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September 30, 2020

**Statement by Mr. El Qorchi and Mr. Osei Yeboah on Malawi
(Preliminary)
Executive Board Meeting
October 2, 2020**

We thank staff for their report and Mr. Mahlinza and Mr. Sitima-wina for their informative Buff statement. We are in broad agreement of staff appraisal and offer the following comments for emphasis.

Following a tense election, the Malawian economy is being severely impacted by the Covid-19 pandemic amid rising new infections and prolonged deterioration in the global economic landscape. Latest staff projections show further decline in growth due to reduced exports, remittances and investment, amplifying further balance of payments needs. **Against this backdrop we support the authorities' request for additional disbursement of 52.1 percent of their quota under the Rapid Credit Facility (RCF) to offset part of the financing gap.** Though we regret the new government cancellation of the ECF, we are heartened that a successor program is being planned, Malawi has benefited from the CCRT, its request for G20 DSSI is ongoing. These will provide critically needed financing space to mitigate the economic fallout from the pandemic.

We commend authorities' continued effort at implementing measures to contain the spread of the virus and preserve macroeconomic stability. Prioritizing health spending, subsidy to small businesses to preserve jobs, and targeted social assistances to vulnerable groups is critical to avert the risk of more people falling into the poverty trap. It is encouraging that Malawi's development partners have committed to augment their outlays in the face of rising demand on health care. We take positive note of authorities' commitment to enhance transparency and accountability of all Covid-19 related appropriations.

The longer-term policy strategy must seek to achieve poverty reduction, resilient and inclusive growth while maintaining macroeconomic and financial sector stability. That said, we underscore the authorities' fiscal easing stance in the containment phase of the crisis

to absorb the spending shock and welcome plans to strengthen consolidation once the impact of the pandemic subsides. We welcome the implementation of a domestic revenue mobilization strategy calibrated to boost tax and non-tax income and avoid being inimical to the covid-19 response effort. The monetary policy stance remains supportive and we encourage authorities to be vigilant to ensure continued liquidity of banks. We agree with staff that greater exchange rate flexibility should be approached cautiously in the context of prevailing restrictions to export, weak demand, and border closures.

We note that Malawi's debt is assessed to be sustainable but at high overall risk of debt distress and capacity to repay the Fund is strong. We encourage more recourse to grant financing to preserve debt sustainability and, in that context, consider Fund's assistance as catalytic. We welcome the authorities' commitment to undergo an updated safeguards assessment and encourage taking more steps to address the concerns over the RBM reserve management practices.

With these, we wish the authorities success in their endeavors.