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AGENDA**

EBS/84/32
Correction 1

CONFIDENTIAL

March 20, 1984

To: Members of the Executive Board
From: The Secretary
Subject: Malawi - Review Under Extended Arrangement

The following corrections have been made in EBS/84/32 (2/29/84):

Page 1, para. 4, line 1: for "February 28, 1984" read "February 27, 1984"

Page 21, Table 4, column 4, line 5: for "-145.6" read "-149.6"

Page 22, Table 5, column 2, line 5: for "-145.6" read "-149.6"
column 3, line 2: for "37.9" read "38.1"
line 5: for "-128.7" read "-136.9"

Page 28, Table 8: column 6 added.

Page 30, third full para., line 1: for "February 24, 1984"
read "February 27, 1984"

Page 31, para. no. 2, lines 2, 5, and 9: for "February 28, 1984"
read "February 27, 1984"

Page 37, top line: for "February 28, 1984" read "February 27, 1984"

Corrected pages are attached.

Att: (1)

I. Introduction

A staff team visited Malawi during the period November 30-December 14, 1983 to review performance during the first year of the three-year extended arrangement for SDR 100 million (268.8 percent of quota) ^{1/} approved by the Executive Board on September 19, 1983 (EBS/83/183 and Supplement).^{2/} The Malawian representatives in the discussions included the Minister of Finance, the Governor of the Reserve Bank, the Secretary to the Treasury, and other senior officials.

Malawi has purchased SDR 10 million: SDR 5 million on Board approval and SDR 5 million on the satisfactory observance of the performance criteria for end-September 1983. As the quantitative ceilings for December 1983 have been observed, a further SDR 5 million may be purchased on completion of the present review. The Fund's holdings of Malawi kwacha subject to repurchase at December 31, 1983 amounted to SDR 97.8 million (262.9 percent of quota); excluding purchases under the compensatory financing and buffer stock financing facilities, the holdings subject to repurchase were SDR 74.9 million (201.3 percent of quota). If all purchases are made, the Fund's holdings of Malawi's currency subject to repurchase (excluding special facilities) will amount to 314.9 percent of quota by the end of the arrangement (September 1986).

This review is required under the arrangement to reach understandings on the performance criteria for domestic bank credit to Government and net domestic assets for March 1984, limits on the contracting or guarantee by the Government of new nonconcessional external borrowing during 1984, and measures to achieve the objectives of the program, including the appropriateness of the exchange rate, the structure of interest rates, the framework for the 1984/85 budget, and the steps necessary to continue the process of price liberalization. In response to comments made during the Board discussion of the extended arrangement, the mission undertook a comprehensive examination of the parastatal sector and the possible sources of savings generation, and this paper consequently contains more detailed information than would normally be presented in a review paper.

In the attached letter to the Managing Director dated February 27, 1984, the Minister of Finance and the Governor of the Reserve Bank reaffirm the intention of the authorities to pursue the policies in support of which the extended arrangement was approved, and describe the measures that the authorities will take to ensure that the targets for the first year

^{1/} Malawi's quota under the eighth review, amounting to SDR 37.2 million, became effective on December 7, 1983.

^{2/} The staff team on the December mission consisted of Messrs. M. Edo (head-AFR), M. Bell (AFR), A. Abisourour (ETR), D. McDonald (FAD), and Mrs. B. Nairn (secretary-AFR); Mr. S. Kanesa-Thasan (ETR) participated in some of the discussions. In January Mr. Gunjal (AFR) and Mr. Abisourour (ETR) visited Malawi for a few days to obtain updated information on the budget.

of the arrangement will be observed. The letter also proposes the quantitative ceilings for end-March 1984 and states that the budget for FY 1984/85 (April-March) will be in accordance with the framework established at the beginning of the program period.

On December 20, 1983 the World Bank approved a second structural adjustment loan (SAL II) for Malawi in the amount of US\$55 million.

