



Executive Board Minutes 20/99-1

October 2, 2020–11:40 a.m.

Malawi—Request for Disbursement Under the Rapid Credit Facility

Documents: EBS/20/151 and Sup.1

Staff: Mitra, AFR; Rother, SPR

Length: 35 minutes

ISSUED: September 9, 2022

APPROVAL: September 16, 2022

CEDA OGADA
Secretary

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¹ Minutes are the official record of a formal Board meeting in which the Board may adopt decisions and reach understandings related to the business of the Fund. Staff background documents issued before the meeting are the principal basis for the meeting. Preliminary “gray” or “buff” statements by Executive Directors and staff’s responses to Directors’ technical questions are circulated prior to the meeting. Adopted decisions and/or summings up—the Chair’s “sense of the meeting” or policy conclusions/recommendations—are issued after the meeting. The minutes include all these elements, as well as the discussion record (a verbatim transcript of the discussion lightly edited for clarity). Minutes are made public consistent with the IMF’s Transparency Policy and Open Archives Policy.

THE ACTING CHAIR'S SUMMING UP

Executive Directors noted that the accelerated spread of the pandemic in Malawi and deteriorating global and regional economic conditions have created additional urgent fiscal and external financing needs. They agreed that the Fund's additional emergency financing assistance under the second Rapid Credit Facility will help close the immediate financing gaps while also catalyzing additional concessional financing from development partners.

Directors commended the authorities' continued efforts to contain the pandemic. They concurred that a relaxation of the fiscal stance is appropriate to accommodate the increased spending on health care, social assistance, and measures to ensure food security. Directors called on the authorities to contain public sector wage growth and non-essential spending, creating space for priority development initiatives. They underscored the need to safeguard debt sustainability and urged the authorities to formulate measures to reduce debt over the medium term, including strengthening domestic debt management and implementing a comprehensive domestic revenue mobilization strategy soon after the pandemic passes. Directors stressed the importance of ensuring a transparent and efficient use of all COVID-19 spending.

Directors welcomed ongoing measures to safeguard financial stability, including support for small and medium enterprises, and to ease liquidity constraints in the banking system. They encouraged further efforts to strengthen banking supervision and continued vigilance against nonperforming loans. Greater exchange rate flexibility, gradually pursued, would help buffer external shocks.

Directors were encouraged by the authorities' commitment to pursue reforms in support of higher, sustainable, and broad-based medium-term growth, as well as improve governance. They welcomed the authorities' request for debt service relief under the DSSI, and their interest in a new extended arrangement that is aligned with their new long-term economic growth strategy under preparation.

EXECUTIVE BOARD DECISION

The Executive Board took the following decision:

Malawi—Cancellation of Extended Credit Facility Arrangement and Request for Disbursement Under the Rapid Credit Facility

1. The Fund notes the cancellation by Malawi, effective September 24, 2020, of the Extended Credit Facility arrangement for Malawi approved on April 30, 2018 (EBS/18/28).
2. Malawi has requested a loan disbursement in an amount equivalent to SDR 72.31 million (52.1 percent of quota) under the Rapid Credit Facility of the Poverty Reduction and Growth Trust.
3. The Fund notes the intentions of Malawi as set forth in the letter from the Minister of Finance and the Governor of the Reserve Bank of Malawi, dated September 24, 2020, and approves the loan disbursement in accordance with the request. (EBS/20/151, 09/25/20)

Decision No. 16885-(20/99), adopted
October 2, 2020

EXECUTIVE BOARD ATTENDANCE¹

T. Zhang, Acting Chair

Executive Directors

D. Mahlinza (AE)

M. Raghani (AF)

R. von Kleist (GR)

S. Bhalla (IN)

A. Mozhin (RU)

M. Mouminah (SA)

P. Inderbinen (SZ)

Alternate Executive Directors

R. Morales (AG), Temporary

C. White (AP)

P. Fachada (BR)

Z. Zhang (CC)

R. Moral Betere (CE), Temporary

P. Mooney (CO), Temporary

S. Benk (EC)

P. Rozan (FF)

M. Massourakis (IT)

K. Chikada (JA)

M. El Qorchi (MD)

D. Fadhel (MI), Temporary

D. Tevdovski (NE), Temporary

J. Sigurgeirsson (NO)

K. Tan (ST)

D. Ronicle (UK)

S. Senich (US), Temporary

O. Vongthieres, Acting Secretary

S. Maxwell, Summing Up Officer

D. Alcantara, Board Operations Officer

M. McKenzie, Verbatim Reporting Officer

Also Present

African Department: K. Fabo, F. Gwenhamo, M. Kamel Farid Mohamed Farid, P. Mitra, D. Robinson, A. Selassie, J. Yoon. Communications Department: M. Louis, A. Nyikuli. Fiscal Affairs Department: D. Prihardini, A. Swistak. Legal Department: D. McDonnell.

¹ For countries in each constituency, please see the Constituency Codes in the annex.

Strategy, Policy, and Review Department: K. Lee, B. Rother. World Bank Group: W. Battaile, H. Riddell. Executive Director: A. Andrianarivelo (AF), L. Levonian (CO), A. Mahasandana (ST), I. Mannathoko (AE). Alternate Executive Director: R. Alkhareif (SA), Y. Indraratna (IN), W. Nakunyada (AE), F. O'Brolchain (CO), O. Odonye (AE), L. Palei (RU), V. Rashkovan (NE), F. Sylla (AF). Senior Advisors to Executive Directors: P. Harvan (EC), M. Ismail (AE), B. Jappah (AE), M. Maidu (AE), Z. Mohammed (BR), T. Sitima-wina (AE). Advisors to Executive Directors: F. Al-Kohlany (MI), K. Carvalho da Silveira (AF), J. Hanson (NE), T. Krahnke (GR), K. Kuretani (JA), A. Muradov (SZ), A. Nainda (AE), L. Nankunda (AF), K. Osei-Yeboah (MD), T. Persico (IT), D. Shestakov (RU), L. Siliva (AP), N. Vaikla (NO), A. Aldrees (SA), C. Clapham (UK), E. Comolet (FF).

DISCUSSION RECORD²

The Acting Chair (Mr. Zhang):

The subject of this session is on Malawi - Request for Disbursement Under the Rapid Credit Facility (RCF). World Bank staff is also attending this session. All Directors issued gray statements.

Malawi is a country in a very fragile situation, with per capita GDP and development outcomes among the lowest in the world. The country has been hard-hit by the COVID-19 pandemic, as we know. And, of course, the intensification of the pandemic across Malawi and the increased economic spillovers from the border closures and disruption to trade and remittance flows, particularly since May 1 of this year, when the Board approved the first RCF disbursement for the country. All of these facts have raised already substantial pressures on the health sector and social assistance programs.

Today's discussion of Malawi's RCF request will be aimed to help address the additional urgent balance of payments needs stemming from the pandemic, which will complement the second tranche of debt relief under the CCRT that will be discussed later this afternoon by the Board.

Mr. Massourakis:

I really appreciate the opportunity to reiterate, once again, our strong support for the authorities' request for a disbursement under the Rapid Credit Facility. The staff has done a great job in answering most of the questions in our gray statements; I just have an additional point to make, a question really to the staff.

We would like more visibility as to how the objectives of the previous canceled program of the Extended Credit Facility (ECF) connect to the objectives of the new arrangement, and how will these objectives be linked together. I would appreciate any visibility on this issue.

Mr. Mooney:

We have issued a comprehensive gray statement; I will limit myself to two points.

² Edited for clarity.

Firstly, as noted in our gray statement and mentioned by Mr. De Lannoy, Mr. von Kleist, Ms. Shortino, and others in their gray statements, we welcome the authorities' commitment to improve transparency in relation to COVID-19 expenditure. Nevertheless, we encourage the authorities to improve transparency more generally, such as publishing beneficial ownership details of all government contracts awarded.

Secondly, as Mr. Buissé and Mr. Ronicle highlighted in their gray statement, we encourage greater collaboration with the international domestic private sector in designing actionable policies to support Malawi's longer-term growth and development. The emphasis should be on policies that promote greater investment and export diversification, thereby reducing aid dependency.

Mr. von Kleist:

We support the authorities' request for an additional disbursement under the RCF, but we also note, with some concern, the cancellation by Malawi of the ECF arrangement. We would have welcomed a new upper-credit-tranche-quality program, be it an ECF or a Standby Credit Facility (SCF), already at this stage.

We also take note of the authorities' request for debt service relief under the G-20 Debt Service Suspension Initiative (DSSI), which is important. The global community is offering this, it should be taken advantage of. It is reassuring that the Fund had a catalytic role in closing the 2020 external financing gap.

We understand that the fiscal stance needs to be temporarily relaxed to accommodate the deteriorated economic outlook, but the larger fiscal deficit will be challenging, and contingency measures should be ready. We, of course, encourage the authorities to return to a sustainable budget in the medium-term.

We also are concerned, given the widening fiscal deficit, about the recent or planned non-pandemic fiscal measures. We join the staff in strongly advising the authorities against a doubling of the personal income tax (PIT) threshold, as it constitutes a regressive measure that disproportionately benefits the wealthy. We encourage the authorities, as other chairs have done in their written remarks, to consider the alternative measures proposed by the staff.

We also have had a few doubts about the recent decision to grant a large and very generous public sector salary increase, which will likely turn out to be permanent and could constrain the fiscal space available going forward or other important development initiatives. This is even more unsettling, given that public sector employees would also benefit from the doubling of the PIT threshold, and given their higher savings ratio and comparatively lower propensity to consume, the macroeconomic effects of this are likely to be limited.

We have supported the staff's concerns about the narrow focus of their affordable agriculture input program, but I have more comments on that in my written remarks.

We welcome, on the positive side, the authorities' expressed intention to prioritize transparency and efficiency. We appreciate Table 5, which provides a concise overview of the planned measures with regard to government transparency. We would welcome such a table to be included in all future staff reports.

Mr. Raghani:

Like many Directors, we issued a gray statement, in which we welcomed the authorities' efforts to alleviate the health and economic impact of the pandemic and supported their request for a second disbursement under the exogenous shock window of the RCF.

We understand that this second RCF will be instrumental in helping to meet the additional fiscal and balance of payments needs arising from the intensification of the impact of the virus. That said, I would like to make two brief points for emphasis.

First, we welcome the authorities' commitment to transparency, growth, and macroeconomic stability over the medium-term. However, on the fiscal front, like Mr. Fachada, Ms. Mohammed, and Mr. von Kleist before me, we are concerned that the large public sector salary increase, together with the doubling of the personal income tax threshold, will likely limit the available fiscal space for other priority spending. Therefore, we encourage the authorities to continue to discuss these issues with staff and to consider taking steps in this regard, including to improve revenue mobilization and ensure debt sustainability.

