

**EXECUTIVE
BOARD
MEETING**

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November 6, 2018

To: Members of the Executive Board

From: The Acting Secretary

Subject: **Malawi—First Review Under the Three-Year Extended Credit Facility Arrangement and Requests for Modification and Waivers of Nonobservance of Performance Criteria**

Board Action:	Executive Directors' consideration (Formal)
Tentative Board Date:	Wednesday, November 21, 2018
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Questions:	Ms. Mitra, AFR (ext. 39523) Ms. Farahbaksh, AFR (ext. 39957) Ms. Pant, AFR (ext. 35974)
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*The authorities have indicated that they consent to the Fund's publication of this paper.



MALAWI

FIRST REVIEW UNDER THE THREE-YEAR EXTENDED CREDIT FACILITY ARRANGEMENT AND REQUESTS FOR MODIFICATION AND WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA—INFORMATIONAL ANNEX

November 5, 2018

Prepared By

The African Department
(In Consultation with Other Departments, the World Bank, and the African Development Bank)

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RELATIONS WITH THE FUND

(As of October 5, 2018)

Membership Status

Joined: July 19, 1965; Article VIII

General Resources Account:

	SDR Million	%Quota
Quota	138.80	100.00
Fund holdings of currency (exchange rate)	136.36	98.24
Reserve tranche position	2.44	1.76

SDR Department:

	SDR Million	%Allocation
Net cumulative allocation	66.37	100.00
Holdings	1.35	2.03

Outstanding Purchases and Loans:

	SDR Million	%Quota
ESF Arrangements	3.47	2.50
ECF Arrangements	151.60	109.22

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF	04/30/2018	04/29/2021	78.08	11.15
ECF	07/23/2012	06/29/2017	138.80	138.80
ECF	02/19/2010	07/22/2012	52.05	13.88

Overdue Obligations and Projected Payments to Fund¹

(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2018	2019	2020	2021	2022
Principal	6.77	11.89	13.80	18.44	25.81
Charges/Interest	0.16	0.63	0.63	0.63	0.63
Total	6.72	12.51	14.42	19.06	26.44

¹ When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Implementation of HIPC Initiative:

		Enhanced Framework
Commitment of HIPC assistance		
Decision point date		December 2000
Assistance committed		
by all creditors (US\$ Million) ¹		1,057.00
<i>Of which:</i> IMF assistance (US\$ million)		45.27
(SDR equivalent in millions)		33.37
Completion point date		Aug 2006
Disbursement of IMF assistance (SDR Million)		
Assistance disbursed to the member		33.37
Interim assistance		11.57
Completion point balance		21.80
Additional disbursement of interest income ²		3.82
Total disbursements		37.19

¹ Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two amounts cannot be added.

² Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

Implementation of Multilateral Debt Relief Initiative (MDRI):

MDRI-eligible debt (SDR Million) ¹	37.87
Financed by: MDRI Trust	14.53
Remaining HIPC resources	23.34

Debt Relief by Facility (SDR Million)

Delivery Date	Eligible Debt		Total
	GRA	PRGF	
December 2006	N/A	7.91	7.91
September 2006	10.84	19.12	29.96

¹ The MDRI provides 100 percent debt relief to eligible member countries that qualified for the assistance. Grant assistance from the MDRI Trust and HIPC resources provide debt relief to cover the full stock of debt owed to the Fund as of end-2004 that remains outstanding at the time the member qualifies for such debt relief.

Implementation of Post-Catastrophe Debt Relief (PCDR): Not Applicable.

Safeguards Assessments:

The 2018 update assessment found that the financial reporting and audit mechanisms continue to adhere to international practices, as noted during the 2016 monitoring visit. However, the RBM's governance arrangements and autonomy continue to be undermined by weak legal provisions, significant credit to the government, and the presence of government officials on the Board and audit committee. Further, risks in the area of foreign reserves management remain elevated due to limits that are inconsistent with leading practices and lapses in oversight.

Exchange Arrangements:

In May 2012, the government liberalized the foreign exchange regime, devalued the kwacha by about 33 percent, and adopted a de jure floating exchange rate regime. Since May 2012, the RBM has not set a target rate and allowed substantial volatility in the exchange rate. However, the U.S. dollar exchange rates have shown remarkable stability since October 2016, at a rate of around MK 730/US\$. Accordingly, the de facto exchange rate arrangement is classified as "stabilized". Inflows of foreign exchange have allowed for a strong increase in international reserves. The exchange regime is free of restrictions and multiple currency practices.

