

DOCUMENT OF INTERNATIONAL MONETARY FUND
AND NOT FOR PUBLIC USE

FOR
AGENDA

EBS/88/264

CONFIDENTIAL

December 22, 1988

To: Members of the Executive Board

From: The Secretary

Subject: Malawi - Staff Report for the Midterm Review of the First Annual Arrangement Under the Enhanced Structural Adjustment Facility and for the Second Review Under the Stand-By Arrangement

Attached for consideration by the Executive Directors is the staff report for the midterm review of the first annual arrangement under the enhanced structural adjustment facility for Malawi and for the second review under its stand-by arrangement. Draft decisions appear on page 24.

This subject will be brought to the agenda for discussion on a date to be announced.

Mr. Edo (ext. 8752) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

INTERNATIONAL MONETARY FUND

MALAWI

Staff Report for the Midterm Review of the
First Annual Arrangement Under the Enhanced Structural Adjustment
Facility and for the Second Review Under the Stand-By Arrangement

Prepared by the African Department and the
Exchange and Trade Relations Department

(In consultation with the Fiscal Affairs, Legal,
and Treasurer's Departments)

Approved by Mamoudou Touré and A. Basu

December 22, 1988

I. Introduction

A staff mission visited Lilongwe and Blantyre during October 15-29, 1988 to hold discussions on the midterm review of the first annual arrangement under the enhanced structural adjustment facility (ESAF) and the second review under the stand-by arrangement. ^{1/} In the attached letter of intent to the Managing Director dated December 22, 1988 (Attachment), the Malawian authorities review developments thus far in the fiscal year (April/March) and describe policies that they will be pursuing for the remainder of the year. All performance criteria for end-June and end-September 1988 were observed, and the structural benchmarks have been implemented to date.

The 15-month stand-by arrangement, in an amount equivalent to SDR 13.02 million, or 35 percent of quota, was approved by the Executive Board on March 2, 1988 (EBS/88/25, 2/9/88). Although an initial (first credit tranche) purchase of SDR 9.25 million (25 percent of quota) was made on Board approval, the authorities have indicated that they will not request any further purchase of the remaining amount. The arrangements under the ESAF were approved by the Executive Board on July 15, 1988 (EBS/88/118, 6/17/88), with a total access of SDR 55.8 million (150 percent of quota), to be disbursed in six equal semiannual amounts

^{1/} The mission comprised Messrs. Edo (head-AFR), Schiller (AFR), Holzmann (FAD), De La Torre (ETR), and Ms. Fundafunda (secretary-AFR). Ms. Krumm of the World Bank was in Malawi during the mission's stay and participated in discussions relating to the policy framework paper (PFP). The Malawian representatives included Mr. J.C. Malewezi, Secretary to the Treasury; Mr. F.Z. Pelekamoyo, Deputy Governor of the Reserve Bank of Malawi; and other senior officials concerned with economic and financial matters.

of SDR 9.3 million. Malawi received the initial disbursement following Board approval; the second disbursement is subject to observance of the end-September 1988 performance criteria (this condition has been met) and completion of the midterm review. As of end-November 1988, Malawi's outstanding use of Fund resources was equivalent to 208 percent of quota (Table 1).

II. Policy Implementation and Economic Developments

1. External sector developments

On the basis of provisional actual data through September, export receipts (f.o.b.) for 1988 are now estimated at SDR 218 million (about SDR 11 million above the ESAF estimate), compared with SDR 215 million in 1987 (Table 2). ^{1/} The change from the June 1988 ESAF estimate is due to a 10.5 percent increase in export unit value (compared with the ESAF arrangement estimate of 1.7 percent), which more than compensated for a larger decline in volume (8.4 percent) than initially projected in early 1988 (5.1 percent). The export unit value increase was attributable mainly to high prices for tobacco (50-60 percent of total exports), while the volume shortfall stemmed from a smaller tobacco volume (owing to inclement weather) and lower sugar exports.

On the basis of provisional actual data through July, nonmaize imports (c.i.f.) in 1988 are estimated at SDR 255 million, compared with the ESAF projection of SDR 239 million and with 1987 imports of SDR 223 million. The import unit value in SDR terms is approximately unchanged from 1987 (with declines in petroleum import prices offsetting increases in other import prices). In volume terms, nonmaize imports are projected to increase by an estimated 14.2 percent (compared with 5.3 percent in the ESAF projections), reflecting the effects of import liberalization. Net outlays for maize (imports less grants) are projected to be SDR 5.5 million (about the same level as programmed).

Owing to the increase in export prices, the improvement in the terms of trade in 1988 is now estimated to be 10.6 percent, much higher than the ESAF projection (which assumed only a marginal improvement of 0.6 percent).

As a result of the above developments, the current account deficit for 1988 is now projected to be SDR 82 million (7.6 percent of GDP), compared with the previous projection of SDR 75 million (7.3 percent of GDP) and the 1987 deficit of SDR 48 million (5.1 percent of GDP). The stronger capital account projections reflect much higher official grant disbursements (SDR 44 million) than assumed in the ESAF projections

^{1/} Previous estimates for 1988 were made in connection with Malawi's requests for a stand-by arrangement (EBS/88/25, 2/9/88) and for arrangements under the ESAF (EBS/88/118, 6/17/88).

Table 1. Malawi: Schedule of Proposed Purchases and Repurchases,
October 1988-March 1991

	Outstanding at Nov. 30, 1988	1988/89		1989/90		1990/91	
		Oct.- Dec.	Jan.- March	April- Sept.	Oct.- March	April- Sept.	Oct.- March
(In millions of SDRs)							
Net use of Fund resources		-0.88	5.11	-1.57	1.88	2.20	2.95
Transactions under tranche policies		-0.88	-2.47	-7.42	-7.42	-7.10	-6.35
Purchases ^{1/}		—	—	—	—	—	—
Ordinary resources		—	—	—	—	—	—
Borrowed resources		—	—	—	—	—	—
Repurchases		-0.88	-2.47	-7.42	-7.42	-7.10	-6.35
Ordinary resources		—	-0.71	-1.54	-1.54	-1.54	-1.54
Borrowed resources		-0.88	-1.76	-5.88	-5.88	-5.56	-4.81
Transactions under special facilities		—	-1.73	-3.45	—	—	—
Purchases		—	—	—	—	—	—
Repurchases		—	-1.73	-3.45	—	—	—
Enhanced structural adjustment facility loans		—	9.30	9.30	9.30	9.30	9.30
Total Fund resources outstanding	77.24	76.36	81.47	79.90	81.78	83.97	86.92
Under tranche policies	62.76	61.89	59.42	52.00	44.58	37.47	31.12
Under special facilities	5.17	5.18	3.45	—	—	—	—
Under enhanced structural adjustment facility	9.30	9.30	18.60	27.90	37.20	46.50	55.80
(In percent of quota)							
Total Fund resources outstanding	207.63	205.27	219.01	214.78	219.83	225.74	233.66
Under tranche policies	168.71	166.36	159.73	139.78	119.83	100.74	83.66
Under special facilities	13.92	13.91	9.27	—	—	—	—
Under enhanced structural adjustment facility	25.00	25.00	50.00	75.00	100.00	125.00	150.00
(In millions of SDRs)							
<u>Memorandum item:</u>							
Trust Fund							
Repayments		—	-0.20	-0.84	-0.84	-0.26	-0.06
Amount outstanding	2.19	2.19	1.99	1.15	0.31	0.06	—

Source: IMF Treasurer's Department.

^{1/} Assumes that only the first purchase under the current stand-by arrangement is made by Malawi.

Table 2. Malawi: Balance of Payments, 1982-88

(In millions of SDRs)

	1982	1983	1984	1985	1986	1987	1988 Stand-by program (EBS/88/25)	1988 ESAF program (EBS/88/118)	1988 Est. 1/
Current account	-115.4	-124.9	-20.0	-95.2	-57.9	-48.4	-78.6	-74.9	-81.5
Exports, f.o.b.	217.1	230.3	304.2	246.1	211.6	215.4	204.5	206.6	217.9
Imports, c.i.f.	-276.9	-288.9	-263.3	-282.4	-218.9	-228.9	-261.8	-261.2	-285.8
Nonmaize imports (f.o.b.)	-179.9	-188.0	-158.0	-169.3	-131.4	-134.0	-141.5	-143.1	-153.0
C.i.f. margin	-97.1	-100.9	-105.3	-113.1	-87.6	-89.3	-94.3	-95.4	-102.0
Emergency maize, c.i.f.	—	—	—	—	—	-5.6	-26.0	-22.7	-30.8
Services and private transfers, net	-55.6	-66.2	-60.9	-59.0	-50.6	-38.5	-41.9	-39.1	-38.9
Of which: interest payments	(-38.5)	(-41.4)	(-43.3)	(-44.1)	(-45.6)	(-39.0)	(-36.2)	(-37.7)	(-37.7)
Emergency maize grants	—	—	—	—	—	3.7	20.6	18.8	25.3
Capital account	67.1	42.5	62.2	49.5	-9.1	92.4	79.9	81.4	119.2
Long-term, net	37.8	34.6	59.7	41.9	59.7	73.1	79.9	78.4	108.4
Official transfers	32.9	27.6	23.8	24.5	23.2	22.9	39.9	40.3	63.3
Of which: SAL-related	(—)	(—)	(—)	(—)	(9.3)	(6.4)	(19.6)	(22.0)	(44.1)
Public sector borrowing	2.0	-6.4	38.2	12.2	31.2	49.2	38.1	35.6	44.8
Disbursements	68.4	61.6	91.2	69.0	89.8	95.8	86.4	81.9	86.9
Of which: SAL and cofinancing	(18.1)	(—)	(52.0)	(7.7)	(63.9)	(40.8)	(27.7)	(25.9)	(27.7)
Amortization	-66.4	-68.0	-53.0	-56.8	-58.6	-44.3	-48.3	-46.3	-42.1
Private sector (net)	3.0	13.5	-2.3	5.6	3.9	1.9	1.9	2.4	0.3
Short-term and unidentified	29.3	7.9	2.5	7.6	-68.9	19.3	—	3.0	10.8
Overall balance	-48.3	-82.3	42.2	-45.7	-67.0	44.0	1.3	6.4	37.7
Financing	48.3	82.3	-42.2	45.7	67.0	-44.0	-1.3	-6.4	-37.7
Official net foreign assets									
(- increase)	31.4	27.0	-65.2	39.0	20.8	-34.8	-14.3	-12.1	-50.9
Of which: IMF (net)	(2.1)	(23.9)	(17.4)	(7.0)	(-20.6)	(-23.6)	(-8.4)	(7.9)	(-1.4)
Change in arrears	—	—	—	—	43.8	-9.7	-33.3	-34.1	-34.1
Import-related	—	—	—	—	43.8	-26.4	-17.6	-17.4	-17.4
Debt service-related	—	—	—	—	—	16.7	-15.7	-16.7	-16.7
Debt relief	16.9	55.3	23.0	6.7	2.4	0.4	38.9	39.7	47.3
Current maturities	16.9	55.3	23.0	6.7	2.4	0.4	28.5	25.6	32.2
Arrears	—	—	—	—	—	—	10.4	14.1	15.1
Financing gap	—	—	—	—	—	—	7.4	—	—
Memorandum items:									
Current account (percent of GDP) 2/	-10.8	-10.9	-1.7	-8.6	-5.7	-5.1	-7.8	-7.3	-7.6
Gross official reserves									
End-period stock	20.5	12.8	58.0	39.8	15.7	34.4	40.6	51.8	72.6
In months of imports 3/	0.9	0.5	2.6	1.7	0.9	1.8	2.1	2.6	3.4
C.i.f. margin 4/	35.0	35.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0