Second, we appreciate the Reserve Bank of Malawi's monetary policy stance and commitment to safeguard financial stability.

With regard to the safeguards assessment, we also call on the authorities to address the concerns raised in the assessment of reserves, assets, concentration, and would encourage the staff to stand ready to provide the needed technical assistance.

Mr. Zhang:

Since we have already issued a gray statement, I will only make the following points for emphasis.

First, we commend the authorities' swiftly implemented measures to cope with the pandemic, including providing additional support for rural households and ensuring food security. We hope the disbursement under the RCF can contribute to the authorities' efforts and will catalyze additional assistance from other international and bilateral donors. We also look forward to the resumption of policy discussions between the authorities and the staff under the ECF arrangement when circumstances permit.

Second, we welcome the authorities' request for debt service relief under the G-20 DSSI. Meanwhile, we note from the staff's response, that outstanding debt to multilateral creditors accounted for about 82 percent of total debt, and the principal repayments during 2020 to 2022 to multilateral creditors accounted for 68 percent of total principal repayments. We, thus, strongly encourage multilateral creditors to participate in the DSSI on comparable terms.

Mr. Alkhareif:

Since we have issued a detailed gray statement, I can be very brief. I just wanted to reaffirm our support for the proposed decision. We hope that the Rapid Credit Facility of the Fund will help to catalyze additional support for the country.

I also would like to join Mr. von Kleist and Mr. Zhang, ahead of me, in welcoming the authorities' interest to apply for the G-20 Debt Service Suspension Initiative. We encourage the staff to work closely with the authorities in ensuring that the authorities maximize the benefits from such global initiatives.

We also welcome the authorities' intention to apply for the ECF program, given that it is upper-credit tranche and will enhance movement on the reform agenda in the country, which is extremely important to alleviate poverty and increase diversification.

On the fiscal side, like Mr. Raghani and Mr. von Kleist, we are concerned about the increase in the wage bill. We think that while, in the short-term, it is understandable that the fiscal policy will be relaxed to meet the urgent spending needs in the healthcare sector, as well as to shield households and vulnerable firms, in the medium-term, it is extremely important to maintain debt sustainability. In this context, we encourage the authorities to step up their efforts in enhancing domestic revenue mobilization, rationalizing spending, and improving fiscal transparency and governance. We also welcome their intention to apply or establish the Treasury Single Account. This is a step in the right direction.

Finally, we cannot overemphasize the importance of preserving financial stability. This is extremely important. Given the high pass-through of the exchange rate to the inflation price, we encourage the authorities to remain vigilant about the inflationary pressure coming from the depreciation in the exchange rate, particularly that the import content and the impact on the households, especially the vulnerable ones, will be high. We encourage them to remain vigilant about supporting the low-income segments of the population. Also, it will be important to take into account the balance sheet effect on firms and the banking sector from the depreciation.

The staff representative from the African Department (Ms. Mitra):

I would like to take this opportunity to respond to a few of the policy questions raised in the gray statements. This includes development partner support, progress on transparency and accountability measures, and recent and prospective ECF arrangements.

First, on questions related to the G-20 DSSI and broader financial support from development partners, the authorities have requested the DSSI to help finance pandemic-mitigating measures. Our understanding is that the authorities are discussing the details of the agreement with two of the bilateral creditors, and they are waiting for responses from other three bilateral creditors.

In terms of filling the additional financing gaps that have arisen due to an intensification of the pandemic and global spillovers, for 2020, more than

half of the development partner financing has already been disbursed, and there are very firm commitments for the rest. For 2021, key elements in closing the residual financing gap could be a development policy operation (DPO) that is currently being discussed with the World Bank. Our understanding is that good progress is being made on this initiative. An ECF could also help fill the gap. And, of course, all of this would be complemented by additional support from development partners.

Second, on the authorities' commitment to ensure transparency, accountability and the comprehensiveness of crisis spending captured under this effort, based on the information available to staff, the authorities are making good progress toward meeting the transparency and accountability commitments made in the context of the May RCF disbursement, despite the challenges to data gathering due to working in shifts.

I would also note that the coverage of COVID-19-related spending, based on the information available to staff, is comprehensive. The IMF's resident public financial management advisor is supporting the authorities in all of these efforts.

Finally, I will elaborate on factors underlying the authorities' cancellation of the ECF and prospects for a new ECF. Staff and the authorities carefully discussed the way forward. The accelerating spread of the pandemic and the urgency of the balance of payments needs called for an RCF. In this highly uncertain pandemic environment, combined with the change in government, it is difficult to discuss the design of a new ECF or a redesign of an existing ECF.

The May RCF disbursement played an important role in catalyzing an additional \$160 million in financing from other development partners, including \$45 million in budget support from the African Development Bank that has already been disbursed.

The new government was elected on a governance mandate. It has a strong preference to distance itself from the previous administration, so it wishes to have a new ECF that is clearly aligned with their priorities, which the staff believes is critical for program ownership.

Critical reform efforts are continuing, despite the cancellation of the ECF. For example, broad reforms to improve governance and transparency are moving forward, as outlined in paragraph five of the letter of intent. Also, the new integrated financial management information system (IFMIS) is being

piloted with technical support from the IMF and other development partners. Reforms and capacity development in public investment management are also continuing as planned under the just-canceled ECF. Nevertheless, there is always a risk that reform efforts could slow.

The authorities are in the process of finalizing a new long-term growth strategy, which they expect to be completed by the end of this year. A new ECF would then be anchored on that strategy.

To briefly comment on a few points that were raised during the discussion: we want to reiterate that we will be working closely with the authorities and continuing discussions on improving fiscal sustainability going forward, especially on domestic revenue mobilization efforts, reforms, potential reforms of the Affordable Input Program, and, more generally, rationalizing spending.

Mr. Mahlinza:

With the intensification of COVID infections, this support comes at an opportune time. My authorities consider that the RCF will catalyze additional grant and concessional financing from other development partners to close the estimated financing gap.

I would also like to take this opportunity to reiterate the authorities' commitment to ensuring that all COVID-19-related resources are used for their intended purpose. In this regard, they are publishing detailed procurement information, including the names of awarded companies and their beneficial owners. Going forward, they will undertake the necessary audits and report to the ministry of finance and parliament.

As noted in the buff statement, the authorities are committed to preserving macroeconomic stability and ensuring sustainable growth. Accordingly, they will strengthen their climate resilience capacity and promote private sector development and export diversification. They also plan to implement a comprehensive domestic revenue mobilization strategy beginning in financial year 21/22, which would strengthen medium-term public debt sustainability and ensure fiscal space for priority spending.

Directors have also stressed the importance of enhancing governance, fighting corruption, and increasing transparency and accountability. I would like to assure the Board that this is a key focus area for the new government. In this regard, the authorities will, among other things, step up efforts to

further improve public financial management, including enhancing public procurement reforms, public investment management, debt management, and better oversight over state-owned enterprises.

On the Affordable Input Program, my authorities consider this an important program to ensure food security. They plan to evaluate the program after its first year of implementation, with a view to enhance efficiency and, over time, reduce the fiscal outlay, without compromising the objectives of the scheme.

Lastly, to reiterate the authorities' commitment to ensuring macroeconomic stability, they consider the Fund's advice and capacity development essential to achieving this objective. In this context, they look forward to a multi-year Extended Credit Facility arrangement, which would support their long-term vision and medium-term development strategy.

Finally, let me conclude by thanking the mission chief, Ms. Mitra, and her team for their tireless support to my authorities and for providing comprehensive responses to the questions raised by Executive Directors in their gray statements and their oral interventions today.

The Acting Chair (Mr. Zhang) adjourned the discussion.

ANNEX

- Gray Statements
- Staff's Responses to Executive Director's Technical Questions
- Constituency Codes

DOCUMENT OF INTERNATIONAL MONETARY FUND AND FOR OFFICIAL USE ONLY

BUFF/ED/20/142

Revised

September 30, 2020

**Statement by Mr. Mahlinza and Mr. Sitima-wina on Malawi
Executive Board Meeting 20/99
October 2, 2020**

I. Introduction

1. On behalf of our Malawian authorities, we thank management and staff for their timely response to this second request for emergency financial assistance under the Rapid Credit Facility (RCF). Our authorities believe the RCF disbursement would help catalyze additional support from development partners.
2. The economic impact of the COVID-19 pandemic has deepened since the approval of the first RCF request in May 2020. A rapid increase in the number of infections put pressure on the health system with additional demands on healthcare expenditure. As a result, fiscal pressures have intensified, creating additional external financing needs, estimated at 2.9 percent of GDP. To help bridge the external financing gap, now estimated at 5.0 percent of GDP in 2020, the authorities request emergency financing under the Rapid Credit Facility (RCF) in the amount of SDR 73.31 million, equivalent to 52.1 percent of quota. In addition, the authorities are engaging bilateral creditors for debt servicing relief under the G20 Debt Service Suspension Initiative (DSSI).
3. The authorities remain committed to ensuring that all COVID-related resources are used for their intended purpose. Accordingly, they are regularly publishing procurement information on the Public Procurement and Disposal of Assets (PPDA) website including, names of companies and their beneficial owners. They are also publishing results of ex-post validation of delivery on each contract. Going forward, the National Audit Office will submit quarterly audits of COVID-19 related spending to Cabinet and a comprehensive audit report to Parliament, in line with their commitments under the first RCF.

II. Impact of the COVID-19 Pandemic

4. The number of confirmed COVID-19 infections has continued to rise from 36 cases and 3 fatalities reported at end April 2020 to 5772 cases and 179 deaths as of September 29, 2020. Meanwhile, the authorities have continued to implement their response plan developed with support from the World Health Organization (WHO) and other development partners.
5. The continued increase in COVID-19 infections and accompanying measures to mitigate the impact have disrupted economic activity, with consequent impacts on exports,

trade transit costs, and tourism. At the same time, the economic outlook of the main trading partners has further deteriorated, and oil prices have risen. While the domestic economy has benefited from a bumper harvest, GDP growth is now expected to sharply decline to 0.6 percent in 2020, compared to a projection of 1 percent in May 2020. Consistent with the contraction in economic activity, the overall balance of payments is expected to weaken further and is projected to record a deficit of 4.5 percent of GDP, against the previous estimate of 2.0 percent. This large balance of payments deficit is expected to persist into 2021, with the total external financing gap during 2020-21 totaling 7.7 percent of GDP or \$655 million. The net effect of these external factors combined with the slowdown in domestic activity related to the lockdown will continue to weigh on growth prospects.

6. The deterioration in the economic outlook is expected to have a significant fiscal impact. Revenue shortfalls emanating from low economic activity, significant increases in critical spending, including in health care and social assistance, are anticipated to worsen the domestic primary deficit by over 3 percent of GDP in FY2020/21.

