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SM/86/299
Correction 1

CONTAINS CONFIDENTIAL
INFORMATION

December 30, 1986

To: Members of the Executive Board
From: The Secretary
Subject: Malawi - Staff Report for the 1986 Article IV Consultation

The following corrections have been made in SM/86/299 (12/9/86):

Page 13, last column, line 4: for "655.5" read "648.3"
line 5: for "666.5" read "659.3"
line 6: for "374.7" read "367.7"
line 15: for "352.8" read "345.6"

Page 29, under Money and credit, last column, line 1: for "-4.3" read "2.1"
line 2: for "1.1" read "-1.1"
line 3: for "8.3" read "6.1"
first column, line 4: for " " read "..."

under Central Government, first column, line 3: for " " read "4.6"
line 4: for " " read "3.8"

Corrected pages are attached.

Att: (2)

Other Distribution:
Department Heads

MALAWI - Relations with the Fund
(At October 31, 1986)

(Amounts in millions of SDRs, unless otherwise specified)

I. Membership status

- a. Date of membership: July 19, 1965
b. Status: Article XIV

A. Financial Relations

II. General Department

a. Quota:	37.2		
		<u>Millions</u> <u>of SDRs</u>	<u>Percent</u> <u>of quota</u>
b. Total Fund holdings of Malawi kwacha	142.03		381.81
c. Fund credit	107.03		287.72
Of which: under stand-by arrangement ordinary ordinary resources	7.58		20.38
SFF	11.26		30.27
enlarged access	8.24		22.15
under extended arrangement ordinary resources	18.53		49.81
enlarged access	38.48		103.43
compensatory financing facility	22.95		61.69
d. Reserve tranche	2.20		5.91

III. Current and previous arrangements
and special facilities

	<u>Date of arrangement</u>	<u>Duration (months)</u>	<u>Total amount</u>	<u>Utiliza- tion</u>
a. Previous arrangements				
Stand-by	Oct. 1979	30	26.3	5.5
Stand-by	May 1980	24	49.9	40.0
Stand-by	August 1982	12	22.0	22.0
Extended arrangement	Sept. 1983	36	81.0 ^{1/}	57.0

^{1/} Reduced from the original amount of SDR 100 million (EBM/85/77, 5/22/85).

Malawi: Selected Economic and Financial Indicators, 1980-86

	1980	1981	1982	1983	1984	1985		1986
						EFF	Est.	Est.
						prog.		
(Annual percentage change, unless otherwise specified)								
National income								
GDP at constant factor cost	-0.9	-5.0	3.0	3.6	3.3	2.7	2.9	3.0
GDP deflator	21.7	14.9	9.8	11.0	12.8	13.9	7.4	11.8
Consumer prices	19.1	9.8	9.7	12.4	12.4	15.0	15.0	15.0
External sector								
Exports, f.o.b. (millions of SDRs)	219.1	244.3	219.9	215.5	308.0	305.7	246.3	222.7
Imports, c.i.f. (millions of SDRs)	338.0	296.9	277.2	289.6	263.4	297.4	282.5	245.0
Export volume	27.4	-19.2	-7.9	4.0	25.8	9.3	-1.3	7.4
Import volume	-5.8	-23.9	-5.0	1.5	-12.0	6.0	11.8	-2.2
Terms of trade (deterioration -)	-15.3	14.6	2.8	-5.4	10.6	-8.7	-15.3	-5.1
Nominal effective exchange rate, year-end (depreciation -)	-5.3	9.3	-8.2	-5.3	5.0	...	-9.3	...
Real effective exchange rate, year-end (depreciation -)	-4.1	7.2	-4.9	-2.3	13.4	-12.0	-5.7	...
Government budget 1/								
Revenue	6.5	10.9	10.6	17.1	23.6	30.7	23.3	14.7
Total expenditure	17.9	9.5	-2.2	14.5	12.5	20.1	26.9	21.9
Money and credit 1/								
Net domestic assets (increase) 2/	35.5	49.4	22.6	3.0	30.0 3/	1.9 4/	25.6	2.1
Credit to Government (increase) 2/	32.4	44.5	9.6	2.5	4.1 5/	-2.7	21.4	-1.1
Money and quasi-money (M2) (increase) 2/	24.1	15.2	13.4	0.6	39.6	8.9 4/	-3.5	6.1
Velocity (GDP relative to M2)	...	5.3	5.1	5.4	5.5	5.2 4/	5.2	5.8
Interest rate (annual rate, 12-month time deposits)	10.75	10.75	10.75	12.75	12.75	14.25	14.25	...
(In percent of GDP)								
Central Government								
Overall deficit 1/								
Excluding official transfers	15.5	15.4	12.1	10.4	8.2 6/	6.7	10.6	12.7
Including official transfers	11.3	11.6	9.2	8.1	5.9 6/	4.1	8.2	8.7
Domestic bank financing 1/	4.6	7.3	1.6	0.4	0.6	-0.5	3.8	-0.2
Foreign financing 1/	3.8	2.8	5.8	6.4	3.1	3.5	3.2	8.2
Gross fixed capital formation	22.0	15.2	14.6	13.8	12.5	11.8	14.3	14.4
Gross domestic saving 1/	8.1	9.4	8.3	6.2	15.2	11.4	10.0	11.6
External current account								
Excluding official transfers	-20.5	-10.8	-10.7	-11.8	-1.4	-5.5	-9.5	-8.8
Including official transfers	-16.5	-7.0	-7.6	-9.4	0.7	-3.0	-7.3	-6.6
External debt (including Fund credit) (in millions of SDRs) 8/	558.0	661.8	711.6	784.8	855.4	879.9	832.6	872.3
Debt service ratio 9/	30.2	35.4	42.8	29.3	31.1	29.4	38.5	50.4
Interest payments 9/	19.0	18.8	16.0	17.4	13.1	13.8	16.5	18.7
(In millions of SDRs, unless otherwise specified)								
Overall balance of payments	6.4	-11.7	-40.3	-42.9	62.8	-1.3	-60.0	-24.0
Gross official reserves (weeks of imports, c.i.f.)	8.6	7.4	3.8	2.3	11.4	8.8	7.2	4.2
External payments arrears (end of period)	--	--	--	--	--	--	--	...