Sources: Data provided by the Malawian authorities; and staff estimates.

1/ Estimates were revised in October 1988 on the basis of provisional actual data up to August/September 1988.

2/ Excluding official transfers.

3/ Imports on c.i.f. basis, excluding emergency maize.

4/ As a percent of c.i.f. value.

(SDR 22 million). Estimates of other capital flows (net) were of the same broad magnitude as the original ESAF projections. In April 1988, the authorities successfully negotiated rescheduling agreements with the Paris and London Clubs. In June 1988, the World Bank approved a credit in support of policies for industrial and trade policy reform, and donors at a Consultative Group meeting in Paris pledged substantial assistance to Malawi. The bilateral agreements under the Paris Club are expected to be signed by the target date of end-December 1988; donor assistance has thus far been in accordance with the pledges made at the Consultative Group meeting.

The overall balance of payments surplus for 1988 is now projected to be SDR 38 million, compared with the ESAF estimate of SDR 6 million and a 1987 surplus of SDR 44 million. External reserves are now projected to reach SDR 73 million (3.4 months of imports) by end-1988, compared with the ESAF estimate of SDR 52 million (2.6 months of imports) and end-1987 reserves of SDR 34 million (1.8 months of imports).

2. Real sector developments

The larger import level is reflected in a better output performance, as manufacturing capacity utilization is estimated to have increased from 30-40 percent at the beginning of the year to 50-60 percent in the latter part of the year. With improved weather conditions permitting some recovery in agricultural output, and with increased manufacturing production, the real GDP growth rate in 1988 is now estimated to be 3.5 percent, compared with the program projection of 1.5 percent (Tables 3 and 4). However, updated data have led to a downward revision in the GDP statistics for 1987, which now show a real decline of 1.5 percent instead of the 0.2 percent real decline that was estimated in early 1988.

3. Fiscal policies

An important achievement of the program has been the restoration of strict fiscal discipline. Revised actual fiscal data indicate that the overall budget deficit (excluding grants) for 1987/88 is now recorded as MK 275 million, compared with MK 310 million estimated earlier (in EBS/88/118, 6/17/88). As a proportion of GDP, this represents 9.3 percent of GDP, rather than 10.5 percent of GDP (Table 5). This improvement in the fiscal position was due to higher revenues (mostly in the nontax category) and lower expenditures (reflecting the impact of the control measures in the last months of the year).

The mission estimated that the 1988/89 overall deficit will be kept within the program target of MK 296 million (equivalent to 8.1 percent of program GDP, or 7.7 percent of the revised GDP). On the basis of fiscal data for the first half of the fiscal year, the mission estimated that revenues are likely to exceed the ESAF program projections, owing to higher real economic growth, inflation, and imports. Expenditures in

Table 3. Malawi: Selected Economic and Financial Indicators, 1985-88

	1985	1986	1987	1988 Stand-by program (ERS/88/25)	1988 ESAF program (FRS/88/118)	1988 Est.
(Annual percentage change, unless otherwise specified)						
National income						
GDP at constant factor cost	4.5	2.9	-1.5	1.5	1.5	3.5
GDP deflator	8.9	13.2	21.9	20.0	20.0	30.5
Consumer prices (annual average)	14.9	14.8	28.4	20.0	20.0	30.5
Consumer prices (Dec./Dec.)	12.5	15.8	35.1	...	...	23.9
External sector						
Exports, f.o.b. (millions of SDRs)	246.1	211.6	215.4	204.5	206.6	217.9
Imports, c.i.f. (millions of SDRs)	282.4	218.9	228.9	267.1	261.2	285.8
Export volume	-2.3	3.0	-0.3	-7.6	-5.1	-8.4
Import volume	14.5	-14.7	-2.1	5.0	5.3	14.2
Terms of trade (deterioration -)	-11.5	-0.2	-2.1	-1.0	0.5	10.6
Nominal effective exchange rate, year-end (depreciation -)	-6.3	-21.4	-12.2	...	...	-10.9 ^{1/}
Real effective exchange rate, year-end (depreciation -)	-4.4	-15.2	1.4	...	...	-3.3 ^{1/}
Government budget						
Revenue	25.1	11.5	17.9	23.4	19.4	23.0
Total expenditure	27.9	25.2	7.4	11.2	11.0	17.9
Money and credit ^{2/}						
Net domestic assets (increase) ^{3/}	27.8	10.4	-6.1	2.1	-7.1	-13.6 ^{4/}
Credit to Government (increase) ^{3/}	21.5	18.7 ^{5/}	11.6	10.5	-3.1	-13.7 ^{4/}
Money and quasi-money (M2) (increase) ^{3/}	-3.5	20.6	30.3	15.7	4.3	17.4 ^{4/}
Velocity (GDP relative to M2)	5.6	5.7	5.2	5.4	6.1	5.5 ^{4/}
Interest rate (annual rate, 12-month time deposits)	14.25	14.25	17.25	...	13.25 ^{6/}	13.25
(In percent of GDP)						
Central Government ^{2/}						
Overall deficit						
Excluding official transfers	10.0	12.9	9.3	8.1	8.1	7.7
Including official transfers	7.8	9.6	6.7	4.9	3.4	0.8
Domestic bank financing	3.6	2.5	1.5	1.7	-0.4	-4.0
Foreign financing	2.6	4.7	2.7	2.6	3.9	3.8
Gross investment	18.6	11.1	14.0	13.8	13.5	14.1
National saving	10.1	5.5	9.0	6.2	6.2	6.5
External current account						
Excluding official transfers	-8.6	-5.7	-5.1	-7.8	-7.3	-7.6
Including official transfers	-6.4	-3.3	-2.6	-3.8	-3.4	-1.7
Debt service ratio ^{7/}	44.5	57.3	48.2	49.9	48.0	47.9
Interest payments ^{7/}	16.2	19.3	16.9	16.4	16.5	16.3
(In millions of SDRs, unless otherwise specified)						
Overall balance of payments ^{8/}	-45.7	-67.0	44.0	1.3	6.4	37.7
Gross official reserves (months of normalize imports, c.i.f.)	1.7	0.9	1.8	2.1	2.6	3.4
External debt (disbursed and outstanding, end of period)	858.3	851.0	873.3	892.6	918.2	937.3
External payments arrears (end of period)	—	43.8	34.1	—	—	—

Sources: Data provided by the Malawian authorities; and staff estimates and projections.

^{1/} Cumulative change from December 1987 to August 1988.

^{2/} Fiscal year beginning April 1 of the year indicated.

^{3/} As a percentage of money and quasi-money at the beginning of the period.

^{4/} 12-month period ending in September 1988.

^{5/} Excludes transfers to the Reserve Bank of Malawi in the form of non-interest-bearing promissory notes to cover central bank revaluation losses on net foreign liabilities.

^{6/} Effective April 11, 1988.

^{7/} Before debt relief; as percent of exports of goods and nonfactor services.

^{8/} Before debt relief but after SAL and related inflows.

Table 4. Malawi: GDP Estimates 1/

	1987	1988	1989	1990	1991
<u>Data in EBS/88/118 (6/17/88)</u>					
Real GDP growth rate (in percent) <u>2/</u>	-0.2	1.5	3.3	3.3	3.3
Change in GDP deflator (in percent)	25.4	20.0	10.0	7.5	5.0
GDP at current market prices (in millions of Malawi kwacha)	2,886	3,515	3,992	4,432	4,804
<u>Data as revised in October 1988</u>					
Real GDP growth rate (in percent) <u>2/</u>	-1.5	3.5	3.7	4.0	4.3
Change in GDP deflator (in percent)	21.9	30.5	14.7	11.3	5.6
GDP at current market prices (in millions of Malawi kwacha)	2,720	3,646	4,337	5,020	5,529
	<u>1987/88</u>	<u>1988/89</u>	<u>1989/90</u>	<u>1990/91</u>	<u>1991/92</u>
<u>Data in EBS/88/118 (6/17/88)</u>					
GDP at current market prices (in millions of Malawi kwacha)	3,043	3,635	4,102	4,525	4,899
<u>Data as revised in October 1988</u>					
GDP at current market prices (in millions of Malawi kwacha)	2,952	3,818	4,505	5,145	5,657

Sources: Data provided by the Malawian authorities; and staff estimates and projections.

1/ Data are given by calendar years and fiscal years (April/March).

2/ GDP at factor cost.