III. Policy Responses to the Pandemic

7. Since the activation of the response plan and institution of a lockdown to curb the spread of the pandemic, the authorities have continued to ramp up health care and social assistance spending, including developing testing capabilities, equipping treatment centers, hiring additional medical staff, and intensifying public awareness campaigns. Since September 1, 2020, initial steps have been taken to re-open the economy, including lifting restrictions on commercial air travel and the phased reopening of schools.

8. To accommodate the response to the pandemic, the authorities have temporarily relaxed the fiscal stance in FY 2020/21. Accordingly, the budget allocation to the education sector and transfers to universities have been increased to facilitate safe re-opening and e-learning. At the same time, measures to mitigate the impact of the pandemic on vulnerable households and businesses have been implemented including the expansion of the social cash transfer program (SCTP) and the introduction of tax waivers on imports of medical equipment, medicine and other supplies. In addition, a new Affordable Input Program (AIP), replacing the Farm Input Subsidy Program (FISP), has been introduced to provide additional support to smallholder farmers and ensure food security. The authorities will evaluate the AIP after its first year of implementation with a view to enhance efficiency and over time, reduce the fiscal outlay without compromising the objectives of the scheme.

9. To limit pressures on the budget and manage domestic debt, the authorities have reduced the number of development projects to be funded in the FY 2020/21 budget and are reviewing those that have remained incomplete over a long time. The commitment control system has also been strengthened and all Ministries Departments and Agencies (MDAs) are required to strictly operate within their budget provisions. Further, progress is being made in rationalizing the wage bill by reviewing the existing payroll to eliminate ghost workers and other fraudulent claims. The savings realized from this exercise will mitigate the revenue loss from the doubling of the personal income tax (PIT) threshold. The authorities are also continuing technical discussions with the Fund on possible adjustments to the PIT rate schedule and credit drawback to further recoup the revenue loss.

10. The monetary accommodation provided by the Reserve Bank of Malawi (RBM) through lowering the policy rate, the Liquidity Reserve Requirement (LRR) and the Lombard Rate remains in place. In addition, the RBM activated the Emergency Liquidity Assistance (ELA) framework to support small banks in the event of worsening liquidity conditions. To preserve financial sector stability, the RBM stands ready to provide additional liquidity to the economy should conditions warrant. Further, they have also enhanced the monitoring of financial sector risks to smoothen the functioning of the system. In this context, banking supervision efforts have been intensified with daily liquidity risk monitoring and enhanced offsite monitoring.

IV. Post-crisis Measures

11. The authorities are committed to preserving macroeconomic stability and ensuring higher, more inclusive and resilient growth. In this respect, they will focus on strengthening resilience to climate change and promoting broad-based private sector development and export diversification as well as raising access to finance. To strengthen medium-term public debt sustainability and ensure fiscal space for critical resilience building and social and development spending, the authorities plan to implement a comprehensive revenue mobilization strategy beginning in FY 2021/22. In this context, they will continue with reforms in tax administration including the rolling-out the Integrated Tax Administration System (ITAS).

12. The authorities are also committed to improving governance, fighting corruption and increasing transparency and accountability. In this regard, they will continue with efforts to improve public financial management (PFM) including through implementation of a new IFMIS, further procurement reforms, public investment management, strengthening debt management and enhancing oversight of state-owned enterprises. Collections of fees and charges will also be automated to limit corruption vulnerabilities and prevent fragmentation of the budget.

13. In the monetary sector, the RBM remains committed to implementing greater exchange rate flexibility to absorb shocks. At the same time, they plan to gradually transition towards an inflation targeting framework by 2025 and to address obstacles to FX market development.

V. Conclusion

14. Our authorities remain committed to implementing prudent macroeconomic policies that would further entrench macroeconomic stability and achieve higher, more inclusive and resilient growth. They look forward to Executive Directors' support for a disbursement under the Rapid Credit Facility to sustain their efforts to contain the spread of the pandemic and to dampen the impact on the economy. They also look forward to further engagement with the Fund through a multi-year Extended Credit Facility (ECF) arrangement aligned to their new long-term vision and medium-term development strategy, once the pandemic-related uncertainty abates.

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GRAY/20/3064

September 30, 2020

**Statement by Mr. Mouminah, Mr. Alkhareif, and Mr. Aldrees on Malawi
(Preliminary)
Executive Board Meeting 20/99
October 2, 2020**

We thank staff for the well-written report and Mr. Mahlinza and Mr. Sitima-wina for their helpful Buff statement. We are in a broad agreement with the staff appraisal and would like to limit our remarks to the following for emphasis.

1. We support the authorities' request for disbursement under the exogenous shocks window of the RCF to address additional balance of payment and government budget needs. Malawi continues to witness severe economic pressures stemming from the impact of the COVID-19 pandemic and weighing on remittances and FDI. Against this background, the RCF should continue to play a catalytic role in securing the remaining financing gap from the country's development partners. While we note that Malawi is at high overall risk of debt distress and a moderate risk of external debt distress, we welcome staff's assessment that the country's public debt is deemed sustainable and its capacity to repay the Fund remains strong. In this connection, we welcome the authorities' request for a relief from bilateral creditors under the G20 DSSI. We also welcome the authorities' interest in discussing a new ECF.

2. We welcome the authorities' continued active response to mitigate the COVID-19 outbreak. We are comforted by authorities' efforts to strengthen the health system, increase social spending and support private sector during the pandemic. We are also encouraged by the efforts to enhance banking supervision to safeguard financial sector stability. Although the banking system remains well capitalized, liquid, and profitable, non-performing loans have increased. Further, stress test results disclosed vulnerability to shocks from concentration risk. We urge the authorities to remain vigilant about the developments in inflation to ensure continued macroeconomic stability. In particular, we agree with staff that a depreciation of the exchange rate might not boost exports or tourism, but rather it could substantially raise the import bill for essentials goods and services—subsequently raising inflation and eroding purchasing power against a backdrop of declining incomes. We welcome the authorities' commitment to undertake an update of the safeguard's assessment. Further, we take positive note of the continued commitments by the authorities to ensure appropriate use of emergency financing by enhancing transparency and accountability.

3. We encourage the authorities to accelerate fiscal consolidation over the medium term to preserve public debt sustainability. In this connection, we welcome the implementation of a domestic revenue mobilization strategy. Finally, we encourage further efforts to rationalize wage bill and to ensure well-targeted support for the most vulnerable.

With these remarks, we wish the authorities all the best amid challenging circumstances.

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GRAY/20/3066

September 30, 2020

**Statement by Ms. Levonian, Mr. O'Brolchain, and Mr. Mooney on Malawi
(Preliminary)
Executive Board Meeting 20/99
October 2, 2020**

We thank staff for their informative report and Messrs. Mahlinza and Sitima-wina for their helpful Buff statement. It is evident that COVID-19 continues to negatively impact the macroeconomic outlook for Malawi - retail, manufacturing, tourism, FDI, and remittance flows have all been affected. Malawi's risk of external debt distress remains moderate and overall risk of debt distress remains high. The government has requested a new ECF tailored to their new long-term growth and reform strategy, in addition to prioritizing transparency and efficiency in all aspects of government. **In light of the foregoing, we support the country's request for further assistance under the Rapid Credit Facility (RCF) equivalent to 52.1 percent of its quota (SDR 72.31 million), bringing total annual disbursements under the RCF to 100 percent of quota.** We offer the following additional comments.

We welcome the authorities' ongoing response to cushion the impacts of the pandemic. Strengthening the health system, increasing social spending, and supporting businesses remain key priorities moving forward. We agree with staff that the recent decision to grant a generous public sector salary increase could constrain available fiscal space for development initiatives geared towards the most vulnerable. We encourage authorities to prioritize support for vulnerable households.

As the pandemic subsides, it will be crucial for the authorities to reignite reform momentum. We urge authorities to follow-through with their commitment to request a new ECF as soon as feasible. Fiscal consolidation efforts, strengthening domestic debt management, and implementation of a comprehensive domestic revenue mobilization strategy will be fundamental elements to facilitating long-term sustainable growth. We positively note the authorities' commitment to strengthen climate change resilience and to improve gender equality. We urge the authorities to push ahead with efforts to strengthen transparency and governance practices, such as SOE oversight and PFM reform. We welcome the enhanced transparency measures related to COVID-19 spending outlined in Text Table 5.

Support from the Fund and other development partners will be critical to support Malawi through the pandemic and to regain its development momentum post-crisis. Donor co-ordination is key to the Fund's catalytic role. We positively note that the authorities have requested debt servicing relief from bilateral creditors under the G20 Debt Service Suspension Initiative (DSSI). *Can staff provide an update on these discussions?*

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GRAY/20/3069

September 30, 2020

**Statement by Mr. Kaya, Mr. Benk, and Mr. Harvan on Malawi
(Preliminary)
Executive Board Meeting 20/99
October 2, 2020**

We thank staff for the report and updated Debt Sustainability Analysis (DSA), and Messrs. Mahlinza and Sitima-wina for their Buff statement. The accelerated spread of COVID-19 in Malawi and the deteriorating external environment led to a further worsening of economic prospects and public finances. The external financing gap is estimated at 5.0 percent of GDP in 2020. Malawi benefits from debt relief under the Catastrophe Containment and Relief Trust and the DSA assumes debt servicing relief under the G20 Debt Service Suspension Initiative. We support the Malawian authorities' request for disbursement under the **Rapid Credit Facility** (RCF) in the amount of SDR 72.31 million (52.1 percent of quota) with 30 percent directly supporting the budget. This second RCF disbursement is expected to play an important, catalytic role for additional external financing. We note that the new government has cancelled the Extended Credit Facility Arrangement, which was considered a success at the time of the first RCF.

We concur with the temporary relaxation of the **fiscal stance** to accommodate the measures to contain and manage the spread of the pandemic. We welcome the authorities' commitment to the **effective and transparent use of public funds**, including in the context of Fund emergency financing. We stress the need to strengthen the medium-term public debt sustainability and to advance the public finance management reforms, including enhanced debt management, public investment management, and the governance of state-owned enterprises. We concur with the need to focus on the quality and efficiency of measures in the 2020/2021 budget, such as by rationalizing the wage bill, reforming the new Agricultural Input Program, and carefully considering changes to the personal income tax that would reduce its progressivity. *Staff assumes a substantial increase in revenues of over 5 percent of GDP over the forecast horizon, which seems optimistic given the need to finalize the medium-term development strategy.* In this context, we underscore the need to improve revenue mobilization efforts, including non-tax revenue collection and addressing delays in rolling out the Integrated Tax Administration System. In view of the elevated uncertainties, we stress the need for resilient fiscal and financing contingency plans.

