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FOR AGENDA

EBS/83/28

CONFIDENTIAL

February 4, 1983

To: Members of the Executive Board

From: The Secretary

Subject: Malawi - Use of Fund Resources - Compensatory Financing Facility - Fluctuations in the Cost of Cereal Imports

Attached for consideration by the Executive Directors is a paper on a request expected to be received from Malawi for a purchase equivalent to SDR 12.2 million under the compensatory financing of fluctuations in the cost of cereal imports. A draft decision appears on page 13.

It is proposed to bring this subject, together with the staff report for the 1982 Article IV consultation with Malawi and a review of the stand-by arrangement (EBS/83/27, 2/3/83), to the agenda for discussion on Monday, February 28, 1983.

Att: (1)

INTERNATIONAL MONETARY FUND

MALAWI

Use of Fund Resources--Compensatory Financing Facility--
Fluctuations in the Cost of Cereal Imports

Prepared by the Research Department and the African Department

(In consultation with the Exchange and Trade Relations,
Legal, and Treasurer's Departments)

Approved by Wm. C. Hood and J.B. Zulu

February 3, 1983

The Managing Director has been informed that the Malawian authorities will shortly request a purchase of SDR 12.2 million (equivalent to 42.8 per cent of quota) under the Decision on Compensatory Financing of Fluctuations in the Cost of Cereal Imports (Decision No. 6860-(81/81), adopted May 13, 1981).

In September 1981, Malawi made a purchase of SDR 12 million, of which SDR 1.5 million is currently outstanding under Decision No. 6860 in relation to an excess in the cost of cereal imports experienced in the 12 months ended September 1981. Since paragraph 2 of that decision requires that for a period of three years from the date of its first request under Decision No. 6860 a member's purchases in respect of its export shortfalls shall be made under the same decision, the proposed purchase by Malawi will be made under Decision No. 6860, even though it does not relate to cereal imports.

Malawi is scheduled to make two repurchases, totaling SDR 2.2 million, due on February 4 and 7, 1983, in respect of compensatory financing purchases made in August and November 1979. These repurchases would reduce Malawi's outstanding purchases to SDR 17.1 million (60 per cent of quota) under the compensatory financing facility, of which SDR 1.5 million (5.3 per cent of quota) relates to a cereals imports excess.

If approved following the repurchases due on February 4 and 7, 1983, the proposed purchase of SDR 12.2 million would raise Malawi's total purchases outstanding under Decisions No. 6224 and No. 6860 to SDR 29.3 million, equivalent to 102.8 per cent of quota, which is within the permitted limit of 125 per cent of quota on combined purchases relating to export shortfalls and to cereal import excesses. The total amount outstanding in respect of exports would be SDR 27.8 million (97.5 per cent of quota), while the total of SDR 1.5 million (5.3 per cent of quota) outstanding in respect of cereal imports would remain unchanged. The proposed purchase would raise the Fund's holdings of Malawi kwacha from 350.5 per cent (after the February repurchases) to 393.3 per cent of quota. A waiver of the limitation in Article V, Section 3(b)(iii) of the Fund's Articles of Agreement is therefore required and is being proposed.

This paper, which is being circulated in advance of the formal request from Malawi, is presented in four sections and an Annex. The sections deal with: (1) balance of payments position and cooperation with the Fund; (2) determination of the amount of compensation; (3) causes of the shortfall in merchandise exports and prospects; and (4) staff appraisal and proposed decision. The Annex summarizes Fund relations with Malawi.

1. Balance of payments position and cooperation with the Fund

a. Balance of payments position

The Executive Board reviewed Malawi's balance of payments position most recently during the discussion of Malawi's current one-year stand-by program on August 6, 1982 (EBS/82/126, 7/13/82). With the exception of 1980, when heavy government external borrowing led to a small surplus, Malawi's balance of payments has been under considerable strain since 1978 because of a serious deterioration in the terms of trade, strong aggregate demand pressures, and, in 1979 and 1980, adverse weather conditions that required large imports of maize. These problems have been compounded by recurring disruptions of Malawi's main external routes to ocean ports due to unsettled security conditions in neighboring countries. These disruptions reached a peak in 1979, when rail lines were closed during the last two months of the year. Serious disruptions occurred again in July 1982, when traffic on the rail line to the port of Beira was virtually halted, which reduced aggregate trade flows and diverted traffic to time-consuming and high-cost overland routes.

