

**FOR  
AGENDA**

EBS/02/131  
Supplement 1  
Correction 1

CONFIDENTIAL

August 2, 2002

To: Members of the Executive Board

From: The Secretary

Subject: **Malawi—Staff Report for the 2002 Article IV Consultation and  
Economic Program for 2002**

The attached correction to EBS/02/131, Supplement 1 (7/29/02) has been provided by the staff:

**Page 1, para. 3, line 2:** for “US\$90 million” read US\$97 million”

Questions may be referred to Mr. Kammer (ext. 39349), Ms. Kostial (ext. 35349), and Mr. Mathisen (ext. 36520) in AFR.

Att: (1)

Other Distribution:  
Department Heads



INTERNATIONAL MONETARY FUND

MALAWI

**Staff Report for the 2002 Article IV Consultation  
and Economic Program for 2002  
Supplementary Information**

Prepared by the African Department

(In consultation with the Fiscal Affairs, Legal, Monetary and Exchange Affairs, Policy  
Development and Review, Statistics, and Treasurer's Departments)

Approved by Michael Nowak and Masood Ahmed

July 29, 2002

1. This supplement to EBS/02/131 (7/22/02) provides new information on the food security situation since the staff report was issued. The update does not alter the thrust of the staff appraisal.
2. **The latest assessment of Malawi's food situation in 2002/03 suggests that the food shortage might be more severe than previously thought.** The staff report indicated that, at end-May 2002, the Food and Agriculture Organization (FAO)/World Food Program (WFP) had projected a shortfall of 485,000 metric tons for August 2002-March 2003. Recently, however, the Ministry of Agriculture and Irrigation, together with the USAID's Famine Early Warning System, revised upward the estimate of the food shortage by about 100,000 metric tons.
3. **Thus, the authorities are now considering stepping up their food imports, as needed, to 350,000 metric tons (equivalent to about US\$97 million) from the 250,000 metric tons reported in the staff report.** These additional imports would have an

Selected Economic Indicators, 2002-03

	2002		2003	
	EBS/02/131	Rev. proj.	EBS/02/131	Rev. proj.
External current account after grants (in percent of GDP)	-11.3	-12.7	-6.7	-6.7
Imports (in millions of U.S. dollars)	768.2	795.9	657.2	657.2
Balance of payments gap (in millions of U.S. dollars)	...	...	60.0	88.2
International reserves (at year's end; in millions of U.S. dollars)				
gross	129.9	102.1	228.4	228.4
(in months of imports)	2.1	1.6	3.4	3.4
net	56.0	28.3	148.9	148.9
Domestic fiscal balance (in percent of GDP) 1/	-5.4	-6.0	-3.2	-3.2

Sources: Malawian authorities; and staff estimates and projections.

1/ Fiscal year. For 2002, fiscal year 2002/03.

impact on the macroeconomic program presented in the report. In particular, international reserves could fall to below one month of import coverage in November 2002, while the fiscal deficit in 2002/03 could widen to 6 percent of GDP (compared with the previous target of 5½ percent), reflecting the effect of the extension of the price subsidy on the additional food imports. For 2003, the projected balance of payments gap could widen to about US\$90 million from US\$60 million.

4. **The authorities and the staff are concerned that financing the increased food imports with international reserves would reduce reserves to a level that would not provide sufficient protection against unforeseen shocks and could derail the macroeconomic program.** At a minimum, international reserves should remain at the level envisaged in the staff report to lend credibility to the macroeconomic stabilization strategy, as otherwise there would be a considerable risk that dwindling reserves could trigger ad hoc policy adjustments. Moreover, given the still significant uncertainty with regard to the estimate of the food shortage,<sup>1</sup> a level of international reserves higher than projected in the staff report might be desirable so as to give the authorities the flexibility to import additional food should the need arise.

5. **Consideration is, therefore, being given to providing Malawi with emergency assistance<sup>2</sup> in an amount of 25 percent of quota (about SDR 17 million); the World Bank staff is also contemplating support under an emergency recovery loan.** Prompt action by the Fund and the World Bank would likely catalyze additional donor support.

6. **The staff intends to present a formal request by the authorities for emergency assistance to the Board shortly, for approval on a lapse-of-time basis.**

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<sup>1</sup> The agricultural production statistics on which these estimates rely have been flawed in the past and remain unreliable. Improving the quality of statistics is likely to take considerable time.

<sup>2</sup> Purchases under emergency assistance are subject to the General Resources Account (GRA) rate of charge, currently at 3 percent, compared with 0.5 percent for PRGF resources, and a repayment period of 3¼ to 5 years. After replenishing reserves at end-2002, including through, possibly augmented, access under the PRGF at the time of the first review, Malawi would be able to make an early repurchase of the emergency assistance resources.