With inflation expected to remain in the target band, the central bank implemented measures to support the banking system liquidity and we underscore the need to enhance **the monitoring of financial stability** and step up banking supervision to enable the early identification of potential risks. We note that non-performing loans have started to increase, reaching 6.6 percent at the end of June 2020, and debt moratoria for small- and medium-sized enterprises are set to expire at end-2020. We encourage the authorities to pursue greater exchange rate flexibility to buffer shocks and develop the FX market. *Staff comments on any risks from greater FX flexibility are welcome.* We welcome the commitment to undergo an update of the 2018 Safeguards Assessment before the approval of any subsequent Fund arrangement.

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GRAY/20/3073

September 30, 2020

**Statement by Mr. El Qorchi and Mr. Osei Yeboah on Malawi
(Preliminary)
Executive Board Meeting 20/99
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 subsidies. 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.

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GRAY/20/3078

September 30, 2020

**Statement by Mr. Fachada and Ms. Mohammed on Malawi
(Preliminary)
Executive Board Meeting 20/99
October 2, 2020**

We thank staff for the report and Mr. Mahlinza and Mr. Sitima-wina for their statement. The Covid-19 pandemic continues to adversely impact the Malawian economy. The upsurge in cases between June and August intensified the economic pressures that was initially brought about with the partial lockdown, slowdown in domestic activity as well as the decline in remittances, tourism and FDI inflows. This has weighed heavily on the country's growth prospects and deteriorated its external and fiscal positions. Against this backdrop, we support Malawi's request for a second disbursement under the Rapid Credit Facility (RCF) in the amount of 52.1 percent of quota. We welcome the authorities' commitment to ensure that the pandemic-related funds are used in a transparent and efficient manner.

The temporary fiscal accommodative stance in response to the pandemic is appropriate but fiscal consolidation is necessary as the health crisis subsides. We welcome the authorities' continued efforts to strengthen the public health care system, whilst providing socio-economic support to contain and mitigate the effects of the pandemic. However, the deterioration of fiscal revenue and the sizable increase in expenditures amidst elevated debt levels necessitates fiscal consolidation as the pandemic abates. In this regard, we welcome the authorities' intention to implement a comprehensive domestic revenue mobilization strategy. We also appreciate their commitment to continue making progress on reforms in tax administration, procurement, public financial management, public investment management, oversight of state-owned enterprises, and debt management. In parallel, we note with concern the recent decision to grant a large public sector salary increase, noting that it constrains the fiscal space for growth and development going forward.

On the monetary front, we take positive note that the measures to improve liquidity and support financial stability appear to be effective. We welcome the Reserve Bank of Malawi's policy easing and additional measures to provide sufficient liquidity to the banking system, as well as the targeted approach to corporate debt moratorium. The banking system

appears well capitalized, liquid and profitable despite the uptick in nonperforming loans. Nevertheless, we encourage the authorities to further strengthen banking supervision to detect early signs of distress.

Enhancing governance, addressing corruption and improving transparency and accountability should be of paramount importance. We welcome the intention to resume medium-term reforms to support more resilient and inclusive growth while preserving macroeconomic stability. Strengthening resilience to natural disasters and climate change, strengthening social protection and achieving Sustainable Development Goals (SDGs) should also be a top priority moving ahead.

We welcome the authorities' intention to commit to a new ECF arrangement that is better aligned with their new long-term economic reform program. That said, we appreciate that the authorities are actively seeking additional support from development partners and hope that the Fund engagement would have a catalytic role and limit the drawdown on international reserves.

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GRAY/20/3079

September 30, 2020

**Statement by Mr. Beblawi and Ms. Fadhel on Malawi
(Preliminary)
Executive Board Meeting 20/99
October 2, 2020**

We thank staff for the useful report and Mr. Mahlinza and d Mr. Sitima-wina for the helpful Buff statement. Despite the relatively good economic performance in the first half of 2020, the macroeconomic outlook in Malawi has been deteriorating in 2020H2 as it experienced an intensification of the COVID-19 crisis on the back of the global economic slowdown. This has led to lower exports and a slowdown in remittances, tourism, and foreign direct investment, which have increased the balance of payments needs relative to May's Board discussion. The rapid rise in unemployment and loss of income and purchasing power are exacerbating poverty levels and food insecurity. Like other countries, the outlook for Malawi remains highly uncertain and subject to large downside risks. Against this backdrop, we support the authorities' request for disbursement under a second Rapid Credit Facility (RCF).

We welcome the measures implemented by the authorities to mitigate the health and economic impact of the pandemic, including measures to strengthen the healthcare system and the increase in social spending under the social cash transfer program and the new Affordable Input Program, as well as measures to support the private sector. The increase in spending along with revenue shortfalls is projected to cause a larger domestic primary deficit than previously anticipated. We see merit in the measures proposed by staff to help mobilize additional revenue including adjustments to the PIT schedule that increase the progressivity of income taxation as well as broader use of tax deferrals. We also note that the tight domestic liquidity has created a fiscal financing gap, which adds to the importance of donors support and the Fund's catalytic role. Staff estimate that the two RCFs would cover about 46 percent of the financing gap in 2020 while the rest will be covered by financial support from other development partners.

We note the authorities' request for debt servicing relief from bilateral creditors under the DSSI. Given the high overall risk of debt distress, we welcome the new government's commitment to preserving macroeconomic stability and debt sustainability, including by strengthening domestic debt management and implementation of a comprehensive domestic revenue mobilization strategy as the pandemic subsides.

We welcome the authorities' continued commitment to ensuring transparent and efficient COVID-related government spending including the continued publication of procurement documentation and the planned measures to strengthen transparency and governance including in SOEs. Continuing to strengthen Public Financial Management will also support the authorities' overarching objective of preserving debt sustainability in the medium- to long-term.

Finally, we look forward to the long-term economic reform strategy which aims to reduce poverty and support growth while maintaining macroeconomic stability.

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GRAY/20/3082

October 1, 2020

**Statement by Mr. Sigurgeirsson and Mr. Vaikla on Malawi
(Preliminary)
Executive Board Meeting 20/99
October 2, 2020**

We thank staff for the comprehensive set of reports and Mr. Mahlinza and Mr. Sitima-wina for their helpful Buff statement. Considering the accelerated spread of the pandemic in Malawi, considerable uncertainty related to the economic outlook and balance of payment needs, **we can support the authorities additional request for disbursement under the RCF in the amount of SDR 72.31 million (52.1 percent of quota).** We believe that a close engagement with the IMF through a Fund-supported program will be important to safeguard debt sustainability and to set a path for sustainable growth. Therefore, we encourage the authorities to seek a new UCT-quality program as soon as possible.

We note that the authorities decided to cancel the current ECF arrangement with the IMF and in its place, they have expressed interest in a new program. We recognize that the new regime has a different emphasis in their medium-term economic strategy. *However, we would like to ask whether staff and the authorities had considered augmentation of the existing ECF program with modification of program targets? Whether a continuation of the current program would have been more conducive to catalyze additional support from development partners?*

Safeguarding debt sustainability requires implementation of prudent fiscal policies and fiscal consolidation as soon as the pandemic subsides. We share the assessment that temporary spending measures will be necessary to cushion the economic impact. However, we echo staff's call that instead of doubling the PIT threshold, the authorities should focus on increasing progressivity of income taxation. We share staff's concern that given the current fiscal challenges the public sector salary wage bill growth appears generous and provides very limited economic impact. In light of the large domestic deficit, we urge the authorities to limit public wage growth, improve revenue collection, cut non-essential spending and review the existing public payroll to eliminate ghost workers.

We encourage the authorities to allow for further exchange rate flexibility. We note concerns that in view of the current pandemic environment, a depreciation of the exchange rate could raise the import bill for essentials goods and services. However, we believe that recent tempering of inflation and moderate non-food inflation provides some space to allow for increased exchange rate flexibility to preserve foreign exchange reserves. We believe that enhancing the development of the FX market could reduce excess exchange rate volatility.

Malawi remains at the high risk of overall debt distress. While debt remains sustainable, Malawi is at high overall risk of debt distress. The high level of debt and uncertainty related to the COVID-19 pandemic implies that Malawi is subject to considerable downside risks, which could lead to a faster-than-expected deterioration in debt sustainability.

We welcome the authorities' strong commitment to an effective and transparent use of public funds. We note that the authorities have established a webpage to publish regular procurement documentation, while quarterly audits of COVID-19 related spending are currently being prepared. *Could staff provide their preliminary assessment of the authorities' commitment to ensure transparency and accountability given under the previous RCF commitment in May and the scale of crisis spending captured under this effort?*

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GRAY/20/3084

October 1, 2020

**Statement by Mr. De Lannoy, Mr. Hanson, and Mr. Tevdovski on Malawi
(Preliminary)
Executive Board Meeting 20/99
October 2, 2020**

We thank staff for the informative reports and Mr. Mahlinza and Mr. Sitima-wina for their helpful Buff statement. We support the authorities' request for a disbursement under the RCF, which will help the authorities to respond to the additional urgent balance of payments need of 2.9 percent of GDP resulting from the deteriorating health situation and global spillovers. We would like to make the following comments:

- **We welcome the authorities' commitment to transparency and accountability for COVID-19 related government spending.** We appreciate the publication of the detailed public procurement documentation, including the names of beneficial owners of companies, publication of monthly and quarterly statements on commitments and payments of COVID-19 related activities, as well as audits of COVID-19 related spending by the National Audit office with full publication and submission to the Parliament. We look forward to the implementation of further measures, including the publication of annual financial statements.
- **We are concerned that some choices in the budget are not well-aligned with the priorities of short-term stabilization while ensuring medium-term sustainability.** We understand that staff strongly advised against the envisaged doubling of the personal income tax threshold and is concerned about the large public sector salary increase. These measures are not targeted at economic stabilization and will put further pressure on debt sustainability going forward. This is concerning, as Malawi is in high overall risk of debt distress. We note that the present value of total public debt-to-GDP is projected to remain above the benchmark over the projected period under the baseline scenario. *Could staff comment on the reasons behind the strong increase in projected debt service to revenues, from 30% to 140% under the baseline scenario?*
- **We encourage the authorities to seek additional support from development partners.** We note that the two RCF disbursements are expected to fill 46 percent of the financing gap in 2020 with the rest covered by financial support from other development partners including the World Bank, African Development Bank and the European Union. The drawdown of international reserves to fill the financing gap is undesirable, as it leaves reserve coverage below staff's assessed

adequate level. *Could staff comment on the progress of the conversations with other donors including the World Bank, and on the progress of debt relief under the DSSI?*

- **We encourage staff to advise the new Malawi administration to swiftly make progress on their long-term economic strategy.** We support the authorities' indicated priorities, including improvement of spending efficiency and revenue mobilization, improving debt management, strengthening resilience to climate change and promoting more broad-based private sector development. These measures would also strengthen debt sustainability and ensure fiscal capacity for investments in Malawi's economic development. *Could staff inform on the risks related to the authorities' decision to cancel the Extended Credit Facility (ECF) and to postpone the implementation of the broader reform agenda until the impact of COVID-19 subsides?*

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GRAY/20/3085

October 1, 2020

**Statement by Ms. Shortino and Ms. Senich on Malawi
(Preliminary)
Executive Board Meeting 20/99
October 2, 2020**

We thank staff for the reports and Messrs. Mahlinza and Sitima-wina for their helpful Buff statement. While we regret that the authorities have decided to cancel the Extended Credit Facility, we recognize that Malawi faces a major adverse shock that has arisen from the pandemic and we support the second request for disbursement under the Rapid Credit Facility for approximately \$100 million, 52.1 percent of quota.

