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GRAY/05/2595

August 4, 2005

**Statement by Mr. Scholar and Mr. Williams on Malawi
(Preliminary)
Executive Board Meeting 05/71
August 5, 2005**

Key Points

- We welcome today's discussion and thank staff and Messrs Ngumbullu and Steytler for the information they have provided for the meeting;
- The authorities' commitment to reform and macroeconomic stability has been demonstrated and significant progress has been made since May 2004, despite experiencing several exogenous shocks. Numerous examples of this "break from the past" are provided in the staff paper and we would like to highlight four which, in our view, are particularly important:
 - i. 2004/05 was the first year since at least the early 1990s in which the authorities remained within the budget approved by parliament. The commitment to hold controlling officers to account under the Finance Management Act if they exceed their budgets is further evidence of this desire to maintain discipline;
 - ii. the firm and decisive action by the authorities to tackle corruption, including the arrest of Ministers and senior officials that were in office until June 2004 is appropriate and welcome (although we would hope for more rapid progress in processing corruption cases in the future);
 - iii. the inclusion of all (previously) extra-budgetary spending by the office of the President into the budget since May 2004—addressing a source of significant overspending in the past; and
 - iv. the bold proposals to improve the efficiency and effectiveness of the public sector by instituting greater transparency into its pay and conditions is necessary. Their steadfast implementation is very welcome;
- We support the proposal to make domestic debt reduction the overarching objective of fiscal policy (paragraph 17 of the MEFP) as further reductions in the domestic interest bill are critical to delivering macroeconomic stability and growth, and to releasing further resources for poverty-reducing expenditure. We would encourage staff and the authorities to make this the primary focus of programme conditionality;

- We welcome the recognition by the authorities and the IMF of the need to increase significantly (and permanently) the level of recurrent expenditure going to the health sector (as recognised by Box 2 of the staff report). We urge the authorities and staff to continue to identify the funding under the Health Sector Wide Approach (SWAp) separately in their documentation; and
- We note staff's view on the expected timing of HIPC Completion Point (CP). However, given the crucial importance of CP for Malawi's long-term debt sustainability (the debt-to-exports ratio is currently projected to be 231% (at end-2004)), the significant progress made by the authorities in the last year and the fact that interim relief from IDA will cease next year, we believe that consideration of CP should happen no later than mid-2006;
- We agree with the staff assessment of risks to the programme. However, we also believe that the authorities' minority standing in parliament which makes passage of the budget and legislation difficult is a significant risk; and
- We support the proposed decisions.