Article IV Consultation:

The Executive Board concluded the last Article IV consultation with Malawi on April 30, 2018.

Financial Sector Assessment Program (FSAP), Reports on Observance of Standards and Codes (ROSCs), and Offshore Financial Center (OFC) Assessments:

A joint team of the World Bank and the International Monetary Fund visited Malawi under the FSAP program during two missions in July and December 2007. The Financial System Stability Assessment (FSSA) was issued in June 2008 (SM/08/198). An FSAP development module was conducted in mid-2017.

Corporate Governance and Accounting and Auditing ROSC missions visited Malawi in February and June 2007.

An update on the FAD mission on the fiscal transparency module was issued in March 2007. A ROSC on the data module, based on a September 2003 mission, was published in October 2004.

Technical Assistance: (since 2015, as of October 15, 2018)

Date of Delivery	Department	Ministry/Agency	Purpose/Topic	Modality
10/18	FAD	MOF	Revenue Administration	Mission
10/18	ICD	RBM	Policy analysis and forecasting	Mission
10/18	MCM	RBM	Insurance Supervision and Regulation	Mission
09/18	FAD	MOF	Revenue Administration	Workshop
08/18	FAD	MOF	Macro-fiscal forecasting	Mission
08/18	FAD	MOF	PFM/ IFMIS	Mission
06/18	STA	MOF	Government finance statistics	Workshop
06/18	MCM	MOF/RBM	Developing Local Securities Market	Mission
06/18	FIN/LEG	RBM	Central Bank law	Mission
06/18	FAD	MOF	PFM/Budget Execution and Controls	Mission
06/18	FAD	MOF	Strengthening oversight of SOEs	Mission
05/18	STA	NSO	National accounts	Mission
04/18	FAD	MOF	Public Investment Management	Mission
03/18	STA	NSO	National Accounts	Mission
03/18	STA	RBM	Monetary and financial statistics	Mission
03/18	STA	MOF	Government finance statistics	Mission
03/18	FIN/LEG	RBM	Safeguards Assessment Mission	Mission
03/18	FAD	MOF	PFM/ Fiscal risk	Mission
03/18	FAD	MOF	Revenue Administration	Mission
03/18	ICD	RBM	Policy analysis and forecasting	Mission
03/18	STA	RBM	Monetary and financial statistics	Mission
02/18	FAD	MOF	PFM / Financial controls	Mission
02/18	STA	RBM	Monetary and financial statistics	Mission
02/18	FAD	MOF	Customs administration	Mission
01/18	STA	NSO	External sector statistics	Mission
01/18	STA	NSO	Price statistics	Mission
12/17	FAD	NSO	National accounts	Mission
12/17	FAD	MOF	Budgeting	Mission
12/17	FAD	MOF	Tax administration	Workshop
11/17	STA	MOF	Government finance statistics	Workshop
11/17	MCM	RBM	Financial sector regulation	Mission
11/17	MCM	RBM	Banking supervision	Mission
11/17	STA	NSO	National account statistics	Mission
11/17	FAD	MOF	Debt management system	Mission
11/17	MCM / WB	RBM / MOF	Debt management strategy	Mission
10/17	STA	MOF	Government Financial Statistics	Mission
09/17	STA	NSO	Price Statistics	Mission
09/17	ICD	RBM	Policy analysis and forecasting	Mission
08/17	FAD	MOF / MOF / NSO	Macroeconomic forecasting	Mission
08/17	ICD	RBM	Policy analysis and forecasting	Mission

