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EBS/00/260
Correction 1

CONFIDENTIAL

December 20, 2000

To: Members of the Executive Board

From: The Secretary

Subject: **Malawi—Enhanced Heavily Indebted Poor Countries Initiative—
Decision Point Document**

The following corrections have been made in EBS/00/260 (12/7/00):

Page 22, para. 49, lines 2-5: for “2000” read “2001”
 line 6: for “10 percent” read “9.1 percent”
 line 8: for “16 percent” read “16.8 percent”
 line 9: for “10 percent” read “8 percent”

Page 39, Table 10: figures revised

Corrected pages are attached.

Att: (2)

Other Distribution:
Department Heads

- **African Development Bank:** The AfDB's share of relief amounts to \$71 million in NPV terms and would be delivered through an 80 percent forgiveness of debt service due from 2001 to 2014. Interim relief represents 19 percent of total debt relief, and is equivalent to \$15 million in nominal terms.
- **Other multilateral institutions:** IFAD and NDF's modalities of participation under the HIPC Initiative are based on 100 percent debt service relief as of the completion point. In the case of Malawi, this implies debt service forgiveness of \$12.1 million from 2003 to 2012. For illustrative purposes, debt service relief was assumed for the other multilateral development banks as of the completion point and over the entire repayment schedule of the outstanding amount at end 1999.
- **Paris Club creditors:** For Paris Club creditors, a flow rescheduling on Cologne terms is assumed during the interim period on the existing stock of \$4 million in pre-cutoff data non-ODA debt and \$27 million in pre-cutoff ODA debt. The NPV relief resulting from the difference in debt service between this flow rescheduling and an otherwise identical flow rescheduling on Naples terms is very limited; it is accounted for as interim relief. The bulk of Paris Club's \$129 million in assistance would be delivered at the completion point through a stock of debt operation.³³
- **Non-Paris Club and commercial creditors:** No interim relief is assumed since all debt was contracted after the cut-off date. Thus, the required level of assistance from non-Paris Club and commercial creditors is assumed to be delivered through a stock of debt operation at the completion point.

48. **Status of Creditor Participation:** Virtually all of Malawi's multilateral creditors, who account for 74 percent of Malawi's total debt, have agreed in principle to provide debt relief under the enhanced HIPC Initiative.³⁴ Specific decisions on the delivery of assistance to Malawi will be taken by the decision-making bodies of multilateral creditors once the Boards of IDA and the Fund have discussed the decision point document. As noted above, Paris Club creditors have agreed in principle to see Malawi for a Cologne flow rescheduling after the country has reached its decision point.³⁵ The staffs of the IMF and IDA have

³³ Action on all pre cut-off date debt as well as on some post cut-off ODA debt is assumed at the completion point. Most of the remaining amount of Paris Club debt at the completion point, i.e., after the full delivery of HIPC assistance, is expected to be forgiven as a result of bilateral pledges (see paragraph 52).

³⁴ The PTA Bank, with 1 percent total debt, has not yet formally agreed to participate in the Enhanced HIPC Initiative. The staffs of IDA and the Fund have initiated consultations with the multilateral creditors of Malawi at the regular meeting of multilateral creditors to HIPCs in October 2000.

³⁵ In the Paris Club meeting of September 2000, Paris Club creditors expressed a willingness to consider moving forward Malawi's cutoff date; however, this action would have very limited effect since most debt to the Paris Club was contracted on ODA terms.

initiated contacts with Malawi's two non-Paris Club creditors regarding the provision of comparable debt relief under the HIPC Initiative, and the Malawian authorities intend to undertake consultations with these creditors.