Table 5. Malawi: Central Government Operations, 1985/86-1988/89

(In millions of Malawi kwacha)

	1985/86	1986/87	1987/88	1988/89 Stand-by program (EBS/88/25)	1988/89 ESAF program (EBS/88/118)	1988/89 Est.
Revenue (excluding grants)	442.0	492.9	581.3	671.0	685.9	715.0
Tax	373.4	391.0	452.8	554.8	548.8	593.4
Nontax	68.6	101.9	128.5	116.3	137.0 ^{1/}	121.6
Expenditure	643.5	797.0	855.9	964.0	981.5	1,009.0
Current expenditure	457.3	560.5	637.7	700.5	706.1	701.6
Wages and salaries	104.6	132.0	152.6	163.4	165.1	158.0
Interest	124.9 ^{2/}	152.2	175.2 ^{3/}	184.7 ^{3/}	173.0 ^{3/}	175.6 ^{3/}
Other current expenditure	227.8	276.3	310.0	352.4	368.0	368.0
Other goods and services	155.1	207.9	...	...	...	...
Of which: special expenditure	(...)	(32.5)	(...)	(...)	(...)	(...)
Grants and subsidies	43.6	53.2	...	...	...	...
Other	29.1	15.2	...	...	...	...
Development expenditure	160.2	189.8	207.4	251.3	270.4	270.4
Domestically financed	29.3	33.8	34.6	...	38.8	38.8
Foreign-financed	130.9	156.0	172.8	...	231.6	231.6
Extrabudgetary expenditure	26.0	46.7 ^{4/}	10.8	12.2	5.0	7.7
Strategic grain reserve	26.0	46.7	—	—	—	—
Net cost emergency maize imports ^{5/}	—	—	10.8	12.2	5.0	7.7
Errors, omissions, adjustments ^{6/}	—	—	-1.2	—	—	29.3
Overall deficit (excluding grants)	-201.5	-304.1 ^{4/}	-274.6	-293.0	-295.6	-294.0
Grants	44.8	79.3	76.1	117.0	171.9	265.3
SAL-related	—	21.8	18.3	26.7	—	—
Others	44.8	57.5	57.7	90.3	77.2	87.8
Overall deficit (including grants)	-156.7	-224.8	-198.5	-176.0	-123.7	-28.7
Financing (excluding grants)	-156.7	224.8	-198.5	176.0	123.7	28.7
Foreign (net)	51.8	115.0	80.0	95.8	140.7	146.9
Borrowing	137.7	218.3	198.2	234.4	260.4	271.8
Project loans	...	93.0	130.2	132.0	154.4	161.7
SAL-related	...	125.3	68.0	102.4	106.0	110.1
Repayments	85.9	103.3	118.2 ^{3/}	138.6 ^{3/}	119.7 ^{3/}	-125.0 ^{3/}
Domestic (net)	104.9	109.8	118.5	80.2	-17.0	-118.2
Banking system ^{7/}	72.4	60.9 ^{4/}	45.5	60.0	-15.9	-151.8
Other	32.5	48.9	73.0	20.2	-1.1	33.6 ^{8/}
Memorandum items:						
GDP (fiscal year)	2,015	2,353	2,952	3,619	3,635	3,818
(In percent of GDP)						
Revenue (excluding grants)	21.9	20.9	19.7	18.5	18.9	18.7
Expenditure	31.9	33.9 ^{4/}	29.0	26.6	27.0	26.4
Overall deficit (excluding grants)	-10.0	-12.9 ^{4/}	-9.3	-8.1	-8.1	-7.7
Overall deficit (including grants)	-7.8	-9.6 ^{4/}	-6.7	-4.9	-3.4	-0.8

Source: Data provided by the Malawian authorities; and staff projections.

^{1/} Includes a small amount of direct foreign transfers related to asset sales by ADMARC.

^{2/} Estimate.

^{3/} On due basis; the domestic counterpart of debt relief will be blocked by the Reserve Bank.

^{4/} Excluding transfers to the Reserve Bank of Malawi, in the form of non-interest-bearing promissory notes, to cover central bank valuation losses on its stock of net foreign liabilities.

^{5/} Net of expenditures financed by external grants.

^{6/} In 1988/89-1990/91, includes expenditure provisions not yet allocated between recurrent and development.

^{7/} Excludes payments into the Reserve Bank's blocked account for government debt service payments subject to rescheduling.

^{8/} Includes proceeds of sale of a building to the Reserve Bank of Malawi amounting to MK 34.7 million.

the first half of the year have been kept strictly within limits consistent with the program provisions, and the authorities reaffirmed their commitment to limit expenditures to a level that would make it possible to observe the program deficit target for the year. A favorable development on the financing side is that grants are now expected to be equivalent to 6.9 percent of the revised GDP, compared with an ESAF program estimate of 4.5 percent. The outstanding stock of net credit to the Government is projected to decline by an amount equivalent to 4.0 percent of GDP (the stock would be reduced by about one third).

The fiscal adjustment since 1986/87 has been mostly on the expenditure side, since the revenue base is narrow and revenues have declined from 20.9 percent of GDP in 1986/87 to a projected 18.7 percent of GDP in 1988/89. In order to meet the overall budget deficit targets, expenditures have been reduced from 33.9 percent of GDP in 1986/87 to a projected 26.4 percent of GDP in 1988/89.

During 1988/89, the Reserve Bank has bought from the Government its own building, which had been paid for by the Government and had hitherto been a government asset. The mission and the authorities agreed that the proceeds of this sale (MK 34.7 million) should not be shown as government revenue but should be shown in the fiscal accounts as part of domestic nonbank financing. Since domestic bank credit would have been higher (for the same budget deficit) without this sale, it was also agreed that the ceiling on credit to the Government would be reduced by the amount of this transaction.

In 1988/89, the authorities have implemented most of the tax reform measures envisaged under the program to make the revenue system more efficient and shift tax incidence from production to consumption. The measures in which there have been delays are in areas with potential revenue loss implications, and the authorities intend to consider these for implementation in 1989/90. The mission and the authorities agreed that the budget deficit target (excluding grants) for 1989/90 would be set at 6.7 percent of GDP, the lower of the two scenario targets shown in the policy framework paper issued in June 1988 (EBD/88/155). This will require continuing strict control of expenditures, which will decline further to 25.5 percent of GDP in 1989/90.

With a continuing inflow of refugees from Mozambique, who are now estimated to number more than half a million, Malawi has faced increased pressures on domestic supplies of land, fuel resources, and foodstuffs, as well as on government-financed social and infrastructural facilities. Most of the costs associated with the refugees are directly covered by emergency assistance from international and bilateral aid agencies but some costs are being borne by the Malawi Government.

4. Parastatal reform

The financial performance of the parastatal sector has been in accordance with the financial targets established under the program.

The ceiling at end-September 1988 on bank credit to the parastatals was observed (Table 6). In particular, the main public enterprise, the Agricultural Development and Marketing Corporation (ADMARC), has kept its overdraft bank position well below the program target and well below levels recorded last year. The mission estimated that the financial targets for the parastatal sector for the year as a whole are likely to be met (Table 7). This performance has, however, been facilitated by the good tobacco season; progress with divestiture of ADMARC's assets has been slower than anticipated, and a few parastatals are still making losses (albeit reduced).

On the basis of revised data for 1987/88 provided to the mission, the combined net operating position (after depreciation and foreign exchange losses) of the 12 major public enterprises is now estimated to have been a profit of MK 4.2 million, a significant change from the losses of past years (and better than the estimate of a loss of MK 6.3 million for 1987/88 made earlier this year). The change from the 1986/87 outcome was due principally to a change in ADMARC's position from a large loss to approximate balance in 1987/88, and an increase in the profits of the Electricity Supply Commission (ESCOM).

For 1988/89, the mission's estimates indicate that the substantial improvement in the profit position envisaged under the ESAF program is likely to be realized. The combined profit position is now projected to be MK 22.9 million, approximately in line with the ESAF estimate, and a substantial improvement from the 1987/88 position. The improvement from 1987/88 is due to an increase in ADMARC's profit to MK 4.8 million, a smaller loss by Malawi Railways, and improvements in most of the other parastatals. ADMARC's projected profit is above the level of MK 2 million established as a quantitative benchmark under the ESAF program.

One of the requirements under the ESAF program is a study to be completed by March 1989, with the support of the World Bank, to identify the costs of ADMARC's current functions and of market stabilization and the implications for ADMARC's medium-term role and structure. A team of consultants, whose composition and terms of reference were agreed by the Fund, the Bank, and the authorities, has been working on this study and is expected to produce an initial report for review in January 1989.

5. Monetary policies

At end-September, credit to the Government was below the ceiling (adjusted for larger-than-projected nonproject foreign inflows and the special sales proceeds from the Government's sale of the Reserve Bank building to the Reserve Bank) as the budget deficit was kept within the target. The net credit to the parastatals was also well below its ceiling (an actual of MK 16.6 million, compared with a ceiling of MK 84.9 million).

Credit to the private sector rose sharply in June on account of tobacco crop financing, and until August it stayed at a higher level

Table 6. Malawi: Monetary Survey, March 1987-March 1989

(In millions of Malawi kwacha)

	1987		1988			1988		1989
	March	Dec.	March	June Actual	Sept.	Sept. ESAF program (EBS/88/118)	Dec. ESAF program (EBS/88/118)	March ESAF program (EBS/88/118)
Foreign assets (net)	-341.1	-247.5	-277.8	-273.0	-79.7	-158.5	-206.3	-219.0
Gross foreign assets	65.9	106.4	145.2	160.9	335.6	219.5	197.3	171.2
Foreign liabilities	-407.0	-353.9	-423.0	-433.9	-415.3	-378.0	-403.6	-390.2
Domestic assets (net)	608.8	618.9	585.2	661.9	589.6	624.5	589.8	548.3
Domestic credit	692.2	745.5	741.6	802.6	650.7	833.0	801.2	787.4
Credit to Government (net)	432.1	490.9	477.6	458.7	369.8	468.1	479.5	461.7
Credit to the statutory bodies (net)	19.1	49.2	23.7	23.4	16.6	84.9	69.1	43.7
Credit to the private sector	241.0	205.4	240.3	320.5	264.3	280.0	252.6	282.0
Other assets (net)	-83.4	-126.6	-156.7	-140.7	-61.1	-208.5	-211.4	-239.1
Of which: new blocked deposits at Reserve Bank 1/	(--)	(-48.7)	(-90.6)	(-100.8)	(-137.3)	(-151.6)	(-153.0)	(-176.7)
Other items (net)	-125.2	-214.8	-204.4	-236.9	-236.9	-204.5	-204.5	-204.5
Reserve Bank revaluation accounts 2/	-148.0	-237.6	-227.2	-269.0	-269.0	-227.3	-227.3	-227.3
SDR allocation	22.8	22.8	22.8	32.1	32.1	22.8	22.8	22.8
Money plus quasi-money	392.9	586.2	511.9	626.7	746.6	670.5	588.0	533.8
Money	168.7	244.8	245.2	321.5	392.5	...	...	...
Quasi-money	224.2	341.4	266.6	305.2	354.1	...	...	...