We are, however, troubled by the new administration's shift away from a conditional program to an RCF. We question the need for the ECF cancellation, as the remaining program structural reforms seem to align with the priorities under the authorities' reform plan. *Could staff comment on whether there were discussions on keeping the program and adjusting the program targets to reflect the impact of COVID? We view an ECF as an appropriate tool to help guide long-term structural reform programs to improve Malawi's shock-absorption capabilities and to make the necessary policy changes to support the country's recovery moving forward. Could staff elaborate on the authorities' timeline for finalizing a new reform strategy and transitioning to a new ECF?*

We support a fiscal expansion to accommodate the deteriorated economic outlook but caution that additional spending should be used for temporary measures to respond to the crisis. We agree with staff's assessment that the doubling of the personal income tax threshold and the recent increase in the public sector wage bill are not the best use of increase fiscal space, and encourage the authorities to make these measures temporary and to clearly communicate the timeline for removing them. Returning to fiscal consolidation over the medium term will be important to return debt to a sustainable path. We therefore welcome the authorities' intentions to improve non-tax revenue collection and completing the

Integrated Tax Administration System. We also welcome the authorities' request for debt servicing relief from bilateral creditors under the G20 DSSI.

The updated Debt Sustainability Analysis substantiates that the Agricultural Input Program (AIP) will increase domestic spending further and heighten risks to debt sustainability compared to the April 2020 DSA. We are cognizant of the importance of supporting poor and rural populations during this economic downturn, but are concerned that the AIP will not be an effective tool to achieve that goal. Specifically, we would note that subsidies could potentially create market distortions, which may result in low or negative economic yields, and encourage unsustainable and/or inefficient farming practices. Malawi's agricultural sector has not performed as projected despite receiving substantial funds from the Government of Malawi and development partners. It will be important to ensure that the AIP is right-sized for Malawi's needs.

Malawi's exchange rate has come under pressure in recent months due to COVID. While greater exchange rate flexibility is important for long-term macroeconomic stability, we acknowledge that near-term downside risks may arise if the exchange rate depreciates substantially. We note from the Buff statement that the Reserve Bank of Malawi (RBM) remains committed to implementing greater exchange rate flexibility to absorb shocks, and welcome Fund engagement with the RBM in FX market development. *Could staff please provide a status update on progress of study on FX market development, previously anticipated for June 2020?* Further, Malawi's engagement with other development partners is encouraging. The program document notes that should these engagements fall through or if the financing gap widens, reserves would be drawn down to 3.1 months of imports, below the adequate level of 3.6. We encourage the authorities to continue to engage with development partners to preserve macroeconomic stability as their long-term economic plan continues to evolve.

Finally, we commend the GOM's efforts in strengthening government transparency through the publication of consolidated annual financial statements and monthly bank reconciliation reports, as well as the monitoring of the AIP's implementation, and look forward to seeing further progress on transparency benchmarks in the coming months.

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GRAY/20/3086

October 1, 2020

**Statement by Mr. Chikada and Mr. Kuretani on Malawi
(Preliminary)
Executive Board Meeting 20/99
October 2, 2020**

We thank staff for the informative reports, and Messrs. Mahlinza and Sitima-wina for their helpful Buff statement. We note that the authorities have taken measures to mitigate the social and economic impact from the COVID-19 pandemic under the first RCF. However, a rapid increase in the number of infections and the global economic slowdown have harshly hit economic activity and created urgent balance of payments (BoP) needs. Against this background, **we support the additional request for disbursement under the Rapid Credit Facility (RCF) in the amount of 52.1 percent of quota.**

We welcome that the new administration has prioritized transparency and efficiency in all aspects of government, including government spending to manage and contain the impact of the pandemic, in line with their commitment under the first RCF. We expect the authorities' efforts to improve transparency and efficiency would also enhance the catalytic effect of the Fund financing in securing additional donor financing. We also welcome the authorities' request for debt servicing relief from bilateral creditors under the G20 DSSI. *We would appreciate if staff could elaborate why the authorities requested the DSSI at this juncture.*

The authorities' continued effort to contain the spread of the pandemic, while safeguarding macroeconomic stability and debt sustainability, is crucial. We note in DSA that the overall risk of debt distress is high, while Malawi is at moderate risk of external debt distress and its debt is assessed as sustainable. We also take note with concern that the NPL has risen recently, although the banking system remains well capitalized, liquid, and profitable.

It is thus crucial for the authorities to resume their reform program under ECF-supported arrangement as soon as feasible. And we welcome the authorities' strong

interest in a new multi-year ECF with the new long-term growth and reform strategy under the new administration. It is important for the authorities to steadily work on the domestic revenue mobilization strategy including tax administration, public financial and investment management, and oversight of state-owned enterprises. However, the outlook remains highly uncertain and subject to considerable downside risks. Thus, we also underscore the importance of contingency planning.

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GRAY/20/3087

October 1, 2020

**Statement by Mr. Zhang and Ms. Cai on Malawi
(Preliminary)
Executive Board Meeting 20/99
October 2, 2020**

We thank staff for the informative reports and Mr. Mahlinza and Mr. Sitima-wina for the useful Buff statement. We support the request for disbursement under the Rapid Credit Facility (RCF).

The pandemic has severely weighed on Malawi's economy, giving rise to an urgent balance of payments need. The authorities have swiftly implemented measures to cope with the pandemic's impact, including an increase in healthcare and social spending. We welcome the authorities' efforts to provide additional support for rural households and to ensure future food security, and encourage the authorities to improve the efficiency and effectiveness of these efforts. Facing substantial uncertainties and risks ahead, continued efforts would be needed to contain the virus, protect the vulnerable, and safeguard macroeconomic stability. We hope the disbursement under the RCF can contribute to the authorities' efforts and catalyze additional assistance from other donors. Meanwhile, we welcome the authorities' commitment to transparency and accountability of COVID-19 related spending.

A prudent monetary policy together with greater exchange rate flexibility can play a vital role in reining in inflationary pressures. We welcome the Reserve Bank of Malawi (RBM)'s plan to further deepen the FX market and strengthen the monetary transmission mechanism. We encourage the RBM to closely monitor the development of the financial market and provide additional liquidity if needed. The banking system remains well capitalized, liquid, and profitable. We take positive note that the banking system is resilient to interest rate and income risk shocks. More needs to be done to closely monitor large borrowers and enforcement of the single borrower exposure limit to address loan concentration risks.

As the pandemic subsides, we encourage the authorities to continue with medium-term policies and reforms to achieve broad-based, sustainable, and inclusive growth. Efforts will be needed to further strengthen public debt sustainability and create fiscal space to build

resilience and achieve development goals. We look forward to the resumption of policy discussions between the authorities and staff under the ECF arrangement when circumstances permit.

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

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GRAY/20/3088

October 1, 2020

**Statement by Mr. Dips and Mr. Morales on Malawi
(Preliminary)
Executive Board Meeting 20/99
October 2, 2020**

We thank staff for the clear report and Mr. Mahlinza and Mr. Sitima-wina for their useful Buff statement. The Malawian macroeconomic outlook has worsened since the Board's approval of the Rapid Credit Facility (RCF) and Catastrophe Containment and Relief Trust (CCRT) on May 1 and April 13, 2020 respectively. Owing to rapidly accelerating COVID-19 cases since June and adverse spillovers from the deterioration of the global and regional economic situation, the already large economic pressures have intensified, leading to a widening of the external financing gap to 5 percent of GDP. Therefore, we support Malawi's request for an additional disbursement of 52.1 percent of quota (SDR 72.31 million) under the exogenous shock window of the RCF, with both Fund disbursements filling 46 percent of the financing gap in 2020.

We commend the measures taken by the authorities and the increase in government spending to mitigate the impact of the pandemic; strengthening the health system to protect lives; stepping-up social spending under the cash transfer program to help the most vulnerable; implementing the new Affordable Input Program (AIP) to provide support to rural households and to ensure future food security and help contain inflation; increasing outlays and transfers to universities to facilitate their re-opening; supporting the private sector providing relief to households and businesses granting tax waivers; reducing waiting time for pension gratuity payments; loan restructuring; and a moratorium on debt service for SMEs. Notwithstanding the mitigating measures, the near-term impact is expected to be severe due to spillovers from the global recession, border closures, raised trade transit costs, which have reduced exports and affected remittances, tourism, and foreign direct investment. The shock to economic activity has deteriorated the outlook, and GDP is expected to decline 0.6 percent, compared to 1 percent in May 2020 (pre-pandemic expectations of 5.1 percent growth), while the balance of payment is projected to show a deficit of 4.5 percent of GDP, and is expected to persist into 2021.

The Reserve Bank of Malawi (RBM) maintained its policy rate at 13.5 percent, consistent with inflation which is expected to remain at 9.1 percent in 2020 and 9.5 percent in 2021. In addition, the RBM has appropriately implemented several measures to ease liquidity pressures, including lowering reserve requirements and a moratorium of debt service for SMEs until end of 2020, and stands ready

to provide additional liquidity if needed to preserve financial stability. As non-performing loans increase, we urge the authorities to carefully identify viable enterprises for a better targeting of liquidity support.

Malawi is at moderate risk of external debt distress and high overall risk of debt distress. Nonetheless, staff assesses Malawi's debt to be sustainable, since the country has a strong track record in meeting its obligations to the Fund and debt servicing risks are mitigated by the country's low indebtedness and the availability of concessional financing in normal times.

We welcome the authorities' enhanced transparency measures regarding government spending to manage and contain the impact of the COVID-19 pandemic. We highlight the authorities' efforts to review the payroll to eliminate any fraudulent claims and reprioritize non-essential spending.

Looking ahead, we welcome the authorities' commitment to pursue reforms in support of higher, more resilient, and broad-based medium-term growth, improving non-tax revenue collection, and continuing to develop more solid revenue administration measures. Still, we share staff's advice against measures conspiring against a better allocation of scarce fiscal resources to protect the vulnerable, and a more progressive tax policy framework.

With these comments, we wish the authorities success in their policy endeavors in these challenging circumstances.

