

BUFF/10/17

February 17, 2010

**Statement by the Staff Representative on Malawi  
Executive Board Meeting  
February 19, 2010**

The following information has become available since the issuance of Malawi's Staff Report for the 2009 Article IV consultation and Request for Support under the Extended Credit Facility (EBS/10/24). The new information does not alter the thrust of the staff appraisal.

1. The first half of the fiscal year (from July-December 2009) was characterized by stronger than projected revenue performance, donor disbursement delays, and higher domestic borrowing.<sup>1</sup>
  - Total revenues overperformed by around 0.5 percent of GDP, mainly due to improvements in tax administration and strong performance from nontax revenues, which were higher by around 0.3 percent of GDP.
  - Grants were lower than budgeted, with the shortfall amounting to around 2.7 percent of GDP (MK 20.4 billion). Delays in donor disbursements led to higher than projected domestic borrowing.
  - Total expenditures were roughly in line with the budget, with some notable differences in the expected composition. In particular, expenditures on wages and salaries were higher than budgeted by 0.06 percent of GDP (reflecting additional wages paid teachers, nurses, and doctors), along with spending on domestic interest payments (reflecting higher domestic debt). These additional budgetary outlays were largely offset by reduced spending on the fertilizer subsidy program, due mainly to lower than projected fertilizer import prices.
2. In the second half of the fiscal year, domestic revenues are expected to continue to overperform, and overdue donor funds are expected to be disbursed. The government intends to tighten its control of wages and salaries and goods and services expenditures, and reduce the domestic debt. It also intends to use some of the added budgetary inflows to increase social and development spending by about 0.7 percent of GDP compared to the budget, while meeting the domestic debt repayment target of 1.5 percent of GDP.

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<sup>1</sup> The 2009/10 Mid-Year Review and Revised Budget Statement was presented to Parliament on February 2, 2010.

3. The growth in reserve money and broad money was higher than projected in the fourth quarter, reflecting the increased government borrowing intended to compensate for delayed donor disbursements. Broad money grew by 24.4 percent at end-December 2009 on a twelve-month basis against the projected growth of 17 percent, and reserve money grew by 39 percent against the projected increase of 28.4 percent. The central bank intensified its efforts to mop up the ensuing rise in liquidity, resulting in an increase in the interbank rate and other key interest rates. The program's monetary targets are expected to be achieved, given the expected reduction in domestic debt in the second half of the fiscal year.
4. This year's tobacco crop is estimated at 177,500 metric tons (MT), including 153,000 MT of burley, which is slightly lower than last year's total production. The reduced production stems from less favorable weather conditions and a smaller number of producers. However, prices are expected to be fairly resilient because of concerns about supply shortages in Mozambique and Zambia. The industry is still in negotiation with the government over this year's minimum price schedule, which tobacco producers hope will reflect prevailing market conditions.
5. The rains have been erratic in the southern region of the country, which has hurt maize production. However, the maize crop is unaffected in other regions of the country. Food security requires about 2.2 million MT of maize production per annum, which could still be met, despite reduced production in the south.
6. Official unencumbered reserve assets were slightly higher than projected at US\$130 million at end-December 2009, equivalent to around 0.7 months of prospective imports.
7. Market reaction to the recent depreciation of the kwacha has been favorable, resulting in a gradual narrowing of the exchange rate spread from 22.2 percent at end-November 2009 to 20.6 percent.
8. The Department for International Development (DFID) and European Union (EU) have now confirmed their provision of budget support for fiscal year 2009/10.
9. The Millennium Challenge Account (MCA) board has recently re-certified Malawi as eligible for compact funding. A compact could be signed later this year, and the five-year window within which these funds must be drawn could start six to twelve months from that point after the plans and institutional arrangements to support the program are put in place. The MCA-funded program would focus on improving the reliability and quality of the country's electricity supply, expanding electricity access to peri-urban and rural areas, and supporting institutional reforms to the Electricity Supply Corporation (ESCOM) and the state regulator.