Malawi's balance of payments deteriorated in 1981 largely because of an SDR 70.6 million decrease in the capital account surplus (Table 1). More than SDR 52 million of the decrease resulted from a slowdown in public sector borrowing attributable to the completion of many government investment projects. The rest resulted from a decrease in short-term capital inflows and other unrecorded capital items. In the current account, the trade balance showed an improvement of SDR 42.7 million and registered the first surplus since 1978, largely because of some recovery in the terms of trade. Part of the gain was offset by a deterioration in net services, owing to increased interest charges and higher payments for foreign consultants by statutory bodies and leading private sector companies. The overall balance of payments registered a deficit of SDR 34.4 million, compared with a surplus of SDR 6.2 million in 1980.

Current indications are that the external balance showed a deficit of SDR 39.3 million for 1982. This again reflects a further deterioration in the capital account. Smaller than anticipated levels of foreign grants

Table 1. Malawi: Summary Balance of Payments, 1979-82

	1979	1980	1981	1982 Est.
	(In millions of SDRs)			
A. Current account	-130.8	-128.5	-96.5	-85.8
Merchandise	-67.9	-36.5	6.2	1.4
Exports, f.o.b. 1/	(172.1)	(226.4)	(254.1)	(195.6)
Imports, f.o.b.	(-240.0)	(-262.9)	(-247.9)	(-194.2)
Services, net	-98.8	-125.4	-142.3	-121.6
Transfers, net	35.9	33.4	39.6	34.4
B. Capital account	61.3	132.7	62.1	46.5
Public sector	81.1	86.5	34.4	28.9
Private sector 2/	-19.8	46.2	27.7	2.3
Debt relief	--	--	--	15.3
C. SDR allocation	2.0	2.0	--	--
D. Overall position (A+B+C)	-67.5	6.2	-34.4	-39.3
E. Financing 3/	67.5	-6.2	34.4	39.3
Net use of Fund credit	20.4	21.1	23.6	11.7 4/
Other	47.1	-27.3	10.8	27.6 5/
Memorandum items:				
Gross official international reserves (end of period)	48.9	56.1	42.2	12.9 6/
	(In months of imports, c.i.f.)			
Gross official international reserves (end of period)	2.1	2.0	1.7	0.6 6/
	(In per cent of GDP)			
Current account balance	-20.2	-17.7	-12.5	-10.9
Overall balance	-8.2	0.7	-3.1	-3.5

Sources: Data provided by the Malawian authorities; and staff estimates.

1/ Including re-exports.
2/ Including net errors and omissions.
3/ An increase indicates a decline in assets or a rise in liabilities.
4/ Including purchase under buffer stock financing facility.
5/ Including the STABEX transfer.
6/ As of end-September 1982.

and concessional loans have reduced official net capital receipts, while short-term capital inflows and private sector long-term borrowing have also decreased. 1/ These reductions have been partly offset by debt relief following the rescheduling of Malawi's debts to Paris Club creditors in September 1982, and tentative agreement with commercial banks in November 1982 on the rescheduling of Malawi's commercial debts to financial institutions. The current account is projected to show some improvement, largely because of lower shipping charges attributable to a decline in foreign trade. About SDR 11.7 million of the 1982 payments deficit will be financed by net use of IMF credit, and the balance by a decrease in official reserves, causing Malawi's gross official reserves to fall below one month's worth of imports.

b. Cooperation with the Fund

The proposed purchase, if approved, would increase Malawi's purchases outstanding under the CFF to 102.8 per cent of quota. The request may therefore be approved only if the Fund is satisfied that the member has been cooperating with it in an effort to find, where required, appropriate solutions for the member's balance of payments difficulties. The staff considers that Malawi has met this requirement by adopting a financial and economic program for the fiscal year 1982/83 (April/March), which is supported by the current stand-by arrangement. In the first half of the program year, the authorities succeeded in containing the growth of aggregate demand, and the program's performance criteria for September 1982 were all observed. Difficulties have arisen regarding performance in the latter part of the year, mainly because of the disruption to the transportation system resulting from external political factors. The authorities have adopted further measures to bring the program back on track, as described in the staff report reviewing Malawi's performance under the stand-by program (EBS/83/27). Following these measures, the program's fiscal and balance of payments objectives are expected to be achieved. The authorities have already requested discussions with the Fund on a longer-term program to follow the existing one-year arrangement.