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GRAY/20/3089

October 1, 2020

**Joint Statement by Mr. Tan, Mr. White, Ms. Latu, and Mr. Tui Siliva on Malawi
(Preliminary)
Executive Board Meeting 20/99
October 2, 2020**

We thank staff for the informative reports and Mr. Mahlinza and Mr. Sitima-wina for their helpful Buff statement. Since the approval of the first RCF disbursement in May 2020, the significant spread of COVID-19 and slower than envisaged global and regional economic recovery have worsened Malawi's macroeconomic outlook and further expanded the external financing gap by 2.9 percent in 2020, with a further increase expected in 2021. Against that background, **we support the authorities' request for a further disbursement of SDR72.31 million (52.1 percent of quota) under the RCF** to address the urgent fiscal and balance of payments needs. This will further help catalyze additional support from Malawi's development partners to finance the remaining gap. We broadly support staff's appraisal and offer a few comments for emphasis.

We welcome the commitment by the new Government to maintain the momentum on the pandemic response. Strengthening the health system, enhancing social spending and supporting the private sector are critical to limit the pandemic's social and economic impact and thereby preserve macroeconomic stability. Ensuring food security also helps to stem food inflation. The timely development and finalization of the new long-term growth strategy is greatly encouraged to enhance governance and promote higher, more resilient, and broad-based medium-term economic growth. This will also form the basis for any new ECF program, and we encourage staff to closely collaborate with the authorities on this important policy development. *We note staff's assessment that the pandemic makes it difficult to discuss the design of a new ECF at this time, but would welcome comments on when this may be possible and whether it can play a catalytic role in bridging Malawi's projected 2021 financing gap?*

Budget credibility and robust PFM systems are crucial to ensure fiscal sustainability and strengthen medium term debt sustainability. We welcome the authorities' efforts to limit the pressure on the budget and manage domestic debt. This includes reducing the

number of development projects to be funded in the FY 2020/21 budget, enforcing commitment controls for MDAs' spending, and rationalizing the wage bill. Effective implementation of these measures is critical to ensure that the appropriated and targeted expenditures are delivered effectively, hence helping to achieve the fiscal policy targets. We take positive note of the authorities' commitment to continue to improve PFM, enhance spending efficiency and implement the revenue mobilization strategy in FY2022. Such efforts would create fiscal space for critical resilience building and social and development spending while reducing debt vulnerabilities.

The accommodative monetary policy stance and efforts to preserve financial stability remain important in supporting economic recovery. We welcome the RBM's policy response to support financial system liquidity and their commitment to take appropriate actions as needed to promote price and external stability. We also welcome the strengthening of banking supervision and encourage continued vigilance against further deterioration in NPLs particularly in light of the downside risks to economic activities and any unintended consequences of the imposed loan moratorium.

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GRAY/20/3090

October 1, 2020

**Statement by Mr. Moreno and Ms. Moral Betere on Malawi
(Preliminary)
Executive Board Meeting 20/99
October 2, 2020**

We welcome staff's informative papers and its outreach efforts to the Board and thank Mr. Mahlinza and Mr. Sitima-wina for their helpful Buff statement.

We support the proposed new loan disbursement in an amount equivalent to 52.1 percent of quota (SDR 72.31 million) under the Rapid Credit Facility of the Poverty Reduction and Growth Trust. We consider the decision to extend a second RCF as appropriate given the authorities' intention to transition to a new ECF once they finalize their medium-term development strategy and the pandemic-related uncertainty subsidies. We do believe that the role of the Fund would be catalytic in the ongoing discussions with bilateral creditors, as authorities have requested debt servicing relief under the G-20 Debt Service Suspension Initiative (G20).

Despite the good performance of the economy in the first half of the year, the pandemic has worsened Malawi's economic situation. The economic slowdown has led to an increased balance of payments need of 2.9 percent of GDP bringing the total gap up to 5 percent of GDP. The RCF will alleviate immediate external financing needs that have arisen from the crisis and would help to address the impact of the pandemic and protect the most vulnerable.

We note Malawi's strong track record for meeting its obligations to the Fund and acknowledge that the risk of external debt distress is moderate, and staff appraises its external debt as sustainable. We also appreciate the authorities' efforts and commitment to an effective and transparent use of public funds.

We look forward to a new ECF program. We welcome the new government's commitment to preserving macroeconomic stability and debt sustainability, and its support

long-term growth. We also commend the authorities' intention to request a new ECF arrangement that is aligned with their new long-term economic reform program, once the global outlook becomes clearer.

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GRAY/20/3091

October 1, 2020

**Statement by Mr. Raghani and Mr. Carvalho da Silveira on Malawi
(Preliminary)
Executive Board Meeting 20/99
October 2, 2020**

We thank staff for the reports and Mr. Mahlinza and Mr. Sitima-wina for their insightful Buff statement.

We support the authorities' request for a disbursement under the exogenous shocks window of the Rapid Credit Facility (RCF). Despite early efforts to prevent and contain the spread of the virus, the Covid-19 pandemic continues to strain the country health system as the number of cases pick up and severely hit the economy. As a result, real GDP is expected to shrink to 0.6% in 2020 compared to 4.5% in 2019, as aggregate demand falls, and downside risks start to materialize. The second RCF in the amount of SDR 72.31 million will be instrumental in helping meet the additional fiscal and balance of payment needs arising from the intensification of the health and economic impact of the pandemic. Moreover, Fund assistance will continue to play a major catalytic role in mobilizing support from other development partners. Looking ahead, we are reassured by the authorities' commitment to transparency, growth and macroeconomic in the medium-term as well as the willingness to transition to an Extended Credit Facility when condition allows. We would like to make the following comments for emphasis.

We concur with the need to temporary loosen the fiscal stance to accommodate Covid-19 related spending but remain concerned over the recent increase in the wage bill. We take note of the current measures aimed at improving the health system, alleviating liquidity tension for household and businesses and enhancing social safety nets through tax exemptions and expansion of the Social Cash Transfer Program (SCTP) and the Affordable Input Program (AIP), amongst others. While we appreciate the ongoing effort to rationalize the wage bill, we agree with staff that the large public sector salary increase together with the doubling of the personal income tax threshold will likely limit the available fiscal space for other priority spending. Therefore, we encourage the authorities to continue to discuss these issues with staff and consider taking steps to improve revenue mobilization to help close the

fiscal gap and ensure debt sustainability over the medium-term. Reinforcing fiscal transparency and accountability for the resources received is equally important.

We welcome the Reserve Bank of Malawi's monetary policy stance and continued commitment to safeguarding financial sector stability. Further, we appreciate the RBM intention to take additional measures to provide enough liquidity to the banking system, including by relaxing some regulations and activating the new Emergency Liquidity Assistance (ELA) framework for small banks. Going forward, we encourage the authorities to continue to enhance banking supervision, maintain prudential standards and closely monitor risks that may result from loan forbearance and restructuring. That said, *could staff comment on the progress made on addressing concerns identified in the 2018 Safeguard Assessment over reserve management practices given the deadline of end-2020?*

With these comments, we wish the authorities and the people of Malawi every success in their efforts to address the effects of the COVID-19 pandemic.

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GRAY/20/3092

October 1, 2020

**Statement by Mr. Massourakis and Mr. Persico on Malawi
(Preliminary)
Executive Board Meeting 20/99
October 2, 2020**

We thank staff for the informative reports and Mr. Mahlinza and Mr. Sitima-wina for their helpful Buff statement. We support the authorities' request for disbursement under the Rapid Credit Facility (RCF) which will help catalyze additional support from Malawi's development partners. We would like to offer the following comments for emphasis:

- **We concur with staff on the need to timely address the current account deficit rising from the deterioration of the economic situation, both at global and regional level.** We commend the authorities' swift response to the crisis and share their call for greater support to face the persisting crisis. We noted that staff signaled an acceleration of COVID cases. *In this regard, we would like to ask staff greater details on recent pandemic trends in the country.*
- **Accommodative policies are warranted in the short-term to counterbalance the deteriorated economic performance.** As highlighted by staff, key priorities should be given to ensure spending on health care, social assistance, and food security. However, the authorities should complement those most needed short-term measures with an appropriate medium-term strategy to ensure debt sustainability.
- **We share staff's assessment that the ongoing crisis requires an immediate upscale of the Fund's support.** The continued support from the Fund, completed by the G20 Debt Service Suspension Initiative (DSSI), will certainly play a catalytic role to help the authorities closing the future potential financing gap. Ongoing support from a broad range of international development partners (including World Bank, African Development Bank, EU, DFID, and GAVI, UN, Irish Aid, GIZ, and KfW) remains pivotal.
- **We noted the authorities' interest for a new Extended Credit Facility (ECF) arrangement and invite them to build on the experience of the previous program.** We regret the cancellation of the ECF. As we noted during the previous

RFC discussion, the ECF, even if backed by a limited funding (around 75 p.c. of quota), provided a balanced path to maintain debt sustainability while pursuing ambitious development plans. We invite the authorities to resume that path once the crisis is over. In this regard, we would stress the importance to ensure adequate social safety nets, and to enhance resilience to natural disasters and climate-related shocks. *Could staff provide some contextual information on how the objectives of the previous and of the potential new arrangement will be linked?*

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GRAY/20/3093

October 1, 2020

**Statement by Mr. Palei and Mr. Shestakov on Malawi
(Preliminary)
Executive Board Meeting 20/99
October 2, 2020**

1. We thank staff for the insightful report and Mr. Mahlinza and Mr. Sitima-wina for their informative Buff statement. The impact of the COVID-19 pandemic has deepened in Malawi, with the number of cases accelerating during July-August. The global economic slowdown had an additional detrimental effect on the exports of agricultural products and economic activity and created urgent balance of payment needs. Given these adverse developments, we support the request for disbursement of SDR 72.31 million (52.1 percent of quota) under the Rapid Credit Facility.
2. The authorities responded swiftly to the pandemic, with partial lockdown measures including suspension of all commercial air flights, closure of schools, closure of all land borders, and suspension of large gatherings. The authorities collaborate closely with WHO and other development partners to assist the most vulnerable and enhance future food security. However, a high proportion of vulnerable population and weak health care system capacity could entail greater spending needs. There might be a need for higher emergency spending to support households and firms affected by the outbreak. *We would like an update on the likelihood that the authorities could secure additional financing from other donor sources.*
3. We welcome the authorities' commitment to improving governance. The authorities have taken important steps to enhance transparency, publishing procurement documentation and budget for COVID-19-related spending and submitting emergency spending to quarterly audits performed by the designated Ministry of Finance office. Institutional capacity permitting, the authorities should pursue the broad-based reform agenda aimed at improving governance, preserving macroeconomic stability, and fostering sustainable growth. Therefore, we encourage the authorities to seek a new UCT-quality program.

