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December 9, 2021

**Statement by Mr. Fuentes and Ms. Cruz on Malawi
(Preliminary)
Executive Board Meeting
December 13, 2021**

We want to thank staff for the report and Ms. Mannathoko and Ms. Nainda for the helpful statement. Despite the encouraging signs of a gradual economic recovery, Malawi's still facing the hardship of the pandemic. The number of COVID-19 cases remain relatively low, and the economy is expecting positive growth in 2021, yet significant downside risks to the outlook persist. Against this background, we welcome the efforts of the new administration geared towards accelerating the vaccination process and launching a long-term growth strategy to reach upper middle-income status. In the near term, the priority should remain the continued implementation of pandemic containment measures, advancing the vaccination rollout and supporting to the most vulnerable. However, as the crisis abates, strong policy actions are urgently needed to address significant macroeconomic imbalances, especially for tackling rising fiscal risks.

Malawi's public debt is assessed as unsustainable under current policies. External debt is at a "high risk of debt distress" according to the DSA, characterized by growing non-concessional financing by regional development banks, large debt service burden and rising financing needs. Under these circumstances, we advise the authorities to accelerate the implementation of measures to improve revenue mobilization and rationalizing tax exemptions, while reprioritizing spending and strengthening PFM reforms. While we recognize that Malawi's persistent social and institutional fragility make fiscal adjustment more challenging, we concur with staff on the importance of a strong reform commitment and maintaining realistic budget provisions and allocations to control the deficit and reach a debt stabilizing primary balance.

Rebuilding international reserves is critical to reduce its exposure to additional external shocks risks. The combination of foreign exchange interventions by the Reserve Bank of Malawi (RBM) using short-term currency swaps against declining external support and grants, have steadily reduced foreign reserves to around 1½ months of imports, limiting the country's capacity to absorb external shocks and increasing the risk of debt distress. Therefore, allowing greater exchange rate flexibility, in the context of exercising stronger monetary and fiscal discipline, should help stabilize inflation and create the conditions to improve the external position and restore foreign reserve buffers. In this regard, we welcome the ongoing technical discussion on alternative approaches towards more flexibility between authorities and staff.

Developing a robust governance and transparency framework remains vital. We commend the authorities prompt actions against recent misconducts on the management of COVID-related funds. In that vein, we strongly recommend them to continue strengthening the anti-corruption institutions, legislation, and technical capacity. It is also important to accelerate the audits procedures across all public institutions, while taking advantage of the available technical assistance from the Fund in those areas.

Finally, we take note of the post-financing assessment (PFA) on Malawi's capacity to repay the Fund. On September 2020, the new authorities expressed their intention to commit to a new ECF arrangement that was better aligned with their new long-term structural reform agenda. However, the PFA has identified the country's capacity to repay the IMF as weak under current policies, citing challenging financing conditions and large financing needs as the main concerns. Against this background, we reiterate our call to the authorities to undertake policy reforms to rebuild fiscal and external buffers and restore debt sustainability.

With these remarks we wish the Malawian authorities all the success in their future endeavors.