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Statement at the Conclusion of an IMF Staff Mission to Malawi

An International Monetary Fund (IMF) team, led by Alfredo Cuevas, concluded a two-week visit to Malawi today. The purpose of the mission was two-fold: to conduct the first review of the government's economic program, which is supported by the Fund under the Exogenous Shocks Facility (ESF); and to hold the 2009 Article IV consultation discussions on Malawi's economic prospects and policies. The team met with the Minister of Finance, the Governor of the Reserve Bank, and senior government officials as well as with representatives from the donor community, civil society, villages, and the business and banking sectors.

At the end of the mission, Mr. Alfredo Cuevas, Mission Chief for Malawi, issued the following statement:

"Malawi's economy continues to perform well. Growth in 2008 is estimated to have reached 9.7 percent, driven by a record-high tobacco harvest, a sound maize crop, and strong growth in telecommunications and other sectors of the economy. The tobacco and maize crops for 2009 also appear very promising and, together with the imminent start of uranium production and solid performance in other parts of the economy, are expected to keep growth strong this year. There are several important uncertainties and risks to the outlook, stemming mainly from the current global crisis. Weaker global demand could lead to lower prices of some of Malawi's export commodities compared with last season. The mission team therefore agrees that developments in export markets and their implications for domestic demand need to be monitored carefully.

"Inflation trended upwards during 2008, largely as a result of higher food and fuel prices. These pressure now appear to be moderating, however, and inflation is expected to decline in the coming months as the effect of recent reductions in fuel prices spread through the economy and as the new harvest comes on to the market.

"Fiscal performance has been strong over recent years, providing a solid basis for stronger growth and lower inflation and interest rates. The government's net domestic debt has been reduced from close to 20 percent of Gross Domestic Product (GDP) earlier this decade to around 10 percent of GDP this year. Domestic borrowing for the half-year to December 2008 was above the programme target, with general expenditure growth and the front-loading of fertilizer and some other spending items offsetting strong revenue performance. The mission team strongly endorses the efforts of the government to resist spending pressures and to minimize the deviation from the originally-agreed borrowing target for the full fiscal year.

"The IMF staff also held extensive discussions with the Malawi authorities on the macroeconomic framework for Fiscal Year 2009/10 that will underpin that year's budget and the Reserve Bank of Malawi's monetary programme. Discussions on the fiscal policy stance for 2009/10 have focused on the need to support sustained accelerated growth and poverty reduction in line with the Malawi Growth and Development Strategy, while also reducing domestic debt and building Malawi's foreign exchange reserves. Official reserves remain uncomfortably low at around one month of prospective imports. Given Malawi's vulnerability to weather, terms of trade, and other shocks, as a key macroeconomic priority the government plans to establish a sufficiently large buffer of reserves to help shelter the economy from adverse domestic or external developments this year.

The staff team also continued discussions with the authorities on structural measures to underpin macroeconomic objectives and support overall growth and development. These discussions included reforms to improve the monitoring of budget performance, strengthen money and foreign exchange markets, and create a better business climate.

The IMF Executive Board is expected to discuss the staff report on this mission in June 2009."