lower social productivity. In Malawi, this could be the case, if an excess amount of resources were allocated to the informal sector to avoid taxes.

While the empirical evidence on the impact of taxes on growth tends to support the theoretical, and intuitive, view that taxes are bad for growth, many of the findings are not robust. Most empirical evidence, both cross-country and time series analyses, suggests that higher taxes in themselves have a negative impact on output growth. Furthermore, there is some evidence that the structure of taxes matters, suggesting that income taxation is more harmful to growth than broad based (and less distortionary) consumption taxes. However, it can be problematic to assess the full impact of taxes on growth. First, only focusing on the tax side ignores the expenditure benefiting growth that may be funded by higher taxes. Second, there are problems with reverse causality between growth and the fiscal explanatory variables.

The scope for redistribution through the tax system is constrained by the likely conflict between equity and efficiency that will affect the growth rate. Although there may be instances where achieving both objectives can be complementary, it is most likely that there will be some trade-off between equity and efficiency. A clearly undesirable outcome of more progressive tax policies would be if these were to impact negatively on growth by increasing tax policy induced inefficiencies. However, it is possible that more redistributive policies, including tax policy, could lead to a more broad-based growth performance that may be better sustained and will achieve faster reductions in poverty. Particularly, if additional tax revenue is used to finance improvements to the capital stock (both human and physical) this may also better sustain the growth performance over time.

Source: Engen and Skinner (1996).

C. Tax Collections in Malawi

33. **In Malawi, tax collections are low, reflecting the narrow tax base (arising mostly from the small formal sector) and limited administrative capacity.** That said, Malawi compares favorably to other HIPC countries in Africa. With an average tax-to-GDP ratio of 15 percent of GDP during the 1990s, Malawi is placed among the HIPC countries with the

highest tax take (Figure II.1).[14] It is also noticeable that tax collections increased during 1999-2000 coinciding with the establishment of the Malawi Revenue Authority. This is likely to reflect a relatively well-functioning revenue administration (even though some administrative problems have come to light recently).

34. **Malawi relative to other HIPC-countries has a slightly larger portion of revenue coming from direct taxes while indirect taxes are dominated by the surtax (a VAT) and, more recently, excise collections.** This is particularly striking since the surtax currently only applies to manufacturing, imports and selected services. The large share of personal income tax and corporate income tax collections is also noticeable. One possible explanation may be the concentrated structure of the private sector with a limited number of dominating companies that could prove more straightforward to focus on for tax administrators.

Box II.2. The Needed Revenue

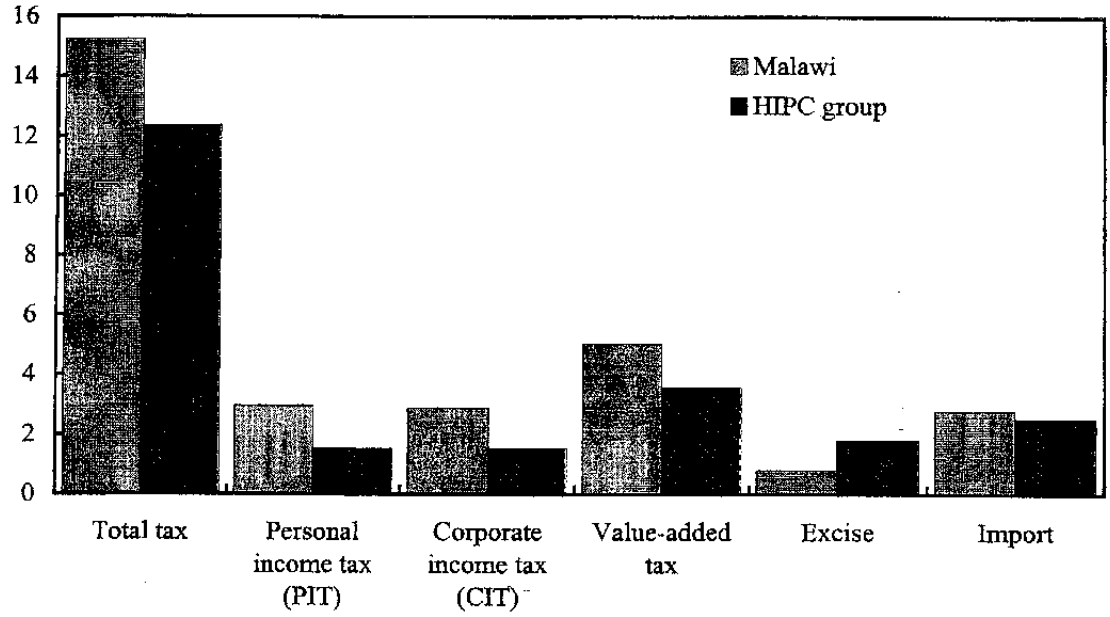
Why would tax collections need to increase in low-income countries? While one could argue that donor funds should substitute for tax revenue, at least temporarily, thereby reducing the burden on the private sector and freeing up the economy to develop with minimum inefficiencies, in practice, this argument is questionable for two reasons. First, many low-income countries are in a very difficult situation with a very low level of tax collections combined with the need to substantially boost pro-poor and social expenditure. To make a meaningful dent in poverty, it is unlikely that donor inflows will provide sufficient additional resources. Certainly, debt relief in itself is not sufficient. In most HIPC countries, the existing spending on pro-poor programs is so limited that more tax revenue, in addition to debt relief, is required to sustainably fund the needed increases in social and pro-poor expenditure. The real test, of course, is to ensure that the additional revenue is spent effectively in improving the productive capacity of the economy, including by building up human capital.

The second factor supporting the need for increased revenue relates to the predictability of funds. Donor financing is typically less predictable and more prone to exhibit large swings than own sources of revenue. The rational behavior would be for recipient countries to build up precautionary savings by increasing international reserve holdings when large donor inflows are received. These could then be drawn down if there were delays in donor inflows. Failing to do so could put pressure on domestic sources of financing if donor shortfalls should occur, since the financial sector is typically thin in low-income countries. However, building up a core source of financing from own sources of revenue, while being somewhat less prone to large swings, will make it easier to continue core spending programs even in instances where there are delays or shortfalls in the disbursement of donor financing for the budget.

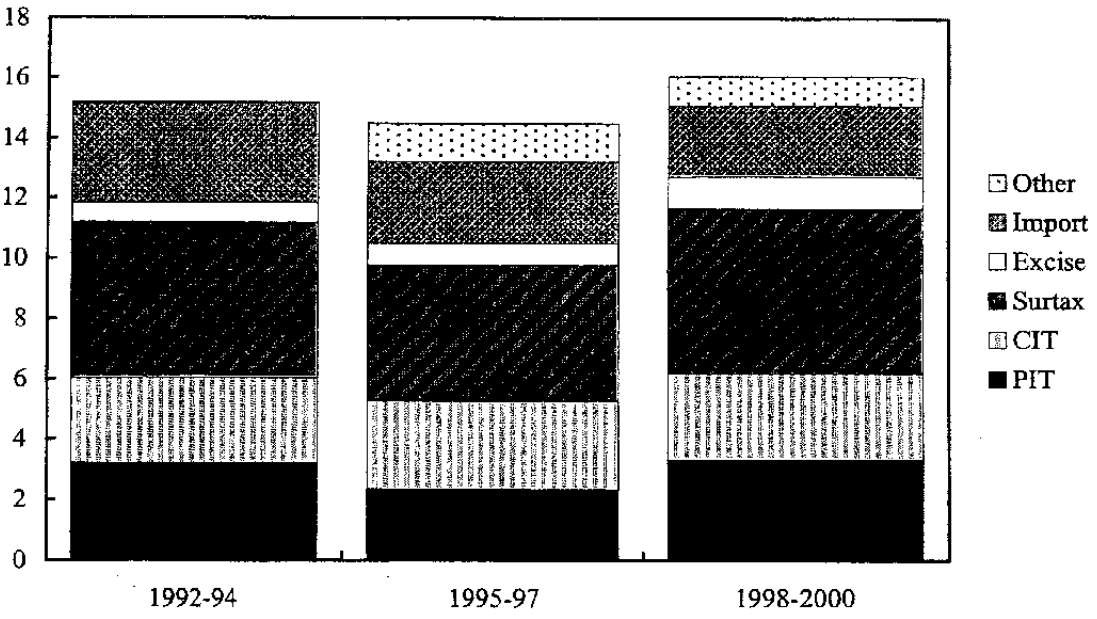
[14] Average tax collections for 1990-2000 in a sample of 15 HIPC-countries in Africa have been about 12 percent of GDP, much lower than the tax burden in more developed economies. However, there are large differences between countries with some having collected around 10 percent of GDP over the period (e.g., Burkina Faso, Cameroon, Chad, Madagascar, Mozambique, Tanzania, and Uganda), whereas others have collected taxes closer to 18 percent of GDP (The Gambia and Zambia).

Figure II.1.Tax Collections, 1992-2000
(In percent of GDP)

Average tax collections, 1992-2000 1/



Malawi: Tax structure, 1992-2000



Source: Country authorities

1/ Group of African HIPC-countries include Benin, Burkina Faso, Cameroon, Chad, Ethiopia, the Gambia, Ghana, Madagascar, Mali, Mozambique, Senegal, Tanzania, Uganda, and Zambia.

35. **Tax collections declined moderately in the mid-1990s, followed by a steady turnaround during 1998-2000.**[15] The latter was driven by an increase in the collection of personal income tax, withholding taxes and surtax, whereas the collection of corporate tax revenue was stagnant, and import duties declined slightly following trade liberalization. This decline to some extent has been offset by an increase in excise duties as the list of excisable goods has been expanded to counter the revenue loss from lower import tariffs. The low tax effort in most low-income countries, including in Malawi, have led to calls to strengthen tax collections to sustainably fund increases in expenditure benefiting the poor (see Box II.2).

D. Recent Tax Policy Changes

36. **There have been a number of tax policy changes in Malawi with the last three budgets (Table II.1).** In addition to raising revenue, the stated objectives have predominantly been to improve the efficiency impact of the tax system to promote economic growth and thereby reduce poverty. With the 2002/03 budget, this has been complemented by an explicit objective of ensuring that the tax system becomes more equitable. The recent budget speech states that tax measures aim at rationalizing and broadening the tax structure to achieve a simple, efficient and equitable tax system. While the tax package is unlikely to achieve quite so much, it does appear to introduce a better balance between efficiency and equity objectives than perhaps has been the case in the previous two budgets. The envisaged extension of the surtax is welcome as an effective means to broaden the tax base, but the proliferation of excisable goods since 2000/01 does little to simplify the tax system.

Personal income tax

37. **Over the last three years, personal income tax (PIT) rates have been gradually reduced and the thresholds for the income brackets have been increased.** With the recent budget, an additional income bracket for high income earners was introduced increasing the top marginal rate. While the top marginal rate was reduced from 38 percent in 1999/00 to 30 percent in 2001/02, this reduction was reversed with the new 40 percent income bracket. Since the income brackets are not indexed, the higher brackets have partly been to adjust for inflation. Most of the PIT revenue is collected as PAYE taxes through withholding by employers.

38. **While the structure of the PIT is reasonably simple with only four taxable income brackets, the number of exemptions is high.** Of particular concern is the exemption of gratuities (up to MK 40,000 or about US$500), certain redundancy payments and housing allowances (although the exempted amount is small), which provides an incentive to disguise salary payments as benefits to reduce the tax liability. Not all fringe benefits are taxed at their full value, although this does simplify the tax administration.[16] The

[15] Tax collections declined again in 2001 reflecting both a slowdown in the economy and the tax cuts in the 2001/02 budget.

[16] Fringe benefits are taxed under the corporate income tax, some at prescribed rates.

tax base is also reduced by the exemption of most capital gains, but this is common in other countries in the region.

Table II.1. Malawi: Main Tax Policy Changes, 2000/01-2002/03

	2000/01 budget	2001/02 budget	2002/03 budget
Tax policy objectives (in budget speech)	Increase efficiency and competitiveness; reduce the tax burden for companies and individuals.	Increase disposable income; stimulate private sector productivity.	Rationalizing and broadening the tax base to achieve a tax structure that is simple, efficient and equitable.
Personal income tax	Removal of 3 percent drought levy and doubling of income brackets. Income (in MK) Tax rate 0-24,000 0% 24,001-42,000 15% 42,001-60,000 25% Above 60,000 35%	Reduction in tax rates and increase in income brackets. Income (in MK) Tax rate 0-36,000 0% 26,001-54,000 10% 54,001-72,000 20% Above 72,000 30%	Introduction of additional income tax bracket. Income (in MK) Tax rate 0-36,000 0% 26,001-54,000 10% 54,001-72,000 20% 72,001-100,000 30% Above 100,000 40%
Corporate income tax	Removal of 3 percent drought levy. Standard tax rate 35 %	Reduction in tax rate. Standard tax rate 30%	None
Withholding taxes	None	Replacement of dividend tax accounting system by a final dividend withholding tax at 10 percent. The withholding tax threshold on interest increased to MK10,000.	Exemption of dividends distributed between subsidiary companies.
Surtax	Extended to commercial transporters and television providers. Exemption of petrol, diesel and paraffin (replaced by excise duty).	Zero rating of milk, and capital goods and machinery used for manufacturing	Extension to the retail stage by September 2002. Zero-rating extended to salt and exercise books.
Excise duties	Introduction of excise duty on petrol and diesel (20%), on paraffin (10%), and selected consumer goods (10%). Increase in excise on certain motor vehicles, alcoholic beverages (by 20%), and cigarettes.	Further increase in selected consumer goods (by 10-20%). Reduction in excise duty on alcoholic beverages (by 25%), footwear, and petroleum jelly.	Increase in excise duty on alcoholic beverages and certain motor vehicles. Introduction of excise duty on certain food products (20%). Introduction of a minimum fixed amount of excise duty on petroleum determined at the beginning of the year.
Trade taxes	Reduction in import tariff rates on intermediate goods and raw materials (from 15% to 10%), and on certain pick-up motor vehicles. Elimination of import duty on computers.	Removal of import duty on capital goods and machinery used for manufacturing. Reduction of import duty on agricultural hand tools. Increase in import duty on crude cooking oil.	Introduction of an export duty on raw, unprocessed tobacco (20%), and of a minimum fixed amount of import duty on petroleum determined at the beginning of the year. Reduction in import duty on textiles.

39. **One consideration when assessing income tax policy is the equity impact (see Box II.3. for a discussion of optimal income tax policy).** While there are insufficient data to carry out a proper analysis of the taxpayer distribution, the number of PIT payers is small, and tends to be concentrated among higher-income segments of society and public sector employees (partly because it is more difficult to evade taxation for government employees).[17] The authorities at the time of the 2001/02 budget maintained that the impact of the tax rate cuts would be a more progressive PIT system, by lowering the tax burden proportionally more on the low-income PIT payers. However, since most poor people are not paying any income tax at all (either because they operate in the informal sector or their income is below the taxable threshold), the impact of the PIT changes in 2001/02 was regressive by benefiting mostly middle-to-high income earners.[18] The introduction in 2002/03 of an additional income bracket was more progressive by increasing the tax burden on high-income earners.

Box II.3. Optimal Income Tax

The most direct way to achieve redistribution through the tax system is by income taxation. The literature on optimal income tax highlights the negative impact high marginal tax rates will have in terms of discouraging labor participation or investment. The tax rules that have been derived in the literature illustrate the trade-off between equity and efficiency that a policymaker will face.

The tax rule for the optimal linear tax provides some guidance to policymakers. If the disincentive effect of taxation is important, this will reduce the optimal tax rate. However, if the difference between the average household labor supply and the social welfare-weighted labor supply is large—an indication of the equity concerns of the policymaker—this will increase the optimal income tax rate. The tax policy rule highlights the trade-off between equity and efficiency concerns.

The optimal tax problem can also be investigated in the unrestricted case of non-linear taxation. The theoretical insights with policy implications are (i) that optimal marginal income tax rates must be between zero and one; and (ii) for households at the highest and lowest abilities (and therefore levels of household income) the marginal tax rate must be zero. The intuition for the surprising last result is that any income tax schedule with a positive marginal rate for the top household can be replaced by one that leaves all households better off, inducing them to earn more income but paying the same tax.

The optimal income tax problem requires balancing equity and efficiency considerations in an economy with unequal distribution of income. While income tax is the most direct instrument to meet a certain equity objective, it imposes disincentives to effort particularly when the marginal rate of tax increases with income. Moreover, even if the government has very strong redistributive preferences, high marginal tax rates may not be appropriate. The rationale is that high marginal tax rates at high levels of income are inefficient because they produce little revenue, while high marginal tax rates at very low levels of income are inequitable because they impose burdens on those with very high social marginal utility of income. Based on this reasoning, the policy recommendation underlying many tax reforms in recent years has been that the optimal tax function should be approximately linear with moderate levels of average and marginal tax rates.

Sources: Diamond and Mirrlees (1971), Auerbach and Hines (2001), and Myles (1995).

[17] Even though a number of parastatals and even line ministries have been withholding PIT contributions from employees, but not passing these on to the Malawi Revenue Authority.

[18] The authorities at the time also suggested that there would be a substantial trickle down impact by well-off Malawians assisting poorer relatives through informal transfer mechanisms.

40. **While data are not available to estimate the effective distributional impact of the changes to the PIT, normative simulations indicate that recent tax policy has been progressive.** Figure II.2 shows the average and marginal personal income tax rates comparing the last four years' tax systems over a range of current year income. The first chart shows that the average tax burden was substantially reduced with the 1999/00-2001/02 tax changes, reflecting both an increase in the income brackets and the reduction in the rates. With the 2002/03 changes, however, some of the tax relief provided to middle-to-high income earners was clawed back. The overall distributional impact appears to have been progressive by providing tax relief to low-income earners while shifting more of the tax burden to the middle-to-high income earners.[19] The bottom chart of Figure II.2 shows that the marginal income tax rates have changed substantially in the last three years. First, the PIT system has become more progressive over time by lowering marginal tax rates on low-income taxpayers. Second, the top marginal tax rate becomes applicable on personal income at almost 10 times the GDP per capita level, whereas if the 1999/2000 regime had remained in place it would have kicked in at four times the GDP per capita level.[20] Third, the recent introduction of a new income bracket constitutes a substantial increase in the top marginal tax rate for middle-to high- income earners.

Corporate income tax

41. **The corporate income tax (CIT) applies to all corporations except for specifically exempted organizations including nonprofit groups and rural banks.** The general tax rate has been reduced gradually from 38 percent in 1999/00 to 30 percent in 2001/02. There are reduced tax rates for certain organizations, including exempt status for enterprises located in or designated as export processing zones (EPZs) and for gazetted priority industries.[21] The value of benefits provided to an employee is taxable in the hands of the employer, at cost, except for housing, cars and education allowances which are taxed at prescribed rates.

42. **Tax rate changes have also affected the integration between the personal and corporate income taxes.**[22] Table II.2 presents the relevant tax rates (for CIT, PIT and the dividend withholding tax) following the last two budgets. With the 2002/03 increase in the top personal income tax rate the difference between the PIT and CIT rates has increased to 10 percent on retained earnings. However, the difference between the top PIT rate and the

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[19] The effective distributional impact of the tax changes cannot be assessed without data on the actual taxpayer distribution.

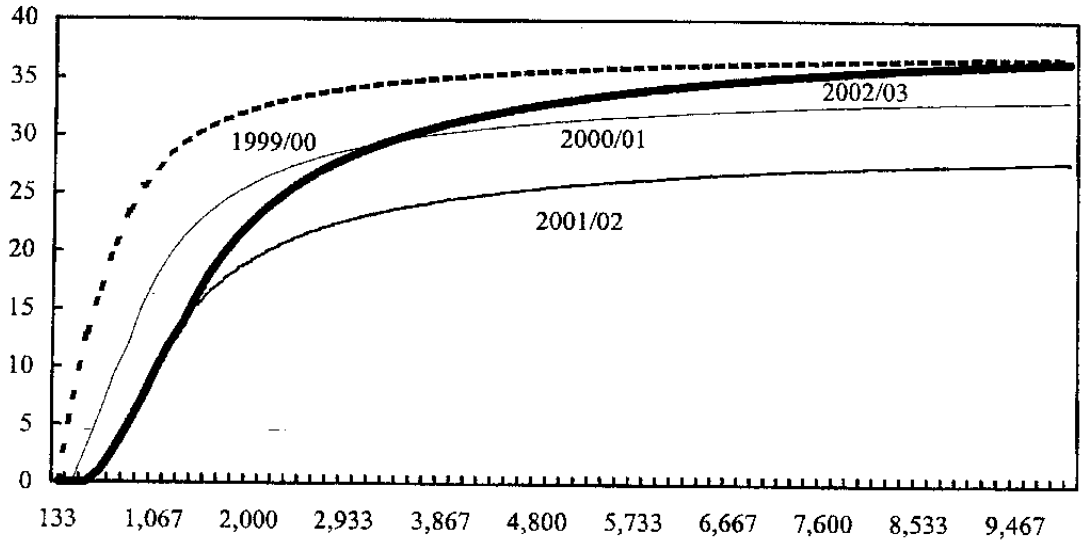
[20] GDP per capita was US$166 in 2001, and the top personal income tax rate becomes effective just short of US$1,500.

[21] No industry has yet been gazetted as a priority industry.

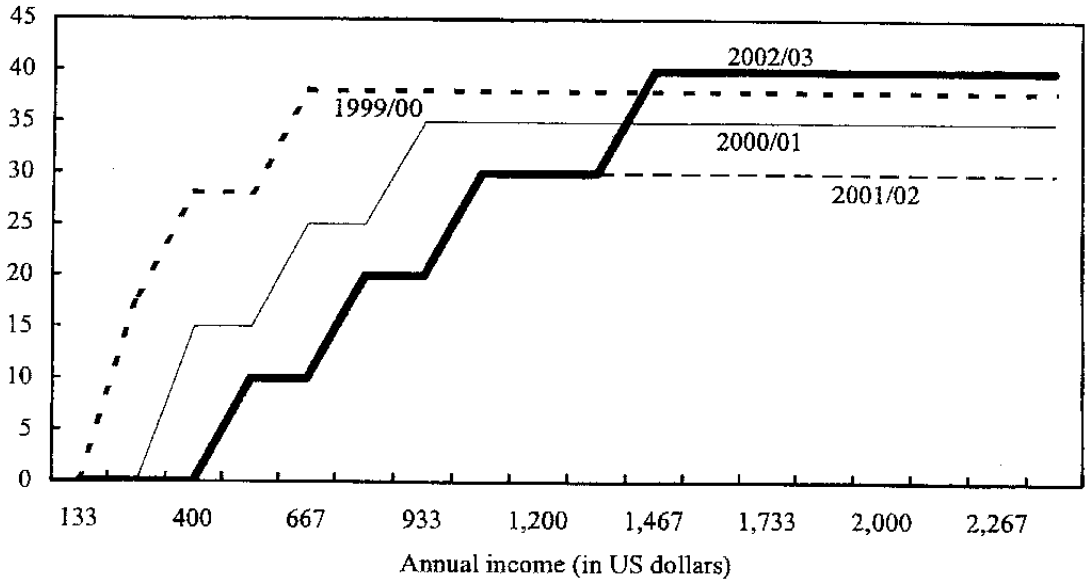
[22] In general, it is advisable to minimize the difference between the tax rate on corporate profits and the top personal income tax rate so as to level the playing field between corporate enterprises and small-scale businesses taxed as personal income. This is also important to reduce the scope for tax evasion if the tax burden is dependent on the formal structure of a business.