4. According to staff, Malawi is at moderate risk of external debt distress, but at high overall risk of debt distress. We note that the authorities have requested debt service suspension from bilateral creditors in the context of the G20-sponsored initiative. These efforts should, however, be part of a broader set of medium-term policies to reduce the pace of borrowing and prioritize concessional financing and FDI, as well as reforms to strengthen the fiscal framework, PFM, and SOE oversight. *We would appreciate it if staff could provide additional information about the debt composition and debt service payments to multilateral, bilateral, and commercial creditors in 2020-22. In particular, we are interested in more granular details on the situation with commercial creditors and how the Fund's financing compares with commercial debt repayments.*

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GRAY/20/3094

October 1, 2020

**Statement by Mr. Inderbinen and Mr. Muradov on Malawi
(Preliminary)
Executive Board Meeting 20/99
October 2, 2020**

We thank staff for their valuable report and Messrs. Mahlinza and Sitima-wina for their candid Buff statement. With accelerating COVID-19 cases since June and deteriorating global and regional economic conditions, Malawi has been severely impacted by the pandemic. The significant drop in economic growth, falling revenues and tightening financing conditions have created a financing gap that has been only partially filled by budget support from development partners. Against this backdrop, we support the authorities' request for a further disbursement under the Rapid Credit Facility in the amount of SDR 72.31 million, and we offer the following remarks:

The authorities' immediate policy priorities and temporary relaxation of the fiscal stance are appropriate. We take good note of the increasing spending on health care, social assistance, measures to ensure food security, as well as support to the private sector. While public debt is assessed as sustainable, we note that Malawi has a high overall risk of debt distress and we urge the authorities to improve revenue administration, create adequate fiscal space and strengthen debt management to lower vulnerabilities over the medium term. We also agree with staff on the disproportionate effect of doubling the PIT threshold on poorer population and the long-term impact of the significant increase in the wage bill on the budget.

RBM is rightly focused on containing inflation to single digit levels. We commend the authorities for policy measures to ease liquidity constraints and their readiness to use existing facilities to ensure financial sector stability. While the banking systems seems to be strong, well capitalized and resilient, we urge the authorities to carefully monitor the increasing percentage of NPLs and take timely measures if needed. We concur with staff that any

extension of the moratorium on debt service should be considered on case by case basis. We also agree with staff that greater exchange rate flexibility should be gradually pursued.

Steady implementation of structural reforms is critical to ensure sustainable and resilient growth over the medium term. Strengthening governance and transparency, improving the business environment, advancing PFM and revenue administration reforms, and enhancing access to finance will be critical to support broad-based growth and economic diversification. We welcome the authorities' intent to continue cooperation with the IMF under a new ECF program and encourage staff to ensure that the new program would be well aligned with the medium and long-term growth objectives. *Can staff comment on the possible timeline for discussion on a possible ECF arrangement?*

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GRAY/20/3095

October 1, 2020

**Statement by Mr. von Kleist and Mr. Krahnke on Malawi
(Preliminary)
Executive Board Meeting 20/99
October 2, 2020**

We thank staff for its concise report and Mr. Mahlinza and Mr. Sitima-wina for their helpful BUFF statement. **We can support the authorities' request for an additional disbursement under the "exogenous shock" window of the Rapid Credit Facility.** We note the cancellation by Malawi of their ECF arrangement. While recognizing the authorities' interest in transitioning to a new ECF arrangement once pandemic-related uncertainty subsides, we would have welcomed a UCT-quality program – be it an ECF or an SCF – already at this stage.

We take positive note of the authorities' request for debt service relief under the G20 DSSI. In this context, it is reassuring that the catalytic role of the Fund has contributed to closing the 2020 external financing needs. *We take note, however, that large balance of payments needs are expected to persist in 2021, and would welcome further information by staff on the prospective magnitudes and avenues for closing the gap.*

We understand the necessity to temporarily relax the FY 2020/21 fiscal stance in order to accommodate the deteriorated economic outlook. At the same time, as staff states, financing a larger fiscal deficit will be challenging, and contingency measures should be ready in case fiscal risks were to materialize. Looking ahead, we encourage the authorities to return to a sustainable budget in the medium-term, also given the high share of projected payments to the Fund as a share of debt service (Tab. 7).

Given the considerable widening of the fiscal deficit, we are concerned about some of the recent or planned non-pandemic fiscal measures. We join staff in strongly advising the authorities against a doubling of the PIT threshold, as it constitutes a regressive measure, disproportionately benefiting the wealthy. We encourage the authorities to consider the alternative measures proposed by staff, as outlined in para. 9.

We also share staff's misgivings about the recent decision to grant a large and generous public sector salary increase, which will likely be permanent and could constrain the fiscal space available going forward for important development initiatives. This is even more

unsettling, given that public sector employees would also benefit from the doubling of the PIT threshold and that the benefit to economic growth and development from this salary increase is likely to be limited (due to their comparatively low propensity to consume). We therefore strongly echo staff's call for rationalizing the wage bill.

We note staff's concerns over the narrow focus of the Affordable Agricultural Input Program (AIP) on maize and the importance of an efficient implementation. Hence, we welcome that the National Audit Office will perform quarterly audits of the program. At the same time, the AIP raises concerns about its negative impact on an already stretched fiscal position. We wonder whether targeted cash transfers such as the SCTP would be more effective in supporting rural households. *Staff comments would be welcomed.*

Finally, we welcome the authorities' expressed intention to prioritize transparency and efficiency in all aspects of government. In this context, we appreciate table 5, which provides a concise overview on (planned) measures with regard to governance and transparency and would welcome such a table to be included in future staff reports. With regard to the safeguards assessment of 2018, we note that only limited progress has been made in addressing concerns over the RBM's reserve management practices. *We would appreciate staff comments on whether and how the authorities' plan to address this issue.*

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GRAY/20/3096

October 1, 2020

**Joint Statement by Mr. Buisse, Mr. Ronicle, Mr. Rozan, Ms. Clapham, and Mr. Comolet
on Malawi
(Preliminary)
Executive Board Meeting 20/99
October 2, 2020**

We thank staff for the papers and Mr Mahlinza and Mr Sitima-wina for their helpful buff statement.

Since the approval of the first RCF in May 2020, the impact of the Covid19 pandemic on Malawi has deepened. Higher import costs, weaker global demand, lower remittances and a severely impacted tourism sector, alongside significant increases in critical spending, have all contributed to an increasing and urgent balance of payment need, estimated at 5% of GDP in 2020. On that basis **we support the authorities request for emergency financing under the Rapid Credit Facility (RCF) in the amount of SDR 73.31 million, equivalent to 52.1 percent of quota**. In this context we also welcome the authorities' engagement with bilateral creditors on debt service relief under the G20 Debt Service Suspension Initiative (DSSI).

We welcome the authorities' commitment to strengthening public debt sustainability though the growing fiscal deficit and forecasted breaches in two debt sustainability benchmarks since the approval of RCF-1 are concerning. In the medium-term fiscal consolidation and ensuring the sustainability of debt must be prioritised, with a focus on both the overall size and recent increases in domestic debt yields, particularly on shorter maturities. We would echo staff comments on the need to gradually lengthen the maturity of the domestic debt portfolio as market conditions allow. Consolidation efforts should also include a comprehensive domestic revenue strategy that broadens the tax base, ensures spending efficiency and improves public financial management. On the latter, *could staff provide an update on plans for rolling out the IFMIS and the creation of a single Treasury account?*

We welcome the authorities' commitment to improve the transparency and tracking of Covid-19 expenditure, including publication of contracts, beneficial ownership and regular expenditure reports. However, given the fungibility of funds, we encourage the authorities to improve reporting and transparency more generally, in particular ensuring compliance with statutory reporting requirements, by publishing periodic financial execution reports and publishing information on beneficial ownership for all government contracts awarded. *Could staff provide an update on the implementation of transparency and accountability measures agreed under RCF-1?*

Malawi's longer-term growth will require greater investment and export diversification. While recognising the need to prioritise conditionality and keep it parsimonious, we hope there will be scope to address this issue in any future arrangement. In particular, we think there may be scope for fruitful collaboration with Malawi's private sector in identifying and prioritising actionable policies – *we would welcome any early thoughts from staff in this area.*

Strong engagement with the Fund, in terms of advice, capacity development and catalytic financial assistance, will be key to implementing much needed medium-term growth and governance reforms. We recognize the need for immediate financing, to maintain financing while the government finalizes its medium-term reform agenda, but Malawi will ultimately need to resume macroeconomic and structural reforms. We thus welcome the authorities' intention to request a successor arrangement, and hope this can be put in place rapidly. *Could staff elaborate on their expected timescales, program modalities and priorities?*

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GRAY/20/3097

October 1, 2020

**Statement by Mr. Bhalla and Ms. Indraratna on Malawi
(Preliminary)
Executive Board Meeting 20/99
October 2, 2020**

1. We thank staff for the comprehensive report and Mr. Mahlinza and Mr. Sitima-wina for the helpful Buff Statement.
2. The Malawian authorities have requested emergency finance assistance equivalent to 52.1 percent of the quota (SDR 72.31 million) under the “exogenous shock” window of the Rapid Credit Facility (RCF) where 30 percent of the disbursement would finance the government budget. Spillovers from deteriorating global and regional conditions have worsened the macroeconomic outlook, dampening economic growth and intensifying fiscal and external financing needs. The authorities have cancelled the ECF and expressed interest in seeking a new ECF in line with the new policy strategy of the government that came into power in June 2020. Malawi benefits from debt relief under the CCRT facility and has sought debt service relief under the Debt Service Suspension Initiative (DSSI). We support the authorities’ request for disbursement under the RCF. We broadly concur with the staff report and offer a few comments for emphasis.
3. We welcome the new governments’ efforts at preserving macroeconomic stability and limiting the adverse social and economic effects of the pandemic while developing a long-term growth strategy based on improved governance, resilience and broad-based economic growth. We note positively key investments made towards strengthening the health system and increasing social assistance to help the vulnerable through transparent targeted mechanisms such as the AIP scheme. These measures would help enhance food security and alleviate poverty thereby reducing social discontent.
4. We note the need for the temporary relaxation of the fiscal stance in response to the COVID-19 outbreak but urge the authorities to engage in fiscal consolidation as the health crisis subsides in the medium term, especially as the country is in high overall risk of debt distress. In this context, we emphasise the need to improve the governments’ revenue mobilization effort through tax and non-tax sources and caution against the grant of excessive exemptions. We appreciate the commitment of the authorities to improve tax

administration including measures implemented in the form of e-payment platforms, audits and monitoring of large taxpayers to assess the impact of COVID-19 on their operations. On the expenditure front, we welcome efforts made by the authorities to rationalize the wage bill and reprioritize expenditures on goods and services and capital projects, but note with concern the large public sector salary increase recently granted as it offsets savings made through expenditure rationalization measures.