49. **Impact of HIPC Debt Relief:** On the basis of the above assumptions, the average annual debt service reduction for Malawi is estimated to be close to \$50 million for the 2001 to 2019 period (Table 7). The reduction would be equivalent to 2.5 percent of annual GDP for the 2001-09 period and 1.2 percent of annual GDP for the 2010-20 period. Debt service during 2001-09 is projected to fall from 18.0 percent of exports of goods and non-factor services after the application of traditional relief to 9.1 percent after assistance under the HIPC Initiative (Figure 3). Over the same period, debt service payments as a share of government revenue will decline from 16.8 percent before assistance under the HIPC Initiative to 8.0 percent after assistance under the HIPC Initiative. In value terms, debt service payments which averaged \$94 million per annum during the last three years (1997-99) will be reduced – after HIPC assistance – to an average of \$54 million per annum during the 2001-03 period. Malawi's **debt servicing indicators** will thus show a significant improvement throughout the projection period in both value terms and in relation to the export and revenue base.

50. While Malawi's **stock of debt indicators** also present an improving profile over the 20 year projection period, the extent of this improvement varies depending on the base utilized. Relative to GDP, Malawi's stock of debt after HIPC assistance falls from 81 percent of GDP in 1999 to 39 percent of GDP in 2010 and 24 percent of GDP in 2019. Relative to a three-year average export base, Malawi's debt stock after HIPC Initiative assistance falls from 181 percent at the anticipated completion point in 2002, to 158 percent in 2010, and 126 percent in 2019; this ratio does not fall below the 150 percent threshold until 2014. This outcome primarily reflects: (i) the significant decline in the export base soon after the assessment year upon which assistance has been based;³⁶ and (ii) a utilization of export growth assumptions that are based on realistic expectations of likely growth given the numerous vulnerabilities of the Malawian economy.

51. The current HIPC Initiative framework provides for the possibility of a comprehensive assessment of the debt situation at the completion point. If Malawi at that time is facing a high NPV of debt-to-exports ratio, e.g., as evidenced by a long-term

³⁶ Export receipts for Malawi during 1997-99 averaged \$551 million and were more than 30 percent higher than the \$419 million of average annual export receipts for the rest of the decade. For 2000-02, reflecting reduced tobacco prices relative to the 1997-99 period, exports are forecast to average \$492 million. Hence, relative to exports in the assessment period, there is a significant reduction in the export base in both the decision point year and in the two years up to the anticipated completion point.

Table 10. Malawi: Possible Delivery of IDA Assistance Under the HIPC Initiative 1/
(In millions of U.S. Dollars, unless otherwise indicated)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Debt Service to IDA Before HIPC	30.34	34.13	37.75	41.01	42.45	46.55	48.64	50.08	53.42	55.42
Debt Service to IDA After HIPC	13.57	15.27	16.89	18.35	18.99	20.83	21.76	22.41	23.90	24.79
Relief in Nominal	16.77	18.86	20.86	22.66	23.46	25.73	26.88	27.68	29.52	30.62
Relief in NPV terms	1.12	1.42	1.27	1.05	1.09	1.03	1.07	1.10	1.06	1.08
Percentage Reduction in Nominal 2/	55.26%	55.26%	55.26%	55.26%	55.26%	55.26%	55.26%	55.26%	55.26%	55.26%
Percentage of NPV relief 3/	4.74%	5.99%	5.36%	4.44%	4.61%	4.34%	4.50%	4.64%	4.49%	4.57%
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Debt Service to IDA Before HIPC	56.65	59.43	61.98	62.33	62.48	64.24	65.08	63.93	64.81	64.20
Debt Service to IDA After HIPC	25.34	26.59	27.73	27.88	27.95	28.74	29.11	28.60	28.99	28.72
Relief in Nominal	31.31	32.84	34.25	34.44	34.53	35.50	35.96	35.33	35.82	35.48
Relief in NPV terms	1.10	1.23	1.15	1.09	1.02	0.96	0.90	0.85	0.80	0.75
Percentage Reduction in Nominal 2/	55.26%	55.26%	55.26%	55.26%	55.26%	55.26%	55.26%	55.26%	55.26%	55.26%
Percentage of NPV relief 3/	4.66%	5.18%	4.87%	4.58%	4.31%	4.06%	3.82%	3.59%	3.38%	3.18%

Source: Malawian authorities; and IDA staff estimates.

1/ The assistance is assumed to be delivered from January 2001-December 2020 covering 55.3 percent of debt service due.

2/ Debt service relief as a percent of debt service due.