Date of Delivery	Department	Ministry/Agency	Purpose/Topic	Modality
08/17	FAD	MOF	Public financial management	Mission
07/17	MCM	RBM	Forex operations and repo market	Mission
05/17	ICD / MCM	RBM	Forecasting / Policy Analysis System	Mission
05/17	FAD	MOF	Customs administration	Mission
05/17	FAD	MOF	Cash management and TSA	Mission
04/17	STA	RBM	Financial soundness indicators	Mission
04/17	FAD	MOF	Compliance risk analysis	Mission
04/17	FAD	MOF	Cash management	Mission
03/17	MCM	RBM	Financial market infrastructure	Workshop
01/17	MCM	RBM	Bank supervisory framework	Mission
01/17	ICD / MCM	RBM	Monetary policy framework	Mission
11/16	FAD	MOF	Taxpayer register	Mission
10/16	FAD	MOF	Risk management in customs	Mission
10/16	ICD / MCM	RBM	Forecasting / Policy Analysis System	Training
09/16	STA	RBM	General Data Dissemination System	Mission
09/16	FAD	MOF	PFM / Financial controls	Mission
08/16	STA	NSO	Consumer price Framework	Mission
07/16	ICD	MOF	Government financial statistics	Training
06/16	STA	NSO	National accounts statistics	Mission
06/16	LEG	RBM	Bank resolution	Workshop
05/16	MCM/ICD	RBM	Monetary policy framework	Mission
04/16	FAD	MOF	PFM	Mission
04/16	MCM	RBM	Basel framework	Mission
04/16	STA	NSO	National accounts statistics	Mission
03/16	MCM	RBM	IT risk	Mission
02/16	LEG	RBM	Safeguard assessment	Mission
02/16	MCM	RBM	Foreign exchange interventions	Mission
01/16	LEG	RBM	AML/CFT supervision	Mission
01/16	FAD	MOF	Tax reform	Mission
11/15	MCM	RBM	Interbank money market	Mission
11/15	FAD	MOF	Fiscal reporting	Mission
10/15	MCM	RBM	Repo market and forex swaps	Workshop
10/15	STA	NSO	National accounts statistics	Mission
09/15	FAD	MOF	Pension reform proposals	Mission
09/15	FAD	MOF	Expenditure control, bank reconciliation, and fiscal reporting	Mission
07/15	FAD	MOF	Cash planning and management	Mission
06/15	STA	NSO	Price Statistics	Mission
05/15	FAD	RBM	TADAT Pilot Assessment	Mission
04/15	FAD	MOF	Implementing priority PFM reforms II	Mission
04/15	STA	NSO	National Accounts Statistics	Mission
03/15	LEG	RBM	Helping draft Banking law amendments	Mission

Date of Delivery	Department	Ministry/Agency	Purpose/Topic	Modality
03/15	STA	MOF	Government Finance Statistics	Mission
02/15	STA	NSO	Balance of Payments Statistics	Mission
02/15	STA	NSO	National Accounts Statistics Harmonization	Workshop
02/15	MCM	RBM	Advice on the Implementation of ICAAP/SREP supervisory framework.	Mission
01/15	FAD	MOF	Action plan for implementing priority PFM reforms	Mission

JOINT MANAGERIAL ACTION PLAN

(As of October 5, 2018)