(Twelve-month change as a percentage of beginning period broad money stock)

Memorandum items:

Domestic assets (net)	10.4	-8.5	-6.0	-13.8	-13.6	-8.1	-5.0	-7.1
Domestic credit	5.7	-1.8	12.6	0.7	-18.7	10.0	9.5	8.9
Credit to the Government (net)	18.7	7.7	11.6	-2.3	-13.7	1.8	-1.9	-3.1
Money plus quasi-money	20.6	34.7	30.3	18.7	17.4	5.5	0.3	4.3

Sources: Data provided by the Malawian authorities; and staff projections.

1/ The kwacha counterparts of the Government's and statutory bodies' debt service payments, for which a rescheduling is being sought, are being paid as they fall due in blocked accounts at the Reserve Bank.

2/ Comprises the sum of the Reserve Bank's profit and loss on devaluation account and the value of promissory notes issued by the Government in respect of the Reserve Bank's devaluation losses on its outstanding stock of net foreign assets.

Table 7. Malawi: Selected Indicators of the Financial Performance of the Major Statutory Bodies, 1985/86-1988/89 ^{1/}

(In millions of Malawi kwacha)

	1985 or <u>1985/86</u>	1986 or <u>1986/87</u>	1987 or <u>1987/88</u>	1988 or <u>1987/88</u> Stand-by program (EBS/88/25)	1988 or <u>1988/89</u> ESAF program (EBS/88/118)	1988 or <u>1988/89</u> Est.
Combined accounts ^{2/}						
Revenues	204.3	240.5	266.3	289.1	297.9	310.8
Interest charges	17.1	27.1	39.1	27.0	26.8	20.9
Profit or loss ^{3/}	-21.0	-11.3	4.2	18.6	24.8	23.9
Of which: ADMARC	(-19.7) ^{4/}	(-10.6)	(0.6)	(-2.3)	(2.0)	(4.8)
Cash flow	...	12.8	-1.2	5.0	18.4	12.1
Gross investment	27.8	51.3	41.7	87.9	98.1	98.9
ADMARC						
Net operating profit or loss on crop trading accounts	-17.8	-16.6	3.7	4.4	6.1	6.6
Of which: maize	(-5.6)	(-10.6)	(0.1)	(-2.8)	(-4.2)	(-8.4)
tobacco	(-7.0)	(3.9)	(12.5)	(9.3)	(12.4)	(18.9)
groundnuts	(-4.8)	(-3.5)	(-4.7)	(-3.3)	(-2.3)	(1.5)
cotton	(-0.7)	(-7.8)	(-2.8)	(-0.4)	(2.2)	(-4.6)
Other revenues/expenses (net)	-1.9	6.0	-3.1	-6.7	-3.9	-1.8
Of which: net interest	(-1.6)	(-9.1)	(-8.9)	(-7.1)	(-8.3)	(-2.2)
Net profit or loss ^{3/}	3.3 ^{5/}	-10.6	0.6	-2.3	2.0	4.8
Other operations (net) ^{6/}	-19.7	11.3	-9.0	13.8	21.3	17.4
Overall surplus/deficit	-16.4	0.7	-8.4	11.5	23.4	22.2
Financing	16.4	-0.7	8.4	-11.5	-23.4	-22.2
Reserve Bank	8.7	0.8	-0.7	-4.1	-4.1	-4.1
Commercial bank overdraft	10.3	-13.5	3.4	-2.9	-14.8	-12.3
Use of cash balances	-2.5	0.8	-0.1	--	--	-1.1
Government	12.1	10.3	6.7	-3.4	-3.4	-3.4
Export financing	-8.6	--	--	--	--	--
Other borrowing	-3.6	0.8	-1.0	-1.1	-1.1	-1.3
Memorandum items:						
ADMARC's recourse to banking system (net)	74.0	72.2	76.9	60.5	60.5	60.3
Of which:						
Credit from Reserve Bank	(47.7)	(58.4)	(57.8)	(53.6)	(53.6)	(53.6)
Commercial bank overdraft	(29.2)	(15.7)	(19.1)	(6.9)	(6.9)	(6.7)

Sources: Data provided by the Malawian authorities; and staff estimates.

^{1/} Includes ADMARC, Malawi Railways, Lilongwe Water Board, Electricity Supply Commission, Malawi Dairy Industry, Malawi Development Corporation, Malawi Housing Corporation, Air Malawi, Blantyre Water Board, Malawi Book Service, Wood Industries, and MIDCOR. The first four statutory bodies have fiscal years April 1-March 31; the latter six, January 1-December 31. The financial year of Malawi Dairy Industries runs from October 1-September 30.

^{2/} Including ADMARC.

^{3/} After interest payments and depreciation.

^{4/} Excludes payment of MK 23 million by the Government for previous-year costs related to the strategic grain reserve.

^{5/} Includes government payment described in footnote 4.

^{6/} Includes net lending, investment, asset sales, stock movements, and changes in short-term payables and receivables.

than projected under the ESAF program. The Malawian authorities attributed this to the value of the tobacco crop, which was much higher than envisaged earlier in the year. Credit to the private sector declined substantially at end-September with the repatriation of tobacco proceeds, and the net domestic asset ceiling for end-September was observed. Nevertheless, with the growth in net foreign assets, monetary expansion through September was more rapid than envisaged under the program: compared with a year earlier, broad money had increased by 17 percent, rather than by 6 percent as projected under the program.

Following the complete liberalization of interest rates in April, bank interest rates have been about 13 percent for deposits and 20 percent for loans. These rates have not varied much since April because banks continue to be quite liquid and are still assessing the strength of underlying private sector credit demand (following a year, 1987/88, in which there was little increase in private sector credit demand). Effective demand for nontobacco credit remains subdued.

As envisaged under the ESAF program, the authorities have been studying the banking system and the existing monetary policy instruments to determine what changes might be made to improve the efficiency of banking operations and of monetary policy. As a result of this study, the authorities intend to revise the Reserve Bank Act and the banking legislation to update and increase the capital provisioning requirements and provide for a possible extension of the Reserve Bank's regulatory authority to nonbank financial institutions (which are now regulated by the Treasury or the Attorney General's office).

6. Producer prices and fertilizer prices

In early September the authorities, after consultation with the Fund and the Bank, announced the producer prices to be paid during the 1989 harvesting season (Table 8). The authorities stated that the large increase for the maize producer price (44 percent) was needed to encourage maize production after two years of maize shortages, which depleted the strategic grain reserve, and forced Malawi to depend on commercial and donor-financed maize imports to alleviate domestic shortages. The authorities noted that, following the large maize crops of 1982/83, the maize producer price had been little changed in the following years and this had led to a large relative price shift in favor of other products, especially groundnuts. The authorities said that ADMARC's financial position would be taken into account in determining the appropriate level of maize selling prices (the prices paid by consumers) in 1989.

The producer price increases for cotton, rice, and groundnuts are modest. The large increase for tobacco is to promote production in 1989, given the sizable rise in tobacco prices on the auction floor in 1988. With respect to fertilizers, the price increase announced by the authorities was on average 13 percent, which is sufficient to keep the level of the fertilizer subsidy to about MK 8-10 million, the same level

Table 8. Malawi: Selected ADMARC Producer and Fertilizer Prices, 1987/88-1988/89 1/

	1987/88 (In Malawi kwacha per metric ton)	1989/89 (In Malawi kwacha per metric ton)	Percentage change
Maize	166.0	240.0	44.6
Rice			
Grade A	270.0	300.0	11.1
Grade B	90.0	100.0	11.1
Cotton			
Grade A	650.0	770.0	18.5
Grade B	350.0	370.0	5.7
Groundnuts			
Grade A	750.0	850.0	13.3
Grade B	650.0	750.0	15.4
Tobacco			
Grade K1	1,700.0	2,550.0	50.0
Grade G2	970.0	1,210.0	24.7
Fertilizer			
DAP	540.0	600.0	11.1
S/A	460.0	540.0	17.3

Source: Data provided by the Malawian authorities.

1/ Producer and fertilizer prices are announced in September. The producer prices become effective in April the following year; the fertilizer prices take effect immediately.

as in the current fiscal year 1988/89. The authorities stated that it was their intention to contain the fertilizer subsidy at this level in coming years (this would mean that fertilizer subsidies would decline from 1 percent of total government expenditures or 0.3 percent of GDP in 1988/89 to 0.9 percent of total government expenditures or 0.2 percent of GDP in 1989/90). In view of the tight budget deficit constraint, the authorities would endeavor to reduce the fertilizer subsidy, but they believed that due consideration had to be given to making essential inputs available to smallholders at affordable prices (much of the projected increase in agricultural production in the medium term is expected to come from the smallholder sector). Subsidized fertilizer is sold only to smallholders; estates buy their fertilizer at commercial prices.

7. Price developments

Under the program, the rate of inflation was targeted to decline rapidly in 1988 to an annual average of 20 percent, compared with 28.5 percent in 1987. However, the available data for the year (for January to September) indicate that inflation has remained high and that the average rate for 1988 could be as high as 30 percent (Table 9). The authorities attribute the high rate of inflation until September to private sector hedging against further devaluation and uncertainties about the Government's intentions for continued import liberalization. With increased private confidence regarding the Government's policies, the indications are that there was a decline in the absolute level of the price index in October.