Figure II.2 Malawi: Personal Income Tax, Simulated Impact of Different Tax Regimes
(In percent)

(i) PIT: Average tax rates



(ii) PIT: Marginal tax rates



Source: Staff calculations

effective CIT rate for distributed profits is only about 3 percent.[23] As long as this difference remains, there are incentives for small-scale businesses to incorporatize to reduce their tax burden, and this advantage is particularly dominant for retained earnings.[24] The difference could be reduced relatively easily by either increasing the corporate income tax rate or reducing the top personal income tax rate by 5 percentage points. These options are presented in the alternative scenarios in the table. Although the incentive to reinvest profits remains, the incentive for small businesses to incorporate to evade taxes is much reduced. The revenue impact of the two scenarios will naturally be different.

Table II.2 Malawi: Integration of PIT and CIT

	2001/02 budget	2002/03 budget	Alternative scenarios: Higher CIT rate	Alternative scenarios: Lower PIT rate
		(In percent)		
Corporate income tax rate	30	30	35	30
Dividend withholding tax rate	10	10	10	10
Top personal income tax rate	30	40	40	35
Effective tax rate on distributed profits	37	37	42	37
Difference between effective CIT and PIT rates:				
- on distributed profits	7	-3	2	2
- on retained earnings	0	-10	-5	-5

Source: Staff calculations

43. **The CIT legislation provides quite generous capital allowances and deductions, which reduce the tax burden on the private sector.** One could question whether these are too generous and the recent reduction in the CIT rate ought to be accompanied by a further broadening of the tax base by tightening allowable allowances. While the depreciation allowances in themselves do not appear overly generous, in combination with an initial allowance for specific capital assets this provides for accelerated depreciation.[25] The benefit

[23] The effective tax rate on distributed profits shows the full amount of tax paid on dividends received by shareholders consisting of the corporate income tax and the final dividend withholding tax. It is calculated as: CIT rate + (1-CIT rate)*dividend withholding tax rate = 0.3 + (1-0.7)*0.1 = 0.37.

[24] A positive effect of this is that it increases the incentives to reinvest profits, which may have been the intended effect of the recent tax changes.

[25] The initial allowance applies during the year of acquisition to assets such as plant, machinery, fencing and vehicles at rates between 10-33.33 percent.

to investors is further enhanced by an additional investment allowance for certain fixed assets.[26] Other available tax incentives include training and export allowances, and for new manufacturers a general provision allowing expenditure incurred up to 18 months prior to commencement of business to be deducted as an immediate expense.

44. **As most enterprises in export processing zones (EPZs), which are tax exempt, are located outside of any secure zone, the risk of leakage of tax free goods into the surrounding economy is large.** Furthermore, there is also a potential risk that related companies may be engaging in transfer pricing to evade taxes using firms designated as EPZs. It would be advisable for the authorities to carefully review if the benefits in terms of investment generation justify the costs, both the direct and the indirect from tax evasion, from the present quite generous incentive package particularly for EPZs.

Withholding taxes

45. **An increasing amount of income tax revenue is collected by withholding—the most important withholding taxes being a withholding tax on tobacco sales (at 7 percent) and a final withholding tax on dividend payments (at 10 percent).** The withholding tax on tobacco is an efficient collection tool that utilizes the point of sale on the auction floors to collect taxes including from small-scale farmers who may otherwise not report this income. Tobacco estates and other registered taxpayers can offset the withholding payments against their final tax assessment. In response to an increase in tobacco sales circumventing the auction floors, the authorities introduced with the 2002/03 budget a 20 percent export tax on raw, unprocessed tobacco.[27] It is yet to be seen if this can be effectively collected given the porous borders.

46. **The final dividend withholding tax introduced in 2001/02 replaced a relatively unique dividend tax account system.** Under the previous system, each company would have a dividend tax account credited by the amount of income tax paid. When dividends were distributed, the amount of income tax attributed to the dividends would be debited (by calculating the tax paid on the grossed-up dividends at the standard tax rate). If the tax account turned negative (for example if the company benefited from tax incentives so that the underlying tax attributed to the dividends exceeded actual tax payments), an additional tax payment would be assessed. The effect of the dividend tax account system was to recuperate some of the tax incentives provided. The private sector argued strongly against the system, and saw this as a major disincentive to distributing profits. This negative perception may have been fostered by the complexity of the system, which made the administration difficult. As a consequence, the authorities replaced the system with a final dividend withholding tax

[26] The additional allowance applies to fixed assets such as industrial buildings, plant and machinery, and farm improvements at 40 percent for new assets and 20 percent for used assets.

[27] To counter the revenue loss from farmers circumventing the withholding tax and fees on the auction floors, a lower export tax rate—say at 10 percent—would have been sufficient.

at 10 percent with the 2001/02 budget, and further exempted the distribution between subsidiary companies with the 2002/03 budget.

47. **The exempt threshold on bank interest—subject to a 20 percent withholding tax—was increased substantially with the 2001/02 budget from MK 200 to MK 10,000 to provide incentives to increase savings.** While it is debatable how sensitive aggregate savings behavior is to tax incentives, the higher threshold could encourage taxpayers to split savings accounts into a number of bank accounts to avoid the tax. The withholding tax on casual labor applies at a quite low threshold, which appears inconsistent with the recent increase in the threshold under the PIT, and is also likely to have a regressive impact on the overall tax system (although the extent to which this tax is actually collected is likely to be limited).

Surtax

48. **The government plans to extend the surtax to the retail stage by September 2002 to bolster revenue collections over the medium term and improve the efficiency of the tax system.** The revenue impact will come from extending the tax to distribution and to services that are currently exempt. Extending the taxable supply chain also reduces the risk of revenue loss from smuggling on imported goods (since these will be taxed at the wholesale and retail stages even if tax is evaded at the border) and from transfer pricing. The efficiency benefits will come from reducing tax-induced distortions on business decisions, including by lowering the scope for tax cascading. The planned extension has caused relatively little debate regarding the equity impact of this change.[28]

49. **The current surtax is an invoice-type VAT collected on imports, at the manufacturing stage and on an extensive list of taxable services.** A standard rate of 20 percent applies to most taxable goods and services, in addition to a reduced rate of 10 percent (on residential electricity, hotel accommodation and related services). In addition to exports, a number of goods, including pharmaceuticals, agricultural inputs, some vehicles, and capital machinery used for manufacturing, are zero rated. The consumption of maize and many other foodstuff as well as fuel products is exempt from surtax. Finally, a number of social and financial services are implicitly exempt by not being included in the list of taxable services.

50. **Equity concerns are addressed under the existing surtax by exempting social services and foodstuff that are likely to constitute a large share of the consumption of the poor.** However, some of the other exemptions, particularly petroleum and financial

[28] Research commissioned by the Ministry of Finance found that the households that will be most vulnerable to the tax extension have low income and/or are engaged in agricultural activities. The ultra-poor households in the rural areas who depend on own consumption, however, are expected to be little affected by the surtax extension (Chipeta and Chulu, 2001).

services, are likely to be more beneficial to the better-off segments of society.[29] A strong equity argument could be made for removing the exemptions that appear to benefit mostly the more well-off groups in society, including on petroleum and diesel, and the reduced rate for residential electricity consumption, which will also simplify the tax administration. The exemption for capital machinery seems superfluous at best, a potential loophole at worst, since manufacturers would be able to claim back the tax paid on this. A similar argument would suggest that the exemption for petroleum products and diesel can be eliminated without any adverse impact on businesses (as long as these are registered surtax payers).

51. **To broaden the tax base, the authorities will extend the surtax to the retail stage and broaden the coverage of the services sector (excluding only explicitly exempt activities).** Parliament during the November 2001 session approved the new Surtax Act facilitating the extension by September 1, 2002, and the Ministry of Finance and the Malawi Revenue Authority have now initiated final preparations for the extension. The approved legislation extends many of the current exemptions and zero-rated goods and services, including on petroleum and certain working vehicles. Nevertheless, it is an improvement compared to the existing surtax regime (Table II.3).

52. **Tax administration will be simplified by applying only one standard tax rate at a much higher threshold (of MK 2 million).** Despite the higher threshold, the number of taxpayers will increase, since the existing threshold (of MK 75,000) is not being actively enforced. The list of zero-rated supplies has also been scaled back. Nevertheless, if drugs, condoms and medical services were exempt rather than zero-rated, this would simplify the administration and reduce the potential revenue loss. The decision to zero-rate fertilizer will benefit small-scale farmers who are not able to claim back input tax. The amendment in the 2002/03 budget to zero-rate salt and exercise books have little justification. The list of exempted supplies is wider than generally recommended and a case could be made for removing tractors and trucks from the list. Equity concerns of the authorities are addressed by exempting (or zero-rating) health and medical supplies, inputs into farming, and unprocessed foodstuff. Other exemptions are likely to be more beneficial to the more well-off households including petroleum products.

Excise duties

53. **Malawi collects excise duties on all traditionally excisable products such as alcohol, cigarettes, fuel and motor vehicles.** In addition, with the last three budgets excise duties have been imposed on an increasing number of consumer goods. This may have been partly to offset the revenue loss from the ongoing trade liberalization, but may also reflect an intended strategy to increase the tax burden on goods consumed predominantly by more well-off households. The gains in terms of revenue collection and equity impact, however, must be

[29] Financial services, excluding bank and non-life insurance, are typically recommended to be taxable.

Table II.3. Malawi: Comparison of Current with Extended Surtax

	Current surtax	Extended surtax
Base	Applicable only to imports, the manufacturing stage, and prescribed services (positive list). These include: professional services; computer services; services provided by agents and brokers; repair services; building, electrical and plumbing contractors; commercial electricity supply and telecommunication services; hairdressing, dry cleaning and laundry services; gardening services; secretarial agencies; advertising; taxis and car hire; courier and security services; public entertainment; goods processing; accommodation and catering; satellite and cable television; and commercial transporters (excluding minibuses).	The surtax will be extended to the manufacturing stage covering all goods and services with specific exemptions (negative list).
Rates	20 percent standard rate. Reduced rate of 10 percent on electricity supplied to noncommercial premises; accommodation and catering services provided by hotels; office cleaning; pest control; and various vegetable extracts.	20 percent standard rate.
Threshold	Annual turnover exceeding MK 75,000 (about US$ 1,000) for businesses involved in importing, manufacturing or the provision of prescribed services.	Annual turnover exceeding MK 2 million (about US$ 27,000).
Exempted supplies	Unprocessed foodstuff including maize; petroleum, diesel and paraffin. Many services are implicitly exempted by being excluded from the list of prescribed services.	Live animals; animal products; raw vegetables; water; residues or waste from the food industry; petroleum products; insecticides, fungicides and herbicides; books and newspapers; mosquito nets; coins; pumps for agricultural or horticultural use; tractors, ambulances and goods-carrying vehicles; medical equipment; educational services; banking and life-insurance services; postal services; funeral services; and transport of exports.
Zero-rated supplies	Export of goods and services; pharmaceutical products; fertilizers and insecticides; animal feed; working vehicles; black tea; broken rice and grain sorghum; laundry soap; mosquito nets; fresh and processed milk; and capital goods and machinery used for manufacturing.	Exports of goods and services; pharmaceutical products; medical services; fertilizers; condoms, salt, and exercise books.
Exempt individuals and organizations	Some goods for the use of government; embassies and diplomats; international agencies or technical assistance schemes.	Goods for the official use by the President and the Vice President; embassies and diplomats; international agencies or technical assistance schemes where the government has agreed to exempt these from taxes; and specified goods for the use of government, including donations.

offset against the added complexity of the tax system arising from the proliferation of excise duties. Since many of these goods are not produced locally, the replacement of import duties by excise duties in effect also tends to offset efficiency gains from trade liberalization. For some of these products, the revenue collected is likely to be quite small and therefore may not justify the administrative expenses, both to the Malawi Revenue Authority and taxpayers.

54. **The last three budgets introduced many changes in excise duties (Table II.4).** Particularly the rates on alcoholic beverages have been very volatile. The increase with the 2000/01 budget was followed by a reduction in the following fiscal year in response to pressure from domestic producers; to offset the revenue loss, the excises on alcoholic beverages were again increased in 2002/03. The (noncreditable) surtax on fuel products was converted into excise duties in 2000/01 at a higher rate. However, fuel products are exempt from surtax whereas most countries in the region apply a VAT as well. Recently, the Minister of Finance announced his intention to introduce a minimum amount of excise revenue determined at the beginning of each fiscal year. A more transparent way to reduce the impact of oil price fluctuations on the budget would have been to apply a specific excise rate on petroleum products (to be adjusted regularly in line with inflation). The excise rates on motor vehicles have also been gradually increased over the last three years. The most recent excise tariff schedule is quite complex with rates of taxation ranging from 10-100 percent. While this makes the taxation of cars very progressive (so that more expensive cars are taxed higher), it may increase the administrative burden unduly and could increase the incentive for smuggling, misclassification or undervaluation of expensive motor vehicles. A strong case could be made for applying a more simplified excise tariff schedule with only a few different rates, while retaining some progressivity in these.

Customs duties

55. **Substantial progress has been made in trade liberalization, including the elimination of quota barriers and reduction in tariff rates.** Still, a complex tariff regime remains in place with different tariff treatment depending on the origin of imports.[30] The standard tariff regime is reasonably simple consisting of three categories of ad valorem rates: broadly speaking, for raw materials and inputs (5-10 percent), for intermediate products (10 percent), and for final products (30 percent). There is in place a duty drawback system allowing exporters to reclaim customs duty paid on imports. Furthermore, the Customs Act provides broad powers to the Minister to provide relief from customs duty through rebates or remission. The authorities have been working on a system to rationalize the approval process and plan to introduce clear selection criteria in terms of economic benefits generated.

[30] A distinction is made between imports originating from most favored nations (MFN), ACP countries, COMESA, SADC members and other countries.

Table II.4. Malawi: Excise Duty Changes, 2000/01-2002/03

	2000/01 budget	2001/02 budget	2002/03 budget
Alcoholic beverages	An increase by 20 percent on alcoholic beverages (to 60-80 percent).	A reduction in excise duty on alcoholic beverages (to 55 percent) and for cane spirits (to 35 percent).	An increase in excise duty on opaque beer (from 5 to 15 percent), on cane spirit (from 35 to 45 percent), and on other alcoholic beverages (from 55 to 65 percent).
Tobacco	An increase by 20 percent on cigarettes.	None	None
Fuel products	Conversion of a (non-creditable) surtax to excise duty at higher rates: petroleum and diesel (20 percent), and paraffin (10 percent).	None	Introduction of a minimum amount of excise revenue determined at the beginning of the fiscal year.
Motor vehicles	Increase in excise duty on 4-wheel drive cars above 2,000 cc (from 10 to 50 percent), double cabin motor vehicles above 2.99 tons (from 20 to 25 percent), on double cabin motor vehicles below 2.99 tons (from 5 to 10 percent), and on trucks (5 percent).	None	An increase in excise duty rates on (i) passenger cars not exceeding 1000cc (from 5 to 10 percent), not exceeding 1500cc (from 15 to 20 percent), not exceeding 1799cc (from 5 to 20 percent), not exceeding 1999cc (from 25 to 35 percent); (ii) on 4-wheel drive vehicles not exceeding 1999cc (from 5 to 20 percent), not exceeding 2999cc (from 50 to 60 percent); and (iii) on general motor vehicles not exceeding 3999cc (from 65 to 80 percent), and exceeding 3999cc (from 65 to 100 percent).
Other goods	Introduction of a 10 percent excise duty on selected goods, including wheat flour, fruit juices, textiles and fabrics, paper, foot-wear, perfumes, furniture, video games, and selected sea foods.	Increase in the excise duty by 10 percent on electrical appliances, pocket lighters, smoking pipes, perfumes, carpets, textiles, human hair and wigs, and clothing and accessories made from fur skin. Increase by 20 percent on precious stones and metals, cutlery, and electro-mechanical domestic appliances. Removal of excise duty on plastic shoes. Reduction in excise duty on petroleum jelly (to 20 percent).	Introduction of a 20 percent excise duty on edible vegetables and tubers, poultry products and other meat.

Distributional impact of indirect taxes

56. **Little analysis has been done on the distributional impact of indirect taxes (see Box II.4 for a discussion of equity and commodity taxes).** Although rudimentary, some

Box II.4. Optimal Commodity Taxes

The most well-known strand of the optimal tax literature poses the question: how should commodity tax rates be set so as to minimize the excess burden on economic activity? The initial problem is posed by ignoring equity concerns, focusing on the efficiency costs of taxation.

The solution to the optimal commodity tax problem can be expressed by the Ramsey rule saying that to minimize the efficiency cost of the tax system, the compensated demand for each good should be reduced by the same proportion relative to the pre-tax position. The implication of this tax rule is that goods for which demand is most unresponsive to price changes (with a low price elasticity) will bear higher tax rates than goods for which demand is more responsive to price changes. Since goods that are unresponsive to price changes are typically necessities, such as food or other basic goods, the tax rule would suggest that these face the highest tax rates whereas luxuries are taxed more lightly. This is not a result that corresponds all that well with actual tax systems, as many countries attempt to impose a lighter tax burden on essentials and higher taxes on luxuries.

The result from the Ramsey rule is not surprising given the model specification. By implying that all households are identical, any equity concerns the policymaker may have are, by definition, assumed away. However, these can be brought into the model framework by extending this to many, non-identical households. This brings to the forefront the trade-off facing the policymaker between efficiency and equity objectives.

The optimal tax rule incorporating equity concerns says that the reduction in (compensated) demand for a good as a result of the imposition of a tax system should be lower for goods consumed by households with a high net social marginal utility of income. This will be the case if (i) the demand for the good is concentrated amongst households with a high social marginal utility, as these are the households that are regarded as socially important, and (ii) the demand is concentrated among households whose tax payments change considerably as income changes. The first term relates to the equity impact of the tax and the latter the efficiency impact. The more weight in the social welfare function the policymaker attaches to households with low income, the lower should be the tax rate on commodities consumed by those households. For a policymaker with a strong equity objective, this provides an argument to exempt from taxation, or even subsidize, goods that are predominantly consumed by the poor.

In practice, however, there are limits to how much distribution can be achieved through indirect taxes. From an administrative point of view there are clear benefits from having some degree of uniformity in indirect tax rates. While some differences in the tax burden on individual goods can be achieved by a combination of VAT and excise rates and perhaps the exemption of a limited number of goods and services, there are obvious administrative reasons why this should be kept to a reasonable level. Moreover, while there clearly are goods that have a relatively larger share in the consumption bundle of the poor, these are typically also consumed by the rich, often at higher absolute levels. Tax reductions that are intended to benefit the poor are therefore likely also to reach the rich households. This is an example of a imperfect targeting mechanism.

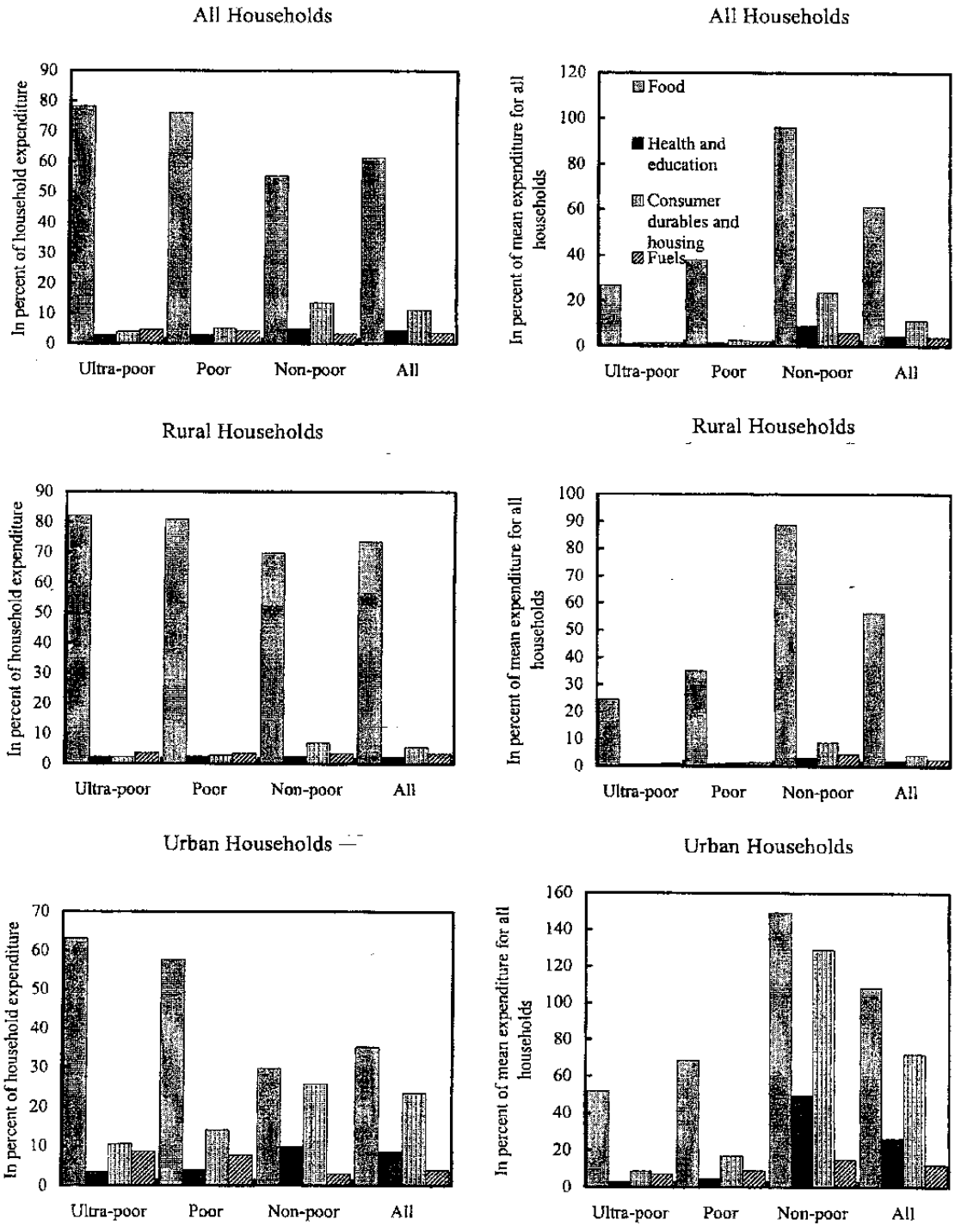
Sources: Diamond and Mirrlees (1971), Auerbach and Hines (2001), and Myles (1995).

inference can be made from the latest household survey carried out in Malawi.[31] Figure II.3 presents data on household expenditure for main categories of goods and services for all households, rural households and urban households. The charts on the left-hand side present the relative share of expenditure in each category of households. The charts on the right-hand side give a sense of the absolute spending in each category of households by presenting expenditure by these relative to the mean household expenditure for the whole population.

57. **The household survey shows that food constitutes the dominant share of expenditure by poor and ultra-poor households (between 60-80 percent of their budget).** In contrast, the urban nonpoor households spend less than 30 percent of their budget on food. But given the large difference in absolute expenditure between poor and non-poor households, the latter category spends substantially more in absolute terms on food. This is a clear example where the benefits from exempting food from taxation may be targeted at the poor households, but in absolute terms at least are more beneficial to the more well-off households. In contrast, the decision to tax consumer durables more heavily seems to be justifiable from an equity point of view. Both in a relative and absolute sense, the consumption of consumer durables and housing related costs is heavily concentrated in the non-poor urban households. Whereas these households also tend to consume more education and health services than the poor households, both in relative and absolute terms, the difference is much less marked. Also, to continue efforts to expand access of the poor to social services, the current exemption from indirect taxes of these services seems well-grounded from an equity point. Finally, the consumption of fuels has a quite similar share for both the poor and non-poor households (the relative share is highest for the ultra-poor urban households who are restricted in their access to firewood). However, consumption of paraffin is more important for poor households, which would support the lighter taxation on this product. From an equity point of view, one could justify the complete exemption of paraffin to provide benefits for the poor urban households.

