

**FOR
AGENDA**

EBS/06/18
Correction 1

February 17, 2006

To: Members of the Executive Board

From: The Secretary

Subject: **Malawi—First Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility**

The attached factual correction to EBS/06/18 (2/6/06) has been provided by the staff:

Page 1, first para., line 5: added to read “Mr. Masawe from the Executive Director’s office also participated in the discussions.”

Questions may be referred to Mr. C. McDonald (ext. 36893), Mr. Staines (ext. 34431), and Mr. Steinberg (ext. 34808) in AFR.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

MALAWI

First Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility

Prepared by the African Department
(In consultation with other departments)

Approved by Michael Nowak and Matthew Fisher

February 6, 2006

Discussions: Discussions on the first review of the three-year Poverty Reduction and Growth Facility (PRGF) arrangement were held in Lilongwe from November 7–21, 2005. The staff held discussions with Mr. Gondwe, Minister of Finance; Mr. Mbewe, Governor of the Reserve Bank of Malawi (RBM); other senior officials; representatives of the private sector; members of the diplomatic and donor community, and NGOs. Mr. Masawe from the Executive Director's office also participated in the discussions. The staff team comprised of Mr. McDonald (head), Mr. Staines, Mr. Steinberg (all AFR), Mr. Dalsgaard (FAD), Ms. Mongrut (PDR), and Mr. Baunsgaard (Resident Representative). The mission overlapped with a technical assistance mission from FAD on pension reform and with a mission from FIN to update the safeguard assessment.

PRGF arrangement: A PRGF arrangement (SDR 38.2 million, 55 percent of quota) was approved on August 5, 2005 (EBS/05/113), of which SDR 5 million has been disbursed. Malawi has total outstanding Fund purchases of SDR 60 million (86 percent of quota). All end-September 2005 performance criteria were met. Malawi is requesting the second disbursement under the current PRGF arrangement (SDR 4.9 million). The authorities' program for the remainder of FY05/06 is outlined in the attached Letter of Intent (LOI) and Memorandum of Economic and Financial Policies (MEFP).

Key policy issues: Macroeconomic stability continues to be the main near-term objective as Malawi faces a period of food insecurity. Fiscal restraint will be crucial to avoid adverse debt dynamics and a more flexible exchange rate regime is required to alleviate foreign exchange shortages.

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