With the high rate of inflation, the exchange rate has appreciated considerably in real effective terms and is now close to the level that existed just prior to the January devaluation (see Chart and Table 10). At the same time, however, the increase in external reserves has been much higher than programmed, arising from the improvement in the terms of trade and higher levels of capital inflows. The mission indicated to the authorities that if inflation remained high, corrective measures would become necessary early in 1989.

8. Performance under the stand-by and ESAF arrangements

Table 11 shows that expenditures on wages and on other current expenditures have been within the indicative targets set for June 1988 and for September 1988. Development expenditures have been larger than projected owing to the timing of some projects that were implemented during the first six months of the fiscal year rather than in the second half as assumed in the initial projections; domestic financing of the budget deficit is not affected by this development, however, since these projects are donor financed.

As shown in Tables 12 and 13, the targets on net domestic assets, net credit to the Government, and net claims on the statutory bodies were observed in June 1988 and September 1988. Malawi has eliminated

Table 9. Malawi: Consumer Price Index, 1981-92

(Percentage change)

	<u>12-month rate</u> (end-period to end-period)	<u>12-month rate</u> (annual average)
1981	8.9	9.8
1982	11.9	9.7
1983	10.3	12.4
1984	15.9	12.4
1985	12.5	14.9
1986	15.8	14.7
1987	35.1	28.5
1988 <u>1/</u>	23.9	30.5
1989 <u>1/</u>	14.7	14.7
1990 <u>1/</u>	7.9	11.3
1991 <u>1/</u>	5.0	5.6
1992 <u>1/</u>	5.0	5.0

12-month rate

1987	
January	15.0
April	25.7
July	31.4
October	33.7
1988	
January	37.3
February	35.8
March	33.4
April	31.3
May	30.6
June	28.7
July	28.5
August <u>2/</u>	31.2
September <u>2/</u>	32.5

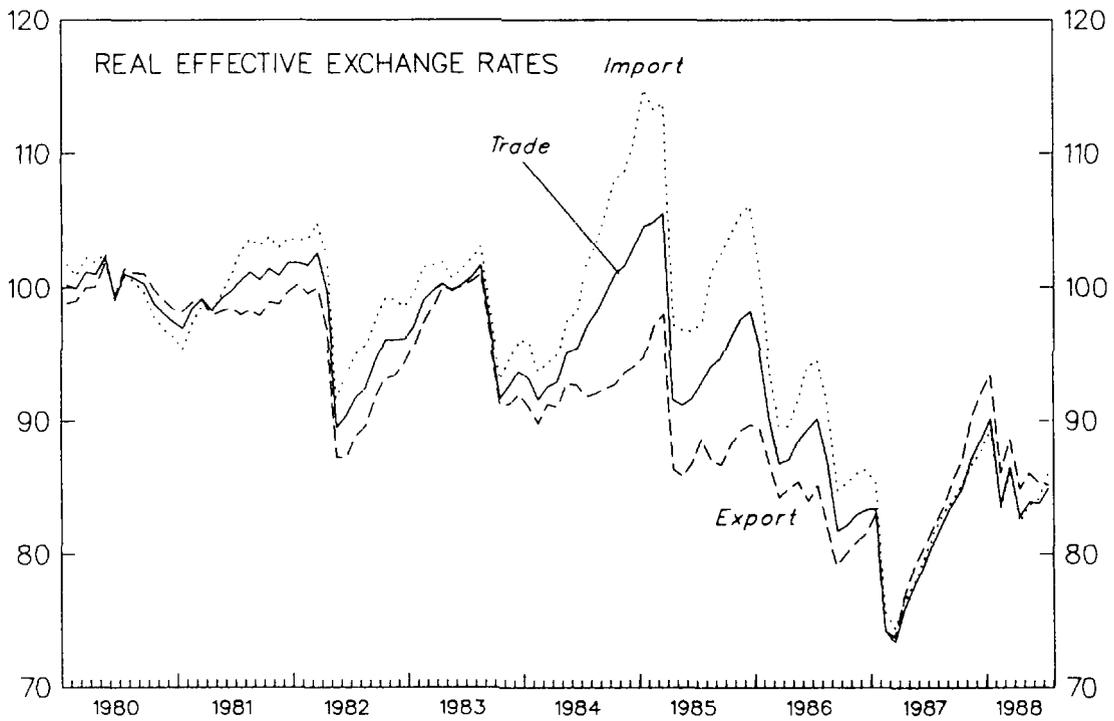
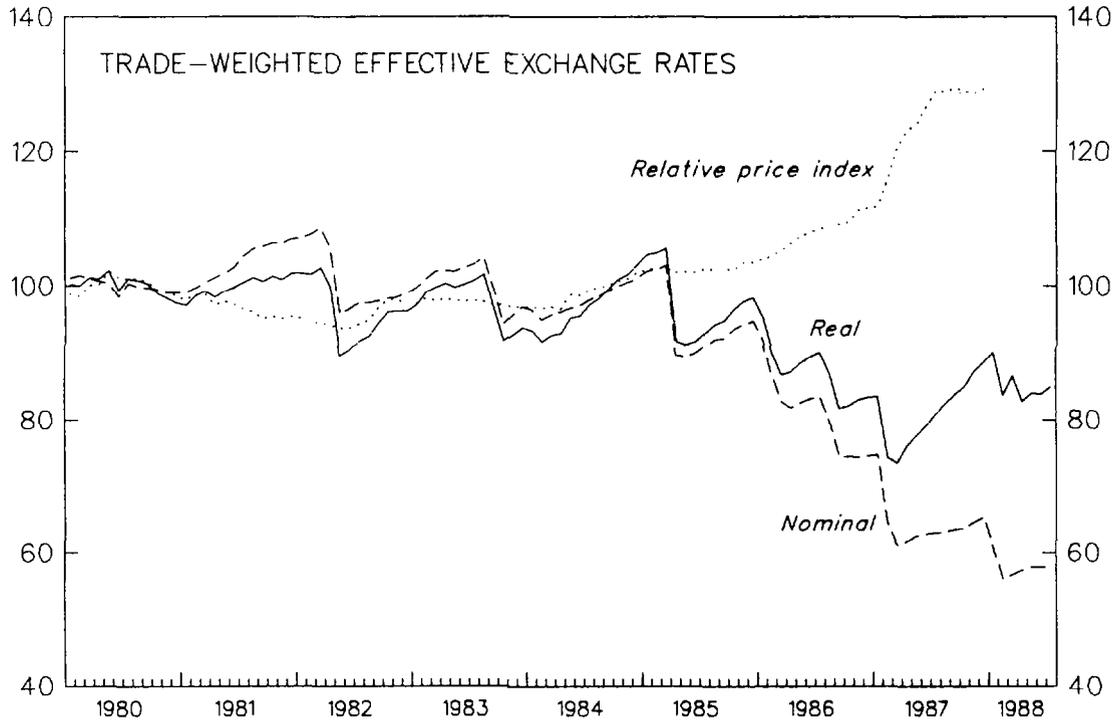
Sources: Monthly Statistical Bulletin; and staff estimates and projections.

1/ Staff projections.

2/ Staff estimates.

CHART 1
MALAWI
INDICES OF EFFECTIVE EXCHANGE RATES,
JANUARY 1980 TO JULY 1988

(Period average, 1980=100)



Sources: *International Financial Statistics*; and IMF staff estimates.



Table 10. Malawi: Effective Exchange Rates of the
Malawi Kwacha, 1985-88 1/

(1990 = 100)

	Real	Nominal	Relative prices
1985			
March	105.67	102.97	102.60
June	91.92	89.90	102.26
September	94.48	92.13	102.54
December	97.96	94.68	103.44
1986			
March	87.04	82.74	105.21
June	89.87	83.11	108.14
September	81.30	74.47	109.15
December	83.05	74.44	111.55
1987			
March	73.65	61.19	120.37
June	79.04	62.78	125.91
September	83.28	63.46	131.22
October	84.52	63.63	132.83
November	86.99	64.54	134.79
December	88.59	65.22	135.84
1988			
January	83.98	60.74	138.26
February	79.04	55.88	141.45
March	81.32	56.58	143.73
April	82.57	57.22	144.31
May	83.64	57.70	144.94
June	83.73	57.68	145.17
July	84.74	57.66	146.97
August	85.72	58.13	147.46
September	86.58	58.57	147.82

Sources: IMF, Information Notice System; and staff calculations.

1/ Trade-weighted.

Table 11. Malawi: Indicative Targets and Preliminary Actual Data for the Central Government's Expenditures and Overall Budget Deficit, 1988/89

(In millions of Malawi kwacha)

	Wage bill		Other current expenditure 1/		Total expenditure 2/		Overall deficit	
	Targets	Prel. Actual 4/	Targets	Prel. Actual 4/	Targets	Prel. Actual 4/	Targets	Prel. Actual 4/
April 1-June 30, 1988	41.3	37.6	117.1	87.4	212.3	243.1	-78.0	-98.1
April 1-September 30, 1988	82.6	75.4	211.3	181.9	437.8	493.8	-141.6	-163.8 5/
April 1-December 31, 1988	123.9	...	296.6	...	712.4	...	-236.6	...
April 1, 1988-March 31, 1989	165.2	...	368.0	...	981.5	...	-295.6	...

Sources: Memorandum on Economic and Financial Policies of the Government of the Republic of Malawi for the period April 1, 1988-March 31, 1991; data provided by the Malawian authorities; and staff estimates.

1/ Excluding debt service payments and including special expenditures.

2/ Including interest payments, and extrabudgetary expenditures.

3/ Before grants, defined from the financing side.

4/ Based on preliminary actual data April-August and staff estimates for September.

5/ Excluding sales proceeds from sale of office building to the Reserve Bank of Malawi amounting to MK 34.7 million.