[31] Since the 1997/98 household survey did not collect data on actual taxes paid by households, the analysis will focus on expenditure patterns on main groups of goods and services.

Figure II.3 Malawi: Household Expenditure Patterns, 1997/98



Source: Profile of Poverty in Malawi (2000); and staff calculations.

E. Conclusion

58. **Malawi will need to sustain and even further boost tax collections to fund an increase in pro-poor expenditure.** Although debt relief plays a crucial role in releasing funds for pro-poor expenditure, the poverty-reducing spending needs are so large that even more resources are necessary. This will mostly require broadening the tax base and strengthening tax administration rather than increasing nominal tax rates. Rather, the repressed tax take reflects a narrow tax base and weaknesses in the administrative capacity, as well as the predominance of the (untaxed) informal sector. This would suggest that the first-best approach to generating more revenue would be to widen the tax net, either by reducing exemptions or strengthening tax administration.

59. **The extension of the surtax to the retail stage is expected to increase revenue.** However, the tax base could be further broadened by reducing exemptions under the surtax, particularly on fuel products and motor vehicles. The income tax base could also be broadened by assessing the cost-effectiveness of the tax incentives provided, particularly to EPZs. Moreover, there may be a case for simplifying tax administration by reducing the extent to which excise duties have gradually been expanded to cover consumer goods beyond traditionally excisable products.

60. **The recent tax reforms aimed at broadening the tax base and moderately increasing the progressivity in the tax system appear appropriate.** More progressive tax policies may have a role to play if a certain improvement to the income distribution can be realized with less efficiency loss by combining expenditure policies with a slightly more progressive tax system. There may also be fewer well-targeted expenditure instruments available to policymakers in Malawi, which could further strengthen the case for addressing some equity objectives through the tax side.

61. **By giving too much prominence to equity considerations, inefficiency costs might increase, which could, in turn, slow down growth.** Poverty can be reduced sustainably only by achieving higher growth. If a more progressive taxation introduces excessive efficiency costs to the economy, the gains to the income distribution will be lost to the lower realized growth. The administrative constraints should also be recognized and these may reduce substantially the scope to effectively improve the tax incidence. Although the tax burden at the aggregate level may appear to be low, since the number of taxpayers is also very small, the tax burden per person is high. If more progressive taxes will fall predominantly on a small number of already heavily taxed individuals, it may simply trigger higher tax evasion and no change to the effective progressivity of the tax system.

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III. Selected Expenditure Management and Fiscal Data Issues[32]

A. Introduction

62. **Malawi's fiscal programs have been frequently derailed by expenditure overruns.** These overruns have reflected policy decisions and lack of political commitment to the program, but they have also been a consequence of the weak capacity of expenditure management and control. The weak expenditure management inevitably impacts on the quality of the reported fiscal data. In recent years, the authorities have made improvements to the expenditure management systems, supported by technical assistance; however, progress has not been as fast as expected, with some systemic weaknesses remaining. This may reflect the limited ownership and few incentives to strengthen expenditure management.

63. **An important recent initiative to strengthen expenditure management is the initiation of weekly cash management meetings between the Treasury, Accountant General's Department (AG) and the Reserve Bank of Malawi (RBM).** Senior management participate in these meetings and take decisions on funding levels and associated borrowing implications. However, decisions taken are constrained by the timeliness and quality of information on fiscal developments. This illustrates the impact of the data quality problems on the decision-making.

64. This chapter provides an overview of the main issues in expenditure management (Section B), and the progress made on tracking pro-poor expenditure (Section C). Moreover, it highlights a number of issues regarding the quality of the fiscal data (Section D).

B. Expenditure Control and Management

65. This sections focuses on the systems at the heart of budget execution: The Credit Ceiling Authority (CCA) system, the Commitment Control System (CCS), and, looking-forward, the planned implementation of the Integrated Financial Management Information System (IFMIS).

Credit Ceiling Authority System

66. **The main instrument for budget execution is the CCA system, a zero-balance cash release system.** It was introduced in May 2000 to eliminate the need for line ministries to maintain large deposit balances in commercial banks, and to give the Treasury tighter control over the execution of the budget. While the system has addressed these two objectives successfully, some weaknesses remain, preventing the CCA system from realizing its full potential in strengthening expenditure management and control.

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[32] Prepared by Thomas Baunsgaard.

67. **Twice a month, the Treasury and the AG Department issue credit ceiling authorities and supplementary credit ceiling authorities for wages, other recurrent transactions (ORT) and development expenditure.**[33] The combined credit ceilings provide the maximum expenses the line ministries can incur, with any unused credit to be carried forward into the following month. The line ministries can issue checks drawn on commercial banks up to the total amount authorized under the credit ceilings. On a daily basis, the four commercial banks participating in the system are reimbursed by the RBM for checks that have been cashed. The commercial banks are remunerated for providing this service.

68. **The CCA system was introduced to avoid the build-up of idle deposits by line ministries in commercial banks.** Previously, the Treasury would release cash to line ministries that would be deposited in commercial bank accounts. The Treasury had little oversight over how much money was actually spent by line ministries—at least in the short run—and over time there was a large buildup in line ministries' bank accounts.[34] With the introduction of the CCA system, in principle all line ministries' commercial bank accounts should have been closed and the available balances transferred back to the centralized government account, the so-called MG account no. 1 in the RBM. In practice, a number of line ministries maintain commercial bank accounts for project funds disbursed by donors and for Treasury funds, and some may even keep non-tax revenue outside the oversight of the Ministry of Finance.[35] Nevertheless, commercial bank deposits have declined significantly—in April 2002 they amounted to 0.4 percent of GDP down from 1.7 percent of GDP in May 2000—although some government activities still remain outside the CCA system.

69. **However, the CCA system is compromised by a lack of coordination.** The operation of the CCA system is supported by a committee of officials from the Treasury, the AG Department, and the RBM meeting on a monthly basis. The committee has an important coordinating role to ensure the smooth functioning of the system. One problem identified earlier was the issuance of supplementary CCAs by the AG, which were not properly coordinated and captured in the system, although steps have now been taken to address this. However, some confusion remains regarding the exact ceilings issued, as revealed by the, at times inconsistent, information on this presented by the three agencies involved.

70. **A weakness relates to the reimbursement by the RBM of commercial banks' daily claims.** The RBM has now begun to maintain holding accounts organized by economic type for each ministry to intermediate the transfer of funds from the line ministry accounts to reimburse the commercial banks. However, each ministry has typically more operating accounts than there are holding accounts (e.g., different operating accounts for ORT in each

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[33] Supplementary credit authority ceilings mostly relate to foreign-financed development projects and, on a smaller scale, to expenditure through Treasury funds and other line ministry deposit accounts.

[34] As cash releases continued to be made on a monthly basis without any regard to balances in the bank accounts.

[35] Treasury funds are deposit accounts outside the central budget maintained by line ministries for certain activities.

cost center versus one holding account in the RBM). When the RBM receives a claim from a commercial bank, the reimbursement against a particular operating account may therefore exceed the funding limit for this account without breaching the holding account limit in the RBM.[36] This system could be strengthened by introducing corresponding holding accounts for all the operating accounts and enforce the spending limits for these.

71. **Another problem relates to the carry-over of funding between fiscal years.** The rules are clear: budgetary funds that have not been spent by the end of the fiscal year will be available for one month to settle checks issued toward the end of the fiscal year. Thereafter, any funding that has not been spent should revert to the MG account no. 1. However, when the CCA system was introduced in May 2000 the full balance outstanding by the end of the fiscal year was carried forward into the new fiscal year (2000/01) amounting to more than MK 1.5 billion. Line ministries tapped into this by reducing the outstanding balance by MK 1 billion during 2000/01 (see Figure III.1). Moreover, the instruction from the AG in May 2001 clarifying the treatment of unused credit between fiscal years was not effectively implemented.

72. **Despite its weaknesses, the CCA system is an improvement of cash management and budget execution relative to the previous situation.** However, the potential benefits from the system could be fully realized with little additional effort. To strengthen the control functions built into the system, it is essential that the RBM effectively enforce the funding limits associated with the line ministry accounts. Efforts should also be made to facilitate the timely compilation of data on reimbursements by economic and administrative classification. This is expected to substantially strengthen the quality of expenditure data.

Commitment Control System

73. **The CCS was introduced to provide the authorities with a handle on commitments to prevent these from evolving into arrears.** The emphasis in the CCS as implemented, however, is more on reporting commitments rather than on controlling their incurrence. The system has also been marred by implementation problems impacting on both the quality and the timeliness of reports. This may have led policymakers not to utilize the information on commitments and arrears generated by the system.[37]

74. **The CCS is essentially a ministry-based commitment recording system.** It requires line ministries to maintain a commitment register and ensure that commitments are not incurred in excess of the available funding (although this aspect of the system does not seem to be strongly enforced). The Treasury generates a monthly management report aggregating this information, including information on commitments, accounts payable and arrears.

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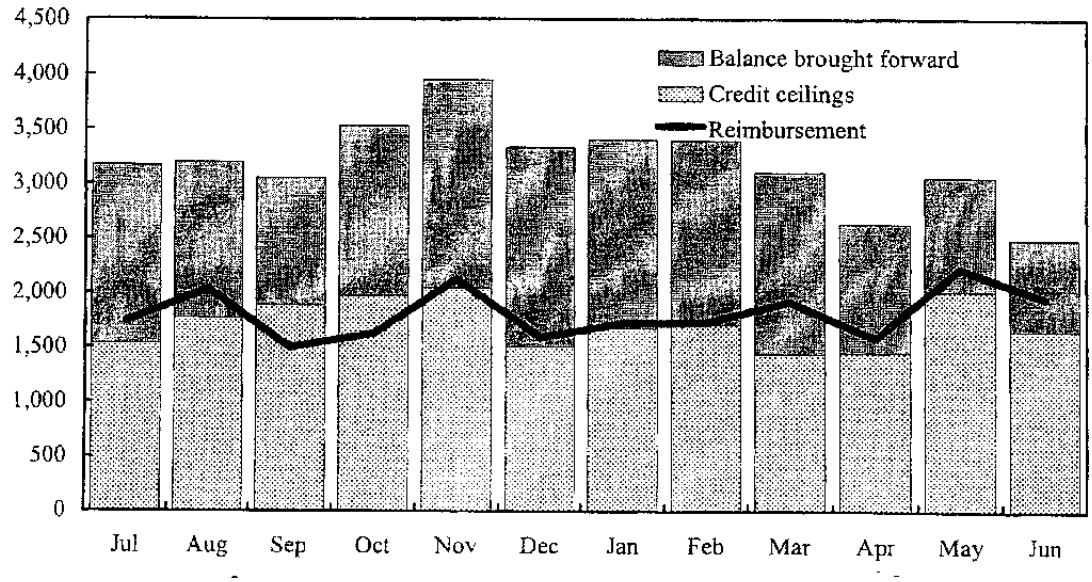
[36] This explains why commercial banks on several occasions have been reimbursed in excess of the credit ceilings.

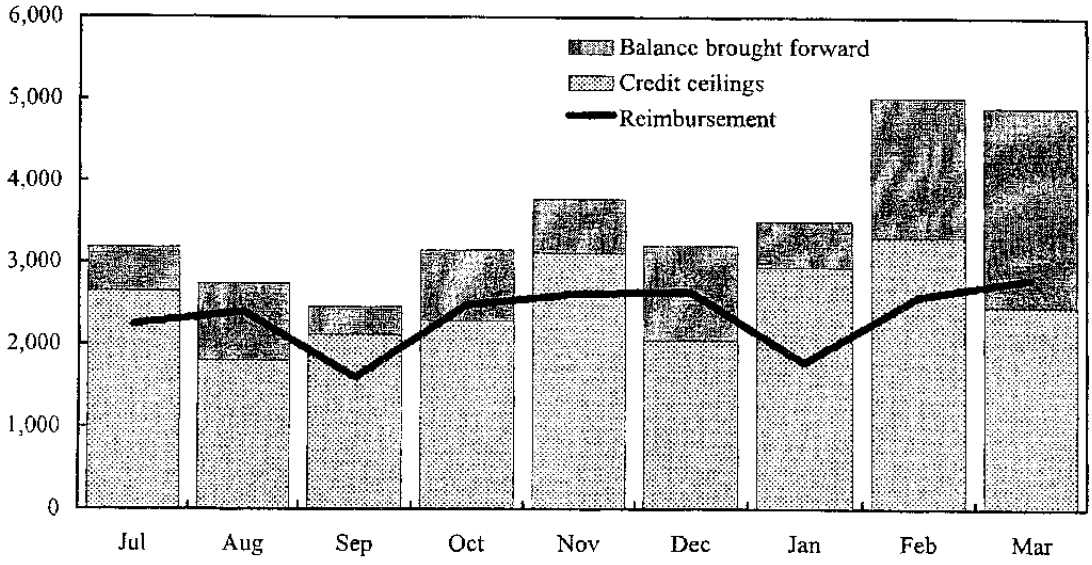
[37] This reduces the incentive and pressure on ministries to improve the quality of the information.

Figure III.1 Malawi: Credit Ceiling Authority System, 2000/01-2001/02
(In millions of kwacha)

Credit Ceiling Authority, 2000/01



Credit Ceiling Authority, 2001/02



Source: Malawian authorities.

75. **The CCS reports have been compiled with some time lag and the quality of the data reported by line ministries suffers from shortcomings.** It is not uncommon that the reported commitments for particular ministries are not consistent between monthly reports (i.e., stocks and flows are inconsistent). This reflects the weak recording of commitments at the level of line ministries, as well as a need to provide more training to line ministry accountants in maintaining these. However, many of the observed data problems could have been identified and corrected by the Treasury when compiling the monthly reports.

76. **The CCS system will prevent the accumulation of arrears if commitments are approved only subject to availability of funds under the respective budget lines allocated in the CCA system.** However, the quality and timeliness of the generated reports must be substantially improved, which will require a more comprehensive approach. Foremost is the need to train staff in line ministries to maintain proper recording and control of commitments and arrears. This may require the Treasury to introduce credible penalties for line ministries that fail to control commitments and submit returns, perhaps by making reporting compliance one of the criteria against which the performance of controlling officers is judged. But it will also require more vigilance on the part of the Treasury in monitoring the quality of the information produced by the system. Finally, if policymakers were actually seen to make use of information, this would provide incentives to line ministries for improvement.

Integrated Financial Management System

77. **To improve the expenditure management situation, the government with the support of the World Bank in 1995/96 initiated work toward introducing an IFMIS.** This is a comprehensive financial management system that will, when fully operational, allow a major strengthening of expenditure management. However, the implementation of IFMIS has been marred by delays. Recently, the UK Department of International Development and the World Bank have stepped in with additional funding and this appears to have given some new momentum. Although repeatedly postponed, IFMIS has been introduced in four pilot sites namely the Treasury, the AG, the Ministry of Agriculture, and the Ministry of Education, with a further roll-out planned to proceed shortly.

78. **The World Bank in December 2001 pointed out several problems with the implementation at the pilot sites.** First, the implementation had not been carried out in a systematic and satisfactory manner. Second, the software application would need adjustments to fully comply with the current business processes and accounting procedures, particularly relating to cash management (such as the issuance of CCAs, reimbursement of checks paid by commercial banks, and issuance of receipts for fees and charges). Third, there is a need for further refinement in budgeting and accounting procedures to be introduced concurrently with IFMIS. The AG is now working on addressing these issues, but is planning to proceed with the roll-out as originally planned.

79. **As a long-term solution to strengthen expenditure management and control, a properly implemented IFMIS will be of great importance, and the roll-out should**

provide momentum to improve expenditure management. However, in the short term the need to address problems as they occur—by introducing focused solutions—is unavoidable. Ongoing attempts at improving the existing systems should therefore continue in parallel with the rollout of IFMIS. The successful implementation of IFMIS is also dependent on the initial data being correct, which requires proper reconciliation between banking and expenditure data as well as an up-to-date commitments register.

C. Pro-poor Expenditure Tracking

80. **Given its well developed program-based budget presentation, Malawi is in a good position to monitor pro-poor expenditure.** The authorities have already made commendable progress in developing and implementing a system to monitor pro-poor expenditure. A strong feature of the system is that it uses the existing reporting systems and classifications. However, the critical issue will be to garner political support to ensure the effective implementation. It is encouraging, therefore, that the pro-poor expenditure programs were identified in the 2002/03 budget and endorsed by parliament in line with the PRSP.[38] A list of the programs included in the budget are shown in Appendix I.

81. **Discussions with the authorities during the last year focused on the appropriate tracking of pro-poor expenditure under the HIPC Initiative.**

- **First, the budget will identify particular programs and sub-programs as priority pro-poor expenditure.** The identification of pro-poor expenditure reflects the PRSP prioritization, although only programs that are directly poverty alleviating will be included in this definition. To fully implement the PRSP further refinement of the program or sub-program budget classification may be required.

- **Second, actual expenditure in 2000/01 on the identified pro-poor programs will constitute the baseline for establishing additionality under the HIPC Initiative.** The additionality requirement recognizes the fungibility of financing and is intended to ensure that HIPC debt relief does not replace pro-poor expenditure already being undertaken. The baseline is based on actual expenditure reports submitted by line ministries for 2000/01.

- **Third, the authorities have established a HIPC account as a subsidiary account to the MG account no. 1.** The purpose of this account is only to record the inflow of HIPC debt relief; the funds will not be tied to any particular expenditure. Accounting for debt relief has proven difficult, partly reflecting the authorities' very poor record keeping of loan terms and conditions, and the multiple channels through which creditors provide debt relief. A few creditors reimburse Malawi after the full debt service has been paid. To some extent, for recording purposes this is the most

[38] To increase transparency, the Treasury could consider to explicitly identify PPE programs in the programmatic budget document (vol. 4b).

straight-forward form of debt relief, since it can be recorded as a grant when the reimbursement is received.[39] However, most creditors outright forgive debt service payments (some up to 100 percent). This requires Malawi to properly record as debt relief the amount of debt service forgiven. The authorities have indicated that the establishment of the HIPC account as an accounting device has been helpful in terms of focusing attention on the need to strengthen the recording of debt relief.

- **Fourth, to reduce the risk of virement of pro-poor spending into nonpriority spending and to provide additional control when releasing funds, the Treasury is considering to amend the CCA system by introducing separate CCAs to release funding for pro-poor expenditure programs.**[40] The amendment may not fully prevent virement since, to reduce the administrative burden, the CCAs most likely will not be drawn on separate bank accounts.

- **Fifth, spending on pro-poor expenditure programs will be protected, and if the budget has to be cut—for example, in the case of revenue shortfalls—this will be done by reducing funding for nonpriority expenditure programs.** Introducing separate CCAs for pro-poor expenditure programs will facilitate this by providing an effective instrument to the Treasury to protect pro-poor spending while reducing funding for non-priority expenditure.

- **Sixth, spending on pro-poor expenditure programs will be monitored on a monthly basis using the expenditure returns from line ministries.** Given the substantial interest in this by civil society, information on expenditure will be published, including in newspapers and on the website of the Ministry of Finance. In addition, the authorities are planning to, with assistance from civil society, develop output based monitoring for selected core pro-poor expenditure programs during the fiscal year.

D. Data Quality Issues

82. **The weak expenditure management is reflected in the poor quality of fiscal data, as evidenced by the substantial discrepancy between above and below the line data in the fiscal table for 2001/02.** Despite some recent improvements, major weaknesses seriously limit the authorities' ability to monitor fiscal policy. Focus of this section is on the reported expenditure and financing data as quality issues on tax and non-tax data are minor.[41]

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[39] Although uncertainty relates to the timing of when debt service is being reimbursed.

[40] This is contingent on a technical assessment to ensure that the gains from a separate CCAs will justify any additional administrative costs this may entail.

[41] However, the authorities are encouraged to carry out a monthly reconciliation exercise between the Malawi Revenue Authority revenue reports and tax deposits in the MG account no. 1.

83. **The fiscal reports prepared by the Ministry of Finance reveal large discrepancies between expenditure and financing data.** To some extent, this is inevitable and merely reflects time differences in the recording of cash and check transactions (the float). However, a large part of the statistical discrepancy relates to the lack of timely reconciliation between expenditure and banking data. This is supposed to be done at the line ministry level, but is carried out with some delay—and in some ministries not at all—so that the monthly fiscal reports do not reflect this reconciliation.

84. **The AG's finalizing of the annual accounts has in the past been delayed exceeding the statutory requirement.** These delays slow down the preparation of audited accounts by the Auditor General. Certainly, the late submission of the audited accounts to Parliament makes less likely any action to rectify discrepancies identified in the audited accounts.

Expenditure

85. **The need to strengthen the quality of expenditure data has long been recognized, but, with the need to transparently monitor pro-poor programs, has now gained renewed importance.** There are currently two primary sources for expenditure data: (i) data based on funding released by the Treasury; and (ii) data based on expenditure returns submitted to the Treasury by line ministries.[42] The expenditure data reported in the fiscal tables are based on funding released by the Treasury rather than actual spending reported by line ministries, reflecting the weak quality and poor timeliness of the expenditure returns. By relying on funding data rather than actual expenditure, one would expect some discrepancies between expenditure and financing data. However, this should reflect timing differences so that over-funding in one month would be followed by over-spending in subsequent months and vice versa. The best source of expenditure data would be from the reimbursements through the CCA system. Currently, these data are only provided at the aggregate level, but it is expected that the RBM shortly will begin reporting monthly reimbursement data with an appropriate economic and administrative classification.

86. **While there are large differences between funding and spending for both 2000/01 and 2001/02, it is difficult to assess the degree to which this reflects data problems—from the weak quality and incomplete coverage of the expenditure returns—or real differences between funding and spending.** However, combined with information from the CCA system for 2001/02, the data suggest that funding for ORT has exceeded actual spending through March 2001.[43] This may be explained by line ministries

[42] The expenditure returns are based on the vote books (recording vouchers processed) and not the cash books (recording actual cash spent). The latter are submitted to the AG with a time lag.

[43] It appears that funds have been diverted away from wages, development expenditure and normal ORT to finance unbudgeted special activities.

"saving" some of their funding for later in the fiscal year.[44] Another explanation for the discrepancy, of course, could be that the spending reports are not comprehensive.

87. **Although more projects have been brought into the development budget in recent years, this has not been supported by systematically capturing either expenditure or disbursements against these projects.** There are two main issues: First, the debt and aid unit in the Ministry of Finance reports only data on disbursement from multilateral donors, whereas almost no bilateral disbursements are captured. Second, expenditure on development projects in the fiscal table are simply derived as the total of project grant and loans disbursements. Particularly in cases where donors require pre-financing by reimbursement of costs, development expenditure could be double-counted.[45] There are also likely to be timing differences between actual expenditure and disbursement of financing. An attempt should therefore be made, over time, to capture more fully actual spending also on externally funded projects.

Expenditure arrears

88. **The authorities are attempting to clear any new expenditure arrears within one quarter following verification by the Auditor General.** Moreover, if a line ministry accumulates arrears, these should be settled within the original budget allocation for that ministry to remove any incentives to finance expenditure through arrears accumulation.