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

1/ Fiscal year beginning April 1 of the year indicated.

2/ As a percentage of money and quasi-money at the beginning of the period.

3/ Adjusted for the redefinition of net credit to Government which removed MK 11.0 million from government deposits.

4/ The definitions of net domestic assets and broad money used in the extended arrangement are different from the actual data reported in this table, because of the redefinition of credit to the statutory bodies on a net basis.

5/ Excludes special issue of Local Registered Stock for the Government's assumption of Press debt; including this, the change is 26.6 percent of broad money.

6/ Excluding the special issue of Local Registered Stock for the Government's assumption of Press debt.

7/ Excluding the financing of stock building.

8/ End of period, public and publicly guaranteed medium- and long-term debt.

9/ In percent of exports of goods and nonfactor services. Based on data provided by the IBRD and including IMF charges, repurchases, and estimated debt service on private debt.

III. Report on Discussions and Developments in 1986/87

1. Medium-term prospects

The Article IV consultation discussions in May-June 1986 took place in the context of a medium-term scenario which was prepared for a program to be supported by the use of Fund resources under a stand-by arrangement and a SAF program. That scenario has been overtaken by subsequent unfavorable developments during 1986, and the authorities have concluded that it will be necessary to prepare a revised set of policies in the context of an updated macroeconomic framework and they have indicated that they intend to do this in conjunction with the 1987/88 budget. The staff has not been able to hold discussions on a new medium-term scenario, but intends to present a revised scenario to the Executive Board at the earliest possible occasion.

The original scenario envisaged a gradual reduction in the current account deficit to about one-half of its size relative to GDP in 1985, and anticipated a large concentration of extraordinary capital inflows (primarily the World Bank's SAL and related financing) during 1986-89, part of which would be used to accumulate reserves. These flows would facilitate the adjustment measures necessary to achieve a sustainable balance of payments. These measures would have included a substantial reduction in the overall government budget deficit, improvements in the financial operations of the public enterprises (particularly ADMARC), the maintenance of an appropriate price regime (including the producer and consumer prices of the major agricultural commodities), and the implementation of flexible policies on exchange rate and interest rates. These policies were expected to contribute to savings mobilization and the diversification of the country's export base, both of which would be important to structural adjustment.

The original scenario showed gross official reserves rising to 13 weeks of imports in 1986 and to a peak of 15 weeks of imports in 1988, before declining gradually throughout the projection period to 8-9 weeks on average in 1990 and 1991, which was considered as the minimum level of reserves. The deterioration that has occurred during 1986 is substantial; it now seems likely that reserves will be equivalent to only four weeks of imports by year end. Although the reasons for the deterioration are not wholly clear, it appears that the adverse movements are not transitory. Therefore, the adjustment that will be necessary to restore viability to the balance of payments will be substantially larger than that anticipated in the initial formulation of the scenario. The staff has stressed that it is necessary for Malawi to continue its restraint on new nonconcessional borrowing in view of the present high level of the debt service ratio, which may reach a peak of 50 percent of exports of goods and nonfactor services in 1986, with only a small decline in prospect for the coming years. This is particularly so since Malawi's repurchases from the Fund will continue to be substantial, peaking at 64 percent of quota in 1987, and remaining