II. Recent Developments and Performance Under the Extended Arrangement

1. Production, expenditure, and prices

Following two years of stagnation in 1980 and 1981, real GDP grew by 3.0 percent in 1982 and is estimated to have risen by 3.1 percent in 1983 (Appendix Table I). This is slightly higher than the program forecast, and the growth performance reflects the expansion of total agricultural production, although individual crops have shown different growth patterns. Real agricultural output rose by 3.5 percent in 1983. In contrast to several other southern African countries, climatic conditions in Malawi improved sufficiently to allow a very good tobacco crop and a modest increase in total maize production: the marketed production of tobacco (Malawi's main export crop) was about 23 percent higher than in 1982, while the estimated total maize crop rose by 5 percent.^{1/} However, the rainfall was not adequate to prevent a decline in some other crops: the production of tea and sugar (both important export crops) declined by about 3 percent and 5 percent, respectively. Other crops grown for domestic markets also fell: rice by 2 percent, pulses by 14 percent, and cotton by 13 percent.

Although tobacco production rose significantly, auction prices were sharply lower; the average realized price in 1983 was 27.5 percent lower than 1982. Thus the nominal value of tobacco sales was about 10.5 percent lower than the previous year, and many enterprises in the tobacco sector experienced further deterioration in their financial performance as a result. Although sugar production fell only slightly, export sales, which accounted for 75 percent of production in 1982, virtually ceased in 1983 because continued disruption of Malawi's external trade routes combined with low world prices made export sales uneconomic. This enforced stockbuilding placed a considerable additional financial burden on the agricultural sector.

In other sectors preliminary estimates show that real economic activity also rose, partially reversing the declines in recent years (Appendix Table I) and absorbing spare industrial capacity. In the first

^{1/} Since most maize is produced by households in the subsistence sector, only a small proportion of the total enters the monetary sector. Marketed production is estimated to have risen by about 5-6 percent in 1983 following an 80 percent increase in 1982.

Table 4. Malawi: Balance of Payments, 1982-83

(In millions of SDRs)

	1982		1983	
	Pre- vious	Revised	Pro- gram	Revised
Current account	-106.3	-100.9	-105.1	-124.3
Trade balance	24.3	23.4	18.4	25.3
Exports, f.o.b.	212.1	216.7	220.5	219.7
Imports, f.o.b.	-187.8	-193.3	-202.1	-194.4
Services and transfers (net)	-130.7	-124.3	-123.5	-149.6
Nonfactor services (net)	-89.9	-89.4	-84.6	-114.6
Factor services (net)	-33.2	-27.0	-31.4	-26.7
Of which: interest payments	(-52.5)	(-39.2)	(-47.2)	(-38.9)
Private transfers	-7.5	-7.9	-7.5	-8.3
Capital account	51.6	43.9	37.2	20.4
Long-term capital	41.3	35.5	37.2	34.2
Government transfers (net)	28.5	32.9	33.0	35.9
Government borrowing (net)	29.9	20.3	25.5	18.0
Credit	(69.5)	(61.5)	(63.4)	(54.5)
Debit	(-39.6)	(-41.2)	(-37.9)	(-36.5)
Statutory bodies (net)	-14.4	-15.0	-15.9	-15.3
Private enterprises (net)	-2.6	-2.7	-5.4	-4.4
Short-term capital and errors and omissions	10.2	8.4	--	-13.8
Overall balance before debt relief	-54.8	-57.0	-67.9	-103.9
Debt relief	16.3	16.9	53.2	55.1
Overall balance after debt relief	-38.5	-40.1	-14.7	-48.8
Financing	38.5	40.1	14.7	48.8
Use of Fund resources (net)	-1.7	-1.7	26.4	26.4
Change in reserves	40.2	41.8	-11.7	22.4
<u>Memorandum items:</u>				
Current account deficit as percent of GDP	9.1	8.3	8.0	9.8
Current account deficit after debt relief (SDR million)	-102.3	-96.7	-97.6	-116.6

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

Table 5. Malawi: Balance of Payments, 1982-87

(In millions of SDRs)