2. Determination of the amount of compensation

The calculations of the amount of compensation for which Malawi would be eligible are based on actual data for a shortfall year ended September 1982.

Decision No. 6860 provides that the amount of compensation be calculated as the sum of the excess in cereal import costs and the shortfall in merchandise exports, subject to quota limitations. For the year ended September 1982, a shortfall in merchandise exports is estimated at SDR 16.9

1/ In September 1982, Malawi received approximately SDR 0.65 million under the STABEX scheme of the European Community in respect of a shortfall in tea exports to the Community in 1981. This compensation has been taken into account in assessing Malawi's balance of payments need.

million and a shortfall of SDR 4.1 million is also calculated in Malawi's cereal import costs. Subtracting the cereal import shortfall of SDR 4.1 million from the calculated shortfall of SDR 16.9 million in export earnings leaves a net shortfall of SDR 12.8 million. From this amount, SDR 0.6 million has to be deducted in order to avoid double compensation with respect to Malawi's purchase in December 1982 of SDR 0.9 million under the buffer stock financing facility made in connection with special stocks of sugar accumulated under the terms of the International Sugar Agreement (Table 2). Consequently, the compensable shortfall is SDR 12.2 million, which is the amount of the proposed purchase.

Table 2. Malawi: Determination of the Amount of Compensation

(In millions of SDRs)

	Years Ending September				
				Projected 1/	
	1980	1981	1982	1983	1984
1. Cereal imports 2/	7.1	23.4	5.2	5.2	5.6
2. Merchandise exports	203.5	237.7	209.9	223.1	264.8
3. Net amount (3.1)+(3.2)			12.8		
3.1. Cereal import excess			-4.1		
3.2. Export shortfall			16.9		
4. Less double compensation			0.6 3/		
5. Proposed purchase (4.1)+(4.2)			12.2		
4.1. Cereal component			0		
4.2. Export component			12.2		

1/ Based on judgmental projections (Table 3).
2/ Based on c.i.f. and excluding actual and projected imports on concessional terms.
3/ A deduction of SDR 0.6 million from the calculated shortfall is required to be made in order to avoid double compensation arising from the buffer stock purchase of SDR 0.9 million made in December 1981. The double compensation is avoided by calculating the shortfall on the basis of adjusted earnings, derived by treating the buffer stock purchase as export earnings for the 12 months preceding the buffer stock purchase.

a. Cereal imports

For the year ended September 1982, the cost of cereal imports, excluding those procured on concessional terms, was SDR 5.2 million. This amount compares with SDR 23.4 million for cereal imports in the year ended September 1981. At that time, abnormally large imports of cereals were required because of poor domestic maize crops caused by successive droughts in 1979 and 1980. With a return of normal weather conditions and price incentives for the local production of cereals, there is no longer a need for imports of maize, and cereal imports are limited mainly to imports of wheat at usual levels. As a result, a shortfall of SDR 4.1 million is calculated for the cost of cereal imports in the year ended September 1982.

b. Merchandise exports

In contrast with the situation at the time of Malawi's purchase in September 1981 when an excess in merchandise exports reduced the compensable amount of an excess in the cost of cereal imports, this time Malawi experienced a sizable export shortfall in the year ended September 1982. Total merchandise export earnings for the shortfall year were SDR 209.9 million, 5 per cent below the average for the two pre-shortfall years and 14 per cent below the average projected for the two post-shortfall years. On the basis of these movements, an export shortfall of SDR 16.9 million is calculated for the year ended September 1982.

3. Causes of the shortfall in merchandise exports and prospects

Malawi's exports in the shortfall year were adversely affected by lower prices for some of its major export items, in particular sugar and groundnuts, and by a serious disruption in the latter part of the year of the rail links through Mozambique to foreign markets.