89. **The authorities' strategy has been only partially effective, and serious concerns remain regarding the quality of the arrears data and the delays experienced in clearing the verified arrears.** First, while the Auditor General's verification report should be prepared within 45 days of the end of the quarter, none of the reports has yet been completed in compliance with this requirement.[46] Second, comparing the Auditor General's reports with arrears information from the CCS show large differences in the reported data for individual ministries (although the total stock of arrears is converging, see Figure III.2).[47] Third, a number of ministries appear not to be consistently included in all the reports (affecting both the CCS and the Auditor General's reports), which makes the change in the arrears stock

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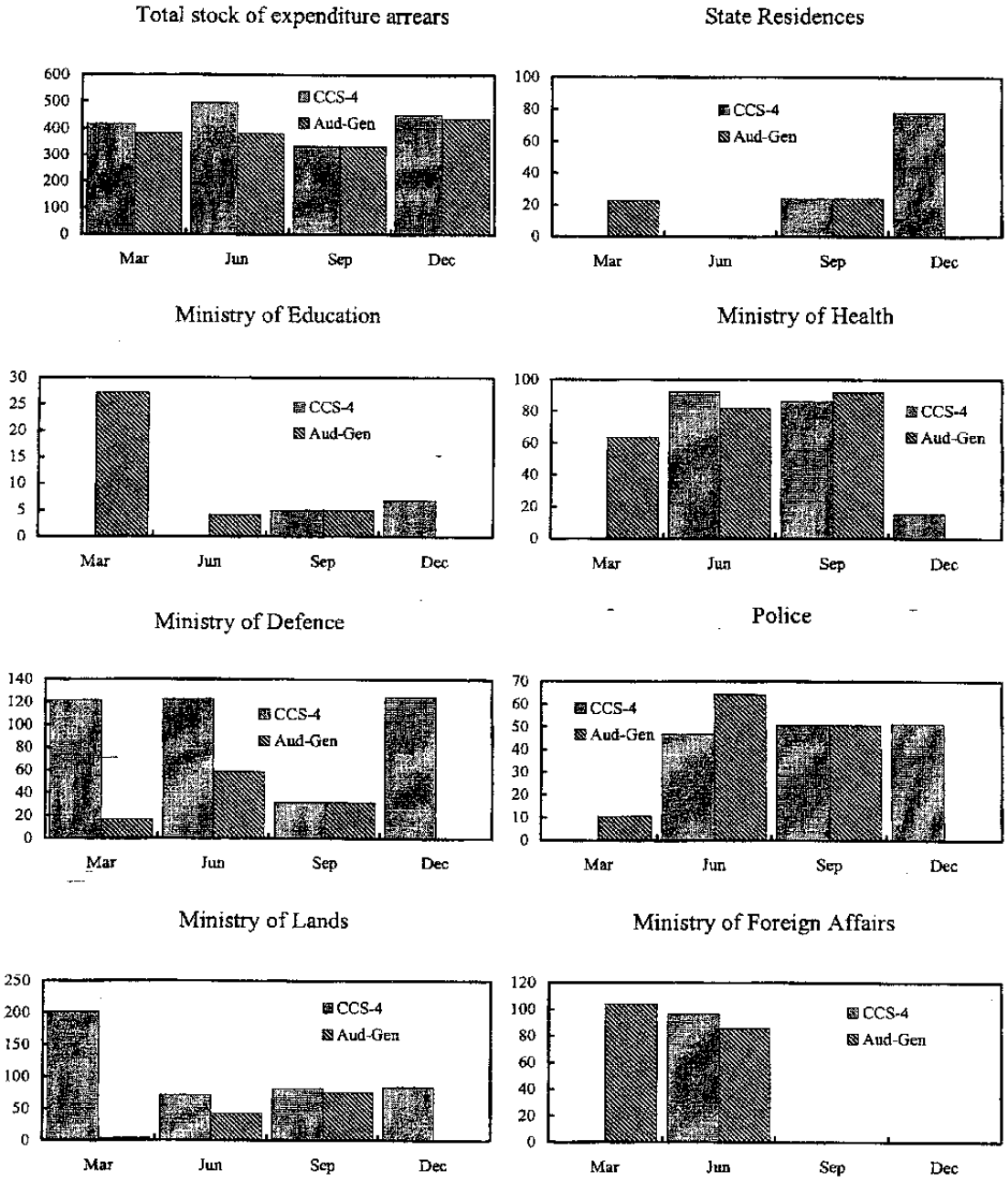
[44] This does not rule out arrears; before the CCA system was introduced, large bank balances and arrears co-existed.

[45] If the original spending has been captured in the credit ceiling for domestically funded development expenditure and the reimbursement by donors of this is subsequently captured in the disbursement data and reported as externally funded development expenditure.

[46] For example, the arrears report for end-June 2001 was only received in mid-September, the report for end-September was delayed until January 2002, and the full end-December 2001 was only received in July 2002.

[47] This could be due to the Auditor General having determined that these were related to ineligible payment claims; however, given the magnitude of the difference (and that the Auditor General has not explicitly reported finding large differences) it is possible that there are arrears that have not been captured in the Auditor General's reports.

Figure III.2 Malawi: Stock of expenditure arrears, 2001
(In millions of kwacha)



Source: Ministry of Finance and National Audit Office.

difficult to interpret.[48] Fourth, the data in the Auditor General's reports are not consistent with separate data on government arrears to the Water Boards. The Auditor General has agreed to broaden the verification exercise to reconcile line ministry data on arrears with the information from utilities, initially focusing on the Water Boards.[49]

90. **The authorities have not been able to clear new arrears in a timely manner.** This, to some extent, reflects the delays experienced in the compilation of the verification reports, but also a lack of enforcement of the clearance mechanism. For example, there have been instances where funding released to line ministries for clearance of arrears has been diverted to other uses. Moreover, it is difficult to reconcile the information on arrears cleared directly by the Ministry of Finance with the data reported by line ministries. This may be because line ministries have not updated their arrears information correctly. A memorandum of understanding was signed in 2001 between the Auditor General and the Treasury to strengthen the information flows to reduce these inconsistencies.

91. **Before data on arrears can be reported with confidence, the inconsistencies in the reports must be corrected.** The impact on the reported flow of arrears (net change in the stock) is unclear. However, to ensure consistent data over time, it is important that any revisions to the stock data be fully reflected across all quarterly reports so as to prevent distortions in the flow between quarters.

92. **The authorities' approach to arrears has achieved its objectives to some extent.** The issue has received more attention than in the past and this has led to improvements in the recording of arrears data and also reduced the scope through which expenditure is financed by incurring arrears. Nevertheless, a concerted effort to strengthen the data is required.

Financing

93. **Performance of Malawi's fiscal program is monitored using financing data, given that these are traditionally regarded as being more reliable than revenue and expenditure data.** However, there are some concerns about the financing data, particularly the quality and consistency of external and domestic debt data, adding to the uncertainties regarding arrears developments. To ensure that policy decisions are based on correct information, this is an issue that will need to be addressed.

94. **There have been inconsistencies in the data on external debt service (interest and amortization) as reported by the RBM and the Ministry of Finance.** This could be due to

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[48] While it is possible that this reflects large swings in the stock of arrears (e.g., if all arrears owed by a ministry are fully repaid in one quarter, followed by an equivalent accumulation of arrears in the following quarter), this is not very plausible.

[49] The capture of arrears between utilities and line ministries may have been obscured by past attempts by the Ministry of Finance to carry out offset operations that have not been properly recorded. The authorities have agreed not to conduct any further offset operations.

incorrect treatment of HIPC debt relief but also to lax accounting procedures.[50] However, even for actual cash payments the various data presentations have not been fully consistent. Data on project disbursements are not sufficiently comprehensive and actual disbursements are likely to be underestimated. The data on repayments of special financing (such as supplier credits) are poor and not reported transparently. Particularly information on disbursements (and on the receipt of the goods financed by supplier credits) is incomplete, and the information provided on the repayment schedule has been insufficient to make reliable projections of actual repayments during the fiscal year.

95. Some discrepancies between different sources of information on t-bills and bank advances have been resolved by the RBM. However, the government issuing papers to the RBM to reduce the ways and means advance may have led to some inconsistent recording in the data on RBM financing and non-RBM financing when the RBM sold those papers in the secondary market.

E. Conclusion

96. **Expenditure management and control remain weak in Malawi.** However, over the last couple of years, a number of improvements have been implemented. While some systemic problems remain, these appear to be fixable with relatively little effort. This also suggest that expenditure overruns in the past have been more a reflection of policy decisions rather than the failure of expenditure management systems per se. To ensure that the remaining shortfalls are corrected, strong ownership and commitment are crucial.

97. **The CCA system is clearly an improvement in terms of budget execution and cash management and the remaining shortfalls in the system could easily be overcome.** Foremost of these, is the need for the RBM to maintain separate holding accounts for each bank account for which CCAs are issued and enforce the spending limits. Even though progress has been made recently in terms of timeliness of the CCS reporting, more effort should be devoted to strengthen the quality of the commitments and arrears information both at line ministry levels and in the Ministry of Finance.

98. **Commendable progress has been made in setting up a system for tracking pro-poor expenditure, using the existing reporting systems and budget classification.** The key issue is to maintain strong and committed implementation; this is becoming even more important given the prominence civil society attaches to this issue. Moreover, there is a need to build up strong political support for the system. There is still room to improve the transparency, including by clearly identifying PPEs in the program-based budget documents.

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[50] HIPC debt relief can either be reimbursed by donors after initial payment by Malawi or simply forgiven, thus not requiring an up-front cash payment (the majority of donors have chosen this treatment). In both instances, the authorities have agreed that the amount of debt relief received will be booked as a grant in the fiscal table and this will be offset by showing the external debt service on a due basis before debt relief (i.e., both the part of the debt service that is actually paid to the donors, and the part of the debt service that is forgiven).

99. **The problems of the expenditure management systems resurface in the fiscal data.** There are serious data quality issues affecting particularly the expenditure and financing data. Many of these can be addressed by strengthening cooperation at the technical level between the Treasury, the AG and the RBM (e.g., on the discrepancies in the debt service data). Expenditure data may be more difficult to correct in the short term since these are relying on accounting practices in the line ministries. However, the quality of the data can only be improved through more forceful supervision by the Treasury and the AG. The initial momentum for improving the data on expenditure arrears seems to have slowed down, and serious questions remain regarding the quality of the reported data.

Pro-poor expenditure programs (2002/03 budget)

Agriculture

- Agricultural extension services
- Small-scale irrigation
- Targeted input program

Education

- Primary education
- Secondary education
- Teacher training
- Teacher housing

Health

- Primary health care
- Preventive health care
- Secondary health care

Other

- Rural water supplies
- Family welfare services
- Children services
- Adult literacy education services
- Community policing
- Police training
- Rural feeder roads
- Small-scale mining
- Small-scale fish farming
- Technical and vocational training
- Small- and medium-enterprise promotion
- Gender mainstreaming

IV. TRADE POLICY ISSUES[51]

100. **Malawi has made commendable progress in liberalizing its trade regime, but will need to continue to pursue liberal trade policies.** An important aspect of the unfinished trade reform agenda is resolving the problem of overlapping membership in regional trade arrangements (RTAs). These overlaps have greatly increased the complexity of the trade regime with negative consequences for trade and investment. Recent market access initiatives by QUAD[52] members, notably the United States and the EU, will improve market access for Malawi in some areas, e.g. textiles and apparel to the United States. But the overall impact of these preferential arrangements may be constrained by continued high tariffs and restrictive rules of origin requirements on products of export interest to Malawi.

101. **Malawi has made significant progress in trade liberalization in the last decade.** Beginning in 1988, and continuing through most of the 1990s the government implemented a series of measures liberalizing the trade regime. Consequently, Malawi's rating on the Fund's Trade Restrictiveness Index improved from 7 in 1992 to 2 in 2002, indicating that the trade regime moved from restrictive to open.[53] The improvement in the trade regime is consistent with Malawi's major trading partners in sub-Saharan Africa. For example, Mozambique, Zambia and Uganda improved their restrictiveness ratings from 7, 10 and 10 in 1991 to 2, respectively, indicating a fundamental shift from a restrictive to open trade regime. The introduction of import restrictions in 2001—import licenses were introduced on cement and sugar and import bans on dairy products, vegetable cooking oil and dry cells[54]—are not a sign that Malawi will return to protectionist policies.[55]

102. **The pursuit of liberal trade policies has reduced the anti-export bias in the trade regime and improved the domestic environment for export expansion.** Despite these improvements, however, export performance has not been strong. In the 1990s, Malawi's exports grew by approximately 1.8 percent per annum, which is less than the average export growth in Sub-Saharan Africa of 3.4 percent per annum. The disappointing performance is the result of a variety of factors, including macroeconomic instability and weak infrastructure.

103. **The progress in trade reform however, does not imply that Malawi has completed its trade reform agenda.** Importantly, the trade regime is made extremely

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[51] Prepared by Arnold McIntyre.

[52] Canada, the EU, Japan, the United States.

[53] The index is based upon the classification developed by Robert Sharer and others, 1998, "Trade Liberalization in IMF Supported Programs," World Economic and Financial Surveys (Washington, International Monetary Fund). A rating of between 7 and 10 classifies a country as restrictive; 5 or 6 as "moderately restrictive"; 3 or 4 as "moderately open"; and 1 or 2 as "open."

[54] The import restrictions were in response to claims of unfair trading practices by Zimbabwe (due to a parallel exchange rate), but were applied indiscriminately.

[55] The ban on vegetable oil has been removed and it is expected that the remaining restrictions will be removed in July 2002.

complex by Malawi's overlapping membership in RTAs resulting in a variety of inefficiencies which can impede trade and investment flows. Malawi has a variety of bilateral and regional trade arrangements. These include bilateral preferential trade agreements with South Africa and Zimbabwe[56] and regional trade agreements—the Common Market of Eastern and Southern Africa (COMESA) and the South African Development Community (SADC). Malawi's overlapping bilateral and regional trade agreements unnecessarily complicate the trade regime as each agreement with its own rules of origin increase the complexity. In addition, imports coming into Malawi can face different tariff rates depending on whether they come from COMESA, SADC or any of the bilateral agreements. There are also serious problems of consistency that need to be urgently addressed. For example, when COMESA becomes a customs union in 2004, and a common external tariff (CET) will need to be adopted, this will be inconsistent with the nonreciprocal bilateral trade agreement that Malawi has with South Africa and, in general, the free trade arrangement with SADC. In these circumstances, there is an urgent need for Malawi to rationalize its involvement in RTAs and improve the environment for international trade.[57]

104. **Malawi's external trade arrangements have changed with the provision of preferential market access to the QUAD markets of the United States and the EU through the African Growth and Opportunity Act (AGOA) and the "Everything But Arms" (EBA) initiative respectively.** An important issue is whether these initiatives provide meaningful additional market access for Malawi and therefore will contribute to stimulating exports and growth and reducing poverty. If not, would additional market access be beneficial? The available evidence suggests that the preferential market access provided by AGOA and the EBA will stimulate exports and have a positive impact on growth. However, to assist in significantly increasing growth and reducing poverty, a superior policy option is to provide unrestricted access to QUAD markets for all LDCs.

105. **Since Malawi already receives highly preferential access to the EU market under the Cotonou Agreement, the impact of the EU's EBA on enhancing market access will be negligible[58] with the exception of sugar.** Under the EBA, all duties on sugar will be eliminated by 2009. In the interim, the EU will continue to offer a tariff free quota that will increase by nearly 15 percent per annum. In 2000, the quota for Malawi was 20,000 tons and it was fully utilized. Given the substantial price advantage that the quota provides to sugar producers in beneficiary countries, there is considerable potential for an expansion in sugar exports to the EU.

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[56] The Zimbabwe preferential agreement is a reciprocal duty-free arrangement that covers all goods and the preferential agreement with South Africa is nonreciprocal.

[57] The issue is becoming increasingly urgent with preparations starting for the negotiation of Economic Partnership Agreements (EPAs) with the European Union (EU) stipulated in the Cotonou Agreement between the EU and the African, Caribbean and Pacific (ACP) States. The core of the EPAs will be the negotiation of free trade agreements with different geographical configurations in Africa which will build on existing regional arrangements. Therefore Malawi cannot belong to SADC and COMESA in participating in an EPA.

[58] However, after the expiration of Lomé preferences in 2007, Malawi is likely to continue enjoying preferential access to the EU market under the EBA.

106. **AGOA extends duty-free and quota-free treatment to imports of virtually all products as long as they meet AGOA's rule of origin requirements and are imported directly from a sub-Saharan African (SSA) country.** Exceptions include fabrics and yarns not imported as part of a finished apparel product, and products determined by the United States to be import sensitive (e.g., all agricultural commodities that are subject to a tariff-rate quota). Apparel and clothing have their own preferential regime that includes some flexibility in the rules of origin to utilize regional fabrics (i.e., not made in the United States).[59]

107. **Nearly 90 percent of Malawi's exports are agricultural commodities.** Tobacco accounts for about two thirds of total exports[60] followed by tea and sugar of about 8 percent each.[61] Malawi appears to have a definite niche in the international tobacco market. It is the second largest producer and exporter of burley tobacco, behind the United States, but it does not compete directly with the United States, as it produces a different variety. Similarly, Malawi does not compete with the varieties produced by large producers like Brazil and India.

108. **Given these considerations, the issue is whether AGOA provides enhanced market access for Malawi to the U.S. market and is an opportunity to expand exports. For agricultural commodities of interest to Malawi, AGOA does not provide additional market access.** In the case of tobacco, tariffs remain high on tobacco imported for cigarettes[62]—35 percent—and relatively low on tobacco imported not for cigarettes—approximately 5.6 percent—and are not an impediment to exports. For many of the other agricultural commodities such as sugar, raw cotton, coffee, black tea, certain kinds of peanuts,[63] paprika, lentils and cut flowers, they are either governed by a tariff-rate quota or are not eligible under the general United States agricultural policy. Malawi's duty-free exports to the U.S. under AGOA were valued at US$35.4 million in 2001, most of which were agricultural products. These exports represented 49 percent of Malawi's total exports to the United States.

109. **The principal market access benefits of AGOA appear to be in textiles and apparel.**[64] AGOA will have some positive impact on apparel exports, but export growth is constrained by the restrictive rules of origin. An influential factor in assessing the potential benefits of AGOA for textile and apparel exports from SSA is the restrictive rules or origin

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[59] Notably, SSA countries that are LDCs (including Malawi) can export apparel wholly assembled in their countries, irrespective of the origin of the fabric, for a period of four years.

[60] Malawi is one of the six African countries for which one commodity accounts for more than 50 percent of the total exports. The others are Angola, Nigeria, Burundi, Congo, and Guinea Bissau.

[61] Manufacturing exports account for about 10 percent of total exports. These include mainly textile and clothing and, to a lesser extent, furniture and processed food products (e.g., biscuits).

[62] Malawi's burley tobacco is used in cigarettes. Therefore the tariffs on tobacco (imported for cigarettes) should be relevant for Malawi.

[63] These are HS: 12022080, 12021080, which have high tariffs of 132 and 165 percent.

[64] Malawi was approved for textile and apparel benefits in August 2001.

requirement. A recent empirical study[65] estimated that AGOA (under relatively conservative assumptions about the supply response) increases the level of non-oil exports from SSA by about 7 percent. A large proportion of the increase would be accounted for by the apparel sector, whose exports are expected to increase by 8.3 percent. However, it is also estimated that non-oil exports from SSA would have increased by about 43 percent if unrestricted access had been provided to the United States market. The study estimates that 80 percent of the shortfall under AGOA is attributable to the rules of origin requirements in the apparel sector.

[65] See A. Mattoo, A.; D. Roy and A. Subramanian, "The Africa Growth and Opportunity Act: Rules of Origin and the Impact on Market Access," IMF Working Paper (Washington: IMF, forthcoming).

Table 1. Malawi: GDP by Economic Activity at Constant 1994 Factor Cost, 1996-2000 1/

	1996	1997	1998	1999	2000
	(In millions of Malawi kwacha)				
Agriculture	4,064	4,069	4,490	4,944	5,210
Smallholders	3,070	2,964	3,520	3,992	4,059
Estates	993	1,105	969	952	1,151
Mining and quarrying	206	157	164	170	188
Manufacturing	1,675	1,691	1,717	1,749	1,705
Electricity and water	152	161	172	171	189
Construction	231	254	266	293	288
Distribution	2,575	3,018	2,838	2,765	2,760
Transport and communication	505	553	559	576	552
Financial and professional services	834	1,128	1,034	1,032	1,057
Ownership of dwellings	169	172	176	180	185
Private community services	236	260	262	264	271
Government services	1,168	1,200	1,232	1,257	1,282
Unallocable financial charges	-315	-407	-333	-378	-387
GDP at constant 1994 factor cost	11,500	12,257	12,579	13,023	13,300
	(Annual percentage change, unless otherwise indicated)				
Agriculture	25.5	0.1	10.3	10.1	16.0
Smallholders	31.7	-3.5	18.8	13.4	15.3
Estates	9.6	11.2	-12.3	-1.8	18.8
Mining and quarrying	336.8	-23.5	4.2	3.4	14.6
Manufacturing	-0.6	1.0	1.5	1.8	-0.7
Electricity and water	-0.1	5.8	7.2	-0.4	9.8
Construction	16.9	9.9	4.8	10.1	8.1
Distribution	-0.1	17.2	-6.0	-2.6	-2.7
Transport and communication	-8.2	9.5	1.1	2.9	-1.3
Financial and professional services	20.8	35.2	-8.3	-0.2	2.2
Ownership of dwellings	2.2	2.1	2.1	2.2	4.8
Private community services	9.8	10.0	0.7	0.7	3.5
Government services	-2.5	2.8	2.7	2.0	4.0
GDP at constant 1994 factor cost	10.5	6.6	2.7	3.6	5.8
Memorandum items:					
GDP at current factor cost (in millions of Malawi kwacha)	33,109	38,503	49,540	76,669	96,262
GDP at current factor cost (percentage change)	76.9	16.3	28.7	54.8	25.6
GDP deflator at factor cost (1994=100)	287.9	314.1	393.8	588.7	723.8
GDP deflator at factor cost (percentage change)	60.0	9.1	25.4	49.5	22.9

Source: National Statistics Office.

1/ Figures for 2000 are provisional.