	1982	1983	1984	1985	1986	1987
Current account	<u>-100.9</u>	<u>-124.3</u>	<u>-98.8</u>	<u>-88.4</u>	<u>-95.6</u>	<u>-98.7</u>
Trade balance	23.4	25.3	38.1	46.6	50.8	51.0
Exports, f.o.b.	216.7	219.7	248.1	286.0	320.3	338.3
Imports, f.o.b.	-193.3	-194.4	-210.0	-239.4	-269.6	-287.3
Services and transfers (net)	-124.3	-149.6	-136.9	-135.0	-146.4	-149.7
Nonfactor services (net)	-89.4	-114.6	-99.9	-100.2	-112.7	-119.2
Factor services (net)	-27.0	-26.7	-29.4	-26.6	-24.5	-20.1
Of which: interest payments	(-39.2)	(-38.9)	(-44.0)	(-41.8)	(-40.4)	(-36.9)
Private transfers	-7.9	-8.3	-7.6	-8.2	-9.2	-10.4
Capital account	<u>43.9</u>	<u>20.4</u>	<u>63.3</u>	<u>89.5</u>	<u>112.4</u>	<u>127.4</u>
Long-term capital	35.5	34.2	63.3	89.5	112.4	127.4
Government transfers, net	32.9	35.9	37.7	41.3	48.9	52.6
Government borrowing, net	20.3	18.0	36.8	49.0	52.5	59.0
Credit	(61.5)	(54.5)	(71.6)	(82.3)	(81.6)	(83.7)
Debit	(-41.2)	(-36.5)	(-34.8)	(-33.2)	(-29.1)	(-24.7)
Statutory bodies, net	-15.0	-15.3	-10.4	-3.2	4.7	4.7
Private enterprises, net	-2.7	-4.4	-0.8	2.4	6.3	11.0
Short-term capital and errors and omissions	8.4	-13.8	--	--	--	--
Overall balance before debt relief	<u>-57.0</u>	<u>-103.9</u>	<u>-35.4</u>	<u>1.1</u>	<u>16.7</u>	<u>28.7</u>
Debt relief <u>1/</u>	16.9	55.1	25.8	-7.8	-15.1	-22.1
Overall balance after debt relief	<u>-40.1</u>	<u>-48.8</u>	<u>-9.6</u>	<u>-6.7</u>	<u>1.6</u>	<u>6.6</u>
Financing	<u>40.1</u>	<u>48.8</u>	<u>9.6</u>	<u>6.7</u>	<u>-1.6</u>	<u>-6.6</u>
Use of Fund resources (net)	-1.7	26.4	7.5	21.0	5.1	-22.6
Change in reserves	41.8	22.4	2.1	-14.3	-6.7	16.0
<u>Memorandum items:</u>						
Current account deficit as percent of GDP	8.3	9.8	7.0	5.6	5.4	5.0
Current account deficit after debt relief (SDR million) <u>2/</u>	-96.7	-116.6	-98.3	-91.8	-100.1	-103.2

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

1/ Debt rescheduling is assumed only up to mid-1984. Repayments of rescheduled debt start in 1985 and are reflected as negative flows.2/ Reflects higher actual interest payments in 1985-87.

10. Quantitative performance criteria

Performance criteria were established in the original program for September and December 1983 relating to the net domestic assets of the banking system, with a subceiling on the expansion of net bank credit to Government, and limits on the contracting or guarantee of new external loans (Table 8); indicative targets were provided for March 1984, with final undertakings to be reached during the first review. All the quantitative criteria were observed in September 1983, and in December 1983.

During the review understandings were reached on the ceilings for bank net domestic assets and net credit to the Government for March 1984, (the end of the current fiscal year) and on the limits for the contracting or guarantee of new nonconcessional external borrowing during 1984. With respect to bank credit the indicative targets established in the original preparation of the program were retained as formal performance criteria. This represents an increase in the degree of adjustment implicit in the first year of the program, since the indicative targets had been formulated before the size and timing of the devaluation of the kwacha were known.^{1/} Consistent with the need to maintain Malawi's debt service obligations at manageable levels, tight limits have been maintained on Malawi's external public sector borrowing. The ceilings established in 1983 will be maintained in 1984: borrowing in the maturity range 1-12 years will be limited to SDR 5 million, with none permitted in the range 1-5 years (Table 8). The Government does not intend to contract any borrowing of less than one year's maturity except for normal trade financing.

III. Staff Appraisal and Proposed Decision

Economic developments in Malawi during 1983 were broadly in line with those anticipated in the program, except for the larger balance of payments deficit which was due to higher transport costs and the temporary delay in the approval of the World Bank's SAL II. The recovery of real economic growth, which commenced in 1982, is estimated to have continued in 1983, largely as a result of the expansion of output in the agricultural sector. In spite of earlier fears of a further year of drought, rainfall during the year was adequate to allow increased production of some crops, particularly the principal export, tobacco; other crops, however, showed some decline. The increase in output was more than offset by a decline in tobacco prices, which caused deterioration both in the financial position of the producers and in the external terms of trade.