The shortfall in merchandise exports of SDR 16.9 million is largely accounted for by shortfalls in tobacco (SDR 8.6 million), groundnuts (SDR 4.3 million), and "other" exports (SDR 4.5 million) (Table 3). Tea, which competes with sugar for the position of second most important export, in 1982 recorded an excess of SDR 1.7 million, because tea exports were somewhat larger than in the previous year; the bulk of tea exports were made, as usual, in the first half of the calendar year, before the rail disruption. An excess (SDR 1.8 million) is also recorded for sugar exports.

a. Tobacco

Malawi produces three types of tobacco: flue-cured leaf, accounting for about one half of total supply, produced mostly on large farms; burley leaf, accounting for about one third, also produced mainly on estates; and fire-cured leaf which is a smallholder crop. Small amounts of sun-air cured and oriental tobacco are also produced. Production of all types expanded rapidly in the 1970s to reach 64,000 tons in 1979, but fell to 54,000 tons in 1980 and to 51,000 tons in 1981, because of declining profitability and consequent acreage reductions. Although not reaching the 1979

Table 3. Malawi: Export Earnings and Shortfalls by Major Commodities and Cereal Imports

	Years Ending September								Shortfall	
	1977	1978	1979	1980	1981	1982	1983	1984	Geometric	Arithmetic
	(In millions of SDRs)									
Total exports	157.7	144.6	163.0	203.5	237.7	209.9	223.1	264.8	16.9	17.9
Tobacco	72.8	83.8	89.3	104.0	97.7	105.0	123.5	143.4	8.6	9.7
Tea	40.9	27.4	27.7	28.9	28.9	35.4	36.1	40.9	-1.7	-1.4
Sugar	14.1	11.7	21.0	27.4	60.7	38.6	28.5	36.9	-1.8	-0.2
Groundnuts	11.7	4.8	6.6	11.7	14.8	4.8	6.8	11.2	4.3	5.1
Others	18.2	16.9	18.4	31.5	35.6	26.1	28.2	32.4	4.5	4.7
	(Percentage change)									
Total exports		-8	13	25	17	-12	6	19		
Tobacco		15	7	16	-6	7	18	16		
Tea		-33	1	4	--	22	2	13		
Sugar		-17	79	30	122	-36	-26	29		
Groundnuts		-59	38	77	26	-68	42	65		
Others		-7	9	71	13	-27	8	15		
	(In millions of SDRs)									
Cereal imports		1.6	0.8	7.1	23.4	5.2	5.2	5.6		4.1

Table 4. Malawi: Value, Volume and Unit Value Indices by Major Commodities

(1982=100: In terms of SDRs)

	Value Share in Total Exports in 1982 (In per cent)	Years Ending September								Shortfall in Per Cent of Level in Shortfall Year
		1977	1978	1979	1980	1981	1982	1983	1984	
Value	87.6	76	70	79	94	110	100	106	127	6.8
Tobacco	50.0	69	80	85	99	93	100	118	137	8.3
Tea	16.9	116	77	78	82	82	100	102	116	-4.5(excess)
Sugar	18.4	37	30	54	71	157	100	74	96	-4.6(excess)
Groundnuts	2.3	244	100	138	244	308	100	142	233	90.2
Volume		86	89	108	125	117	100	112	125	15.4
Tobacco		92	107	133	155	133	100	120	134	27.1
Tea		87	90	85	91	90	100	100	105	-3.0(excess)
Sugar		41	36	60	58	84	100	97	110	-12.3(excess)
Groundnuts		287	92	126	266	234	100	140	210	78.9
Unit value		89	78	73	75	94	100	95	101	-7.5(excess)
Tobacco		75	74	64	64	70	100	98	102	-14.8(excess)
Tea		132	86	92	90	90	100	102	110	-1.8(excess)
Sugar		90	85	91	122	188	100	76	87	8.7
Groundnuts		85	109	109	92	132	100	101	111	6.4

level, output recovered in 1982. In 1982, there was a sharp rise in the production of burley tobacco, partly in response to the increase in prices during 1981 and partly because of a switch by smallholders away from the production of fire-cured tobacco, for which the producer receives a relatively low price.

The volume of all tobacco exported in the 12-month period ended September 1982 was 38,100 tons, which is 25 per cent below the volume exported in the preceding year. This sharp fall was primarily due to the transportation difficulties caused by rail link disruptions in Mozambique, which curtailed regular export traffic. As a consequence, there was an unavoidable increase in tobacco stocks during the shortfall year.

In contrast to the performance of prices for most other primary commodities, in the year ended September, 1982 world tobacco prices averaged 23 per cent above those in the year ended September 1981, partly because of a reduction in U.S. production. Over the same period (i.e., year ended September 1982), Malawi's export unit values increased by 43 per cent, in spite of a temporary decline in the price of burley at the beginning of the season because of the absence of a major buyer.