Table 12. Malawi: Quantitative Performance Criteria for the Stand-By Arrangement, 1988/89

	1988						1989	
	March		June		Sept.		Dec.	March
	Program	Actual	Program	Actual	Program	Actual	Program	Program
(In millions of Malawi kwacha)								
Net domestic assets of the banking system	632.5	585.2	692.7	661.9	624.5	589.6	589.8	548.3
Net claims on the Government by the banking system <u>1/</u>	508.9	477.6	528.3	458.7	390.8 <u>2/</u>	369.8	479.5	461.7
Net claims on the statutory bodies by the banking system	40.8	23.7	61.1	23.4	84.9	16.6	69.1	43.7
(In millions of SDRs; end of period)								
External payments arrears	5.0 <u>3/</u>	— <u>3/</u>	—	—	—	—	—	—
New nonconcessional loans contracted or guaranteed by the Government and other public sector institutions (cumulative) of 1-12 year's maturity <u>4/</u>	20.0	20.0	20.0	—	20.0	—	20.0	20.0
Of which: 1-5 years	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)
Net increase in short-term external debt contracted or guaranteed by the Government and other public sector institutions of less than one year's maturity <u>5/</u>	—	—	—	—	—	—	—	—

Sources: Memorandum of Economic and Financial Policies of the Government of the Republic of Malawi for the period April 1, 1988-March 31, 1991; and data provided by the Malawian authorities.

1/ Performance criterion is adjustable downward by any shortfall in payments into the Reserve Bank blocked account for the Government's debt service payments; by the amount that disbursements of specified external cash loans and grants exceed MK 67.7 million during December 31, 1987-June 30, 1988, MK 115.2 million during December 31, 1987-September 30, 1988, MK 164.2 million during December 31, 1987-December 31, 1988, and MK 214.6 million during December 31, 1987-March 31, 1989; and by the proceeds of the sale of a building to the Reserve Bank of Malawi amounting to MK 34.7 million in September 1988, December 1988, and March 1989.

2/ Adjusted ceiling. The original ceiling of MK 468.1 million was adjusted for the excess in disbursements of specified external cash loans and grants of MK 42.6 million and for extraordinary sales proceeds of MK 34.7 million.

3/ Excludes arrears on debt service for which a request had been made to Paris and London Club creditors for rescheduling. These debt service arrears were eliminated under the program by end-May 1988, through cash payments or rescheduling.

4/ Excludes any debts arising from rescheduling with Paris and London Club creditors.

5/ Excludes short-term trade finance.

Table 13. Malawi: Quantitative Performance Criteria and Benchmarks
Under the Enhanced Structural Adjustment Facility, 1988/89

	1988						1989
	March (base data) (ERS/88/118)	June Benchmarks	June Actuals	Sept. Performance criteria	Sept. Actual	Dec. Benchmarks	March Performance criteria
(In millions of Malawi kwacha)							
<u>Performance criteria</u>							
Net domestic assets of the banking system	584.9	692.7	661.9	624.5	589.6	589.8	548.3
Net claims on the Government by the banking system <u>1/</u>	477.6	528.3	458.7	389.8 <u>2/</u>	369.8	479.5	461.7
Net claims on the statutory bodies by the banking system	23.7	61.1	23.4	84.9	16.6	69.1	43.7
(In millions of SDRs; end of period)							
External payments arrears <u>3/</u>	—	—	—	—	—	—	—
New nonconcessional loans contracted or guaranteed by the Government and other public sector institutions (cumulative) of 1-12 year's maturity <u>4/</u>	...	20.0	—	20.0	—	20.0	20.0
Of which: 1-5 years	(...)	(—)	(—)	(—)	(—)	(—)	(—)
Net increase in short-term external debt contracted or guaranteed by the Government and other public sector institutions of less than one year's maturity <u>5/</u>	...	—	—	—	—	—	—
(In millions of Malawi kwacha)							
<u>Quantative benchmarks</u>							
ADMARC's net profit after depreciation and interest	-2.3	...	...	...	...	...	2.0

Sources: Memorandum on Economic and Financial Policies of the Government of the Republic of Malawi for the period April 1, 1988-March 31, 1991.

1/ Benchmark and performance criterion is adjustable downward by any shortfall in payments into the Reserve Bank blocked account for the Government's debt service payments; and by the amount that disbursements of specified external cash loans and grants exceed MK 67.7 million during December 31, 1987-June 30, 1988, MK 115.2 million during December 31, 1987-September 30, 1988, MK 164.2 million during December 31, 1987-December 31, 1988, and MK 214.6 million during December 31, 1987-March 31, 1989; and by the proceeds of the sale of a building to the Reserve Bank of Malawi amounting to MK 34.7 million in September 1988, December 1988, and March 1989.

2/ Adjusted ceiling. The original ceiling of MK 468.1 million was adjusted for the excess in disbursements of specified external cash loans and grants of MK 42.6 million and for extraordinary sales proceeds of MK 34.7 million.

3/ Excludes arrears on debt service for which a request had been made to Paris and London Club creditors for rescheduling. These debt service arrears were eliminated under the program by end-May 1988, through cash payments or through rescheduling.

4/ Excludes any debts arising from debt rescheduling with Paris and London Club creditors.

5/ Excludes short-term trade finance.

all arrears outstanding as of end-1987 through cash payments or rescheduling and has since incurred no new payments arrears. Malawi has incurred no new noncessional loans and has had no recourse to short-term external debt of less than one year's maturity.

On the basis of the mission's estimates, the quantitative benchmark on ADMARC'S net profit after depreciation and interest (the profit for the year ending March 1989 should not be less than MK 2 million) is likely to be met. With regard to the structural benchmarks (Table 14), the second stage of import liberalization was implemented on August 8 (a week's delay from the programmed date) and producer prices were reviewed with the Fund and Bank staffs in August, as scheduled. The target dates for completion of studies on the monetary system (December 1988) and on ADMARC (March 1989) seem likely to be observed.

III. Staff Appraisal

Malawi's economic performance is in several respects more favorable in 1988 than it has been for many years, and it is better than was initially envisaged earlier this year when the programs supported by the stand-by and ESAF arrangements were formulated. On the basis of provisional actual data up to August/September, present projections for calendar year 1988 and fiscal year 1988/89 suggest that there is a recovery in economic output and a significant improvement in private sector confidence. In the external sector, all import-related arrears have been eliminated, debt servicing has been restructured through rescheduling agreements with the Paris and London Club creditors, substantial progress has been made with import liberalization, and external gross reserves are at higher levels than have been recorded for many years.

These favorable developments are due to many factors, some endogenous, some exogenous. An important factor has been the restoration of strict fiscal discipline, as a result of which the budget deficit (excluding grants) as a proportion of GDP has declined, with virtually the entire 1988/89 budget deficit financed by external grants. Since the revenue base is narrow, beginning with the 1988/89 budget, the Government has introduced a number of tax reform measures designed to make the revenue system more efficient and improve tax administration.

There has also been progress with parastatal reform. The financial position of the 12 major public enterprises as a group, after having recorded losses for many years, showed a profit in 1987/88; the profit is projected to increase in 1988/89. Particularly noteworthy has been the improvement in the financial position of ADMARC, which is by far the largest public enterprise. The parastatal improvement has been due in part to measures to streamline staff, improve organizational and operating arrangements, increase the prices of products and services

Table 14. Malawi: Structural Benchmarks Under the Enhanced Structural Adjustment Facility, 1988/89

Actions	Program Timetable	Actual
1. Implementation of the second stage of import liberalization, with liberalization extended to a further 50 percent of imports of spare parts and raw materials (excluding petroleum), and a number of intermediate finished goods	By end-July 1988	August 8, 1988
2. Review of smallholder agricultural producer prices with the World Bank and the Fund	Prior to announcement of prices in August 1988	As programmed
3. Introduction of a system of monetary and credit control more appropriate to an environment of deregulated interest rates	By December 1988	
4. Completion of the study of the financial costs of ADMARC's current functions and of market stabilization	By March 1989	

Source: Memorandum on Economic and Financial Policies of the Government of the Republic of Malawi for the period April 1, 1988-March 31, 1991.

provided by these enterprises, and reduce or eliminate unprofitable activities.

There have been delays in the implementation of some tax reform measures, in a number of planned actions to rationalize ADMARC's operations, and in ADMARC's asset divestiture program. The staff urges the authorities to rectify these delays as rapidly as possible in order to improve further the financial position of the public sector.

Following a devaluation of the kwacha in January, the authorities have introduced two stages of import liberalization in accordance with the program. As a result, 75 percent of raw materials (other than oil products, which were never brought under controls) and spare parts, as well as a list of intermediate finished products, are now liberalized.

The favorable exogenous factors have included a larger-than-anticipated improvement in the terms of trade (owing principally to increased prices for tobacco and sugar exports) and larger levels of donor assistance than assumed in the conservative ESAF program assumption. In addition, there was some improvement in weather conditions during the 1987/88 maize growing season (after two years of drought conditions), and food output increased in 1988.

With these developments, real GDP growth in 1988 is now estimated to be about 3.5 percent, owing to larger agricultural output and increased manufacturing sector capacity utilization. The GDP growth performance, import volume growth, and the increase in external reserves all are likely to exceed the program projections.

The staff commends the Malawi authorities for the adjustment measures that they have implemented under the program supported by the ESAF and stand-by arrangements. These measures have resulted in considerable progress in liberalizing the economy, increasing investment and growth, and promoting financial stability.

Developments in 1988 have, however, failed to reach program objectives in one important respect: the rate of inflation. With the authorities' restrained financial policies and the import liberalization measures in place, there are preliminary indications that private sector inflationary expectations might be weakening, as there was a decline in the absolute level of the price index in October. It is not yet clear, however, whether this represents a lasting change in the underlying inflationary trend. While it is noted that the credit and net domestic asset positions at end-September were within program targets and that the increased broad money stock at end-September was accounted for largely by the improved net foreign asset position, the possibility exists that the lagged effect of the monetary expansion may continue to put pressure on prices. If, contrary to present expectations, the inflationary trends remain high, the resulting weakening of relative price incentives for tradables would need to be reversed and supported by a tighter stance of monetary policy by early 1989.

IV. Proposed Decisions

The following decisions are proposed for adoption by the Executive Board:

A. Review Under the Stand-By Arrangement

1. Malawi has consulted with the Fund in accordance with paragraph 4(b) of the stand-by arrangement for Malawi (EBS/88/25, Supplement 1, 3/3/88) and paragraph 24 of the letter dated February 2, 1988, from the Minister of Finance and the Governor of the Reserve Bank of Malawi, in order to review progress made under the stand-by arrangement.

