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July 28, 2023

The Acting Chair's Summing Up
Malawi—First Review Under the Staff-Monitored Program with Executive Board Involvement
Executive Board Meeting 23/65
July 27, 2023

Directors noted that performance under the staff-monitored program had been mixed amid pervasive exogenous shocks and implementation challenges. They welcomed the corrective actions that the authorities are taking to strengthen performance. Directors stressed that steadfast implementation of, and unwavering commitment to, the measures and reforms under program, with adequate capacity development support, will be critical to restore macroeconomic stability and establish a track record toward the request for a prospective Extended Credit Facility (ECF) arrangement.

Directors underscored that successful debt restructuring is vital to achieve macroeconomic stability. They emphasized that concerted effort among the authorities, creditors, and international development partners will be crucial to ensure successful implementation of the external debt restructuring strategy and to pave the way for a UCT-quality program.

Directors noted that fiscal discipline, supported by a robust public financial management (PFM) system and timely production of comprehensive fiscal reports, remains critical. They stressed the importance of fiscal consolidation, supported by revenue mobilization and expenditure rationalization, while protecting the vulnerable.

Directors noted that restoring price stability by containing reserve money growth and maintaining a tight monetary stance, also supported by fiscal consolidation, is critical to prevent a further erosion of purchasing power for those living in poverty and food insecurity. Rebuilding reserve buffers will be critically important to reduce Malawi's vulnerability to external shocks, including by allowing greater exchange rate flexibility. Directors also stressed the need to monitor financial stability risks from large bank exposures to government debt.

Directors expressed concern about the recent fertilizer deal from a governance perspective; more generally, they welcomed steps to address weaknesses in governance and institutions. They emphasized the need to strengthen transparency of public procurement and the anti-corruption framework. Given Malawi's vulnerability to climate change, improving climate resilience is also paramount.

Directors agreed that the program remains on track to achieve its objectives. The management-approved staff-monitored program (SMP) is sufficiently robust to meet the authorities' stated objectives, and its implementation is expected to achieve the purpose of building a track record toward an upper credit tranche (UCT)-quality program supported by a Fund arrangement. Malawi's track-record-building SMP will continue to benefit from limited Board involvement, given the ongoing concerted international effort by creditors and donors to provide substantial new financing and debt relief to Malawi, as well as Malawi's significant outstanding Fund credit under emergency financing instruments.