Given the special circumstances determining tobacco prices in 1982, the average price that Malawi expects for increased exports of tobacco is projected to fall by about 2 per cent in the year ending September 1983. A recovery of about 4 per cent from the lower level is envisaged for the following year. With the prospect of expanding production, the volume of tobacco exports is projected to recover by 1983/84 to the level exported in 1980/81, assuming an easing of the transportation problem. Because of the high value of tobacco relative to weight when compared with other commodities exported by Malawi, tobacco will receive priority on the available transport facilities. Malawi's tobacco is expected to continue to find ready markets.

On the basis of the assumed prices and volumes, an export shortfall of SDR 8.6 million is calculated for tobacco.

b. <u>Tea</u>

Except for a short-lived rise in tea exports in 1977 on account of high prices, it has been a relatively stable export for Malawi both in terms of quantity and value. Production in the two pre-shortfall years averaged about 35,000 tons, representing a sizable increase from levels of earlier years. Exports for the year ended September 1982 were 34,600 tons, about 11 per cent above the preceding year. This increase was possible in part because exports of tea are concentrated in the first half of the calendar year, and in 1982 were largely completed before the transport difficulties arose. The average price that Malawi received for its tea in the shortfall year was also 11 per cent higher than that received in the two pre-shortfall years.

Tea production in the two post-shortfall years is expected to increase only gradually. Exports in the first post-shortfall year ending September 1983 are expected to match the level obtained in 1982, and to increase by 5 per cent in the following year. Small increases in the price of tea of 2 per cent and 8 per cent are projected for the two post-shortfall years.

On the basis of the assumed prices and volumes, tea is estimated to incur an excess of SDR 1.7 million in the year ended September 1982.

c. Sugar

Malawi has expanded its production steadily from 50,000 tons in the mid-1970s to 170,000 tons in 1982. Large crops in 1980 and 1981 coincided with high world prices to provide a record high level of export earnings from sugar (SDR 60.7 million) in the year ended September 1981.

Malawi joined the International Sugar Agreement (ISA) in 1978 as a small exporting member, with an annual export entitlement of 70,000 tons. With expanding production, Malawi requested and received a basic export tonnage (BET) of 110,000 tons in May 1981. With the allocation of its BET, Malawi became subject to all the economic provisions of the ISA, including an obligation to constitute special stocks. On December 6, 1982, Malawi made a purchase equivalent to SDR 0.922 million under the Fund's buffer stock financing facility, in respect of special stocks of 5,849 tons of sugar (EBS/82/201, 11/4/82). Malawi's BET under the ISA is now set at nearly 120,000 tons, with the export quota in effect for 1982 being set at 102,000 tons.

In addition to Malawi's quota under the ISA for sales to the free market (including the United States), Malawi has a separate quota currently equivalent to 21,400 tons per annum of raw sugar exports to the EEC. In recent years, Malawi has filled the EEC quota and shipped almost all of its remaining sugar exports to the United States.

Despite transport problems in the latter half of 1982, Malawi was able to export a record 128,200 tons of sugar in the shortfall year ended September 1982, 19 per cent more than in the preceding 12-month period, partly by shipping larger than usual amounts in the first quarter of the calendar year. However, export earnings from sugar fell from SDR 60.7 million to SDR 38.6 million as the unit value realized dropped by more than 45 per cent. This fall in unit values was in line with the movements in international sugar prices: In SDR terms, the free market price in the shortfall year fell 52 per cent below the level for the preceding 12-month period; the U.S. import price was 25 per cent lower, and the EEC price was 4 per cent lower. Furthermore, most of the sales of Malawi's sugar exports to the United States in the shortfall year were concluded early in the year when prices were low compared with the final quarter of the shortfall year.

Prospects for Malawi's sugar export earnings in 1983 are not favorable. While the sugar price in the U.S. market has recovered appreciably following the imposition of import quotas in May 1982, Malawi is limited to a quota of only 17,780 tons in this market for the period October 1, 1982 to September 30, 1983. This quota has already almost completely been filled by a shipment of 16,780 tons in the final quarter of 1982. The country's quota in the EEC will remain unchanged. Consequently, Malawi will have to find markets for the bulk of its sugar at free market prices. Because of this situation, and despite improved U.S. prices, a reduction of 24 per cent the unit value of sugar exports is anticipated for the year ending September 1983. The effects of the EEC, U.S. and residual free market quotas, together with persisting transport problems may lead to a slight reduction in the volume of exports of sugar in that year. In the following year, some improvement should occur as the current low level of sugar prices, which are in most cases below production costs, brings about adjustment in world supplies. A 14 per cent increase in unit value and a 13 per cent increase in volume are projected for 1984.