2. The Fund decides that the second review contemplated in paragraph 4(b) of the stand-by arrangement for Malawi is completed.

B. Review Under the First Annual Arrangement Under the Three-Year Arrangement Under the Enhanced Structural Adjustment Facility

The Fund determines that the midterm review specified in paragraph 2(c) of the three-year and first annual arrangements under the enhanced structural adjustment facility (EBS/88/118, Supplement 1, Revision 1, 7/12/88) has been completed.

Lilongwe, December 22, 1988

Mr. Michel Camdessus
The Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. Camdessus:

1. In our letter to you of February 2, 1988, we described the economic policies being pursued by the Government of the Republic of Malawi, and set out the objectives for the period January 1, 1988 to March 31, 1989. In support of those policies, the Fund's Executive Board on March 2, 1988 approved a 15-month stand-by arrangement for Malawi in an amount equivalent to SDR 13.02 million, or 35 percent of Malawi's quota. In our letter of May 27, 1988, and in the Memorandum of Economic and Financial Policies which accompanied the letter, we described the structural adjustment program that the Government intends to pursue during the three-year period April 1, 1988 to March 31, 1991, and presented in detail the objectives, policies, and measures for the first year of this period, which coincides with the final 12-month period of the program supported by the stand-by arrangement. In support of the medium-term structural adjustment program, the Fund's Executive Board on July 15, 1988 approved for Malawi a three-year structural adjustment arrangement under the enhanced structural adjustment facility (ESAF) in an amount equivalent to SDR 55.8 million, or 150 percent of Malawi's quota, and the first annual arrangement thereunder.

2. During the period October 15-29, 1988, we have together with a Fund staff mission carried out a comprehensive review of developments and policy implementation since the start of FY 1988/89 (April-March), and reappraised the outlook and policy objectives for the remainder of the fiscal year and, more generally, for the medium term. The conclusion of these discussions by the Fund will constitute the second review required under the stand-by arrangement and the midterm review required under the ESAF arrangement. These discussions indicate that the program supported by these arrangements is broadly on track. The performance criteria for June 1988 and September 1988 under the stand-by and the ESAF arrangements were observed, and structural benchmarks are thus far being implemented.

3. An important element of the structural adjustment program is the liberalization of import payments. A first stage of the liberalization was implemented on February 1, 1988, and a second stage was implemented on August 8, 1988. As a result, 75 percent of nonpetroleum imports of raw materials and spare parts are also liberalized (petroleum products have always been liberalized), as well as a list of imports of intermediate finished products. These steps were preceded by a devaluation

of the kwacha on January 16, 1988, by 15 percent in foreign currency terms against a peg which reflects a basket of the currencies of Malawi's trading partners. As a result of the import liberalization measures, import volume growth in 1988 is now estimated to be 14.2 percent, higher than the 5.3 percent projected under the ESAF arrangements, with a much greater increase in private sector imports than in public sector imports. The increased import availability has improved confidence in the private sector and led to an increase in manufacturing capacity utilization from about 25-30 percent at the beginning of the year to a current level of about 50-60 percent.

4. External sector performance in 1988 has also benefited from debt management measures that we have taken, as well as increased inflows from donors. By end-January 1988, well ahead of the scheduled timetable, we had eliminated all import-related trade arrears (which at end-December 1987 were SDR 17.4 million). In April, we reached rescheduling agreements with Paris and London Club creditors which are estimated to reduce our external debt service burden from 48 percent to 34 percent of exports of goods and nonfactor services in 1988, and from 44 percent to 39 percent of exports of goods and nonfactor services in 1989. At a Consultative Group Meeting in Paris in June 1988, donors pledged considerable assistance in support of our medium-term adjustment program, and disbursements thus far in 1988 have been in accordance with the commitments made at that meeting, and substantially exceed the initial program estimates.

5. Our external current account performance in 1988 has been favorably affected by changes in the terms of trade, which are now estimated to improve in 1988 by 10.6 percent, compared with 0.5 percent projected under the ESAF arrangement. As a result, the value of exports in SDR terms is now projected to increase in 1988 by 1.2 percent (compared with a projection of a decline of 3.5 percent under the ESAF arrangement). However, owing to higher import growth, the current account deficit for 1988 is now projected to be SDR 81.5 million, equivalent to 7.6 percent of GDP (initial projections were SDR 74.9 million, equivalent to 7.3 percent of GDP). Nevertheless, reflecting larger external assistance inflows, the overall balance is projected to be a surplus of SDR 37.7 million (initial projection was SDR 6.4 million), and reserve levels at the end of 1988 are now projected to be equivalent to 3.4 months of imports (initial projection was 2.6 months of imports).

6. Increased capacity utilization in the manufacturing sector and favorable weather conditions in the agricultural sector have resulted in a stronger growth performance in 1988 than was projected earlier in the year. The GDP growth rate (factor cost) in 1988 is now projected to be 3.5 percent, compared with an initial projection of 1.5 percent. However, on the basis of revised data, the decline in GDP in 1987 is now estimated to have been larger (a decline of 1.5 percent) than was estimated earlier (a decline of 0.2 percent). Nonetheless, the recovery in 1988 is encouraging and we expect continued good growth performance

in 1989, when it is expected that per capita income will not decline for the first time in many years.

7. An important feature of the medium-term structural adjustment program is strengthened budgetary management and improvement in the efficiency of the fiscal system. We have continued to operate the expenditure control and monitoring arrangements introduced during 1987/88 (in August 1987), and have succeeded in maintaining firm control over expenditure levels. A number of tax reform measures have been introduced, as envisaged under the ESAF arrangement, and we are studying proposals for further measures. As a result overall fiscal performance has remained in accordance with the objectives of the adjustment program and we expect that the fiscal deficit target for 1988/89 (8.1 percent of GDP) 1/ will be observed.

8. Another important objective of the medium-term program is improvement in the performance of the parastatal sector. There have been continuing efforts of the parastatals to improve operating procedures, implement organizational reforms, streamline employment levels, and follow clearer and more realistic planning objectives. The use of bank credit by the largest parastatal, the Agricultural Development and Marketing Corporation (ADMARC), has been less than envisaged under the program, as has been the use of bank credit by parastatals as a group. We recognize, however, that ADMARC's performance was due to the good tobacco season and that ADMARC's trading accounts for crops other than tobacco showed somewhat weaker financial results than envisaged. Also, some parastatals continue to have unsatisfactory profit/loss positions and are being closely monitored.

9. In September 1988, after consultation with the Fund and the World Bank as required under the terms of the Policy Framework Paper (PFP), we announced ADMARC producer prices for the 1989 buying season, with substantial increases ranging from 13 percent for groundnuts to 40 percent for maize. These price increases will greatly increase incentives to smallholder farmers, realign price relativities in favor of maize, which has been in very short supply in the last two years, and improve domestic supplies. The price for fertilizer was increased by 13 percent.

10. Development of the Northern Corridor is on the schedule that was anticipated under the program, with contractors already on site at the Malawi/Tanzania border and preparation already well advanced for the construction of storage and handling facilities at the Dar es Salaam port and at transportation nodes along the route.

11. While the overall economic performance has been favorable, and we have observed the targets of the adjustment program, performance has not been as satisfactory with regard to prices. The rate of inflation has

1/ This was based on March 1988 estimates of GDP; on the basis of October 1988 estimates of GDP, the target is equivalent to 7.7 percent of GDP.

remained high during the year, and is now projected to average about 30 percent for 1988, higher than the 28.4 percent recorded in 1987, which was itself much higher than Malawi's traditional inflation experience of about 8-10 percent in normal years. We attribute the continued high rate in 1988 to excessive markup margins by the private sector (motivated by insecurities arising from periods in the recent past when there was instability in the exchange rate, and when there were delays in import payments), and to pressures on domestic supplies owing to the presence of about half a million displaced persons from Mozambique. With the implementation of the import liberalization program, domestic supplies are increasing and there is scope for increased competition in the domestic market, and price inflation should decelerate. Indeed, as from October 1988, there have already been substantial declines in the prices of a range of goods and we expect the excessive markup margins in prices to be greatly reduced as private sector confidence continues to increase.

12. The rate of monetary expansion up to September 1988 has been higher than programmed (compared with a year earlier, broad money had increased by 17 percent at end-September 1988, whereas the ESAF program projection was for an increase of 5 percent). On the asset side, this has been reflected by a larger increase in net foreign assets than programmed, reflecting the good export performance in 1988. With continuing import liberalization, it is anticipated that broad money growth as well as net foreign assets will decline toward program targets.

Policies for the Remainder of 1988/89

13. For the remainder of the current fiscal year, we will continue to emphasize strict budgetary control in order to ensure that the overall budget deficit target for the year will be observed. In 1988/89, for the first time in many years, it will not be necessary for the Government to revise budgetary targets in the course of the fiscal year. The system of centralized monitoring of expenditures and government accounts has operated effectively and is now a well-established part of government procedures. It is our intention to continue with the implementation of tax reform to improve budgetary efficiency and the effectiveness of revenue administration.

14. With respect to ADMARC, efforts will continue to implement further divestiture of the parastatal's assets. Progress has been made in negotiations for the divestiture of some major subsidiaries, and the sale of a number of farms and estates is close to completion. Arrangements for the study of ADMARC's medium-term objectives and structure continue; terms of reference for a team of consultants are close to agreement, and we anticipate that the study will be completed in advance of the target date of end-March 1989. In line with our intention to promote the provision of essential inputs to smallholders while limiting the impact of any subsidies on the budget, we plan to keep the fertilizer subsidies at a level no higher than MK 8-10 million

as year. Further, the level of maize selling prices in 1989 will be determined taking into account the financial position of ADMARC.