3/ Debt relief as a percent of total relief to be provided (in NPV terms)

Table 11. Malawi: Possible Delivery of IMF Assistance under the Enhanced HIPC Initiative, 2000-09 1/

(In millions of US dollars, unless otherwise indicated)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
(Based on the US\$/SDR exchange rate as of December 5, 2000)										
Delivery schedule of IMF assistance (in percent of total assistance)	0	10	10	13	18	20	17	8	4	0
Debt Service due on IMF obligations 2/	0.2	8.0	8.3	10.2	12.8	14.0	10.9	7.9	5.9	2.6
Principal	--	7.0	7.3	9.3	11.9	13.1	10.2	7.2	5.3	2.0
Interest	0.2	1.0	1.0	0.9	0.9	0.8	0.8	0.7	0.7	0.7
IMF assistance--deposits into Malawi's account										
Interim assistance 3/	3.0	3.0								
Completion point assistance			24.1	/4						
IMF assistance--drawdown schedule 5/	--	3.0	4.0	5.0	7.6	7.0	5.8	2.8	1.4	0.0
IMF assistance without interest	--	3.0	3.0	3.9	5.4	6.0	5.1	2.4	1.2	--
Estimated interest earnings	--	0.0	1.0	1.1	2.2	1.0	0.7	0.4	0.2	0.0
Debt service due on current IMF obligations after IMF assistance 5/	0.2	5.0	4.3	5.2	5.2	7.0	5.2	5.2	4.6	2.6
Share of debt service due on IMF obligations covered by IMF assistance (in percent) 5/	--	37.6	48.3	49.1	59.6	49.9	52.8	34.8	23.3	0.0
Proportion (in percent) of each repayment falling due during the period to be paid by IMF Initiative assistance from the principal deposited in Malawi's account	--	42.8	41.0	42.0	45.5	45.8	50.2	33.3	22.9	--
Memorandum items:										
(Based on debt service data and exchange rates as of end-1999)										
Total debt service due 6/ 7/	105.9	91.9	92.7	101.1	110.1	112.6	113.6	114.0	114.5	114.2
Debt service due on IMF obligations 7/	9.9	7.9	8.2	10.2	12.9	14.2	11.0	7.8	5.6	2.1
Debt service due on current IMF obligations after IMF assistance 5/	9.9	4.8	4.1	5.2	5.3	7.2	5.2	5.0	4.2	2.1
(in percent of exports)	2.1	1.0	0.8	1.0	0.9	1.2	0.8	0.8	0.6	0.3
Share of total debt service covered by IMF assistance (in percent) 5/	--	3.3	4.3	5.0	6.9	6.2	5.1	2.4	1.2	0.0

Source: Malawian authorities; and staff estimates.

1/ Total IMF assistance under the enhanced HIPC Initiative is US\$ 30.1 million calculated on the basis of data available at the decision point, excluding interest earned on Malawi's account and on committed but undisbursed amounts as described in footnotes 4 and 5.

2/ Data were as of October 31, 2000. Interest obligations include net SDR charges and assessments. Data for 2000 covers the last two weeks of December.

3/ Interim assistance to be deposited into Malawi's account in December 2000 and December 2001 to cover obligations falling due to the Fund in the coming 12 months. As Malawi has no principal obligation falling due in December 2000, the first interim disbursement covers repayments in 2001.

4/ Remaining amount of assistance assumed to be disbursed into Malawi's account at the completion point in December 2002, which is reflected in the calculation of interest.

5/ Includes estimated interest earnings on: (1) amounts held in Malawi's account; and (2), up to the completion point, amounts committed but not yet disbursed. It is assumed that these amounts earn a rate of return of 5.25 percent in U.S. dollar terms; actual interest earnings may be higher or lower. Interest accrued on (1) during a calendar year will be used toward the first repayment obligation(s) falling due in the following calendar year except in the final year, when it will be used toward payment of the final obligation(s) falling due in that year. Interest accrued on (2) during the interim period will be used toward the repayment of obligations falling due during the three years after the completion point.

6/ After traditional debt relief mechanisms.

7/ Excludes charges in the SDR department of the IMF.