Table 4. Malawi: Monetary Survey, 1983-87

(In millions of Malawi kwacha)

	1983		1984		1985				1986			1987
	Mar.	Dec.	Mar.	Dec. ^{2/}	Mar. ^{3/}	June	Sept.	Dec.	Mar.	June	Sept. ^{4/}	Mar. ^{5/} Est.
Foreign assets (net)	-172.8	-206.4	-183.7	-118.7	-161.8	-215.2	-225.4	-223.4	-304.6	-365.9	-387.1	-264.3
Gross foreign assets	39.6	31.0	57.1	98.5	51.4	83.0	74.1	86.4	61.8	52.1	46.9	...
Foreign liabilities	-212.4	-237.4	-240.8	-217.1	-213.2	-298.2	-299.5	-309.8	-366.5	-418.0	-434.0	...
Net domestic assets ^{1/}	464.5	514.8	471.7	517.9	555.3	586.3	618.5	589.6	641.6	712.0	870.8	648.3
Net domestic credit ^{1/}	488.4	540.1	502.9	545.1	557.5	605.8	635.5	618.5	673.5	723.7	872.2	659.3
Credit to Government (net)	217.5	252.8	223.6	271.0	298.8	312.8	333.0	328.6	371.2	377.2	523.7	367.7
Credit to statutory bodies (net) ^{1/}	39.1	32.7	8.3	45.7	39.9	57.2	70.6	77.2	71.1	74.9	86.5	47.6
Credit to private sector	231.8	254.7	271.0	228.4	218.8	235.7	231.8	212.6	231.3	271.6	262.0	244.0
Other assets (net)	-23.9	-25.4	-31.2	-27.2	-2.1	-19.5	-16.9	-28.9	-32.0	-11.7	-1.4	-11.0
Other liabilities	51.3	47.8	46.1	47.9	55.9	9.9	-1.9	14.8	11.2	-35.2	40.9	38.4
Blocked deposits at Reserve Bank	0.6	8.1	14.0	10.0	21.4	20.9	19.4	19.6	17.6	7.7	15.3	12.8
Long-term liabilities of Reserve Bank	5.2	2.8	--	--	--	--	--	--	--	--	--	--
SDR allocation	13.3	14.9	14.9	15.5	15.4	15.4	15.4	15.4	19.6	22.8	22.8	22.8
Capital accounts	32.2	21.9	17.2	22.3	19.1	-26.5	-36.7	-20.2	-26.0	-65.7	2.8	2.8
Money plus quasi-money ^{1/}	240.3	260.5	241.8	351.3	337.6	361.2	395.0	351.4	325.7	381.3	442.8	345.6
Money	103.2	110.5	99.4	132.5	125.4	154.8	183.2	153.5	136.2	174.8	221.6	...
Currency outside banks	44.9	50.0	42.7	56.9	53.4	75.2	85.4	66.0	59.1	81.1	96.1	...
Demand deposits ^{1/}	58.3	60.5	56.7	75.6	72.1	79.6	97.8	87.5	77.1	93.7	125.5	...
Quasi-money ^{1/}	137.1	150.0	142.4	218.9	212.1	206.4	211.8	197.9	189.5	206.5	221.2	...

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

^{1/} The definition of this variable has been changed from previous Board papers on Malawi by the redefinition of credit to the statutory bodies on a net basis, and the removal of their deposits from monetary deposits.

^{2/} In June 1984 a discrete change took place in the series for credit to the private sector and to the Government, when the Government assumed the liability of the Press group to the commercial banks, a total of MK 54.2 million.

^{3/} In March 1985 a discrete change of MK 11.0 million occurred in the series for net credit to the Government and blocked deposits at the Reserve Bank when certain blocked accounts previously classified as government deposits (FARM accounts) were removed from the definition of net credit to the Government.

^{4/} During the quarter ended September 1986, the Government issued a promissory note for MK 88.3 million to the Reserve Bank in respect of revaluation losses on its net foreign assets through December 1985. Previously, this loss had been recorded in the capital accounts under the capital and reserves of the monetary authorities.

^{5/} Staff estimates based on developments during the first part of 1986/87.