Title	Products	Provisional Timing of Missions	Expected Delivery Date
A. Mutual Information on Relevant Work Programs			
World Bank work program in the next 12 months	Analytical and Advisory Activities:		
	<ol style="list-style-type: none"> <li data-bbox="313 567 1092 600">1. Malawi National Electrification Program <li data-bbox="313 600 1092 634">2. Solar Power Resource Mapping: Malawi <li data-bbox="313 634 1092 667">3. Assessment of Malawi Procurement System using MAPS II <li data-bbox="313 667 1092 701">4. Measuring Distortions to Agricultural Incentives in Malawi <li data-bbox="313 701 1092 735">5. Malawi – Building a Shock Responsive Safety Net and Preparing for Future Crises <li data-bbox="313 735 1092 768">6. Malawi – PEFA Assessment 2018 <li data-bbox="313 768 1092 802">7. Country Environmental Analysis <li data-bbox="313 802 1092 835">8. Malawi Citizen Engagement for Service Delivery <li data-bbox="313 835 1092 869">9. Malawi Policy Notes <li data-bbox="313 869 1092 903">10. Malawi Programmatic Approach to Inclusive Growth and Poverty <li data-bbox="313 903 1092 936">11. Malawi Economic Monitor (eighth and ninth editions) <li data-bbox="313 936 1092 970">12. Malawi Public Expenditure Review <li data-bbox="313 970 1092 1003">13. Systematic Country Diagnostic <li data-bbox="313 1003 1092 1037">14. Malawi Nutrition-Sensitive Service Delivery Indicators <li data-bbox="313 1037 1092 1071">15. Impact Evaluation of Emergency Response and Post-Crash Care in Malawi and Tanzania 		<p data-bbox="1279 533 1490 567">October 2018</p> <p data-bbox="1279 567 1490 600">November 2018</p> <p data-bbox="1279 600 1490 634">November 2018</p> <p data-bbox="1279 634 1490 667">December 2018</p> <p data-bbox="1279 667 1490 701">December 2018</p> <p data-bbox="1279 701 1490 735">December 2018</p> <p data-bbox="1279 735 1490 768">April 2019</p> <p data-bbox="1279 768 1490 802">May 2019</p> <p data-bbox="1279 802 1490 835">June 2019</p> <p data-bbox="1279 835 1490 869">June 2019</p> <p data-bbox="1279 869 1490 903">September 2018</p> <p data-bbox="1279 903 1490 936">June 2019</p> <p data-bbox="1279 936 1490 970">June 2019</p> <p data-bbox="1279 970 1490 1003">November 2018</p> <p data-bbox="1279 1003 1490 1037">May 2020</p> <p data-bbox="1279 1037 1490 1071">June 2020</p>
	Lending:		
	1. Mozambique Malawi Regional Interconnector Project		December 2018
	2. Investing in Early Years for Growth and Productivity in Malawi		December 2018
	3. Equity with Quality and Learning at Secondary (EQUALS)		January 2019
	4. Malawi Energy Access Project		February 2019
	5. MALAWI-Disaster Risk Management Development Policy Credit with Cat DDO		March 2019
	6. Strengthening Agricultural Higher Education in Africa		June 2019

B. Requests for Work Program Inputs		
IMF request to World Bank	1. Updates on WB support to Malawi	Continuous
World Bank request to IMF	1. Regular updates and exchange of views on medium-term macroeconomic and fiscal projections including sharing detailed excel tables on Real, Monetary, Fiscal and External Sectors	Continuous
C. Agreement on Joint Products and Missions		
Joint products in next 12 months	1. Debt Sustainability Analysis (update)	June, 2018

RELATIONS WITH THE AFRICAN DEVELOPMENT BANK

(As of October 2018)

The African Development Bank (AfDB) operations in Malawi date back to 1969. The Bank Group Malawi Country Office was opened in 2007. As of September 30, 2018, the Bank had provided significant and diversified support to Malawi, with cumulative commitments worth UA 898 million (about US\$1.3 billion) to finance 108 operations, including thirteen studies and two lines of credit.

The AfDB's Malawi Country Strategy Paper (CSP) covering the period 2013–17 was fully aligned with the second Malawi Growth and Development Strategy (MGDS II, 2011-16) and the Bank's corporate priorities in the Long-Term Strategy (LTS, 2013–22). A new CSP for the period 2018–22 has been prepared and expected to be approved before the end of October 2018. The new CSP will take an integrated approach to support private sector development by focusing on key infrastructure constraints, such as water, power, and roads, as well as softer components related to private sector policy. Given the rapidly growing population, it is critical that the economy starts creating more economic opportunities that would generate increased revenues for the government to efficiently and effectively provide required social services and public goods while ensuring a dynamic and growing private sector.

During the just ended CSP period, the Bank has approved a number of projects in the water, social, agriculture, and roads sectors, as well as in economic and financial governance, in line with the CSP priorities. In 2016, the Board approved three new operations: (i) Agriculture Infrastructure and Youth in Agri-Business Project (US\$22 million); (ii) Food Crisis Response Budgetary Support Program (US\$16 million); and Jobs for Youth Project (US\$12 million). These interventions aim at improving agriculture infrastructure for enhanced productivity, and create employment and income-earning opportunities for the youth through skills development in agri-business and other key economic activities. The Food Crisis Response Budgetary Support Programme helped in mitigating the impact of the drought-induced food crisis and ease fiscal pressures. In 2017, the Bank approved a technical assistance project, Nacala Rail and Port Value Addition Technical Assistance Project (US\$1.7 million), which aims at creating a critical mass of model farmers through a "model farmer extension approach", which will be supported with linkages for value addition, market access, and access to finance. During the same year, the Malawi Economic Census Project (US\$1 million) was approved to support the National Statistical Office (NSO) to build capacity for conducting an economic census. In January 2018, the Bank approved the Promoting Investment and Competitiveness in the Tourism Sector Project (US\$9.8 million) to create an enabling environment for investment in the tourism sector through enhanced capacity in planning and business management, and improved governance in natural resources management. Two more projects are expected to be approved by end of October 2018. The projects are the Shire Valley Transformation Programme (US\$34.3 million), and the Nkhata Bay Water Supply Project (US\$ 14.7 million).

