

IMF Executive Board Discusses Ex Post Assessment of Longer-Term Program Engagement in Malawi

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On June 20, 2012, the Executive Board of the International Monetary Fund (IMF) discussed the Ex Post Assessment (EPA) of Longer-Term Program Engagement with Malawi.¹

Background

Malawi has been engaged with the IMF through a series of Fund-supported programs since 1979. An EPA of the early Fund arrangements was completed in September 2004. The new EPA reviews Malawi's economic performance under Fund-supported programs from 2004 to 2011.

The report concludes that macroeconomic performance under Fund-supported programs in the period under review was mixed on account of uneven program ownership and important policy implementation setbacks more recently. During 2004-07, disciplined fiscal and monetary policies and structural reforms helped to restore macroeconomic stability, obtain debt relief, catalyze larger donor funding, and increase social spending. Afterwards, partly in the context of external shocks, macroeconomic policies became volatile and heavy foreign exchange controls were relied upon to keep a fixed exchange rate regime. By 2011, economic growth decelerated, inflation started to creep up again, and severe foreign exchange shortages spilled over into shortages of utility (energy and power supply) and of critical imported goods (such as fuel).

The report also concludes that there is a case for continued

Fund support to Malawi, including through financial arrangements. The latter would be contingent on financing needs and the authorities' firm ownership of program commitments. In addition, and in light of past and recurrent problems with the implementation of program commitments, upfront policy actions and more proactive engagement with the authorities at the highest levels would be needed to ensure program ownership. The report recommended an enhanced focus on the build-up of international reserves to reduce vulnerabilities and the introduction of a more flexible exchange rate regime and liberalized foreign exchange market.

Executive Board Assessment

Executive Directors broadly agreed with the conclusions of the Ex Post Assessment (EPA). They noted that the Fund's program engagement during 2004–2011 helped Malawi maintain macroeconomic stability, high rates of economic growth and donor support in the presence of negative shocks, and make progress towards the MDGs. Directors regretted, however, the poor program performance under the last two financial arrangements due to weak program ownership.

Noting the challenges ahead, Directors saw merit in continued Fund engagement. They emphasized that the success of any future financial arrangement will depend on the authorities' firm commitment to the program, demonstrated in part by significant upfront policy actions. They welcomed, in this regard, the recent actions taken by the new government to address critical foreign exchange reforms. In addition, Directors underscored that the program design should incorporate lessons from the EPA, ensure that fiscal policy supports poverty reduction objectives, and take into account the authorities' implementation capacity and aid inflows. Technical assistance and close collaboration with development partners to ensure continuity of donor support will remain essential.

Directors stressed that the buildup of international reserves and the introduction of a more flexible exchange rate regime and liberalized foreign exchange market should remain critical elements of Malawi's policy framework. A more flexible exchange regime would help the economy to better respond to exogenous shocks while reducing the economy's external vulnerability, strengthen reserve accumulation, and contribute to high sustained economic growth.

Directors emphasized the need to strengthen social safety nets to help mitigate the impact of adjustment policies on the poor. They also noted the importance of alleviating significant supply side bottlenecks, with a view to improving the business climate, stimulating investment, and fostering diversified and inclusive economic growth.

¹ An EPA is required for all members having longer-term program engagement with the Fund. It is intended to provide an opportunity for the Fund to step back from continuing

program relations with a member country to consider an analysis of the economic problems facing the country, a review of progress under Fund-supported programs and forward-looking assessment that takes into account the lessons learned, and presents a strategy for future Fund engagement.

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