Malawi: Selected Economic and Financial Indicators, 1980-86

	1980	1981	1982	1983	1984	1985	1986
						EFF prog.	Est. Est.
(Annual percentage change, unless otherwise specified)							
National income							
GDP at constant factor cost	-0.9	-5.0	3.0	3.6	3.3	2.7	3.0
GDP deflator	21.7	14.9	9.8	11.0	12.8	13.9	11.8
Consumer prices	19.1	9.8	9.7	12.4	12.4	15.0	15.0
External sector							
Exports, f.o.b. (millions of SDRs)	219.1	244.3	219.9	215.5	308.0	305.7	222.7
Imports, c.i.f. (millions of SDRs)	338.0	296.9	277.2	289.6	263.4	297.4	245.0
Export volume	27.4	-19.2	-7.9	4.0	25.8	9.3	7.4
Import volume	-5.8	-23.9	-5.0	1.5	-12.0	6.0	-2.2
Terms of trade (deterioration -)	-15.3	14.6	2.8	-5.4	10.6	-8.7	-5.1
Nominal effective exchange rate, year-end (depreciation -)	-5.3	9.3	-8.2	-5.3	5.0
Real effective exchange rate, year-end (depreciation -)	-4.1	7.2	-4.9	-2.3	13.4	-12.0	...
Government budget ^{1/}							
Revenue	6.5	10.9	10.6	17.1	23.6	30.7	14.7
Total expenditure	17.9	9.5	-2.2	14.5	12.5	20.1	21.9
Money and credit ^{1/}							
Net domestic assets (increase) ^{2/}	35.5	49.4	22.6	3.0	30.0 ^{3/}	1.9 ^{4/}	2.1
Credit to Government (increase) ^{2/}	32.4	44.5	9.6	2.5	4.1 ^{5/}	-2.7	-1.1
Money and quasi-money (M2) (increase) ^{2/}	24.1	15.2	13.4	0.6	39.6	8.9 ^{4/}	6.1
Velocity (GDP relative to M2)	...	5.3	5.1	5.4	5.5	5.2 ^{4/}	5.8
Interest rate (annual rate, 12-month time deposits)	10.75	10.75	10.75	12.75	12.75	14.25	...
(In percent of GDP)							
Central Government							
Overall deficit ^{1/}							
Excluding official transfers	15.5	15.4	12.1	10.4	8.2 ^{6/}	6.7	12.7
Including official transfers	11.3	11.6	9.2	8.1	5.9 ^{6/}	4.1	8.7
Domestic bank financing ^{1/}	4.6	7.3	1.6	0.4	0.6	-0.5	-0.2
Foreign financing ^{1/}	3.8	2.8	5.8	6.4	3.1	3.5	8.2
Gross fixed capital formation	22.0	15.2	14.6	13.8	12.5	11.8	14.4
Gross domestic saving ^{7/}	8.1	9.4	8.3	6.2	15.2	11.4	11.6
External current account							
Excluding official transfers	-20.5	-10.8	-10.7	-11.8	-1.4	-5.5	-8.8
Including official transfers	-16.5	-7.0	-7.6	-9.4	0.7	-3.0	-6.6
External debt (including Fund credit) (in millions of SDRs) ^{8/}	558.0	661.8	711.6	784.8	855.4	879.9	872.3
Debt service ratio ^{9/}	30.2	35.4	42.8	29.3	31.1	29.4	50.4
Interest payments ^{9/}	19.0	18.8	16.0	17.4	13.1	13.8	18.7
(In millions of SDRs, unless otherwise specified)							
Overall balance of payments	6.4	-11.7	-40.3	-42.9	62.8	-1.3	-24.0
Gross official reserves (weeks of imports, c.i.f.)	8.6	7.4	3.8	2.3	11.4	8.8	4.2
External payments arrears (end of period)	---	---	---	---	---	---	---

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

^{1/} Fiscal year beginning April 1 of the year indicated.

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^{3/} Adjusted for the redefinition of net credit to Government which removed MK 11.0 million from government deposits.

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^{8/} End of period, public and publicly guaranteed medium- and long-term debt.

^{9/} In percent of exports of goods and nonfactor services. Based on data provided by the IBRD and IMF charges, repurchases, and estimated debt service on private debt.

MALAWI - Relations with the Fund
(At October 31, 1986)

(Amounts in millions of SDRs, unless otherwise specified)

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- a. Date of membership: July 19, 1965
b. Status: Article XIV

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II. General Department

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	<u>Millions</u>	<u>Percent</u>	
	<u>of SDRs</u>	<u>of quota</u>	
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Of which: under stand-by			
arrangement ordinary			
ordinary resources	7.58	20.38	
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enlarged access	8.24	22.15	
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arrangement			
ordinary resources	18.53	49.81	
enlarged access	38.48	103.43	
compensatory financing			
facility	22.95	61.69	
d. Reserve tranche	2.20	5.91	

III. Current and previous arrangements
and special facilities

	<u>Date of</u>	<u>Duration</u>	<u>Total</u>	<u>Utiliza-</u>
	<u>arrangement</u>	<u>(months)</u>	<u>amount</u>	<u>tion</u>
a. Previous arrangements				
Stand-by	Oct. 1979	30	26.3	5.5
Stand-by	May 1980	24	49.9	40.0
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Extended				
arrangement	Sept. 1983	36	81.0 ^{1/}	57.0

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