The Bank has also provided Malawi with quick disbursing budget support. Following Government's re-engagement with the IMF and the approval of the US\$157 million Extended Credit Facility (ECF)

arrangement in July 2012, the Bank approved an ADF Grant for Crisis Response Budget Support operation, for US\$40 million. The Bank designed the Restoration of Fiscal Stability and Social Protection (RFSSP) program whose objective was to contribute to restoring fiscal stability and enhancing public finance management, as well as support social protection measures to mitigate the adverse social impact of the devaluation of the kwacha and the increases in fuel and electricity prices. To support this agenda, the RFSSP had two components to strengthen: PFM transparency and accountability, and social protection systems.

In 2015, the African Development Fund Board approved a grant of US\$30 million for the Protection of Basic Services Program (PBS). This ring-fenced Sector Budget Support was designed to protect critical expenditures in health and education, and improve accountability following suspension of general budget support. The grant was disbursed in one tranche in July 2015. The Food Crisis Response Budgetary Support followed the PBS operation in 2016. The Bank will continue to coordinate closely with the IMF in the design of its future budget support operations to ensure its programs are underpinned by sound macro-economic policies.

The Bank has been working with development partners in strengthening Malawi's public finance management (PFM) systems. In support to the implementation of PFM reforms and in strengthening internal control systems following 'cashgate', the Bank approved two PFM Institutional Support Projects (US\$7 million), one of which closed in June in 2018 and the other expected to close in May 2019. Among others, the PFM support is focusing on tax administration reforms (upgrading of the Automated System for Customs Data—ASYCUDA, putting in place a Tax Appeals Tribunal legislative framework, review of the Customs and Excise Act, etc.); public procurement reforms; and strengthening financial management systems, including reviewing the PFM Act, Treasury Instructions, Treasury Funds Management Guidelines, undertaking an audit of Treasury Funds, and strengthening the Integrated Financial Management Information System (IFMIS) oversight, among others.

The Bank has also provided support for non-lending activities, including feasibility studies and analytic work, to inform the design of new operations and policy dialogue. In 2017, the Bank prepared a feasibility study for Kholombidzo Hydro Power Project, which will provide a foundation for pipeline operations. An agriculture financing feasibility study currently underway is expected to be concluded at end-2018. The study aims to assess the financing needs of smallholder farmers with the view of proposing and assessing the viability of different financing options, including the establishment of an Agriculture Cooperative Bank, and outlining the implementation costs and modalities for those options, with the view of boosting agricultural productivity along the value chain.

In addition, the Bank is supporting the Private Public Partnership Commission (PPPC) with a grant to build PPP negotiation capacity through a "hot line" arrangement, whereby the PPPC can tap into international legal services to advise on PPP transactions. The Bank has provided technical assistance to the Malawi Postal Cooperation for the development of the E-Post Strategy and Action Plan. It is to be noted that the Bank, in recent years, has undertaken a number of analytical studies, including Domestic Resource Mobilization Study for Malawi, and provided TA to the Reserve Bank of Malawi

to strengthen capacity in macro-economic forecasting; prepared a Public Expenditure Review with the World Bank and other development partners; and provided support for undertaking of the Expenditure Tracking Study for Malawi.

Looking forward, the Bank plans to scale up its lending to the energy sector with a view to address power shortages. The pipeline of energy sector projects includes the Songwe River Basin Development Project, the Malawi-Zambia Power Inter-connector Project, and the Kholombidzo Hydro Power Project. The Bank continues to engage with the World Bank and other partners for co-financing arrangements of its pipeline operations. In view of this, the Bank is taking the lead in mobilizing donor resources and private finance for the Songwe Hydro Power Project, a multinational project with Tanzania. It will also promote private investment in the energy sector, through PPPs and the use of innovative financing instruments, such as Partial Risk Guarantees.