Malawi's economy continued to be seriously affected by the very low level of operations on the traditional rail routes to the Indian Ocean through Mozambique. Much traffic has been redirected to longer and more

^{1/} The devaluation was implemented earlier than expected, and consequently the initial adverse impact on the government budget was more substantial than the original projections had anticipated.

Table 8. Malawi: Quantitative Performance Criteria
Under the Extended Arrangement in 1983/84

	1983		1983		1984		1984
	March <u>1/</u>	June <u>1/</u>	Sept.	Dec.	March <u>2/</u>		
			Prog.	Act.	Prog.	Act.	
(In millions of Malawi kwacha)							
Net domestic assets of banking system <u>3/</u>	487.0	519.8	538.3	534.4	555.2	546.5	548.3 <u>5/</u>
Net bank credit to Government <u>4/</u>	216.9	231.8	244.3	240.4	254.7	252.7	240.0 <u>5/</u>
(In millions of SDRs)							
New nonconcessional external borrowing contracted or guaranteed by Government in the maturity range (cumulative): <u>6/</u>							
1-12 years maturity	--	--	5.0	--	5.0	--	5.0
1-5 years maturity	--	--	--	--	--	--	--

Sources: Letter of intent and policy memorandum of July 29, 1983; data supplied by the Malawian authorities; and staff estimates.

1/ Actuals.

2/ Performance criteria.

3/ Defined as money and quasi-money, long-term liabilities of the Reserve Bank, banking system capital accounts, and SDR allocations, less net foreign assets of the banking system.

4/ Defined as commercial banks' and Reserve Bank of Malawi's credit to the Government less government deposits, plus any use of the local currency counterpart of purchases from the Fund, plus external borrowing by the Government for balance of payments support.

5/ The credit ceilings for December 1983 and March 1984 were prepared on the assumption that disbursements under the second IBRD Structural Adjustment loan for an amount equivalent to MK 25.0 million would be made in the first quarter of 1984. In the event that the disbursements exceed this amount, the ceilings on net domestic assets of the banking system and net bank credit to Government will be reduced by an equivalent amount.

6/ The authorities also intend not to contract any short-term borrowing other than for normal trade financing purposes.

costly routes, causing delays in the shipment of exports and the arrival of imports. These transportation difficulties and low export prices have caused a substantial accumulation of sugar stocks, now equivalent to 75 percent of annual production. The higher costs associated with trade re-routing were a major factor in the acceleration of inflation during 1983 to a level somewhat in excess of the program forecast. The authorities, accepting that the transportation problem is likely to persist for several years, are making commendable efforts to minimize the additional costs and to ensure a more orderly flow of exports and strategic imports. However, in the longer term Malawi will need to develop alternative routes and rehabilitate existing facilities.

Developments in the budget for 1983/84 are expected to be broadly in line with the program's objectives for the overall deficit and its domestic financing. Since the rate of depreciation of the Malawi kwacha has been larger than envisaged, maintaining the original budget targets has necessitated a larger budgetary adjustment during 1983/84 than originally envisaged. The framework for the 1984/85 budget discussed with the authorities also maintains the original program targets. It involves continuing tight restraint on real expenditure, and this requires that wage and salary costs be contained by limiting the size of any general increase and by instituting a freeze on employment.

If the program's projections for domestic resource mobilization are to be realized, it is particularly important that the government budget targets should be observed, since a major source of increase in domestic savings must come from the Central Government. The staff believes that the measures already taken by the parastatals, and the further measures that are planned, will result in a progressive increase in the profitability of the parastatal sector. These measures include a reduction in employment in several enterprises, streamlining management, regular reviews and adjustment of prices and tariffs, the rationalization of investment portfolios, and better monitoring of performance. However, the prolonged period of financial difficulty from which the parastatals are emerging, combined with substantial debt servicing obligations, means that their ability to generate investible resources will be limited. The substantial progress made in reorganizing the Press group of companies, in particular the conclusion of the legal processes establishing the new group structure, will enable the holding and subsidiary companies to concentrate on their primary operations and to restore profitability. In the judgment of the staff, an appropriate environment has been created for the Press group to operate on strictly commercial and industrial principles. Nevertheless, close monitoring will be required to ensure that the new group retains its independence, and that every effort is made to ensure the prompt service and eventual discharge of its financial obligations to its main creditors, ADMARC and the Government.

