

INTERNATIONAL MONETARY FUND

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The International Monetary Fund has approved a stand-by arrangement for the Government of Malawi, authorizing purchases up to the equivalent of SDR 22 million over the next 12 months in support of the Government's economic and financial adjustment program. Purchases under this arrangement will be financed in part from the Fund's ordinary resources (SDR 13,444,000) and in part from resources borrowed by the Fund (SDR 8,556,000).

Following several years of sustained high annual rates of growth, the Malawian economy has experienced serious problems since 1978: higher prices for energy; transportation difficulties resulting from the country's landlocked position and political events in southern Africa; mounting foreign debt service payments, arising from the higher level of interest rates; drought; and the weakening of the world economy, which has weakened the country's terms of trade. During the same period, the budget deficit increased from 6.4 per cent of gross domestic product (GDP) in 1977/78 to 11.7 per cent of GDP in 1980/81. The real rate of growth of GDP has fallen continuously since 1978 with virtually no growth recorded in 1980 and 1981, resulting in contraction of real per capita incomes. Meanwhile inflation rose and has remained at an unacceptably high level.

The Government's program, which is being supported by the present stand-by arrangement, is the first phase of a medium-term adjustment effort which aims at bringing the financial position of the public sector to a manageable level, while re-invigorating the private sector economy, stimulating growth and attaining a sustainable position in the balance of payments. An important part of the program is the effort to reduce the fiscal imbalance. In this respect, several measures have been taken to reduce the budget deficit in 1982/83 and an expenditure monitoring system has been established to provide early warning of deviation from targets and to enable prompt corrective action to be taken. The fiscal program aims at a reduction of the overall deficit from 10.2 per cent of GDP in 1981/82 to 7.2 per cent of GDP in 1982/83. The program further aims at a steady recovery in the growth rate of real GDP, which will be generated by improvements in incentives and increased availability of private sector credit resources arising from an improvement in public sector finances. To stimulate exports, the Malawi kwacha was devalued by 15 per cent on April 24 and producer prices for major export crops have been substantially increased.

Malawi's quota in the Fund is SDR 28.5 million, and its outstanding financial obligations to the Fund, resulting from past operations and transactions, currently total the equivalent of SDR 64.2 million.