The Bank will continue to support the agriculture sector, and to this effect, it is working on the Shire Valley Transformation Programme in 2018, for co-financing with the World Bank. The project will cover 42,000 hectares and is expected to transform Malawi's agriculture sector by boosting production of high value crops and developing value chains. Currently the project preparatory studies are underway and are being co-financed with the World Bank.

STATISTICAL ISSUES

(As of October 17, 2018)

I. Assessment of Data Adequacy for Surveillance

General: Data provision has some shortcomings, but it is broadly adequate for surveillance.

National Accounts: STA is providing technical assistance (TA) to the National Statistics Office (NSO) on strengthening the quality of national accounts statistics. The latest available actual GDP estimates at current prices are for 2011. With the support of STA TA, experimental quarterly estimates were developed for 2010 to 2015 but not disseminated. Further review and update of the series is expected to be done by November 2018. Limited number of staff prevents regular compilation and dissemination of national accounts.

Price Statistics: An updated and revised consumer price index (CPI) was introduced in April 2018. The weight reference period is December 2017 (based on expenditure data collected from the 2016–17 integrated household survey), and an index reference period of 2017 (December 2017=100). It should be noted that the old series and the new series have some conceptual differences regarding the exclusion of imputed rent and food produced for own consumption from the new CPI.

The producer price index (PPI) is based on weights derived from the results of the Annual Economic Survey conducted in 2012. The weights should be updated, and coverage of the index expanded to other production activities, so as to better reflect the current structure of the economy.

The NSO is in process of developing export-import price indexes.

Government Finance Statistics: The accuracy and reliability of the data are affected by source data weaknesses. A key shortcoming in this area is the inadequate system of recording source data. In addition, there are serious quality problems, including data inconsistencies, that complicate program monitoring:

- Due primarily to differences in coverage, published data for the budgetary central government include a sizeable statistical discrepancy between above and below the line data. The coverage of government for above the line data is considerably narrower than the information on financing reported by RBM.
- While tax revenue data are received in a timely fashion, it is not always possible to reconcile them with deposits in the Malawi Government (MG) Account. This is a result of the way taxes are reported, and timing differences between receipt of taxes and cleared funds being available for the government. The finances and operations of the Malawi Revenue Authority are also unusually opaque.

- Nontax revenue, including capital revenues collected by line ministries, is not properly accounted for in the fiscal reports prepared by the Ministry of Finance.

The authorities have received significant technical assistance from the Fund and other donors to strengthen expenditure monitoring and reporting, accounting, and statistical reporting, but results have lagged. The government has pledged to strengthen public financial management and fiscal reporting, and renewed efforts are being made to establish a work plan, including utilizing donor technical assistance more effectively. The authorities are currently working with East AFRITAC to modify the chart of accounts and output-based structures so that they could more easily be realigned to the national strategy and be more readily understood.

Annual government finance data for the Budgetary Central Government in a GFSM 2014 presentation are reported for publication in the Government Finance Statistics Yearbook (GFSY). However, these data are not disseminated domestically. STA TA missions have encouraged the authorities to compile and report high frequency data for Budget Central Government in GFSM 2014 framework and assisted them in compiling data for extrabudgetary units (EBUs) with the objective of expanding coverage to central government. Process of procuring the new Integrated Financial Management Information System (IFMIS) has been initiated.

Monetary and Financial Statistics: The Reserve Bank of Malawi (RBM) is yet to compile and report monetary data to STA using standardized report forms (SRFs). At the request of RBM a mission was conducted in March 2018 to assist in developing the SRFs for the central bank accounts (1SR) and other depository corporations (2SR). RBM submitted test data to STA in July 2018 and is committed to start regular reporting of SRF-based MFS to STA. The mission suggested improvements to source data for the other financial corporations, mainly insurance companies and pension funds, which RBM will work on.

Financial Sector Surveillance: Following a TA mission in April 2017, Malawi recently compiled and submitted to STA financial soundness indicators which accords with the *FSI Guide* methodology. Twelve core and thirteen encouraged FSIs are reported and published in the Fund website. Reporting timeliness which extends beyond 3-months needs to be improved.