Price liberalization will play an important role in assisting the return to profitability and stimulating corporate saving. The measures taken during the first year of the program constitute an important move toward this objective, and further measures will be taken during the

second year to achieve the eventual elimination of controls. The authorities have also recognized the importance of providing adequate incentives to producers; agricultural prices will be adjusted annually in future, using the principles agreed with the World Bank.

The balance of payments was weaker than expected in 1983. Although the underlying position was strengthened by the devaluation of September 1983, the outcome showed deterioration with respect to both the previous year and the earlier projections for 1983. Three factors largely accounted for this: external transport constraints, lower terms of trade, and smaller capital inflows than expected. The nondisbursement of the first tranche of the World Bank's SAL II accounted for the shortfall in capital inflow. This tranche is now expected to be disbursed in the first months of 1984, and this, together with the slight improvement projected in the terms of trade, should enable the target for 1984 to be achieved. The program's balance of payments targets will be strengthened by the adoption in January 1984 of the new currency basket more representative of Malawi's external trade. The successful conclusion of an agreement for a second year's debt relief with the Paris Club, and the almost complete cessation of nonconcessional borrowing, will help to restore Malawi's debt service burden to a more manageable level in future years. The Donors' Conference planned for February 1984 will be critical in ensuring that the capital inflows projected in the program are realized.

In the absence of major variations from the analysis underlying the original program, no substantial revisions have been made to the program's medium-term projections or targets. The staff believes that economic developments during the latter part of 1983, and the policy decisions already taken, represent substantial progress toward the objectives of the three-year arrangement. During the negotiation in April 1984 of the program for 1984/85, the second fiscal year of the extended arrangement, it will be necessary to ensure that policy actions continue to be sufficiently strong to achieve the original objectives and targets of the extended arrangement.

The attached letter to the Managing Director dated February 27, 1984 from the Minister of Finance and the Governor of the Reserve Bank contains the request that the arrangement be amended to allow Malawi to make the purchase of SDR 5 million on the observance of the performance criteria for end-March 1984, as long as the purchase is made before May 31, 1984. This will enable Malawi to purchase SDR 20 million (out of the total extended arrangement amount of SDR 100 million), based on successful implementation of the program during the fiscal year (April 1983-March 1984). Moreover, it will allow sufficient time to determine compliance with the performance criteria for end-March 1984.

Accordingly, the following draft decision is proposed for adoption by the Executive Board upon completion of the review of the extended arrangement with Malawi:

1. Malawi has consulted with the Fund in accordance with paragraph 4(b) of the extended arrangement with Malawi and paragraph 34 of the memorandum attached to the letter from the Minister of Finance and the Governor of the Reserve Bank of Malawi dated July 29, 1983, attached to the extended arrangement for Malawi (EBS/83/183, Supplement 1) in order to review progress under the program and to reach understandings subject to which further purchases may be made by Malawi under the extended arrangement.
2. The letter from the Minister of Finance and the Governor of the Reserve Bank of Malawi dated February 27, 1984 shall be annexed to the extended arrangement for Malawi, and the letter of July 29, 1983 attached to the extended arrangement shall be read as supplemented by the letter of February 27, 1984. Accordingly, the understandings referred to in paragraph 4(b) of the extended arrangement for Malawi relating to domestic assets of the banking system, net bank credit to the Government, and external borrowing shall be those specified in paragraphs 7 and 8 of the letter of February 27, 1984.
3. With respect to the additional matters referred to in paragraph 34 of the letter dated July 29, 1983, the Fund finds that no further understandings are necessary.
4. The extended arrangement for Malawi shall be amended as follows:
 - (a) Paragraph 2(a) shall be amended to read:

"Until June 1, 1984, purchases under the extended arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 20 million, provided that purchases shall not exceed the equivalent

of SDR 5 million until October 31, 1983; the equivalent of SDR 10 million until January 31, 1984; and the equivalent of SDR 15 million until April 30, 1984".

(b) In paragraph 4(a), replace "April 30, 1984" with "June 1, 1984."

(c) In paragraph 4(c), replace "April 29, 1984" with "May 31, 1984."