5. We take positive note that the banking system remains well capitalized, liquid and profitable and the RBM stands ready to safeguard financial stability. However, we note that the recent uptick in non-performing loans is a cause for concern and we encourage the RBM to further strengthen supervision activities to detect early signs of stress.
6. We welcome the authorities' commitment to enhancing the transparency and efficiency of COVID-19 related expenses including the publication of procurement documents on a public website and measures taken to enhance budget transparency through the publication of quarterly statements on commitments and payments of COVID-19 related activities.
7. We wish the authorities success in their future endeavours.

Malawi - Request for Disbursement Under the Rapid Credit Facility
 Responses to Technical Questions Posed by Executive Directors in Advance of
 EBM/20/99 - October 2, 2020

Staff's responses to technical and factual questions are below. Broader policy questions, especially in the areas of development partner support, progress on transparency and accountability measures, and recent and prospective ECF arrangements will be addressed in staff's oral intervention at the Board meeting.

Recent Developments/Outlook

1. We noted that staff signaled an acceleration of COVID cases. *In this regard, we would like to ask staff greater details on recent pandemic trends in the country.*

- Following a sharp acceleration during June-August 2020, the number of new confirmed cases has slowed considerably during September. The Ministry of Health has cautioned that this may be a result of fewer people being tested; and that the authorities are working on further expanding testing facilities and access to them. The authorities also view high risks of new cases increases as public non-compliance with preventative measures prescribed by the government is rapidly increasing and as regional and international travel resumes.

2. In particular, we think there may be scope for fruitful collaboration with Malawi's private sector in identifying and prioritising actionable policies – *we would welcome any early thoughts from staff in this area.*

- The authorities are consulting with all stakeholders, especially from the private sector, in developing their new long-term growth strategy (Vision 2063). Private sector participation will play a key role in various aspects of the strategy. For example, private sector involvement in developing solar energy in Malawi has already gained momentum. Similarly, the Shire Valley project (supported by the World Bank and the African Development Bank) aims to increase private sector participation in the development of agricultural markets. A more detailed assessment will be possible after the Vision 2063 strategy is complete.

Fiscal Policy

3. *Staff assumes a substantial increase in revenues of over 5 percent of GDP over the forecast horizon, which seems optimistic given the need to finalize the medium-term development strategy.*

- The projected 5.5 percent of GDP domestic revenue increase through 2025 is comprised of: (i) 1.2 percent of GDP (most of it in FY21/22) linked to the expected rebound in economic activity as the pandemic subsides; and (ii) 4.3 percent of GDP on account of tax measures foreseen in the authorities' Domestic Revenue Mobilization Strategy (DRMS)— including VAT base broadening, higher excises,

improved income taxation and roll-out of property taxes. Notably, the authorities assume the DRMS will boost revenues by at least 0.7 percent of GDP more (totaling at least 5 percent of GDP). Staff's more conservative projection reflects smaller projected revenue gains from improved tax administration and non-tax revenues. The authorities have been working closely with FAD TA experts in developing their strategy.

4. At the same time, the AIP raises concerns about its negative impact on an already stretched fiscal position. We wonder whether targeted cash transfers such as the SCTP would be more effective in supporting rural households. *Staff comments would be welcomed.*

- As noted in the staff report, from staff's perspective, targeted cash transfers through the existing program would be more effective than the AIP in supporting rural households.

5. *Could staff provide an update on plans for rolling out the IFMIS and the creation of a single Treasury account?*

- The new IFMIS is expected to be fully rolled out from the beginning of FY 2021/22. During the current fiscal year, 10 votes (votes roughly equivalent to Ministries, Departments and Agencies) are being piloted to ensure a smooth comprehensive rollout in July 2021.
- Good progress has been made on developing a core Treasury Single Account (TSA) structure, including review of banking arrangements. Consultants financed by Giz are supporting the authorities in this area.
- The IMF's resident PFM advisor in Malawi is supporting the authorities in both the rollout of the new IFMIS and developing a core TSA.

Debt Sustainability

6. *Could staff comment on the reasons behind the strong increase in projected debt service to revenues, from 30% to 140% under the baseline scenario?*

- The elevated path of the debt service to revenue ratio—compared to previous projections—reflects (i) larger fiscal deficits stemming from recent policy measures and subdued revenue collections, in large part due to the fallout from the COVID-19 pandemic and measures to mitigate it; and (ii) greater reliance on government bonds with shorter-term maturities in meeting financing needs. As highlighted in the staff report and the DSA, an extension of maturities when market conditions allow will be an important step.

7. We would appreciate it if staff could provide additional information about the debt composition and debt service payments to multilateral, bilateral, and commercial creditors in 2020-22. In particular, we are interested in more granular details on the situation with commercial creditors and how the Fund's financing compares with commercial debt repayments.

- As of end 2019, outstanding debt to multilateral creditors accounts for around 82 percent of total debt and debt to bilateral creditors takes up the rest. There is no debt owed to commercial creditors. Principal repayments during 2020-22 to multilateral creditors accounts for 68 percent of total principal repayments with the rest to bilateral creditors.

Exchange Rate Policies

8. Staff comments on any risks from greater FX flexibility are welcome.

- The authorities have allowed a gradual depreciation in the face of a highly uncertain market driven in part by a temporary shortfall in FX supply to the market as regional and international travel came to a halt. Key risks associated with exchange rate depreciation are that it could (i) substantially raise the import bill for essential goods and services—subsequently raising inflation and eroding purchasing power against a backdrop of declining incomes; and (ii) increase risks for debtors that are exposed to currency mismatch (via higher external debt service costs). Furthermore, in the current pandemic environment (including border closures and heightened trade transit costs), a depreciation of the exchange rate will not boost exports or tourism.
- A 2017 IMF Working Paper (WP/17/48) by Fund staff estimated the pass through of exchange rate depreciation to inflation to be relatively high at about 11 percent, after controlling for other variables.

9. Could staff please provide a status update on progress of study on FX market development, previously anticipated for June 2020?

- Staff's understanding is that there has been solid progress on the study including discussions with market participants. However, close consultations with other central banks, especially in the region, have been delayed due to travel restrictions amid COVID-19 pandemic.

Fund Issues

10. Could staff comment on the progress made on addressing concerns identified in the 2018 Safeguard Assessment over reserve management practices given the deadline of end-2020?

- 11. With regard to the safeguards assessment of 2018, we note that only limited progress has been made in addressing concerns over the RBM's reserve**

management practices. We would appreciate staff comments on whether and how the authorities' plan to address this issue.

- Staff's understanding is that authorities are well aware of the concerns raised in the assessment of reserves asset concentration. The authorities plan to address these concerns as soon as feasible taking into account that a gradual adjustment would be warranted to avoid a negative impact on the overall portfolio. In this regard, the authorities may be requesting technical support from the Fund or other development partners.

Staff will respond to the questions below, related to development partner support, progress on transparency and accountability measures, and recent and prospective ECF arrangements during the Board meeting.

- 12. We would appreciate if staff could elaborate why the authorities requested the DSSI at this juncture.**
- 13. We positively note that the authorities have requested debt servicing relief from bilateral creditors under the G20 Debt Service Suspension Initiative (DSSI). Can staff provide an update on these [G20 DSSI] discussions?**
- 14. Could staff comment on the progress of the conversations with other donors including the World Bank, and on the progress of debt relief under the DSSI?**
- 15. We would like an update on the likelihood that the authorities could secure additional financing from other donor sources.**
- 16. We take note, however, that large balance of payments needs are expected to persist in 2021, and would welcome further information by staff on the prospective magnitudes and avenues for closing the gap.**
- 17. Could staff provide their preliminary assessment of the authorities' commitment to ensure transparency and accountability given under the previous RCF commitment in May and the scale of crisis spending captured under this effort?**
- 18. We recognize that the new regime has a different emphasis in their medium-term economic strategy. However, we would like to ask whether staff and the authorities had considered augmentation of the existing ECF program with modification of program targets? Whether a continuation of the current program would have been more conducive to catalyze additional support from development partners?**
- 19. Could staff comment on whether there were discussions on keeping the program and adjusting the program targets to reflect the impact of COVID?**
- 20. Could staff provide some contextual information on how the objectives of the previous and of the potential new arrangement will be linked?**

- 21. Could staff inform on the risks related to the authorities' decision to cancel the Extended Credit Facility (ECF) and to postpone the implementation of the broader reform agenda until the impact of COVID-19 subsides?**
- 22. Could staff elaborate on the authorities' timeline for finalizing a new reform strategy and transitioning to a new ECF?**
- 23. Can staff comment on the possible timeline for discussion on a possible ECF arrangement?**

CONSTITUENCY CODES

OEDAE

Angola, Botswana, Burundi, Eritrea, Eswatini, Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Sierra Leone, Somalia, South Africa, South Sudan, Sudan, Tanzania, Uganda, Zambia, and Zimbabwe

OEDAF

Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Comoros, Democratic Republic of Congo, Republic of Congo, Côte d'Ivoire, Djibouti, Equatorial Guinea, Gabon, Guinea, Guinea Bissau, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, São Tomé & Príncipe, Senegal, Togo

OEDAG

Argentina, Bolivia, Chile, Paraguay, Peru, and Uruguay

OEDAP

Australia, Kiribati, Korea, Marshall Islands, Federated States of Micronesia, Mongolia, Nauru, New Zealand, Palau, Papua New Guinea, Samoa, Seychelles, Solomon Islands, Tuvalu, and Vanuatu

OEDBR

Brazil, Cabo Verde, Dominican Republic, Ecuador, Guyana, Haiti, Nicaragua, Panama, Suriname, Timor-Leste, and Trinidad and Tobago

OEDCC

China

OEDCE

Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Spain, and República Bolivariana de Venezuela

OEDCO

Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines

OEDEC

Austria, Belarus, Czech Republic, Hungary, Kosovo, Slovak Republic, Slovenia, and Turkey

OEDFF

France

OEDGR

Germany

OEDIN

Bangladesh, Bhutan, India, and Sri Lanka

OEDIT

Albania, Greece, Italy, Malta, Portugal, and San Marino

OEDJA

Japan

OEDMD

Afghanistan, Algeria, Ghana, Islamic Republic of Iran, Libya, Morocco, Pakistan, and Tunisia

OEDMI

Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Maldives, Oman, Qatar, United Arab Emirates, and Yemen

OEDNE

Armenia, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, Luxembourg, Moldova, Montenegro, Netherlands, Republic of North Macedonia, Romania, and Ukraine

OEDNO

Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, and Sweden

OEDRU

Russian Federation and Syrian Arab Republic

OEDSA

Saudi Arabia

OEDST

Brunei Darussalam, Cambodia, Fiji, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Nepal, Philippines, Singapore, Thailand, Tonga, and Vietnam

OEDSZ

Azerbaijan, Kazakhstan, Kyrgyz Republic, Poland, Serbia, Switzerland, Tajikistan, Turkmenistan, and Uzbekistan

OEDUK

United Kingdom

OEDUS

United States