On the basis of the above price and volume assumptions, an excess in export earnings of SDR 1.8 million is calculated for sugar.

d. Groundnuts

The pattern of export earnings from groundnuts is similar to that for sugar, but in a more extreme form because of production changes. Commercial production, which fell sharply in 1981, fell even more in 1982, to a level less than one third of that in 1980. These declines were due partly to the attractions of growing maize. In most years, about one third of marketed production is processed by a local branch of a major transnational corporation. In the shortfall year, because of the reduced local supply, this corporation obtained about one half of its normal purchases, leaving only 8,400 tons for export. Export volume in the year ended September 1982 was therefore 57 per cent below the previous year's level. Moreover, the average export unit value was 24 per cent lower, reflecting the drop in world market prices for groundnuts and groundnut products.

On account both of a large increase in the producer price for groundnuts in 1982/83 and local conditions which make maize a less attractive crop for farmers now that the abnormal period following the droughts has passed, groundnut production should return to more normal levels in the post-shortfall years. Sizable increases in the quantities exported are envisaged: 40 per cent in 1983 and 50 per cent in 1984; but even the 1984 projected volume would still be considerably below that attained in 1980. A modest recovery in prices is anticipated, mainly in 1984, as world market conditions improve.

On these assumptions, a shortfall of SDR 4.3 million is calculated for groundnuts.

e. Other exports

"Other" exports include rice, tung oil and other oilseed products, coffee, peas and beans, chillies, sorghum, hides and skins, cotton, cotton fabric, and various processed foods and pharmaceuticals. Exports of these goods in the year ended 1982 were adversely affected by the transport disruptions and the poor performance of some crops, particularly cotton. In 1983 and 1984, exports are expected to recover because of improved prices and output, as well as increased processing of several items following the completion of a number of investment projects. In particular, plant capacity in textile production, mainly for export, will increase by about one third in 1983, and capacity will also be expanded in other areas, particularly in the manufacture of prepared and processed foods and pharmaceuticals. Export proceeds by the second post-shortfall year are projected to be similar in magnitude to those obtained in the two pre-shortfall years. A shortfall of SDR 4.5 million is calculated for other exports in the year ended September 1982.

4. Staff appraisal and proposed decision

The Malawian authorities are expected to request a purchase of SDR 12.2 million under Decision No. 6860-(81/81) in respect of a shortfall in merchandise exports for the year ended September 1982. Although there is no excess in cereal import costs, the proposed purchase is expected to be requested under the provisions of Decision No. 6860 rather than Decision No. 6224, because the previous purchase by Malawi in September 1981 was made under the former Decision. For a period of three years following an initial purchase under Decision No. 6860, a member is required to make all subsequent CF requests under the provisions of that decision.

The proposed purchase is equivalent to 42.8 per cent of quota and, if approved following the scheduled repurchases of SDR 2.2 million on February 4 and 7, 1983, would raise the member's purchases outstanding under Decisions No. 6224-(79/135) and No. 6860-(81/81) to 102.8 per cent of quota, of which 97.5 per cent of quota will be in respect of export shortfalls and the balance (5.3 per cent) in respect of cereal import excesses. Any future request by Malawi for a compensatory financing purchase will have to be made under the provisions of Decision No. 6860 until September 1984, i.e., three years after the initial purchase under this Decision.

Malawi's balance of payments position, already under pressure in 1981, became increasingly serious in 1982 and is estimated to register an overall deficit of SDR 39 million, despite SDR 15 million of debt relief obtained through the Paris Club and from commercial banks. Gross official reserves fell during the year by 69 per cent to SDR 13 million, below the equivalent of one month's imports. The staff is of the opinion that Malawi's balance of payments need justifies the proposed purchase under the compensatory financing facility.

The staff also considers that the level of cooperation required for the proposed CF purchase is met by the adoption by Malawi of a financial and economic program for the fiscal year April 1982 to March 1983, supported by a one-year stand-by arrangement. Malawi's performance under the program has been satisfactory as reviewed in the concurrent staff report (EBS/83/27). Furthermore, the authorities have initiated discussions with the staff on a longer-term program to follow this one-year arrangement.