Lilongwe, February 27, 1984

Mr. J. de Larosière
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. de Larosière,

1. Under the extended arrangement approved by the Fund's Executive Board on September 19, 1983, the Government of Malawi undertook to hold periodic consultations with the Fund to assess performance under the arrangement and to agree on the policies needed to achieve the objectives of the medium-term program. For this purpose, a Fund mission was in Lilongwe during the period November 30-December 14, 1983 to review progress during the first half of the current fiscal year (April 1983-March 1984), the outlook for the rest of the year, and budgetary prospects for the next fiscal year (1984/85).
2. As part of the medium-term program, Malawi has taken a number of measures in 1983. Strong restraint has continued to be maintained on government expenditures, there have been no general increases in wages during the year, deposit interest rates were raised in June (lending rates are positive in real terms), and the Malawi kwacha was devalued by 12 percent in September. Producer price increases were announced in July to encourage production in 1983/84, administrative procedures for price control have been simplified, and tariff increases have been implemented for parastatals, including the electricity supply company, the water boards and the railway. We have formulated, in cooperation with the World Bank, a medium-term public sector investment program, and have completed the arrangements for the organizational and financial restructuring of Press Holdings, a major conglomerate. Significant measures have been taken to reduce the unit costs and to improve the profitability of the parastatals.
3. Economic development in the first half of 1983/84 has been broadly as anticipated under the program. The real rate of growth of GDP is estimated at about 3 percent, with a large output in the agricultural sector (in 1983 Malawi had a surplus maize production and exported maize to neighbouring countries). The rate of inflation in 1983 was somewhat higher than assumed in the program, but this is due largely to external factors that are not expected to persist in future years. The fiscal performance has been largely in accordance with program projections. We have agreed with the mission on specific fiscal measures that will ensure that the overall budget deficit and domestic financing of the budget deficit in 1983/84 will be in accordance with program projections, despite the negative budgetary impact of the devaluation of September 1983. The overall balance of payments showed a larger deficit than expected, due to weaker export prices, higher cost of imports c.i.f., and lower capital inflows than projected in the program. Monetary growth was somewhat

lower than forecast, while credit developments were broadly in line with the program targets and the performance criteria for December 1983 were observed.

4. With regard to price control, on December 30, 1983 we announced that a substantial list of items would no longer be subject to price control. It is also our intention to reduce soon, from 60 days to 30 days, the maximum period for processing of applications for price increases; this action will be implemented not later than April 1, 1984 (the beginning of the fiscal year 1984/85), when the price control administration will be provided in the 1984/85 budget with such additional personnel as will be needed to implement the new procedure.

5. We have discussed the framework of the 1984/85 budget with the mission. We expect the deficit to conform to the projection made when the medium-term program was adopted earlier this year. We have discussed with the mission possible new revenue measures needed to maintain an adequate revenue effort in 1984/85. The detailed provisions of the budget, to be adopted after consideration within Government, will be communicated to the Fund by end-February 1984. We intend to continue restraint on wages and salaries with the objective of meeting the fiscal targets of the program. Accordingly, any general increase in wages will be met by fiscal measures additional to those discussed with the mission.

6. On January 17, 1984 the Malawi kwacha was pegged to a currency basket more representative of Malawi's external trade, thus replacing the SDR. At the same time the Malawi kwacha was devalued by a further 3.3 percent (in local currency terms).

7. In pursuance of the monetary and credit objectives of the program, the indicative targets previously established will be incorporated without change in the program. Accordingly, the net domestic assets of the banking system, which amounted to MK 534.4 million at the end of September 1983, will not exceed MK 548.3 million at the end of March 1984. Net domestic bank credit to Government, which amounted to MK 240.4 million at the end of September 1983, will not exceed MK 240.0 million at the end of March 1984. If a SAL II disbursement, currently expected to be made in the first quarter of 1984, exceeds the assumed level, equivalent to MK 25.0 million, then the ceilings on net domestic assets of the banking system, and net domestic bank credit will be reduced by an equal amount; if the disbursement is less than the equivalent of MK 25.0 million, then no adjustment will be made to the ceilings. Interest rates are positive with respect to the underlying rate of inflation, and we intend to maintain a policy of flexible interest rates.

8. In view of the external payments and debt situation, external borrowing on nonconcessional terms will be limited. In 1984, the contracting or guarantee by the Government of new nonconcessional external borrowing of maturity of 1-12 years is to be limited to SDR 5 million, of which none shall have maturity less than 5 years. The authorities do not intend to contract any external borrowing of less than one year maturity, except for normal trade financing.