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**Statement by Mr. Massourakis, Ms. Korinthios, and Ms. Mastrapasqua on Malawi
(Preliminary)
Executive Board Meeting
December 13, 2021**

We thank staff for the comprehensive set of reports and Ms. Mannathoko and Ms. Nainda for their insightful Buff statement. Malawi is a fragile country afflicted by weak infrastructures, insufficient investment in physical and human capital, and frequent climate-induced natural disasters. The COVID-19 pandemic has contributed to increasing vulnerabilities to external shocks and macroeconomic imbalances. We would like to offer the following comments:

- **We are encouraged by current signs of a gradual recovery in Malawi's economy having been severely affected by the pandemic.** Though Covid-19 cases remain overall low, we regret that only about 3.2 percent of the population has been fully vaccinated so far, despite the authorities' plan to vaccinate 20 percent of the population by end-2021. We appreciate the government's efforts to address vaccine hesitancy, although we understand that the main issue remains the scarcity of vaccines. *Could staff clarify when the target of vaccinating 60 percent of the population, which was supposed to be achieved by December 2022, will be likely reached?*
- **We welcome the authorities' request for an arrangement under the Extended Credit Facility but note that restoring debt sustainability is a prerequisite for IMF support.** *We would appreciate if staff could provide an update on the state of program negotiations.* Public debt is high and unsustainable and that, as noted by the post-financing assessment (PFA), Malawi's capacity to repay the Fund is weak under current policies. Thus, we urge the authorities to speed up their efforts in rebuilding buffers, increasing domestic revenue mobilization, reprioritizing expenditure and, where possible, reducing non-critical spending, while ensuring that support continues to be provided to the most vulnerable. We appreciate that, with the help from the IMF and other development partners, the authorities have prepared a Domestic Revenue Mobilization Strategy (DRMS), aiming at improving the tax administration and expanding the tax base. However, as staff underscore, fiscal adjustment alone cannot restore debt

sustainability, therefore securing support from the international community remains crucial. We note that most of the near-term debt service payments are towards non-official creditors - mainly regional development banks - and are being rolled over. *We would appreciate if staff could clarify what are the prospects for the authorities to engage in non-official debt rescheduling workouts, under what conditions such creditors may suddenly stop providing financing and how this kind of risk is captured in the DSA. Moreover, staff's comments are welcome on how the authorities intend to use the proceeds from the recent SDR allocation.*

- **We appreciate the new administration's focus on improving governance and transparency.** We regret that there have been some noncomplying disbursements under the 2018 ECF arrangement and are pleased by the authorities' commitment to undertake a special audit of foreign exchange reserves. *Could staff clarify when this audit will start and which entities will perform it?* We wish to stress that quickly resolving this issue is instrumental to access a new IMF arrangement while enhancing budget transparency and accountability is vital in this regard.
- **We agree with staff that the pursued accommodative monetary policy has been critical to support the economy during the pandemic.** We note that greater flexibility in the exchange rate is key to address foreign exchange shortages and inflationary pressures. In fact, as inflation is expected to increase in 2021, closely monitoring inflationary pressures is paramount. We also appreciate that the authorities are seeking technical assistance from the Fund to improve financial sector supervision and welcome the role of the Emergency Liquidity Assistance (ELA) framework in supporting the banking system liquidity.