Table 2. Malawi: GDP by Expenditure at Constant 1994 Market Prices, 1996-2000 1/

	1996	1997	1998	1999	2000
	(In millions of Malawi kwacha)				
GDP at constant 1994 market prices	12,934	13,424	13,868	14,428	14,672
Net exports or imports(-) of goods and services	-4,626	-3,937	-2,098	-3,479	-2,563
Exports of goods and services	3,622	3,619	4,012	3,870	3,517
Exports and reexports of goods	3,412	3,332	3,652	3,511	3,114
Exports of nonfactor services	210	287	360	359	403
Imports of good and services	-8,248	-7,556	-6,110	-7,348	-6,079
Imports of goods, f.o.b.	-4,805	-5,952	-4,552	-5,475	-4,393
Imports of nonfactor services	-3,443	-1,604	-1,558	-1,873	-1,687
Gross domestic expenditure	16,048	17,046	16,911	17,795	...
Consumption	14,009	14,816	14,839	15,403	...
Government	1,941	1,971	1,819	1,843	1,854
Compensation of employees	755	954	950	904	1,022
Goods and services	1,185	1,018	869	939	832
Private	12,068	12,845	13,020	13,560	...
Fixed capital formation	1,682	1,867	1,711	2,017	2,101
Government and statutory bodies	1,160	1,382	...	...	...
Private	523	485	...	...	...
Stock building	357	363	361	375	...
	(Annual percentage change, unless otherwise indicated)				
GDP at constant 1994 market prices	7.3	3.8	3.3	4.0	1.7
Exports of goods and services	-10.7	-0.1	10.9	-3.5	-9.1
Exports and reexports of goods	-12.4	-2.4	9.6	-3.9	-11.3
Exports of nonfactor services	29.6	36.6	25.5	-0.4	12.3
Imports of good and services	38.4	-8.4	-19.1	20.3	-17.3
Imports of goods, f.o.b.	28.8	23.9	-23.5	20.3	-19.8
Imports of nonfactor services	54.6	-53.4	-2.9	20.2	-10.0
Gross domestic expenditure	17.0	6.2	-0.8	5.2	...
Consumption	20.0	5.8	0.2	3.8	...
Government	-14.8	1.6	-7.7	1.3	0.6
Compensation of employees	-25.7	26.2	-0.4	-4.8	13.1
Goods and services	-6.0	-14.1	-14.6	8.0	-11.4
Private	28.4	6.4	1.4	4.2	...
Fixed capital formation	-3.3	11.0	-8.3	17.9	4.2
Government and statutory bodies	0.8	19.2	...	...	...
Private	-11.2	-7.3	...	...	...
Stock building	18.9	1.8	-0.7	3.9	...
Memorandum items:					
GDP at current market prices (in millions of Malawi kwacha)	37,233	41,661	53,957	79,804	101,634
GDP at current market prices (percentage change)	70.5	11.9	29.5	47.9	27.4
GDP deflator at market prices (1994=100)	287.9	310.3	389.1	553.1	692.7
GDP deflator at market prices (percentage change)	58.9	7.8	25.4	42.2	25.2

Source: National Statistics Office.

1/ Figures for 2000 are provisional.

Table 3. Malawi: GDP by Expenditure at Current Market Prices, 1996-2000 1/

	1996	1997	1998	1999	2000
	(In millions of Malawi kwacha)				
GDP at current market prices	37,233	41,661	53,957	79,804	101,634
Net exports or imports(-) of goods and services	-6,456	-4,885	-5,721	-15,432	-12,740
Exports of goods and services	8,322	9,658	18,022	21,578	26,622
Exports and reexports of goods	7,792	8,868	16,735	19,713	23,925
Exports of nonfactor services	530	790	1,287	1,866	2,697
Imports of good and services	-14,777	-14,543	-23,743	-37,010	-39,362
Imports of goods, f.o.b.	-8,608	-11,456	-16,982	-26,144	-28,059
Imports of nonfactor services	-6,169	-3,087	-6,762	-10,866	-11,303
Gross domestic expenditure	43,051	47,242	60,212	94,969	112,780
Consumption	38,746	42,163	52,950	79,739	93,616
Government	4,636	5,242	6,399	9,599	13,850
Compensation of employees	1,905	2,624	3,394	4,679	...
Goods and services	2,731	2,618	3,005	4,920	...
Private	34,110	36,921	46,551	70,140	...
Fixed capital formation	3,405	4,080	5,973	13,630	...
Government and statutory bodies	2,280	2,949	4,700	11,834	...
Private	1,125	1,131	1,273	1,797	...
Stock building	900	1,000	1,289	1,600	1,290
	(In percent of GDP, unless otherwise indicated)				
GDP at market prices	100.0	100.0	100.0	100.0	100.0
Exports of goods and services	22.3	23.2	33.4	27.0	26.2
Exports and reexports of goods	20.9	21.3	31.0	24.7	23.5
Exports of nonfactor services	1.4	1.9	2.4	2.3	2.7
Imports of good and services	-39.7	-34.9	-44.0	-46.4	-38.7
Imports of goods, f.o.b.	-23.1	-27.5	-31.5	-32.8	-27.6
Imports of nonfactor services	-16.6	-7.4	-12.5	-13.6	-11.1
Gross domestic expenditure	115.6	113.4	111.6	119.0	111.0
Consumption	104.1	101.2	98.1	99.9	92.1
Government	12.5	12.6	11.9	12.0	13.6
Compensation of employees	5.1	6.3	6.3	5.9	...
Goods and services	7.3	6.3	5.6	6.2	...
Private	91.6	88.6	86.3	87.9	...
Fixed capital formation	9.1	9.8	11.1	17.1	...
Government and statutory bodies	6.1	7.1	8.7	14.8	...
Private	3.0	2.7	2.4	2.3	...
Stock building	2.4	2.4	2.4	2.0	1.3
Memorandum items:					
Indirect taxes (in millions of Malawi kwacha)	3,345	3,807	4,751	6,766	9,588
Indirect taxes	9.6	9.1	8.8	8.5	9.4

Source: National Statistics Office.

1/ Figures for 2000 are provisional.

Table 4. Malawi: Agricultural Production by Principal Crops, 1996-2000

	1996	1997	1998	1999	2000
			(In thousands of metric tons)		
Total production					
Tobacco (auction sales)	141.5	158.1	135.4	133.0	159.9
Flue cured	15.3	14.9	13.8	13.9	10.8
Fire cured	7.7	8.5	6.9	8.2	...
Northern division	6.5	7.6	6.3	7.3	...
Southern division	1.2	0.9	0.6	0.9	...
Burley	117.9	133.9	113.8	110.4	142.2
Other	0.6	0.8	0.9	0.5	...
Tea	37.2	43.9	40.4	38.5	...
Sugar	217.5	195.3	209.7	200.1	...
Smallholder production					
Maize	1,793.5	1,226.5	1,534.3	2,245.8	2,290.0
Rice	72.6	65.7	68.8	92.8	71.6
Groundnuts	40.3	68.7	97.2	124.6	116.6
Tobacco	69.0	83.6	94.1	84.6	98.7
Cotton	82.6	45.1	36.3	50.6	34.9
Sorghum	54.7	39.5	41.5	41.4	36.8
Millet	20.3	16.4	19.6	20.2	19.5
Pulses	183.1	179.2	208.9	233.8	263.4
Cassava	534.6	713.6	829.8	895.4	2,757.2
Sweet potatoes	596.5	858.1	1,432.4	1,680.3	1,877.0
			(Annual percentage change)		
Total production					
Tobacco (auction sales)	8.6	11.7	-14.7	-1.8	0.2
Flue cured	-23.5	-2.6	-7.4	0.7	-0.2
Fire cured	-6.1	10.4	-25.9	18.8	...
Northern division	-13.3	16.9	-25.0	15.9	...
Southern division	71.4	-25.0	-33.3	50.0	...
Burley	16.2	13.6	-15.0	-3.0	0.3
Other	0.0	33.3	12.5	-44.4	...
Tea	8.8	18.0	2.5	-4.7	...
Sugar	-3.1	-10.2	11.2	-4.6	...
Smallholder production					
Maize	35.1	-31.6	25.1	46.4	0.0
Rice	85.7	-9.5	4.6	34.9	-0.2
Groundnuts	31.3	70.5	44.4	28.2	-0.1
Tobacco	94.9	21.2	12.6	-10.1	0.2
Cotton	227.8	-45.4	-19.5	39.4	-0.3
Sorghum	172.1	-27.8	5.1	-0.2	-0.1
Millet	52.6	-19.2	19.5	3.1	0.0
Pulses	83.5	-2.1	16.6	11.9	0.1
Cassava	62.8	33.5	16.3	7.9	2.1
Sweet potatoes	87.7	43.9	66.9	17.3	0.1

Source: National Statistics Office, *Monthly Statistics Bulletin;* and Tobacco Control Commision (TCC).

Table 5. Malawi: Average Auction Prices for Tobacco and Tea, 1996-2000

	1996	1997	1998	1999	2000
			(Malawi kwacha per kilogram)		
Tobacco 1/	25.8	25.9	55.4	62.2	54.1
Flue cured	35.0	31.4	59.9	64.7	67.9
Fire cured	24.9	29.9	75.7	67.7	53.6
Northern division	25.4	31.0	78.0	67.8	54.2
Southern division	21.0	20.6	55.8	65.7	47.0
Burley	24.7	25.1	53.8	61.5	53.1
Other	11.1	19.5	45.4	43.1	23.1
Tea, Malawi auction 2/	12.0	26.4	29.5	37.0	64.7
			(Annual percentage change)		
Tobacco 1/	8.4	0.4	113.8	12.3	-13.1
Flue cured	17.1	-10.3	90.9	7.9	5.0
Fire cured	-3.3	20.1	153.3	-10.7	-20.7
Northern division	-1.8	22.0	151.5	-13.0	-20.1
Southern division	-10.5	-1.9	171.0	17.7	-28.5
Burley	9.8	1.6	114.2	14.5	-13.7
Other	-51.8	76.2	132.9	-5.0	-46.5
Tea, Malawi auction 2/	2.6	120.0	14.6	25.5	74.9

Source: National Statistics Office, *Monthly Statistical Bulletin*.

1/ Weighted average of auction prices in Lilongwe and Limbe.

2/ Simple average.

Table 6. Malawi: National Composite Consumer Price Index, 1996-2002

		All Items	Food	Nonfood	All Items	Food	Nonfood	All Items
Weights (In percent)		100.0	55.5	44.5	100.0	55.5	44.5	100.0
		(Base 1990 = 100)			(12-month inflation) 1/			(Average inflation) 2/
1996		556.2	680.7	401.0	6.7	2.3	16.5	37.7
1997		607.1	736.8	445.3	15.2	19.0	10.4	9.1
1998		787.7	941.2	596.3	53.1	46.6	61.2	29.8
1999		1,140.5	1,346.3	884.0	29.8	27.7	32.3	44.8
2000		1,712.2	1,734.9	1,683.8	35.4	22.4	57.0	29.6
2001		2,090.9	2,301.2	1,828.6	22.1	32.6	8.6	27.2
1999	Jan.	1,090.0	1,347.7	768.6	55.6	53.6	60.2	33.1
	Feb.	1,122.4	1,391.1	787.3	56.2	54.0	61.3	36.5
	Mar.	1,150.1	1,423.0	809.7	56.7	54.8	61.0	39.8
	Apr.	1,140.8	1,393.8	825.3	53.4	52.9	54.3	42.7
	May	1,143.7	1,399.0	825.3	52.9	55.9	46.7	45.4
	Jun.	1,129.3	1,372.2	826.4	52.3	55.9	45.8	48.0
	Jul.	1,103.3	1,310.0	845.5	50.3	51.3	48.5	50.4
	Aug.	1,035.1	1,181.9	852.0	42.8	39.2	49.6	51.4
	Sep.	1,130.2	1,272.1	953.2	36.4	32.0	44.4	50.5
	Oct.	1,143.5	1,282.2	970.5	32.3	29.1	38.2	49.0
	Nov.	1,234.0	1,364.5	1,071.2	32.5	27.5	41.6	47.2
	Dec.	1,264.1	1,417.8	1,072.4	28.2	21.9	40.4	44.8
2000	Jan.	1,419.4	1,660.8	1,118.3	30.2	23.2	45.5	42.4
	Feb.	1,466.0	1,744.0	1,119.3	30.6	25.4	42.2	40.1
	Mar.	1,482.7	1,771.2	1,122.9	28.9	24.5	38.7	37.8
	Apr.	1,446.2	1,696.0	1,134.7	26.8	21.7	37.5	35.6
	May	1,427.5	1,612.8	1,196.4	24.8	15.3	45.0	33.4
	Jun.	1,379.6	1,496.7	1,233.6	22.2	9.1	49.3	31.1
	Jul.	1,382.6	1,465.9	1,278.7	25.3	11.9	51.2	-18.4
	Aug.	1,341.7	1,390.4	1,281.0	29.6	17.6	50.3	28.7
	Sep.	1,469.4	1,518.2	1,408.5	30.0	19.3	47.8	28.3
	Oct.	1,542.8	1,563.6	1,516.9	34.9	21.9	56.3	28.6
	Nov.	1,666.0	1,685.3	1,641.9	35.0	23.5	53.3	28.9
	Dec.	1,712.2	1,734.9	1,683.8	35.4	22.4	57.0	29.6
2001	Jan.	1,898.1	2,000.5	1,770.3	33.7	20.5	58.3	30.0
	Feb.	1,914.9	2,017.9	1,786.4	30.6	15.7	59.6	30.0
	Mar.	1,908.8	1,987.7	1,810.3	28.7	12.2	61.2	29.9
	Apr.	1,842.0	1,865.2	1,813.2	27.4	10.0	59.8	29.9
	May	1,780.3	1,737.0	1,834.3	24.7	7.7	53.3	29.8
	Jun.	1,720.9	1,625.2	1,840.3	24.7	8.6	49.2	29.9
	Jul.	1,748.7	1,674.2	1,841.8	26.5	14.2	44.0	29.9
	Aug.	1,743.1	1,672.9	1,830.7	29.9	20.3	42.9	30.0
	Sep.	1,881.3	1,935.5	1,813.7	28.0	27.5	28.8	29.8
	Oct.	1,960.3	2,068.1	1,825.9	27.1	32.3	20.4	29.2
	Nov.	2,079.2	2,270.5	1,840.6	24.8	34.7	12.1	28.4
	Dec.	2,090.9	2,301.2	1,828.6	22.1	32.6	8.6	27.2
2002	Jan.	2,280.2	2,578.9	1,907.7	20.1	28.9	7.8	26.0
	Feb.	2,275.9	2,556.2	1,926.3	18.9	26.7	7.8	24.9
	Mar.	2,252.9	2,504.8	1,938.7	18.0	26.0	7.1	23.9
	Apr.	2,164.5	2,308.8	1,984.5	17.5	23.8	9.5	23.1
	May	2,085.3	2,154.5	1,999.0	17.1	24.0	9.0	22.4

Source: Malawian authorities.

1/ Annual data refer to 12-month inflation rate at end-December.

2/ Monthly data refer to percentage change of the average index for the 12-month period ending in that month over the corresponding index for the previous year.

Table 7. Malawi: Central Government Operations, 1996/97-2001/02 1/

	1996/97 Act.	1997/98 Act.	1998/99 Act.	1999/2000 Act.	2000/01 Act.	2001/02 Est.
	(In millions of Malawi kwacha)					
Total revenue and grants	7,651	10,567	16,316	22,104	31,233	32,093
Revenue	5,943	8,598	12,075	15,808	20,880	22,663
Tax revenue	5,615	8,029	10,301	14,353	19,285	20,168
Direct taxes	2,462	3,510	4,816	6,590	8,740	9,338
Individual	834	1,554	2,136	3,104	3,816	4,040
Corporate	1,356	1,468	2,002	2,570	3,140	2,987
Withholding tax	273	488	679	916	1,785	2,310
Indirect taxes	3,305	4,738	5,762	8,075	11,074	11,262
Taxes on goods and services	1,946	2,949	4,012	5,834	8,169	8,722
Surtax	1,655	2,539	3,577	5,189	6,091	6,472
Excise duties	291	410	435	644	2,078	2,250
Taxes on international trade	1,350	1,761	1,721	2,201	2,385	2,396
Import duty	1,018	1,510	1,721	2,201	2,385	2,396
Export levy	332	251	0	0	0	0
Misc. duties	9	28	29	41	520	144
Collection of arrears	0	0	0	120	0	9
Tax refunds	-151	-218	-277	-432	-460	-373
Tax adjustment (RD checks)	0	0	0	0	-69	-67
Nontax revenue	328	569	1,773	1,455	1,595	2,495
Departmental receipts	328	489	450	1,050	1,036	1,202
Sale of maize	0	40	1,042	0	0	0
Petroleum levy for national roads authority	0	0	248	400	559	1,180
Petroleum levy for safety nets	0	0	0	0	0	113
Transfer of RBM profits	0	40	33	5	0	0
Total grants	1,708	1,968	4,242	6,296	10,353	9,429
Program	1,273	1,433	2,733	3,725	6,209	2,375
Drought-related	0	0	0	0	0	0
HIPC Initiative	0	0	0	0	579	3,386
Project	435	536	1,508	2,571	3,565	3,668
Total expenditure and net lending	8,714	13,844	19,736	27,229	37,887	44,143
Total expenditure	8,714	13,844	19,475	27,221	37,303	44,143
Current expenditure	6,976	10,940	13,952	17,638	25,772	33,157
Wages and salaries	1,771	3,204	3,209	4,296	5,954	8,687
Other purchases of goods and services	2,950	4,553	5,315	7,043	7,696	10,891
Interest on debt	1,881	1,793	2,535	3,400	5,267	7,644
Foreign	402	612	1,126	1,319	1,841	1,766
Domestic	1,480	1,181	1,409	2,081	3,426	5,878
Subsidies and other transfers	374	1,390	2,525	2,624	6,173	5,818
Transfers to NRA and MRA	0	0	351	542	884	1,878
Transfer to National Roads Authority	0	0	346	400	552	1,180
Transfers to Malawi Revenue Authority	0	0	5	141	332	698
Pension and gratuities	374	679	667	1,206	1,273	1,463
Separation benefits	0	0	0	4	79	0
Discretionary exemptions	0	0	12	0	0	0
Transfer to NFRA/ADMARC	0	0	0	0	2,141	858
Other	0	711	1,495	872	1,797	1,620
Additional pro-poor expenditure	0	0	0	0	66	0
Expenditure in arrears	0	0	368	276	616	118

Table 7. Malawi: Central Government Operations, 1996/97-2001/02 1/

	1996/97 Act.	1997/98 Act.	1998/99 Act.	1999/2000 Act.	2000/01 Act.	2001/02 Est.
	(In millions of Malawi kwacha)					
Development expenditure	1,738	2,904	5,524	9,583	11,530	10,986
Domestically financed	540	797	1,190	1,932	1,741	2,180
Foreign financed	1,197	2,106	4,333	7,651	9,789	8,806
Net lending	0	0	261	8	584	0
Lending	0	0	261	400	584	0
Repayment	0	0	0	-392	0	0
Overall balance (including grants)	-1,063	-3,277	-3,420	-5,125	-6,654	-12,050
Total financing	1,086	4,031	3,404	6,258	6,981	10,878
Net foreign financing	1,782	1,616	5,794	4,373	5,580	1,019
Borrowing	2,367	2,522	6,846	6,473	10,456	5,138
Program	1,912	951	3,390	1,393	4,521	0
Drought related	0	0	1,230	0	0	0
Project	763	1,571	2,825	5,080	5,936	5,138
Bridging financing	-308	0	-599	0	0	0
Amortization	-586	-906	-1,527	-2,137	-5,129	-3,799
Special financing (incl. foreign promissory notes)	0	0	475	37	253	-320
Domestic financing	-695	2,416	-2,390	1,886	1,401	9,859
Bank financing (net)	-540	1,334	-2,774	-1,253	-201	10,981
Nonbank financing (net)	-8	238	-40	3,449	1,083	-1,075
Domestic supplier credits	0	0	0	0	573	-277
Change in arrears	-283	653	23	-310	-168	70
Privatization proceeds	135	191	136	0	114	158
Petroleum account	0	0	265	0	0	0
Discrepancy	23	754	-17	1,133	327	-1,173

Table 7. Malawi: Central Government Operations, 1996/97-2001/02 1/

	1996/97 Act.	1997/98 Act.	1998/99 Act.	1999/2000 Act.	2000/01 Act.	2001/02 Est.
			(In percent of GDP)			
Total revenue and grants	20.0	18.1	24.4	24.4	27.4	23.8
Revenue	15.5	14.8	18.1	17.4	18.3	16.8
Tax revenue	14.6	13.8	15.4	15.8	16.9	14.9
Direct taxes	6.4	6.0	7.2	7.3	7.7	6.9
Individual	2.2	2.7	3.2	3.4	3.4	3.0
Corporate	3.5	2.5	3.0	2.8	2.8	2.2
Withholding tax	0.7	0.8	1.0	1.0	1.6	1.7
Indirect taxes	8.6	8.1	8.6	8.9	9.7	8.3
Domestic taxes on goods and services	5.1	5.1	6.0	6.4	7.2	6.5
Surtax	4.3	4.4	5.3	5.7	5.4	4.8
Excise duties	0.8	0.7	0.6	0.7	1.8	1.7
Taxes on international trade	3.5	3.0	2.6	2.4	2.1	1.8
Misc. duties	0.0	0.0	0.0	0.0	0.5	0.1
Collection of arrears	0.0	0.0	0.0	0.1	0.0	0.0
Tax refunds	-0.4	-0.4	-0.4	-0.5	-0.4	-0.3
Tax adjustment (RD cheques)	0.0	0.0	0.0	0.0	-0.1	0.0
Nontax revenue	0.9	1.0	2.7	1.6	1.4	1.8
Departmental receipts	0.9	0.8	0.7	1.2	0.9	0.9
Sale of maize	0.0	0.1	1.6	0.0	0.0	0.0
Petroleum levy for national roads authority	0.0	0.0	0.4	0.4	0.5	0.9
Petroleum levy for safety nets	0.0	0.0	0.0	0.0	0.0	0.1
Transfer of RBM profits	0.0	0.1	0.0	0.0	0.0	0.0
Total grants	4.5	3.4	6.3	6.9	9.1	7.0
Program	3.3	2.5	4.1	4.1	5.5	1.8
Drought-related	0.0	0.0	0.0	0.0	0.0	0.0
HIPC Initiative	0.0	0.0	0.0	0.0	0.5	2.5
Project	1.1	0.9	2.3	2.8	3.1	2.7
Total expenditure and net lending	22.7	23.8	29.5	30.0	33.3	32.7
Total expenditure	22.7	23.8	29.1	30.0	32.8	32.7
Current expenditure	18.2	18.8	20.9	19.4	22.6	24.6
Wages and salaries 1/	4.6	5.5	4.8	4.7	5.2	6.4
Other purchases of goods and services	7.7	7.8	7.9	7.8	6.8	8.1
Interest on debt	4.9	3.1	3.8	3.7	4.6	5.7
Foreign	1.0	1.1	1.7	1.5	1.6	1.3
Domestic	3.9	2.0	2.1	2.3	3.0	4.4
Subsidies and other transfers	1.0	2.4	3.8	2.9	5.4	4.3
Transfers to NRA and MRA	0.0	0.0	0.5	0.6	0.8	1.4
Pension and gratuities	1.0	1.2	1.0	1.3	1.1	1.1
Separation benefits	0.0	0.0	0.0	0.0	0.1	0.0
Discretionary exemptions	0.0	0.0	0.0	0.0	0.0	0.0
Transfer to NFRA/ADMARC	0.0	0.0	0.0	0.0	1.9	0.6
Other	0.0	1.2	2.2	1.0	1.6	1.2
Additional pro-poor expenditure	0.0	0.0	0.0	0.0	0.1	0.0
Expenditure in arrears	0.0	0.0	0.5	0.3	0.5	0.1
Development expenditure	4.5	5.0	8.3	10.6	10.1	8.1
Domestically financed	1.4	1.4	1.8	2.1	1.5	1.6
Foreign financed	3.1	3.6	6.5	8.4	8.6	6.5

Table 7. Malawi: Central Government Operations, 1996/97-2001/02 1/

	1996/97 Act.	1997/98 Act.	1998/99 Act.	1999/2000 Act.	2000/01 Act.	2001/02 Est.
			(In percent of GDP)			
Net lending	0.0	0.0	0.4	0.0	0.5	0.0
Lending	0.0	0.0	0.4	0.4	0.5	0.0
Repayment	0.0	0.0	0.0	-0.4	0.0	0.0
Overall balance (including grants)	-2.8	-5.6	-5.1	-5.6	-5.8	-8.9
Total financing	2.8	6.9	5.1	6.9	6.1	8.1
Net foreign financing	4.6	2.8	8.7	4.8	4.9	0.8
Borrowing	6.2	4.3	10.2	7.1	9.2	3.8
Program	5.0	1.6	5.1	1.5	4.0	0.0
Drought related	0.0	0.0	1.8	0.0	0.0	0.0
Project	2.0	2.7	4.2	5.6	5.2	3.8
Bridging financing	-0.8	0.0	-0.9	0.0	0.0	0.0
Amortization	-1.5	-1.6	-2.3	-2.4	-4.5	-2.8
Special financing (incl. foreign promissory notes)	0.0	0.0	0.7	0.0	0.2	-0.2
Domestic financing	-1.8	4.1	-3.6	2.1	1.2	7.3
Bank financing (net)	-1.4	2.3	-4.1	-1.4	-0.2	8.1
Nonbank financing (net)	0.0	0.4	-0.1	3.8	1.0	-0.8
Domestic supplier credit	0.0	0.0	0.0	0.0	0.5	-0.2
Change in arrears	-0.7	1.1	0.0	-0.3	-0.1	0.1
Privatization proceeds	0.4	0.3	0.2	0.0	0.1	0.1
Petroleum account	0.0	0.0	0.4	0.0	0.0	0.0
Discrepancy	0.1	1.3	0.0	1.2	0.3	-0.9
Memorandum items:						
Domestic balance	-3.1	-4.3	-3.3	-2.7	-4.7	-8.1
Nominal GDP (in millions of kwacha)	38,340	58,225	66,881	90,719	113,828	135,021

Source: Malawian authorities.

