

# INTERNATIONAL MONETARY FUND

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The International Monetary Fund has approved an extended arrangement for the Government of Malawi, authorizing purchases up to the equivalent of SDR 100 million over the next three years, in support of the Government's economic and financial program. Purchases under the arrangement, which is equivalent to 350.9 percent of Malawi's quota of SDR 28.5 million, will be financed in part from the Fund's ordinary resources (SDR 18.525 million) and in part from resources borrowed by the Fund (SDR 81.475 million). Malawi's outstanding financial obligations to the Fund resulting from past operations and transactions, but excluding Trust Fund loans, currently total the equivalent of SDR 90.2 million.

Malawi's present economic and financial difficulties started to emerge in the years 1978-80, as a result of declining terms of trade, disruptions to its traditional trade routes, and drought conditions in 1979 and 1980. These factors were accompanied by a rapid growth in government expenditure, sharply higher foreign borrowing on non-concessional terms, and the increase in international interest rates. From 1976 to 1981 Malawi's terms of trade deteriorated by 40 percent.

To redress its weak economic performance and increasing financial imbalances, Malawi undertook a stabilization program in 1980 supported by a two-year stand-by arrangement with the Fund. Some correction was achieved under this program, which was followed by a further one-year stand-by arrangement in 1982/83. During that year, Malawi achieved a greater degree of financial stability and restraint on domestic demand, particularly through the government budget and parastatal sector.

Under the current economic and financial program, which the present extended arrangement supports, Malawi will continue restrained demand management policies while undertaking measures and institutional reforms to improve domestic supply and provide the base for economic growth. The economy is expected to achieve an average annual rate of increase in real gross domestic product (GDP) of about 3.5 percent during the program period, rising from 2.5 percent in 1983 to 4.5 percent in 1986. It also aims to reduce the current account deficit of the balance of payments from an estimated 9.1 percent of GDP in 1982 to 5.4 percent in 1986. The overall balance of payments is projected to show a turnaround from a deficit of SDR 38.5 million in 1982 to a small surplus in 1986.