15. With respect to monetary policies, we believe that interest rate levels were broadly at acceptable levels for the middle months of the year, in view of excess liquidity in the banking system and the need to encourage private sector investment. If the rate of inflation continues to be high, it will be necessary to review interest rates, but we anticipate a reduction in liquidity as import liberalization proceeds and that this will lead to a sharp decline in month-to-month inflation at the end of 1988 and to increase in interest rates in real terms. With regard to import liberalization, our objective continues to be to liberalize payments for all imports by March 1990. We are proceeding with a study of monetary instruments and the banking system, and are reviewing in detail the present provisions of the various acts of the banking system in order to ascertain how best to strengthen the banking system and the effectiveness of the supervisory functions of the Reserve Bank. We expect to complete this study and review by the end of 1988, and to enact any changes in the relevant legislation in the first half of 1989. Measures to strengthen monetary regulation which can be introduced within the present laws will be introduced from the beginning of 1989. In the present circumstances, moral suasion will continue to play an important role in promoting understanding by banks and the private sector for government and Reserve Bank objectives. We also expect that statutory ratios may need to be examined to see if current levels should be altered in light of existing circumstances.

16. In view of the Government's overall development objectives, we are examining the need for encouragement of a domestic capital market and increased activity of investment or development banking, in order to mobilize available financial savings in a more effective form for investment in medium-term projects.

17. The export sector has had a good year in 1988, especially in view of the prices obtained for tobacco and sugar. We announced in September producer prices for smallholder crops which include substantial increases for export crops. There has been an import volume growth response to import liberalization, but reserves have risen during the year and are expected to be at relatively high levels at the end of the year. With the evidence of decreases in domestic prices since October 1988, we believe that the real effective appreciation of the exchange rate since the devaluation of January 1988 will be largely reversed. Moreover, given the stronger-than-programmed export performance, Malawi's export sector appears to remain competitive, and it does not appear necessary at this time to undertake any further exchange rate action. We will, however, continue to monitor closely developments of prices and Malawi's external competitiveness, and will be prepared to take appropriate action when necessary to promote further export growth and diversification, and to encourage the optimal use of imports.

19. In view of the high rate of inflation in 1988 and the need to protect the external competitiveness of Malawi's export products, we intend to continue to follow strict fiscal and wage policies in 1989/90. In line with this intention, our budget deficit target (excluding grants) for 1989/90 will be limited to MK 300 million. ^{1/} Active preparation of the 1989/90 budget started in November 1988, and we will be discussing details of projections regarding revenues, expenditures, and financing with a Fund mission in January/February 1989.

20. The Government of the Republic of Malawi believes that the measures described in this letter are adequate to achieve the objectives of its medium-term structural adjustment program, but will take any further measures that may become appropriate for this purpose. The Government will consult with the Fund on the adoption of such measures as may be appropriate in accordance with the policies of the Fund on such consultations.

Yours sincerely,

/s/

H.J. Lesshafft,
Governor,
Reserve Bank of Malawi

L.J. Chimango, M.P.,
Minister of Finance,
Government of Malawi

^{1/} This is equivalent to 6.7 percent of the present projected estimate of GDP for 1989/90 (or 7.3 percent of the March 1988 projected estimate of GDP for 1989/90).

MALAWI - Relations with the Fund
(As of November 30, 1988)

(Amounts in millions of SDRs, unless otherwise specified)

I. Membership status

- a. Date of membership: July 19, 1965
b. Status: Article XIV

A. Financial Relations

II. General Department

a. Quota:	37.2		
		<u>Millions</u> <u>of SDRs</u>	<u>Percent</u> <u>of quota</u>
b. Total Fund holdings of Malawi kwacha	102.94		276.12
c. Fund credit	71.67		192.66
Credit tranches (stand-by arrangements)	9.25		24.87
Compensatory financing facility	5.18		13.92
Extended Fund facility	16.68		44.84
Enlarged access	36.84		99.03
Under extended arrangements	(33.63)		(90.40)
Under stand-by arrangements	(3.21)		(8.63)
ESAF loans (special disbursement account)	3.72		10.00
d. Reserve tranche	2.20		5.92

III. Current and previous arrangements
and special facilities

	<u>Date of arrangement</u>	<u>Duration (months)</u>	<u>Total amount</u>	<u>Utiliza- tion</u>
a. Current arrangements				
Stand-by	Mar. 2, 1988	15	13.02	9.25
ESAF <u>3/</u>	July 15, 1988	36	55.8	9.3
b. Previous arrangements				
Stand-by	Oct. 1979	30 <u>1/</u>	26.3	5.5
Stand-by	May 1980	23	49.9	40.0
Stand-by	August 1982	12	22.0	22.0
Extended arrangement	Sept. 1983	36	81.0 <u>2/</u>	57.0

1/ Arrangement canceled after seven months.

2/ Reduced from the original amount of SDR 100 million (EBM/85/77, 5/22/85).

3/ Utilization comprises SDR 3.72 million from the Special Disbursement Account and SDR 5.58 million from the ESAF Trust.

MALAWI - Relations with the Fund (continued)

	<u>Date of purchase</u>	<u>Total amount</u>			
c. Special facilities					
Compensatory financing (exports)	Aug. 1979	9.5			
Compensatory financing (exports)	Nov. 1979 Dec. 1979	8.0 1.5			
Compensatory financing (cereals)	Sept. 1981	12.0			
Buffer stock financing	Dec. 1982	0.9			
Compensatory financing (exports)	Mar. 1983	12.2			
Compensatory financing (exports)	Aug. 1984	13.8			
	<u>Amount</u>	<u>Percent of allocation</u>			
IV. <u>SDR Department</u>					
a. Net cumulative allocation	10.98	100.0			
b. Holdings	0.74	6.72			
V. <u>Administered account</u>					
	<u>Amount</u>				
a. Trust Fund loans					
(i) Disbursed	14.66				
(ii) Outstanding	2.19				
b. SFF Subsidy Account					
(i) Donation	--				
(ii) Loans	--				
(iii) Payments by Fund	4.18				
c. ESAF loans: Trust Accounts					
(i) Disbursed	5.58				
(ii) Outstanding	5.58				
VI. <u>Financial obligations due to the Fund</u>					
	Overdue Financial Obligations (11/30/88)	<u>Principal and Interest Due</u>			
		<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>
		Dec.			
Principal	--	0.9	20.7	14.2	15.3
Repurchases	--	0.9	19.0	13.8	15.2
Trust Fund					
Repayments	--	--	1.7	0.5	0.1
Charges and interest including SDR and TF (provisional)	--	0.1	5.1	3.9	2.9
Total	--	1.0	25.8	18.1	18.1

MALAWI - Relations with the Fund (continued)

B. Nonfinancial Relations

VII. Exchange rate arrangement

The Malawi kwacha is pegged to an unannounced basket of currencies. The intervention currency is the U.S. dollar, for which the Reserve Bank of Malawi's rates are based on the U.S. dollar/SDR rate calculated by the Fund for the preceding day. The rate on July 31, 1988, was MK 1 = US\$0.3750.

VIII. Last Article IV Consultation

The last Article IV consultation discussions were conducted during November 12-28, 1987. The staff report for the 1987 Article IV consultation (EBS/88/25) was discussed by the Executive Board on March 2, 1988, and the following decision was adopted:

1. The Fund takes this decision relating to Malawi's exchange measures subject to Article VIII, Section 2(a) and in concluding the 1987 Article XIV consultation with Malawi in the light of the Article IV consultation with Malawi conducted under Decision No. 5392-(77/63), adopted April 29, 1977, as amended (Surveillance over Exchange Rate Policies).

2. Malawi maintains the restrictive exchange measures described in SM/88/41, and Correction 1, in accordance with Article XIV, Section 2, except that the exchange restrictions evidenced by external payments arrears are subject to approval under Article VIII, Section 2(a). The Fund urges the authorities to take measures to eliminate these arrears as soon as possible. In the meantime, the Fund approves the retention by Malawi of these restrictions, until the earlier of June 30, 1988 or the completion of the first review under the stand-by arrangement, and of any restrictions remaining pending the implementation of bilateral agreements under the Paris and London Clubs' rescheduling or refinancing of Malawi's external debt until December 31, 1988.

Malawi is on the standard 12-month Article IV consultation cycle.

MALAWI - Relations with the Fund (concluded)

IX. Technical Assistance, 1983-86

1. CBD
 - a. Training Advisor to the Reserve Bank of Malawi, 1982-84.
 - b. Consultant on external debt, three weeks in March-April 1984.
 - c. Consultant on the computerization of Reserve Bank operations: approximately six months from March 1985.
 - d. Administrative Advisor to the Reserve Bank; 12 months from June 1986.
 - e. Advisor on Bank Supervision to the Reserve Bank; 12 months from June 1988.
 - f. Foreign Exchange Advisor to the Reserve Bank; 12 months from June 1988.
2. FAD: Budget Advisor to the Ministry of Finance, July 1985-July 1986.
3. STAT: Technical assistance in the area of money and banking statistics, November 23-December 8, 1983.

Technical assistance in the area of general economic data, October 13-24, 1986.

X. Resident Representative/Advisor

None.

MALAWI: World Bank Group Operations

Over the past 22 years, the Board has approved 42 IDA credits (totaling about US\$613 million, not including cancellation), one Special Fund credit (about US\$14 million), two African Facility Credits (totaling about US\$50 million), and 10 Bank loans (totaling US\$124 million, not including cancellations), of which two were on third window terms. This assistance (US\$801 million) has been distributed as follows: US\$180 million (31 percent) for a structural and sectoral adjustment, US\$178 million (22 percent) for agricultural, US\$124 million (15 percent) for education, US\$127 million (16 percent) for transport, US\$39 million (5 percent) for power, US\$31 million (4 percent) for water, US\$18 million (2 percent) for health, and the balance of US\$34 million (4 percent) for development finance, technical assistance, industry, and urban housing.

In fiscal year 1988, the following credits were approved: a US\$5.9 million equivalent for the Agricultural Credit Project, a Northern Transport Corridor Project (US\$13.4 million), and an Industrial and Trade Policy Adjustment Credit (US\$70.0 million). Additional lending operations are planned in agriculture, energy, institutional development, infrastructure, health/population, education, and structural adjustment.

IFC's equity participation and lending commitments total about US\$33 million (gross) and include investments in textiles, sugar, tourism, ethanol, plywood, a development finance corporation, and a leasing and financing corporation.