1/ Fiscal year beginning April 1 until 1997/98; beginning July 1 from 1998/99 onward.

Table 8. Malawi: Revenue Collections, 1996/97-2001/02 1/

	1996/97 Act.	1997/98 Act.	1998/99 Act.	1999/00 Act.	2000/01 Act.	2001/02 Est.
	(In millions of Malawi kwacha)					
Revenue	5,943	8,598	12,075	15,808	20,880	22,663
Tax revenue	5,615	8,029	10,301	14,353	19,285	20,168
Taxes on income, profits, and capital gains	2,462	3,510	4,816	6,590	8,740	9,338
Individual	834	1,554	2,136	3,104	3,816	4,040
Pay-as-you-earn	739	1,418	1,948	2,851	3,440	3,598
Other taxes	95	137	187	253	376	443
Corporate	1,356	1,468	2,002	2,570	3,140	2,987
Company assessment tax	700	498	573	853	1,022	1,180
Provisional tax	656	969	1,428	1,717	2,118	1,808
Withholding tax	273	488	679	916	1,785	2,310
Taxes on goods and services	1,946	2,949	4,012	5,834	8,169	8,722
Surtax	1,655	2,539	3,577	5,189	6,091	6,472
Domestic	664	1,014	1,265	1,626	2,429	2,822
Import	992	1,524	2,312	3,563	3,663	3,649
Excise duties	291	410	435	644	2,078	2,250
Domestic	...	...	...	...	476	493
Import	...	...	...	...	1,602	1,757
Taxes on international trade	1,350	1,761	1,721	2,201	2,385	2,396
Import duty	1,018	1,510	1,721	2,201	2,385	2,396
Export levy	332	251	0	0	0	0
Misc. duties	9	28	29	41	520	144
Tax refunds	-151	-218	-277	-432	-460	-373
Tax adjustment (RD) checks	...	...	...	...	-69	-67
Collection of arrears	0	0	0	120	0	9
Nontax revenue	328	569	1,773	1,455	1,595	2,495
Departmental receipts	328	489	450	1,050	1,036	1,202
Petroleum levy for national roads authority	0	0	248	400	559	1,180
Petroleum levy for social safety nets	0	0	0	0	0	113
Sale of maize	0	40	1,042	0	0	0
Drough levy	0	0	0	0	0	0
Fuel stabilization fund	0	0	0	0	0	0
Transfer of RBM profits	0	40	33	5	0	0
	(In percent of GDP, unless otherwise indicated)					
Revenue	15.5	14.8	18.1	17.4	18.3	16.8
Tax revenue	14.6	13.8	15.4	15.8	16.9	14.9
Taxes on income, profits and capital gains	6.4	6.0	7.2	7.3	7.7	6.9
Individual	2.2	2.7	3.2	3.4	3.4	3.0
Pay-as-you-earn	1.9	2.4	2.9	3.1	3.0	2.7
Other taxes	0.2	0.2	0.3	0.3	0.3	0.3
Fringe benefit taxes	0.2	0.2	0.3	0.3	0.3	0.2
Nonresident tax	0.1	0.0	0.0	0.0	0.0	0.0
Corporate	3.5	2.5	3.0	2.8	2.8	2.2
Company assessment tax	1.8	0.9	0.9	0.9	0.9	0.9
Provisional tax	1.7	1.7	2.1	1.9	1.9	1.3
Withholding tax	0.7	0.8	1.0	1.0	1.6	1.7
Taxes on goods and services	5.1	5.1	6.0	6.4	7.2	6.5
Surtax	4.3	4.4	5.3	5.7	5.4	4.8
Domestic	1.7	1.7	1.9	1.8	2.1	2.1
Import	2.6	2.6	3.5	3.9	3.2	2.7
Excise duties	0.8	0.7	0.6	0.7	1.8	1.7
Domestic	...	...	...	...	0.4	0.4
Import	...	...	...	...	1.4	1.3
Taxes on international trade	3.5	3.0	2.6	2.4	2.1	1.8
Import duty	2.7	2.6	2.6	2.4	2.1	1.8
Export levy	0.9	0.4	0.0	0.0	0.0	0.0
Misc. duties	0.0	0.0	0.0	0.0	0.5	0.1
Tax refunds	-0.4	-0.4	-0.4	-0.5	-0.4	-0.3
Tax adjustment (RD) checks	...	...	...	...	-0.1	0.0
Collection of arrears	0.0	0.0	0.0	0.1	0.0	0.0
Nontax revenue	0.9	1.0	2.7	1.6	1.4	1.8
Departmental receipts	0.9	0.8	0.7	1.2	0.9	0.9
Petroleum levy for national roads authority	0.0	0.0	0.4	0.4	0.5	0.9
Petroleum levy for social safety nets	0.0	0.0	0.0	0.0	0.0	0.1
Sale of maize	0.0	0.1	1.6	0.0	0.0	0.0
Drough levy	0.0	0.0	0.0	0.0	0.0	0.0
Fuel stabilization fund	0.0	0.0	0.0	0.0	0.0	0.0
Transfer of RBM profits	0.0	0.1	0.0	0.0	0.0	0.0
Memorandum item:						
Nominal GDP (in millions of kwacha)	38,340	58,225	66,881	90,719	113,828	135,021

Source: Malawian authorities.

1/ Fiscal year beginning April 1 until 1997/98; beginning July 1, from 1998/99 onward.

Table 9. Malawi: Functional Classification of Central Government Expenditure, functional classification, FY 1996/97 - 2001/02 1/

	1996/97 Act.	1997/98 Act.	1998/99 Act.	1999/2000 Act.	2000/01 Act.	2001/02 Est.
	(In millions of Malawi kwacha)					
Total spending	8,737	13,213	16,404	23,189	35,822	43,051
General public services	2,448	3,383	4,096	5,805	14,609	14,729
General administration	1,707	2,420	3,175	4,227	12,455	12,064
Defense	354	461	446	698	989	1,032
Public order and safety	387	501	475	881	1,164	1,633
Social and community services	2,857	5,316	6,481	9,197	10,186	11,714
Education	1,417	2,443	2,451	3,395	4,337	6,790
Health	679	992	1,714	1,975	2,275	4,334
Social security and welfare	367	1,280	857	1,680	1,392	307
Housing and community ammenity	309	437	1,381	1,946	2,015	113
Recreational, cultural, and other	35	42	37	61	74	61
Broadcasting and publishing	49	122	42	141	94	109
Economic services	797	1,678	2,145	4,935	6,914	6,489
Energy and mining	11	21	12	13	17	33
Agriculture and natural resources	521	776	1,124	2,058	1,541	2,356
Tourism	12	37	5	27	33	89
Physical planning and development	22	30	24	46	19	455
Transport and communication	188	643	849	2,523	3,540	2,940
Industry and commerce	24	114	89	174	139	271
Labor relations and employment	3	27	10	21	28	24
Environmental protection and conservation	1	1	18	37	247	284
Scientific and technological services	10	23	8	26	19	25
Other economic services	4	6	6	9	1,331	13
Unallocable services	2,635	2,836	3,681	3,251	4,114	10,119
Total recurrent spending	6,999	11,405	11,080	13,950	24,636	32,472
General public services	1,758	3,120	3,557	3,778	12,318	10,684
General administration	1,039	2,211	2,660	2,459	10,300	8,448
Defense	340	439	439	623	921	943
Public order and safety	379	470	458	696	1,097	1,293
Social and community services	2,358	4,567	3,373	5,778	6,800	8,836
Education	1,271	2,092	1,679	2,556	3,007	5,215
Health	616	857	762	1,421	2,147	3,072
Social security and welfare	354	1,275	768	1,583	1,392	307
Housing and community ammenity	61	218	90	136	138	113
Recreational, cultural, and other	35	42	37	42	65	54
Broadcasting and publishing	21	84	37	40	53	75
Economic services	515	940	689	1,143	1,404	2,833
Energy and mining	11	21	11	13	17	33
Agriculture and natural resources	341	536	517	798	833	1,760
Tourism	11	19	5	26	17	85
Physical planning and development	21	30	16	39	8	299
Transport and communication	93	180	63	105	341	328
Industry and commerce	21	110	30	89	125	258
Labor relations and employment	3	24	10	21	28	24
Environmental protection and conservation	1	1	2	20	4	8
Scientific and technological services	10	14	8	23	19	25
Other economic services	4	6	6	9	10	13
Unallocable services	2,369	2,778	3,462	3,251	4,114	10,119
Total development spending	1,738	1,808	5,323	9,239	11,186	10,579
General public services	691	263	539	2,027	2,291	4,045
General administration	668	209	515	1,768	2,154	3,616
Defense	15	22	7	74	69	89
Public order and safety	8	31	17	184	67	340
Social and community services	499	749	3,109	3,420	3,386	2,878
Education	146	350	772	839	1,330	1,575
Health	63	135	952	554	128	1,262
Social security and welfare	12	5	88	97	0	0
Housing and community ammenity	249	219	1,291	1,810	1,878	0
Recreational, cultural, and other	0	0	0	19	9	7
Broadcasting and publishing	29	39	6	101	41	34
Economic services	282	738	1,456	3,792	5,509	3,656
Energy and mining	0	1	1	0	0	0
Agriculture and natural resources	180	240	607	1,261	707	596
Tourism	1	18	0	1	16	3
Physical planning and development	2	0	8	7	11	156
Transport and communication	96	463	785	2,418	3,198	2,612
Industry and commerce	3	4	38	86	13	13
Labor relations and employment	0	3	0	0	0	0
Environmental protection and conservation	1	0	16	18	244	276
Scientific and technological services	0	9	0	2	0	0
Other economic services	0	0	0	0	1,321	0
Unallocable services	266	59	220	0	0	0

Table 9. Malawi: Functional Classification of Central Government Expenditure, functional classification, FY 1996/97 - 2001/02 1/

	1996/97 Act.	1997/98 Act.	1998/99 Act.	1999/2000 Act.	2000/01 Act.	2001/02 Est.
	(In percent of total for each category of spending)					
Total spending	100.0	100.0	100.0	100.0	100.0	100.0
General public services	28.0	25.6	25.0	25.0	40.8	34.2
General administration	19.5	18.3	19.4	18.2	34.8	28.0
Defense	4.1	3.5	2.7	3.0	2.8	2.4
Public order and safety	4.4	3.8	2.9	3.8	3.3	3.8
Social and community services	32.7	40.2	39.5	39.7	28.4	27.2
Education	16.2	18.5	14.9	14.6	12.1	15.8
Health	7.8	7.5	10.4	8.5	6.3	10.1
Social security and welfare	4.2	9.7	5.2	7.2	3.9	0.7
Housing and community ammenity	3.5	3.3	8.4	8.4	5.6	0.3
Recreational, cultural, and other	0.4	0.3	0.2	0.3	0.2	0.1
Broadcasting and publishing	0.6	0.9	0.3	0.6	0.3	0.3
Economic services	9.1	12.7	13.1	21.3	19.3	15.1
Energy and mining	0.1	0.2	0.1	0.1	0.0	0.1
Agriculture and natural resources	6.0	5.9	6.9	8.9	4.3	5.5
Tourism	0.1	0.3	0.0	0.1	0.1	0.2
Physical planning and development	0.3	0.2	0.1	0.2	0.1	1.1
Transport and communication	2.2	4.9	5.2	10.9	9.9	6.8
Industry and commerce	0.3	0.9	0.5	0.8	0.4	0.6
Labor relations and employment	0.0	0.2	0.1	0.1	0.1	0.1
Environmental protection and conservation	0.0	0.0	0.1	0.2	0.7	0.7
Scientific and technological services	0.1	0.2	0.0	0.1	0.1	0.1
Other economic services	0.0	0.0	0.0	0.0	3.7	0.0
Unallocable services	30.2	21.5	22.4	14.0	11.5	23.5
Total recurrent spending	100.0	100.0	100.0	100.0	100.0	100.0
General public services	25.1	27.4	32.1	27.1	50.0	32.9
General administration	14.8	19.4	24.0	17.6	41.8	26.0
Defense	4.9	3.8	4.0	4.5	3.7	2.9
Public order and safety	5.4	4.1	4.1	5.0	4.5	4.0
Social and community services	33.7	40.0	30.4	41.4	27.6	27.2
Education	18.2	18.3	15.2	18.3	12.2	16.1
Health	8.8	7.5	6.9	10.2	8.7	9.5
Social security and welfare	5.1	11.2	6.9	11.3	5.6	0.9
Housing and community ammenity	0.9	1.9	0.8	1.0	0.6	0.3
Recreational, cultural, and other	0.5	0.4	0.3	0.3	0.3	0.2
Broadcasting and publishing	0.3	0.7	0.3	0.3	0.2	0.2
Economic services	7.4	8.2	6.2	8.2	5.7	8.7
Energy and mining	0.2	0.2	0.1	0.1	0.1	0.1
Agriculture and natural resources	4.9	4.7	4.7	5.7	3.4	5.4
Tourism	0.2	0.2	0.0	0.2	0.1	0.3
Physical planning and development	0.3	0.3	0.1	0.3	0.0	0.9
Transport and communication	1.3	1.6	0.6	0.8	1.4	1.0
Industry and commerce	0.3	1.0	0.5	0.6	0.5	0.8
Labor relations and employment	0.0	0.2	0.1	0.2	0.1	0.1
Environmental protection and conservation	0.0	0.0	0.0	0.1	0.0	0.0
Scientific and technological services	0.1	0.1	0.1	0.2	0.1	0.1
Other economic services	0.1	0.1	0.1	0.1	0.0	0.0
Unallocable services	33.8	24.4	31.2	23.3	16.7	31.2
Total development spending	100.0	100.0	100.0	100.0	100.0	100.0
General public services	39.8	14.5	10.1	21.9	20.5	38.2
General administration	38.5	11.6	9.7	19.1	19.3	34.2
Defense	0.8	1.2	0.1	0.8	0.6	0.8
Public order and safety	0.5	1.7	0.3	2.0	0.6	3.2
Social and community services	28.7	41.4	58.4	37.0	30.3	27.2
Education	8.4	19.4	14.5	9.1	11.9	14.9
Health	3.6	7.5	17.9	6.0	1.1	11.9
Social security and welfare	0.7	0.3	1.7	1.1	0.0	0.0
Housing and community ammenity	14.3	12.1	24.2	19.6	16.8	0.0
Recreational, cultural, and other	0.0	0.0	0.0	0.2	0.1	0.1
Broadcasting and publishing	1.6	2.1	0.1	1.1	0.4	0.3
Economic services	16.2	40.8	27.3	41.0	49.3	34.6
Energy and mining	0.0	0.0	0.0	0.0	0.0	0.0
Agriculture and natural resources	10.3	13.3	11.4	13.6	6.3	5.6
Tourism	0.1	1.0	0.0	0.0	0.1	0.0
Physical planning and development	0.1	0.0	0.2	0.1	0.1	1.5
Transport and communication	5.5	25.6	14.8	26.2	28.6	24.7
Industry and commerce	0.2	0.2	0.7	0.9	0.1	0.1
Labor relations and employment	0.0	0.2	0.0	0.0	0.0	0.0
Environmental protection and conservation	0.0	0.0	0.3	0.2	2.2	2.6
Scientific and technological services	0.0	0.5	0.0	0.0	0.0	0.0
Other economic services	0.0	0.0	0.0	0.0	11.8	0.0
Unallocable services	15.3	3.2	4.1	0.0	0.0	0.0

Sources: Economic Report, National Economic Council; and budget documents, Ministry of Finance.

1/ Fiscal year beginning April 1 until 1997/98; beginning July 1, from 1998/99 onward.

Table 10. Malawi: Accounts of Main Public Enterprises, 1995/96-1999/2000 1/

(In thousands of Malawi kwacha)

	Revenue	Interest Charges	Depreciation	Net Profit or Loss	Gross Investment
Agricultural Development and Marketing Corporation					
1995/96	646,912	80,126	12,660	33,363	67,367
1996/97	1,603,829	21,633	13,525	42,695	35,000
1997/98	952,076	137,665	17,340	-37,211	31,012
1998/99	2,112,642	168,817	23,830	100,444	54,000
1999/2000	2,869,341	490,435	39,665	-853,683	...
Malawi Railways					
1995/96	44,405	2,087	14,552	8,303	...
1996/97	...	...	...	...	...
1997/98	82,997	642	28,356	-17,451	...
1998/1999	...	...	...	...	...
1999/2000	...	...	...	...	...
Electricity Supply Commission (ESCOM)					
1995/96	360,399	26,625	90,617	243,147	637,709
1996/97	457,503	48,517	87,252	321,724	677,824
1997/98	685,519	124,034	295,998	54,848	1,113,658
1998/99	1,130,285	143,931	160,119	67,721	1,113,658
1999/2000	1,667,481	161,000	176,000	80,000	...
Malawi Development Corporation 2/					
1996	70,702	12,758	1,681	34,011	6,411
1997	72,055	9,675	5,398	29,750	108,725
1998	80,455	25,749	624	-118,234	10,899
1999	...	...	...	...	...
2000	...	...	...	...	...
Malawi Housing Corporation					
1995/96	59,612	8,335	15,580	-1,375	6,010
1996/97	84,099	7,927	15,564	12,121	95,500
1997/98	158,759	5,039	57,528	30,230	91,156
1998/99	179,902	4,359	26,933	33,862	152,309
1999/2000	221,804	2,742	72,775	12,416	...
Air Malawi					
1995/96	371,149	1,672	11,957	18,190	15,337
1996/97	427,890	3,480	35,671	12,140	21,450
1997/98	572,169	7,122	38,452	-17,396	16,723
1998/99	1,017,998	28,783	56,389	-88,984	55,495
1999/2000	1,131,322		117,401	-117,980	...
Blantyre Water Board					
1995/96	105,536	3,901	23,360	9,966	139,191
1996/97	155,251	3,793	30,437	18,461	151,556
1997/98	207,496	4,242	35,283	-18,579	64,290
1998/99	346,742	2,260	72,207	36,243	123,978
1999/2000	504,511	87,535	79,091	...	...

Table 10. Malawi: Accounts of Main Public Enterprises, 1995/96-1999/2000 1/ (concluded)

(In thousands of Malawi kwacha)

	Revenue	Interest Charges	Depreciation	Net Profit or Loss	Gross Investment
Lilongwe Water Board					
1995/96	48,834	17,291	16,610	-22,822	7,007
1996/97	100,936	19,316	22,500	5,426	17,457
1997/98	118,100	22,900	21,800	-56,600	10,300
1998/99	126,899	33,170	42,694	-147,713	21,514
1999/2000	260,976	28,735	46,806	26,138	...
Malawi Book Service					
1995/96	25,600	10,859	316	537	727
1996/97	Privatized				
Mining Investment and Development Corporation (MIDCOR)					
1995/96	2,372	0	50	58	23
1996/97	Abolished				
Malawi Dairy Industries 3/					
1995/96	84,459	74	4,244	4,797	12,495
1996/97	138,192	1,158	4,244	9,075	19,163
1997/98	Privatized				

Source: Ministry of Statutory Corporations.

1/ Unless otherwise indicated, fiscal year beginning April 1.
2/ Year ended December 31.
3/ Year ended September 30.

Table 11. Malawi: Interest Rates, 1996-2001

(In percent per annum, unless otherwise indicated; end of period)

	1996	1997	1998	1999	2000	2001
Reserve Bank of Malawi						
Bank rate	27.0	23.0	40.0	47.0	50.2	46.8
Treasury bills 1/						
91 days	15.5	20.6	49.4	39.6	86.6	54.6
182 days	16.7	21.0	52.0	60.1	65.1	56.4
271 days	16.9	22.4	56.6	53.8	83.6	50.9
Commercial banks 2/						
Lending rates 3/						
Minimum (= prime lending rate)	26.0	22.0	43.0	47.0	53.0	46.0
Maximum	31.0	27.0	49.0	53.0	59.0	52.0
Deposits						
Savings	13.0	10.0	25.0	30.0	35.0	26.0
Short term 4/						
3 months	12.0	10.0	28.5	33.0	37.5	30.0
12 months	10.0	12.0	nego.	nego.	nego.	nego.
Other financial institutions 4/						
New Building Society						
Fixed deposits (6-11 months)	8.0	...	26.5	30.0	36.0	30.0
Savings deposits	12.5	9.5	23.0	25.0	27.0	23.0
Investment deposits	13.0	11.0	24.0	26.0	32.5	27.0
Minimum mortgage rate 3/	30.0	17.5	...	...	38.0	35.5
Leasing and Finance Co.						
Lending rate	36.5	30.0	45.0	51.0	37.0	54.0
3-month time deposits	11.5	11.5	30.0	...	39.0	35.0
Investment and Development Bank						
24-hour notice of withdrawal	5.0	5.0	9.0	7.0	6.0	7.0
30-day time deposits 5/	13.0	10.0	26.0	29.0	31.0	32.0
12-month time deposits 5/	nego.	9.0	...	...	nego.	nego.
Local registered stocks 6/	39.3	39.3	39.3	42.0	38.5	38.5
Memorandum items:						
Real interest rates 7/						
Commercial banks						
Prime lending rate	15.5	-2.9	-8.9	26.0	16.5	37.5
Savings deposits	3.6	-12.5	-20.4	11.5	2.8	18.7
Local registered stock	-8.4	-20.4	-36.3	-14.3	-23.9	-5.8
Composite consumer price index						
(12-month rate of change, in percent)	6.7	15.2	53.1	28.2	35.4	22.1

Source: Reserve Bank of Malawi.

1/ Annualized interest rate at end period.
2/ Selected from a much wider range of rates offered by the institutions.
3/ Effective July 23, 1987, these rates were deregulated and set independently by the commercial banks.
4/ MK 10,000 or over; subject to 30 days' written notice of withdrawal; maximum MK 1 million.
5/ MK 250,000 or over.
6/ Maximum available nominal rate on stock with five years or more to redemption.
7/ Deflated by the seasonally adjusted annualized monthly rate of change of the consumer price index.