For the year ended September 1982, while the costs of cereal imports are such as to result in a shortfall of SDR 4.1 million rather than an excess, the shortfall in merchandise exports is calculated to be SDR 16.9 million; from this amount a deduction of SDR 0.6 million has to be made to avoid double compensation arising from Malawi's purchase of SDR 0.9 million made last December under the buffer stock financing facility in connection with special stocks of sugar. Shortfalls are calculated for tobacco (SDR 8.6 million), groundnuts (SDR 4.3 million), and "other" exports (SDR 4.5 million). Excesses are calculated for tea (SDR 1.7 million) and sugar (SDR 1.8 million). The shortfalls result largely from the combination of lower world commodity prices and acute transport problems encountered in the final quarter of the shortfall year because of disruption of the major rail link in neighboring Mozambique. These were clearly external factors. After falling by 12 per cent in the year ended September 1982, export proceeds are expected to increase by 6 per cent in the first post-shortfall year, in anticipation mainly of an alleviation of the transport problems. In the year ending September 1984, they are projected to rise by a further 19 per cent, on the assumptions that the production of most commodities will increase and that world prices of Malawi's major exports will show a moderate recovery. The staff believes that the shortfall in Malawi's export earnings is attributable to circumstances largely beyond the member's control and that, in the light of the projected recovery, it is temporary in character.

The request is expected to include a statement that Malawi will cooperate with the Fund in efforts to find appropriate solutions for the member's balance of payments difficulties. The staff therefore considers that the expected request will meet all the requirements set forth in Decision No. 6860-(81/81). Accordingly, the following draft decision is proposed for adoption by the Executive Board after a duly authenticated request has been received:

1. The Fund has received a request from the Government of Malawi for a purchase of SDR 12.2 million under the Decision on Compensatory Financing of Fluctuations in the Cost of Cereal Imports (Executive Board Decision No. 6860-(81/81), adopted May 18, 1981).

2. The Fund notes the representation of Malawi and approves the purchase in accordance with the request.

3. The Fund waives the limitation in Article V, Section 3(b)(iii).

Fund Relations with Malawi
(As of December 31, 1982)

Date of membership:	July 19, 1965.	
Status:	Article XIV.	
Quota:	SDR 28.5 million.	

Fund holdings of kwacha:	Millions of SDRs	Per Cent of quota
Total	102.1	358.2
Under tranche policy	53.2	186.6
From ordinary resources	25.1	87.9
From supplementary financing facility	28.1	98.7
Under oil facility	0.2	0.6
Under compensatory financing facility	19.3	67.8
For exports	17.8	62.5
For cereals	1.5	5.3
Under buffer stock financing facility	0.9	3.2

SDR Department:	Millions of SDRs	Per Cent of Quota
Net cumulative allocation	11.0	100.0
Holdings	3.6	32.7

Trust Fund:	Malawi has received loans of SDR 6.2 million during the first period and SDR 8.4 million during the second period.
Direct distribution of profits from gold sales:	Malawi has received US$2.4 million.
Gold distribution:	12,837 ounces of fine gold.
Exchange rate system:	The Malawi kwacha is pegged to the SDR; since the devaluation of April 24, 1982, the rate has been MK 1.0 = SDR 0.825.
Exchange practices subject to Article VIII:	Malawi does not maintain unapproved exchange restrictions.

Recent contacts:

Staff discussions for the last Article IV consultation were held on February 9-23, 1981. A staff report (SM/81/96) was discussed by the Executive Board on May 13, 1981. A stand-by arrangement in support of a financial and economic program for the period end-March 1980 through end-March 1982 was approved by the Board on May 13, 1981 at the same time as a request for waiver of performance criteria for the end of the first year. The stand-by arrangement was reviewed during a staff visit from October 28-November 6, 1981. Negotiations for the current one-year stand-by arrangement took place during staff visits from February 4-17, 1982 and from May 8-20, 1982. The stand-by was approved by the Executive Board on August 6, 1982 (EBS/82/126), and reviewed during the most recent Article IV consultation, which was held October 28-November 11, 1982. In addition, a sugar buffer stock financing facility for SDR 0.922 million was approved by the Executive Board on December 6, 1982 (EBS/82/201).