Table 12. Malawi: Monetary Survey, March 1999-March 2002

	1999				2000				2001				2002
	Mar.	June	Sep.	Dec.	Mar.	June	Sep.	Dec.	Mar.	June	Sep.	Dec.	Mar.
	(In millions of Malawi kwacha)												
Net foreign assets	7,164	9,606	9,444	8,848	8,333	9,766	12,615	14,252	18,024	19,588	15,927	11,777	7,654
Monetary authorities 1/	5,734	7,635	8,267	7,397	6,789	7,548	9,686	11,289	15,680	15,932	13,906	8,769	5,303
Foreign assets	10,159	11,657	11,945	11,422	10,639	12,037	15,228	19,500	23,677	21,526	18,681	13,667	10,652
Foreign liabilities	-4,425	-4,022	-3,678	-4,025	-3,851	-4,489	-5,542	-8,211	-7,997	-5,594	-4,775	-4,899	-5,349
Commercial banks	1,429	1,971	1,177	1,451	1,544	2,218	2,929	2,964	2,344	3,656	2,021	3,009	2,351
Net domestic assets	1,505	2,181	2,253	2,697	2,982	3,714	3,470	2,192	-2,626	471	2,840	6,661	9,795
Domestic credit (net)	1,990	3,520	3,721	3,978	5,200	4,306	6,618	6,208	1,124	3,171	5,851	10,905	13,202
Credit to the government	-1,393	-332	-221	-676	-195	-1,597	1,028	117	-4,228	-2,134	590	5,661	6,891
Credit to statutory bodies	134	366	561	1,289	1,013	1,047	912	1,047	683	826	116	-45	397
Credit to the private sector	3,249	3,486	3,381	3,365	4,382	4,857	4,678	5,044	4,668	4,479	5,146	5,289	5,914
Other assets (net)	-485	-1,340	-1,468	-1,281	-2,219	-592	-3,148	-4,016	-3,749	-2,701	-3,011	-4,244	-3,407
Money and quasi money	8,669	11,787	11,697	11,546	11,314	13,479	16,085	16,444	15,398	20,059	18,767	18,438	17,449
Money	4,864	6,663	6,649	6,417	6,149	7,397	7,733	8,771	8,175	10,996	10,047	9,312	8,730
Currency outside banks	2,078	3,376	3,420	2,992	2,890	3,470	4,113	4,145	3,874	5,411	4,790	4,209	4,397
Demand deposits	2,786	3,287	3,229	3,425	3,259	3,926	3,621	4,626	4,301	5,585	5,257	5,104	4,332
Quasi money	3,805	5,124	5,048	5,129	5,166	6,083	8,352	7,673	7,224	9,063	8,720	9,126	8,720
Of which: foreign currency deposits	1,491	2,271	3,168	1,442	1,666	2,271	3,168	2,709	2,376	3,020	2,042	2,630	2,547
Memorandum items:													
	(12-month change; in percent of beginning of period broad money stock)												
Net foreign assets	90.8	88.7	59.7	14.1	13.5	1.4	27.1	46.8	85.7	72.9	20.6	-15.1	-67.3
Net domestic assets	-46.0	-39.2	-30.1	19.5	17.0	13.0	10.4	-4.4	-49.6	-24.1	-3.9	27.2	80.7
Credit to the government	-54.1	-30.1	-30.4	-2.9	13.8	-10.7	10.7	6.9	-35.6	-4.0	-2.7	33.7	72.2
Credit to statutory bodies	-1.4	0.9	4.2	18.5	10.1	5.8	3.0	-2.1	-2.9	-1.6	-4.9	-6.6	-1.9
Credit to the private sector	23.7	16.6	8.4	2.1	13.1	11.6	11.1	14.5	2.5	-2.8	2.9	1.5	8.1
Other assets (net)	-14.1	-26.6	-12.3	1.8	-20.0	6.3	-14.4	-23.7	-13.5	-15.6	0.9	-1.4	2.2
Money and quasi money	44.9	49.5	29.7	33.6	30.5	14.4	37.5	42.4	36.1	48.8	16.7	12.1	13.3

Source: Reserve Bank of Malawi.

1/ Valued at current Malawi kwacha-SDR exchange rate.

Table 13. Malawi: Summary Accounts of Monetary Authorities, March 1999-March 2002

(In millions of Malawi kwacha; end of period)

	1999				2000				2001				2002
	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.
Net foreign assets 1/	5,734	7,635	8,267	7,397	6,789	7,548	9,686	11,289	15,680	15,932	13,906	8,769	5,303
Foreign assets	10,159	11,657	11,945	11,422	10,639	12,037	15,228	19,500	23,677	21,526	18,680	13,664	10,652
Foreign liabilities	-4,425	-4,022	-3,678	-4,025	-3,851	-4,489	-5,542	-8,211	-7,997	-5,594	-4,774	-4,896	-5,349
IMF	-4,423	-3,994	-3,650	-3,998	-3,837	-4,486	-5,539	-6,610	-6,417	-5,594	-4,773	-4,892	-5,349
Other	-1	-29	-28	-28	-13	-4	-3	-1,602	-1,581	0	0	-4	-1
Net domestic assets	-1,636	-1,624	-2,075	-1,468	-1,077	-1,490	-2,638	-4,533	-9,590	-8,078	-5,369	-604	1,942
Net domestic credit	-1,012	164	-115	-219	78	-839	1,223	-771	-5,620	-3,498	-957	3,830	4,313
Credit to the government (net)	-1,229	-67	-360	-476	-188	-1,123	927	-1,068	-5,917	-3,794	-1,249	3,663	4,026
Credit (gross)	1,620	807	2,627	2,559	3,357	2,073	2,078	446	442	442	1,611	5,846	6,305
Deposits	-2,849	-874	-2,986	-3,035	-3,545	-3,196	-1,151	-1,514	-6,358	-4,236	-2,860	-2,183	-2,280
Credit to statutory bodies (net)	217	231	244	257	266	284	296	296	296	296	292	166	287
Credit (gross)	235	249	262	275	284	301	314	314	314	314	314	314	314
Deposits	-17	-17	-17	-17	-17	-17	-17	-17	-17	-17	-22	-147	-26
Other assets (net)	-2,391	-902	-1,074	-566	-497	-703	-3,938	-3,373	-2,916	-3,386	-3,393	-3,586	-1,840
Other items (net)	1,768	-886	-886	-682	-658	52	77	-388	-1,054	-1,195	-1,019	-848	-531
Reserve money	4,099	6,011	6,192	5,930	5,712	6,059	7,047	6,756	6,089	7,854	8,537	8,165	7,245
Liabilities to banks	2,021	2,635	2,772	3,610	2,822	2,588	2,935	2,086	2,216	2,443	3,747	3,956	2,848
Cash in vault	240	244	283	618	320	373	401	653	381	392	408	782	419
Deposits with Reserve Bank of Malawi	1,781	2,391	2,489	2,992	2,502	2,215	2,533	1,432	1,835	2,050	3,339	3,174	2,430
Liabilities to the private sector (currency in circulation)	2,078	3,376	3,420	2,992	2,890	3,470	4,113	4,145	3,874	5,411	4,790	4,209	4,209

Source: Reserve Bank of Malawi.

1/ Valued at end-of-month Malawi kwacha-SDR exchange rate; prior to January 1994, liabilities to the IMF and SDR allocations revalued every May.

Table 14. Malawi: Summary Accounts of Commercial Banks, March 1999-March 2002

(In millions of Malawi kwacha, unless otherwise indicated; end of period)

	1999				2000				2001				2002
	Mar.	Jun.	Sep.	Dec	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.
Net foreign assets	1,429	1,971	1,177	1,451	1,544	2,218	2,929	2,964	2,344	3,656	2,021	3,009	2,351
Foreign assets	1,829	2,461	1,735	2,196	2,101	2,927	3,893	4,313	3,205	4,673	2,824	4,024	3,265
Foreign liabilities	-400	-490	-558	-744	-558	-709	-963	-1,350	-861	-1,017	-803	-1,016	-914
Cash and reserves	1,956	2,499	2,776	2,762	2,771	2,184	2,613	1,985	1,851	2,044	2,953	3,483	2,670
Cash	228	244	283	618	320	373	401	653	381	392	408	783	419
Deposits with Reserve Bank of Malawi	1,728	2,255	2,493	2,144	2,451	1,811	2,212	1,332	1,470	1,651	2,545	2,700	2,251
Net domestic assets	3,205	3,940	4,324	4,341	4,110	5,607	6,430	7,351	7,330	8,948	9,003	7,738	8,032
Domestic credit (net)	3,002	3,356	3,962	4,502	5,122	5,145	5,394	6,979	6,744	6,669	6,808	7,076	8,889
Credit to the government (net)	-164	-265	264	106	-7	-475	101	1,185	1,689	1,661	1,839	1,998	2,865
Credit to statutory bodies (net)	-84	135	317	1,032	747	763	615	751	386	530	-177	-211	109
Credit (gross)	152	623	817	1,443	1,153	1,229	1,174	1,218	896	1,118	368	575	737
Deposits	-235	-487	-500	-411	-406	-466	-558	-467	-510	-588	-544	-786	-628
Credit to the private sector	3,249	3,486	3,381	3,365	4,382	4,857	4,678	5,044	4,668	4,479	5,146	5,289	5,914
Other assets (net)	203	584	362	-162	-1,013	462	1,036	371	586	2,279	2,196	663	-857
Deposits of the private sector	6,591	8,411	8,277	8,554	8,424	10,009	11,972	12,299	11,525	14,648	13,977	14,229	13,052
Demand deposits	2,786	3,287	3,229	3,425	3,259	3,926	3,621	4,626	4,301	5,585	5,257	5,104	4,332
Foreign currency deposits 1/	1,491	2,102	1,387	1,442	1,666	2,271	3,168	2,709	2,376	3,020	2,042	2,630	2,547
Time and saving deposits	2,315	3,022	3,661	3,687	3,499	3,811	5,184	4,964	4,848	6,042	6,677	6,495	6,172
Memorandum item:													
Reserve/deposit ratio (in percent) 2/	26.2	26.8	30.1	25.1	29.1	18.1	18.5	10.8	12.8	11.3	18.2	19.0	17.2

Source: Reserve Bank of Malawi.

1/ Foreign currency deposits were introduced in February 1994.
2/ Including deposits of statutory bodies.

Table 15. Malawi: Commercial Banks' Advances by Sector, 1996-2000 1/

	1996	1997	1998	1999	2000
	(In millions of kwacha, end of period)				
Agriculture	365.3	439.1	552.0	617.0	498.8
Mining and quarrying	0.9	8.4	5.6	6.2	9.1
Manufacturing	331.9	322.1	573.7	914.3	1,228.9
Electricity, water, and gas	15.6	1.1	3.2	4.0	195.3
Construction and civil engineering	34.9	54.8	135.7	151.4	378.0
Wholesale and retail trade	265.1	491.9	719.4	1,259.9	1,119.8
Transport, storage, and communications	43.4	61.9	63.0	93.2	1,192.4
Finance, insurance, real estate, and business services	91.0	89.6	332.6	688.2	506.9
Community, social, and personal services	52.6	39.4	140.8	152.7	848.6
Personal accounts	22.5	206.8	787.4	341.7	632.7
Total	1,223.2	1,715.1	3,313.5	4,229.0	6,610.5
	(In percent of total)				
Agriculture	29.9	25.6	16.7	14.6	7.5
Mining and quarrying	0.1	0.5	0.2	0.1	0.1
Manufacturing	27.1	18.8	17.3	21.6	18.6
Electricity, water, and gas	1.3	0.1	0.1	0.1	3.0
Construction and civil engineering	2.9	3.2	4.1	3.6	5.7
Wholesale and retail trade	21.7	28.7	21.7	29.8	16.9
Transport, storage, and communications	3.5	3.6	1.9	2.2	18.0
Finance, insurance, real estate, and business services	7.4	5.2	10.0	16.3	7.7
Community, social, and personal services	4.3	2.3	4.3	3.6	12.8
Personal accounts	1.8	12.1	23.8	8.1	9.6

Sources: Reserve Bank of Malawi, Financial and Economic Review; and Malawian authorities.

1/ From December 1999 onward, includes Finance Bank of Malawi, First Merchant Bank, and Malawi Savings Bank.

Table 16. Malawi: Summary Accounts of Nonbank Financial Institutions, March 1996-June 2001 1/

(In millions of Malawi kwacha; end of period)

	1996		1997		1998		1999			2000			2001	
	March	Dec.	March	Dec.	March	Dec.	March 2/	June	Dec.	March	June	Dec.	March	June
Cash deposits with monetary authorities	17	14	31	24	10	11	8	12	48	12	48	26	35	18
Domestic assets (net)	1,324	1,024	1,241	1,703	1,806	1,987	4,260	4,334	4,149	5,194	5,613	7,170	6,799	7,438
Credit to the government	246	161	158	218	198.4	127	418	527	377	574	727	1,255	1,283	1,738
Credit to statutory bodies	0	0	4	0	4.5	4	21	26	25	75	76	30	23	80
Credit to the private sector	934	1,009	1,040	1,463	1,643	1,892	2,175	2,001	2,032	2,428	2,813	2,983	2,979	2,903
Other assets (net)	144	-146	39	21	-40	-36	1,647	1,781	1,715	2,117	1,998	2,902	2,514	2,718
Other assets (gross) 2/	255	174	305	278	265	414	746	904	769	1,164	1,013	1,305	1,199	1,414
Other liabilities (gross) 3/	-111	-319	-266	-257	-305	-450	900	877	946	953	985	1,597	1,315	1,304
Deposits	829	1,090	1,014	1,178	1,109	1,264	1,715	2,071	1,887	2,955	3,228	3,788	3,580	4,406
Share capital	176	240	270	322	380	509	548	527	441	504	517	830	763	723
Liabilities to banks 4/	0	0	0	1	1	0	23	58	60	63	59	212	65	77
Insurance and assurance companies														
Credit to the government	190	216	379	427	272	448	430	487	683	708	...	...	...	...
Credit to the private sector	469	587	570	584	525	247	236	252	220	220	...	...	...	...
Credit to banks	28	137	35	39	65	39	38	41	31	50	...	...	...	...
Demand deposits	5		2	-9	-3	-9	-13	-14	-14	-35	...	...	...	...
Time and savings deposits	23		33	47	68	48	51	54	45	85	...	...	...	...
Other assets	82	58	53	54	310	403	411	407	416	399	...	...	...	...
Total assets	769	999	1,037	1,104	1,172	1,137	1,115	1,186	1,350	1,377	...	...	...	...
Premiums received	28	...	54	76	65	846	807	889	1,089	1,061	...	...	...	...
Expenses, commissions, and claims paid	29	...	37	52	35	67	57	128	100	66	...	...	...	...
Premiums (net)	-1	...	17	24	29	780	750	761	989	995	...	...	...	...
Investment income	49	...	...	...	...	...	...		...	...	...	...	...	...
Miscellaneous income	6	...	...	...	...	...	...		...	...	...	...	...	...

Sources: Reserve Bank of Malawi, Financial and Economic Review; and other data provided by the Reserve Bank of Malawi.

1/ Malawi Savings Bank (MSB), New Building Society (NSB), Mercantile Credit Bank (MCB), and Investment Development Bank (Indebank); from May 1999 onward, includes also Leasing and Finance (LFC), Finance Corporation of Malawi (FINCOM), IndeFinance, and CBM Finance.

2/ From March 1999 onward, other assets of all other financial institutions, excluding LFC, FINCOM, IndeFinance, and CBM Finance.

3/ From March 1999 onward, other liabilities of all other financial institutions, excluding LFC, FINCOM, IndeFinance, and CBM Finance.

Table 17. Malawi: Balance of Payments, 1996-2001

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

	1996	1997	1998	1999	2000	2001
Current account balance (incl. grants)	-175.9	-263.4	-42.7	-151.0	-89.0	-127.7
Trade balance	-140.5	-244.0	-40.7	-226.3	-157.7	-175.4
Exports	483.4	539.4	538.6	447.0	405.5	406.8
Traditional exports	414.0	465.8	455.9	391.0	246.8	236.0
Of which: tobacco	300.4	351.6	331.7	274.6	81.4	97.1
Nontraditional	69.4	73.6	82.7	56.0	55.7	59.9
Imports	-623.8	-783.4	-579.3	-673.0	-563.2	-582.2
Services balance	-107.7	-84.0	-134.0	-90.0	-86.9	-65.5
Interest public sector (net)	-21.6	-20.3	-27.0	-17.0	-20.6	-17.8
Receipts	7.1	12.8	8.0	8.8	12.1	8.7
Payments	-28.6	-33.1	-35.0	-26.0	-32.7	-26.5
Other factor payments	-17.4	-21.2	-19.0	-20.0	-17.7	-14.6
Nonfactor (net)	-68.7	-43.0	-88.0	-53.0	-48.7	-33.1
Receipts	34.6	47.0	39.0	42.0	45.3	48.7
Payments	-103.3	-89.0	-127.0	-95.0	-93.9	-81.8
Unrequited transfers (net)	72.3	64.6	132.0	165.0	155.6	113.2
Private (net)	-24.3	-18.8	-25.0	9.0	7.8	15.5
Receipts	8.3	17.9	11.0	22.0	21.8	21.8
Payments	-32.6	-36.7	-37.0	-13.0	-13.9	-6.3
Official	96.6	83.4	157.1	157.0	147.8	97.7
Receipts	98.9	85.2	158.6	158.0	148.4	98.3
Balance of payments assistance	73.2	60.8	75.6	86.0	78.4	51.0
Project related	25.7	24.4	63.0	66.0	69.9	47.3
Drought related	0.0	0.0	20.0	6.0	0.0	0.0
Other (commercial)	-2.4	-1.8	-1.5	-1.1	-0.6	-0.6
Capital account balance (incl. errors and omissions)	291.7	215.0	134.0	168.0	78.2	96.2
Medium- and long-term flows	149.8	77.0	165.0	88.0	65.0	59.8
Disbursements	193.4	117.0	210.0	127.0	124.9	127.0
Amortization (public sector)	-44.0	-40.0	-45.0	-39.0	-59.9	-67.2
Foreign direct investment and other inflows 1/	30.0	24.0	34.0	39.0	27.0	28.0
Short-term capital and errors and omissions	112.0	114.0	-65.0	45.0	-13.8	8.5
Overall balance	115.8	-48.3	91.0	17.0	-10.8	-31.5
Financing	-115.8	48.3	-91.0	-17.0	10.8	31.5
Central bank	-109.5	53.3	-76.2	-32.0	16.6	11.8
Reserves (-increase)	-112.4	63.0	-102.6	13.6	1.7	40.7
Liabilities	2.9	-9.7	26.4	-46.0	14.9	-28.8
Of which: IMF (net)	7.3	-6.5	-7.2	-11.9	-1.8	-7.8
Purchases/drawings	22.1	10.4	17.9	10.6	8.4	0.0
Repurchases/repayments	-14.8	-16.9	-25.0	-22.0	-10.2	-7.8
Commercial banks	-6.3	-5.1	-15.3	15.0	-5.7	-7.7
Arrears	0.0	0.0	0.0	0.0	0.0	27.4
Memorandum items:						
Gross official reserves						
In millions of U.S. dollars	218.2	155.2	257.8	244.2	242.5	201.8
In months of imports 2/	3.0	2.6	4.0	4.2	4.4	2.8
Current account balance (percent of GDP)						
Excluding official transfers	-12.1	-13.9	-11.6	-17.1	-14.2	-12.9
Including official transfers	-7.7	-10.5	-2.5	-8.3	-5.3	-7.3
Malawi kwacha per U.S. dollar (end year)	15.3	21.2	43.9	46.4	80.1	67.3
Terms of trade (annual percentage change)	32.0	9.2	-4.1	-13.4	-6.2	0.7

Sources: Malawian authorities; and staff estimates.

1/ Foreign direct investment not presented separately in years prior to 1996.
2/ In months of following year's imports of goods and nonfactor services.

Table 18. Malawi: Composition of Exports, 1996-2001

(Values in millions of U.S. dollars, volumes in thousands of metric tons)

	1996	1997	1998	1999	2000	2001
Tobacco						
Value	300.4	351.6	331.7	274.6	246.8	236.0
Volume	106.7	116.7	128.9	120.3	106.8	119.2
Price (US$/mt)	2,815.4	3,012.9	2,573.3	2,282.6	2,310.7	1,979.8
Sugar						
Value	34.2	23.9	50.3	23.1	39.2	45.6
Volume	58.6	40.1	86.1	56.7	53.2	91.1
Price (US$/lb)	0.3	0.3	0.3	0.2	0.4	0.2
Tea						
Value	25.7	42.6	40.2	39.3	36.9	46.1
Volume	36.7	39.8	40.5	47.0	40.0	38.4
Price (US$/kg)	0.7	1.1	1.0	0.8	0.9	1.2
Coffee						
Value	10.7	12.7	10.5	8.9	5.2	5.3
Volume	5.1	4.2	3.6	4.4	4.1	3.8
Price (US$/lb)	1.0	1.4	1.3	0.9	0.6	0.6
Cotton						
Value	14.9	11.6	5.0	5.3	7.0	4.6
Volume	10.6	20.6	4.3	5.0	11.8	9.0
Price (US$/lb)	0.6	0.3	0.5	0.5	0.3	0.2
Other (commercial)						
Value	1.5	1.8	2.4	2.5	1.5	0.9
Volume	3.1	3.8	5.3	3.4	2.2	1.3
Price (US$/mt)	499.7	473.7	450.6	735.3	712.4	671.8
Maize						
Value	0.0	0.0	0.0	0.0	2.4	0.0
Volume	0.0	0.0	0.0	0.0	50.0	0.0
Price (US$/kg)	...	...	...	...	0.1	...
Pulses						
Value	12.1	6.4	4.3	6.5	2.6	0.8
Volume	41.8	26.0	14.0	19.6	14.4	9.6
Price (US/mt)	290.1	246.2	307.1	331.6	181.3	84.6
Other						
Value	69.4	73.6	63.2	56.2	55.7	59.9
Total domestic exports, f.o.b.	469.0	524.2	507.6	416.4	397.5	399.3
Reexports	14.4	15.2	31.0	30.7	8.0	7.5
Total exports, f.o.b.	483.4	539.4	538.6	447.1	405.5	406.8
Memorandum items:						
Total exports, f.o.b.	483.4	539.4	538.6	447.1	405.5	406.8
Traditional exports (incl. re	414.0	465.8	475.4	391.0	349.8	346.9
Nontraditional exports	69.4	73.6	63.2	56.1	55.7	59.9

Sources: Malawian authorities; and staff estimates.

Table 19. Malawi: Tobacco Exports, 1996-2001 1/

(Values in millions of U.S. dollars; volumes in thousands of tons; and prices in U.S dollars per kilogram)

	1996	1997	1998	1999	2000	2001
Flue cured						
Value	51.3	64.9	28.3	32.7	21.1	13.1
Volume	16.4	17.9	11.4	16.3	9.5	7.3
Unit value	3.1	3.6	2.5	2.0	2.2	1.8
Burley						
Value	203.4	246.8	179.5	208.7	206.3	188.0
Volume	73.1	86.2	69.3	78.6	88.7	94.0
Unit value	2.8	2.9	2.6	2.7	2.3	2.0
NDDF						
Value	...	...	...	11.3	4.9	9.1
Volume	...	...	...	7.8	6.2	4.9
Unit value	...	...	...	1.5	0.8	1.9
Fire cured (northern division)						
Value	14.8	18.2	30.1	...	...	...
Volume	4.9	6.3	11.7	...	...	...
Unit value	3.0	2.9	2.6	...	...	...
Fire cured (southern division)						
Value	0.7	0.3	93.8	...	...	...
Volume	0.3	0.8	34.1	...	...	...
Unit value	2.3	0.4	2.8	...	...	...
Sun/air-cured						
Value	0.7	1.5	2.8	0.7	0.9	0.1
Volume	0.3	0.5	1.4	0.3	0.4	0.1
Unit value	2.3	3.0	2.0	2.7	2.2	1.3
Other (commercial) 2/						
Value	1.6	1.0	3.1	18.6	18.7	10.8
Volume	0.6	0.3	1.3	7.2	8.2	5.6
Unit value	2.7	3.3	2.4	2.6	2.3	1.9
Total						
Value	272.5	332.7	337.6	260.5	246.8	212.0
Volume	95.6	112.0	129.2	102.3	106.8	107.0
Unit value	2.9	3.0	2.6	2.5	2.3	2.0

Source: Tobacco Control Commission (TCC).

1/ Data reported by the TCC differ from the data reported by the National Statistical Office. The former may have a component of reexports.

2/ Including SDF and oriental tobacco from 1999 onward.

Table 20. Malawi: Direction of Trade, 1996-2001

	Exports						Imports					
	1996	1997	1998	1999	2000	2001	1996	1997	1998	1999	2000	2001
	(In millions of U.S. dollars)											
DOTS World total	460.4	537.2	478.6	482.4	441.6	497.2	570.1	611.2	565.8	631.6	621.6	636.0
Industrial	272.9	315.4	293.5	290.7	243.6	283.5	134.9	130.5	125.7	129.8	92.2	90.2
France	10.7	9.3	8.1	8.6	8.8	11.3	9.2	3.9	7.6	10.0	5.1	6.1
Germany	51.5	68.7	56.7	72.1	29.3	55.9	17.3	13.9	18.7	30.1	13.0	17.3
Japan	24.0	30.4	42.4	21.1	46.5	37.6	20.6	21.9	31.8	16.6	12.7	12.4
Netherlands	30.5	62.3	46.2	43.0	28.6	26.8	4.7	8.1	5.1	4.0	7.4	3.6
United Kingdom	22.7	19.7	15.9	16.0	15.3	19.6	35.4	33.3	23.8	31.2	18.1	13.0
United States	71.1	79.9	58.8	69.1	53.8	76.5	14.7	19.5	16.0	9.5	14.4	16.3
Other	62.3	45.2	65.4	60.9	61.2	55.8	33.1	29.9	22.8	28.4	21.5	21.4
Developing countries	187.5	221.8	185.0	191.7	198.0	213.6	435.2	480.7	440.1	501.8	529.4	545.8
Africa	124.6	119.1	106.3	95.6	106.3	117.0	378.8	415.4	388.1	435.6	458.5	472.7
Botswana	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Mozambique	9.4	2.8	2.5	2.5	0.6	0.7	1.5	20.2	11.6	5.3	12.1	13.3
South Africa	68.0	86.7	82.5	74.7	85.9	94.8	241.9	270.6	238.5	258.2	260.2	252.3
Tanzania	5.8	2.5	2.1	3.2	1.7	1.9	2.5	6.1	4.2	10.9	12.1	13.4
Zambia	9.0	2.7	1.7	2.6	2.2	2.4	54.9	21.5	50.9	66.1	62.8	69.3
Zimbabwe	21.6	14.2	11.6	7.0	8.1	8.9	67.0	86.6	68.5	80.3	92.3	101.5
Other	10.8	10.3	6.0	5.6	7.7	8.2	11.0	10.3	14.4	14.9	19.0	22.9
Other developing countries	62.9	102.6	78.7	96.2	91.8	96.6	56.4	65.3	52.0	66.2	70.9	73.1
	(In percent of total, unless otherwise indicated)											
DOTS World total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Industrial	59.3	58.7	61.3	60.3	55.2	57.0	23.7	21.4	22.2	20.5	14.8	14.2
France	2.3	1.7	1.7	1.8	2.0	2.3	1.6	0.6	1.3	1.6	0.8	1.0
Germany	11.2	12.8	11.9	15.0	6.6	11.2	3.0	2.3	3.3	4.8	2.1	2.7
Japan	5.2	5.7	8.9	4.4	10.5	7.6	3.6	3.6	5.6	2.6	2.0	2.0
Netherlands	6.6	11.6	9.6	8.9	6.5	5.4	0.8	1.3	0.9	0.6	1.2	0.6
United Kingdom	4.9	3.7	3.3	3.3	3.5	3.9	6.2	5.4	4.2	4.9	2.9	2.0
United States	15.4	14.9	12.3	14.3	12.2	15.4	2.6	3.2	2.8	1.5	2.3	2.6
Other	13.5	8.4	13.7	12.6	13.9	11.2	5.8	4.9	4.0	4.5	3.5	3.4
Developing countries	40.7	41.3	38.7	39.7	44.8	43.0	76.3	78.6	77.8	79.5	85.2	85.8
Africa	27.1	22.2	22.2	19.8	24.1	23.5	66.5	68.0	68.6	69.0	73.8	74.3
Botswana	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Mozambique	2.0	0.5	0.5	0.5	0.1	0.1	0.3	3.3	2.0	0.8	1.9	2.1
South Africa	14.8	16.1	17.2	15.5	19.5	19.1	42.4	44.3	42.2	40.9	41.9	39.7
Tanzania	1.3	0.5	0.4	0.7	0.4	0.4	0.4	1.0	0.7	1.7	2.0	2.1
Zambia	1.9	0.5	0.4	0.5	0.5	0.5	9.6	3.5	9.0	10.5	10.1	10.9
Zimbabwe	4.7	2.6	2.4	1.5	1.8	1.8	11.7	14.2	12.1	12.7	14.8	16.0
Other	2.3	1.9	1.2	1.2	1.7	1.7	1.9	1.7	2.5	2.4	3.1	3.6
Other developing countries	13.7	19.1	16.4	19.9	20.8	19.4	9.9	10.7	9.2	10.5	11.4	11.5
Memorandum items:												
Group of countries (in millions of U.S. dollars)												
European Union	160.5	191.9	168.6	188.9	130.1	153.6	89.4	80.0	71.8	98.3	58.9	54.6
Cross-Border Initiative countries 1/	42.6	23.9	16.9	14.4	14.9	16.4	134.1	124.2	131.7	165.1	176.1	194.0
Group of countries (in percent of total)												
European Union	34.9	35.7	35.2	39.1	29.5	30.9	15.7	13.1	12.7	15.6	9.5	8.6
Cross-Border Initiative countries 1/	9.2	4.4	3.5	3.0	3.4	3.3	23.5	20.3	23.3	26.1	28.3	30.5

Source: IMF, Direction of Trade Statistics (DOTS).
1/ Now Regional Integration Facilitation Forum.

Table 21. Malawi: Public Sector External Debt and Debt Service, 1996-2000
(In millions of U.S. dollars, unless otherwise indicated)

	1996	1997	1998	1999	2000
Total debt stock	2,156	2,259	2,479	2,608	2,674
Multilateral	1,863	1,893	2,091	2,187	2,313
IMF	120	106	102	88	69
Other	1,744	1,787	1,989	2,099	2,244
Bilateral	269	370	358	421	307
Paris Club	219	317	292	341	271
Non-Paris Club	50	52	66	40	36
Other (commercial)	23	21	30	36	53
Total scheduled debt service	86	85	103	87	95
Principal obligations due	58	56	76	60	65
Multilateral	39	42	52	48	45
IMF	15	17	24	21	10
Others	25	25	28	27	35
Bilateral	17	12	10	13	17
Paris Club	14	9	7	12	15
Non-Paris Club	3	3	3	1	2
Other	3	2	1	0	3
Interest obligations due	27	28	27	27	30
Multilateral	21	19	20	19	21
IMF	2	2	1	1	1
Others	19	17	19	18	21
Bilateral	6	8	7	7	8
Paris Club	5	6	5	6	4
Non-Paris Club	1	2	2	1	4
Other (commercial)	1	1	0	0	1
Memorandum items:					
Debt-service/ exports ratio (in percent)	16.8	15.3	18.2	17.7	21.8
Debt-service/government revenue (in percent)	25.6	23.4	35.5	27.8	28.8

Sources: Malawian authorities; and staff estimates.

Table 22. Malawi: Tax Summary
(As of June 30, 2002)

Taxes	Tax Base	Exemptions, Allowances, and Deductions	Tax Rates	
1. Profit taxes				
1.1 Taxation of business income	**Taxable persons**	**Exemptions**	**General tax rates**	
Taxation Act (Cap. 41:01)	Income tax is payable on the net income of all corporations, companies and other operating entities unless explicitly exempted. All companies are treated as separate tax entities, and tax losses by one company in a group of affiliated companies may not be set off against profits of another company in the group. Tax losses, though, can be carried forward indefinitely.	Income from the following is exempt: (a) income of a public character from ecclesiastical, charitable and educational entities; (b) approved provident funds, building societies and friendly societies; (c) local authorities; (d) employees' savings schemes; (e) clubs, societies and bodies conducted for social welfare or civic improvement; (f) non-commercial income of statutory corporations; (g) land and agricultural banks; (h) investments attributable to pension, provident and annuity funds; and (i) registered trade unions. The distribution of dividends between subsidiary companies is exempt from dividend withholding tax.	Corporations Foreign branches Export enterprises in EPZs Priority industries: - for 10 years - thereafter Taxable income of ecclesiastical, charitable of educational institutions Discretionary trusts and life assurance businesses Dividend withholding tax	30 percent 35 percent 0 percent 0 percent 15 percent 28 percent 24 percent 10 percent
	Concept of income	**Deductible expenses**	**Minimum tax**	
	Income includes all receipts and accruals, in cash or otherwise, if these arise from a source within Malawi. The following are specifically included in the definition of income: (a) rental income;	Expenditure (not being of capital nature) incurred for the purpose of trade or in the production of income is allowed as a deduction. The following are specifically allowed under the Act:	A minimum tax is payable by companies with very low profitability or in a loss-making situation at the following amounts:	

Taxes	Tax Base	Exemptions, Allowances, and Deductions	Tax Rates
	(b) interest and royalties; (c) fees received in respect of services rendered; (d) premiums for the right to use or occupy land and buildings, plant and machinery, or industrial property rights; (e) capital gains from the sale of property; (f) income from investments other than equities in life assurance businesses; (g) lump-sum payments under a contract of employment or service; (h) amounts received from timber sales if growing costs have been claimed as deductions; and (i) foreign exchange gains and losses which arise from a source in Malawi.	(a) bad and doubtful debts; (b) contributions up to certain limits to approved pension and provident funds; (c) any deductible expenditure incurred in the 18 months before setting up a "manufacturing" business; (d) premiums paid for the use of land, buildings or industrial property rights, plant and machinery; (e) non-capital expenditure on experiments and research; (f) contributions to scientific or educational institutions connected with the taxpayer's trade; (g) grants or scholarships for technical education; (h) donations to specific charities; (i) insurance premiums for insuring normal business risk; (j) contributions to the training funds set up under the TEVET Act; (k) export allowances (see below); (l) sale of timber; (m) annuity payment to retirees; and (n) assessed losses arising solely out of trading or change in the shareholding of a company or formation of a new company.	Annual gross income (MK) / Tax (MK) 0 – 250,000 / 5,000 200,000 – 500,000 / 25,000 500,000 – 2,000,000 / 50,000 2,000,000 – 5,000,000 / 100,000 Over 5,000,000 / 200,000
	Benefits in kind The value of benefits (e.g., housing, motor vehicles, use of furniture) provided by an employer, other than government, to an employee with taxable income in excess of MK 5,000 results in a fringe benefits tax liability at the standard corporate tax rate on the	**Nondeductible expenses** The following are specifically disallowed as expenses: (a) domestic or private expenses; (b) losses or expenses recoverable under insurance policies; (c) any income tax or interest payable thereon;	

Taxes	Tax Base	Exemptions, Allowances, and Deductions	Tax Rates
	employer and is not included in the employee's taxable income. The value of each benefit is generally calculated at cost though standard rates apply to certain specific items including the provision of housing, a car and children's education.	(d) income transferred to a reserve fund or capitalized; (e) expenses incurred on exempt income; (f) contributions to non-approved pension, sickness, accident or unemployment funds; (g) rent or cost of repairs to premises not occupied for the purpose of generating income; (h) expenses in respect of which a subsidy is received; and (i) personal costs incurred by the taxpayer or his family. **Depreciation allowances** Annual allowances are available for qualifying assets on a declining balance basis at the following rates: (i) buildings, farm improvements, hotels 5% (ii) industrial fencing 5% (iii) farm fencing 10% (iv) heavy machinery and installations 15% (v) light machinery 10% (vi) trucks and tractors 33.33% (vii) light commercial vehicles 25% (viii) motor vehicles 20% **Other allowances** *(a) Initial allowance* Available on capital expenditure during the year of acquisition at the following rates: (i) buildings, farm improvements, hotels 10%	

Taxes	Tax Base	Exemptions, Allowances, and Deductions		Tax Rates
		(ii) farm fencing	33.33%	
		(iii) heavy machinery and installations	20%	
		(iv) light machinery	20%	
		(v) trucks and tractors	20%	
		(vi) automobiles forming part of a commercial hire fleet	20%	
		(b) Investment allowance An additional deduction of 40 percent of expenditure on fixed assets including industrial buildings, plant and machinery, and farm improvements. A 20 percent deduction is also allowed for used industrial buildings, plant and machinery.		
		(c) Training allowance An allowance may be granted of 150 percent of the costs of training employees.		
		(d) Transport allowance An allowance may be granted of 125 percent of the international outward transport costs for exports.		
		(e) Export promotion Under the *Export Incentives Act*, a registered exporter will be entitled to an income tax allowance of 4 percent of taxable income derived from exports. Under the *Investment Promotion Act*, certain exporters will be entitled to a tax allowance of 12 percent of export revenues for nontraditional exports.		

Taxes	Tax Base	Exemptions, Allowances, and Deductions	Tax Rates
1.2 Taxation of individual income *Taxation Act* (Cap. 41:01)	**Taxable persons** Income tax is payable on all income which arises within Malawi. Tax on wage income is collected by the employer as a PAYE tax. **Concept of income** The income of an individual includes remuneration, payments for services rendered, and other payments such as termination benefits. The taxable income is calculated as gross income (excluding exempted amounts and fringe benefits on which tax has already been borne by the employer) less any allowable deductions. Pensions are classified as a separate source of income.	**Exemptions** In addition to the exemptions under the taxation of business income, the following exemptions apply to individuals: (a) pension payments; (b) compensation received for injury, disease or disablement suffered in employment; (c) amounts payable by a benefit fund or under an insurance contract in respect of sickness or injury; (d) start and end of contract passages for expatriates and their families; (e) gratuities up to a maximum of MK 40,000; (f) scholarships or grants paid to persons receiving full-time instruction at an approved educational institution; (g) the first MK 5,000 of a payment in commutation of a pension; (h) portion of an annuity purchased by the taxpayer; (i) relocation costs and small holiday travel grants; (j) interest up to MK 10,000 per annum received by an individual from a registered bank, building society or on government stock, bonds or promissory notes; (k) capital gains from the disposal of a taxpayer's principal residence; (l) capital gains realized by an individual on the disposal of personal and domestic assets not used in connection with a trade;	**General tax rates** Annual income (MK) — Rate (%) 0 – 36,000 — 0 36,001 – 54,000 — 10 54,001 – 72,000 — 20 72,001-100,000 — 30 Above 100,000 — 40 **Withholding taxes** Nonresidents are taxed at 15 percent on gross income by withholding tax. A withholding tax is deducted on domestic payments to a resident at the rates below. The tax withheld may be credited against the taxpayer's final tax assessment, except for dividends where the withholding tax is considered final. Nature of payment — Rate of tax (%) Royalties — 20 Rents — 20 Supplies under tender (above MK 1,000) — 7-10 Fees and commissions — 20 Carriage and haulage — 10 Tobacco and other farm products (above MK 1,000) — 7 Contractors and subcontractors — 10 Public entertainment — 20 Casual labor (above MK 500) — 20

Taxes	Tax Base	Exemptions, Allowances, and Deductions	Tax Rates
		(m) gains from the sale of shares traded on the stock exchange if held for at least 1 year; (n) housing allowance of up to MK 200 per month; (o) up to MK 50,000 of any amount paid to an employer who has been made redundant, as well as an amount paid for voluntary termination; (p) salary and emoluments of the President and Vice President; (q) pension and gratuity and other benefits granted to a former President and former Vice President; and (r) salaries and emoluments to expatriates working for their Governments and international organizations or gazetted by the Minister.	Bank interest (above MK 10,000) 20 Dividends 10
		Deductible expenses In addition to deduction of expenses where applicable, individuals are entitled to the following deductions: (a) professional subscription; (b) contributions to an approved pension fund up to a maximum of 8 percent of annual emoluments or MK 3,000 whichever is less; and (c) other expenses incurred to carry out a job.	**Minimum tax** A minimum tax is payable by individuals in receipt of income other than from employment or pension at the following amounts: Annual income (MK) — Tax (MK) 0 – 100,000 — 0 100,000 – 500,000 — 5,000 500,000 – 1,000,000 — 7,500 Over 1,000,000 — 10,000
Payroll tax	A payroll tax has been introduced to fund training costs (TEVET levy). Claims for reimbursements of eligible	A reduced rate of 1 percent applies to the government and statutory corporations.	2 percent payroll levy

Taxes	Tax Base	Exemptions, Allowances, and Deductions	Tax Rates
	costs can be made against the TEVET funds.		
1.3 Taxation of capital *Estate Duty Act* (Cap. 43:02)	An estate duty is levied on the estate in Malawi of every deceased person and in respect of foreign movable property in the case of those domiciled in Malawi. The duty is levied on the market value after deduction of debts due at the date of death.	No tax is levied on estates valued at MK 30,000 or less.	The rates of estate duty are as follows: Value of the estate (MK) — Rate (%) 0 – 30,000 — 0 30,000 – 40,000 — 4 40,000 – 80,000 — 5 80,000 – 140,000 — 6 140,000 – 200,000 — 7 200,000 – 400,000 — 8 400,000 – 600,000 — 9 Over 600,000 — 10
2. Taxes on goods and services			
2.1 Surtax *Customs and Excise Act* (Cap. 42:02)	**Taxable persons** All businesses involved in importing, manufacturing or the provision of prescribed services must register as surtax payers if the turnover in the current or ensuing 12 months will exceed MK 75,000. Other businesses may register at the discretion of the authorities.	**Exemptions** The main exemptions are: (a) maize and many other unprocessed foodstuffs; and (b) petroleum, diesel and paraffin; Many services are implicitly exempt (by the omission from the list of taxed services) including education, health and financial services.	**Tax rates** There are three statutory rates: (i) 20 percent applies to most taxed commodities, including electricity supplied to commercial premises; (ii) 10 percent applies to: electricity supplied to noncommercial premises, accommodation and catering services provided by hotels, office cleaning, pest control, and various vegetable extracts; (iii) zero-rating applies to exports and other zero-rated goods.
	Taxable transactions Surtax applies on goods imported into or manufactured in Malawi and on the following prescribed services:	**Zero-rated goods** In addition to exports, the following goods are zero-rated: (a) pharmaceuticals;	

Taxes	Tax Base	Exemptions, Allowances, and Deductions	Tax Rates
	(a) professional services; (b) computer services; (c) services supplied by agents and brokers, excluding insurance and agricultural produce for export; (d) repairs of domestic appliances, vehicles and machinery; (e) building, electrical and plumbing contractors; (f) commercial and domestic electricity supply and telecommunication services; (g) hairdressing and beauty treatment, dry cleaning and laundry services; (h) landscaping and gardening services; (i) secretarial agencies; (j) advertising; (k) car hire and rental, including taxis; (l) courier and security services; (m) public entertainment; (n) services provided processing goods; (o) accommodation and catering services; (p) satellite and cable television; and (q) commercial transporters (excluding minibuses).	(b) fertilizers and insecticides; (c) some goods for the use of government; (d) animal feed; (e) many working vehicles; (f) black tea; (g) broken rice and grain sorghum; (h) laundry soap; (i) mosquito nets; (j) fresh and processed milk; and (k) capital goods and machinery used for manufacturing goods	
2.2 Excise duties *Customs and Excise Act* (Cap. 42:02)	**Tax base** Excise duty is levied on specific manufactured goods on the ex-factory value (on domestically manufactured goods) or c.i.f. (on imports).		**Tax rate** Excisable goods — Rate (%) Alcoholic beverages — 65 Opaque beer — 15 Powers No. 1 — 45 Cigarettes — 60 Other tobacco products — 80 Petroleum — 20 Diesel — 20

Taxes	Tax Base	Exemptions, Allowances, and Deductions	Tax Rates	
			Kerosene	10
			Jet fuel	10
			Other fuels	20
			Paraffin	10
			Petroleum jelly	20
			Passenger cars:	
			- up to 1,000 cc	10
			- 1,000 – 1,500 cc	20
			- 1,500 – 1,799 cc	20
			- 1,800 – 1,999 cc	35
			- 2,000 – 3,999 cc	80
			- above 3,999 cc	100
			Four wheel drive vehicles:	
			- up to 1,999 cc	20
			- 2,000 – 2,999 cc	60
			Double cabin pick-ups:	
			- up to 2.99 tons	10
			- above 2.99 tons	25
			Trucks	5
			Motor cycles	5
			Yachts, pleasure vessels	30
			Electrical energy	20
			Other excisable goods:	
			- wheat flour, fruit juices, textiles and fabrics, photo-copying, typing and printing paper, some packing items, foot-wear, perfumes, furniture, toys and some seafood;	10
			- pocket lighters, smoking pipes, perfumes, carpets, textiles, human hair and wigs, clothing, and accessories made from fur	

Taxes	Tax Base	Exemptions, Allowances, and Deductions	Tax Rates
			skin, edible vegetables and tubers, poultry products and other meat; 20 - precious stones and metals (except for industrial use), specific toiletries, cutlery, weapons and electro-mechanical domestic appliances; 30 - electrical appliances 20
2.3 Customs duties *Customs and Excise Act* (Cap. 42:02)	**Tax base** Customs duties are levied on goods imported into Malawi calculated on the c.i.f. value. Malawi uses the Harmonized Tariff System.	**Preferential duty rates** The tariff schedule allows for preferential tariff rates for imports originating in ACP States and COMESA countries. **Duty drawback** There is a duty drawback system in place for specified exported goods manufactured or processed in Malawi allowing a drawback of duty paid on materials and components used (either all or specified) once exported. **Exemptions** The law provides for suspensions, rebates, remissions, and refunds of duty in certain circumstances, and general exemptions from duty including inter alia goods imported for the use of the President.	**General duty rates** All general customs duties are imposed in the form of ad valorem rates and can be summarized in the following broad categories: (i) low rates of 5 and 10 percent; (ii) an intermediate rate of 10 percent; (iii) a high rate of 30 percent. Many products are exempt from customs duty.

Taxes	Tax Base	Exemptions, Allowances, and Deductions	Tax Rates
3. Other taxes			
3.1 Stamp duty *Stamp Duty Act* (Cap. 43:01)	Stamp duty is levied on a number of instruments, including agreements, bills of exchange, bonds, leases and licenses, mortgages, and insurance policies.	No stamp duty is payable on instruments executed by the government and on all forms of securities.	Rates of stamp duty vary depending on the nature of the instrument and the value thereof.
3.2 Motor vehicle taxes	Registration fees are levied at specific rates according to type of vehicle and weight.		MK 400
3.3 Road levy	The road levy is for road construction and maintenance carried out by the National Road Authority.		K 6.75 per liter petrol K 4.75 per liter diesel

Sources: Ministry of Finance, Malawi Revenue Authority, various tax legislation, and International Bureau of Fiscal Documentation.