External sector statistics (ESS): The NSO compiles annual balance of payments and international investment position (IIP) statistics following the sixth edition of the *Balance of Payments and International Investment Position Manual (BPM6)*. The estimates rely heavily on monthly merchandise trade statistics, banking data, and information from government departments. In addition to the understaffed balance of payments section of NSO, inadequate resources for surveys had an impact on the compilation of reliable ESS. The foreign private capital survey is being conducted in 2018 for the first time since 2013. The balance of payments survey has not been conducted since 2010; and the business interviews survey no longer collects balance of payments data. In the absence of regular survey data, previous estimates are updated based on suitable proxies from other data sources. The NSO should make efforts to obtain data on current

and capital transfers related to foreign aid separately from the Debt and Aid Department, which is also critical for improving the current estimates.

The deficiencies in source data and estimation techniques reflect on the large net errors and omissions (NEOs) in recent years (for instance, around 2.5 percent of GDP in 2017) and raise concerns regarding the quality of balance of payments data. The January 2018 TA mission noted that the main contributor of large NEOs is likely to be the underestimation of net acquisition of currency and deposits assets under other investment category, as the current estimates of this component does not capture the deposits held in foreign banks or U.S. dollar held in cash by non-bank Malawian residents. Data from the foreign exchange transaction system (E-forms) of the RBM is expected to be available by September 2018 and could improve the ESS data substantially. To move forward with improvements, the NSO and RBM should take appropriate steps to ensure a regular flow of data from this system for balance of payments and IIP compilation; and the government should allocate sufficient resources for conducting regular surveys.

II. Data Standards and Quality

Malawi implemented the e-GDDS and its National Summary Data Page (NSDP) went live on November 15, 2016 (<http://cb.malawi.opendataforafrica.org/uwkhbc/national-summary-data-page-nsdp>). The authorities are aiming at improving performance against the timeliness benchmarks that they have set under the e-GDDS.

Data ROSC was published on February 17, 2005.

III. Reporting to STA

The authorities report the following datasets to STA for publication in the International Financial Statistics (IFS): Monetary and financial statistics, balance of payments and international investment position statistics, and government finance statistics; however, timeliness is irregular.

Malawi: Table of Common Indicators Required for Surveillance
(As of October 5, 2018)

	Date of latest observation	Date received	Frequency of Data ⁷	Frequency of Reporting ⁷	Frequency of Publication ⁷	Memo Items: ⁸	
						Data Quality — Methodological soundness ⁹	Data Quality — Accuracy and reliability ¹⁰
Exchange Rates	Current	Current	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	08/2018	09/2018	M	M	M		
Reserve/Base Money	08/2018	09/2018	M	M	M	LO, LO, LNO, O	LO, O, O, O, O
Broad Money	08/2018	09/2018	M	M	M		
Central Bank Balance Sheet	08/2018	09/2018	M	M	M		
Consolidated Balance Sheet of the Banking System	08/2018	09/2018	M	M	M		
Interest Rates ²	08/2018	09/2018	M	M	M		
Consumer Price Index	08/2018	09/2018	M	M	M	O, LNO, O, O	LNO, O, O, O, NA
Revenue, Expenditure, Balance and Composition of Financing ³ – General Government ⁴	NA.	NA				O, LO, O, O	O, LO, O, O, LNO
Revenue, Expenditure, Balance and Composition of Financing ³ – Central Government	Q2/2018	09/2018	M	M	I		
Stocks of Central Government and Central Government-Guaranteed Domestic Debt ⁵	Q2/2018	09/2018	M	M	M		
External Current Account Balance	2017	09/2018	A	A	A	O, O, O, O	LO, O, LO, O, O
Exports and Imports of Goods and Services	2017	09/2018	A	A	A		
GDP/GNP	2016	12/2017	A	A	A	LO, LNO, LNO, LO	LNO, LNO, LO, LO, LNO
Gross External Debt	Q2/2018	09/2018	A	Q	I		
International Investment Position ⁶	2017	09/2018	A	A	A		

¹ Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

² Both market-based and officially-determined, including discounts rates, money market rates, rates on treasury bills, notes and bonds.

³ Foreign, domestic bank, and domestic nonbank financing.

⁴ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

⁵ Including currency and maturity composition.

⁶ Includes external gross financial asset and liability positions vis-à-vis nonresidents.

⁷ Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).

⁸ These columns should only be included for countries for which Data ROSC (or a Substantive Update) has been published.

⁹ Reflects the assessment provided in the data ROSC or the Substantive Update (published on March 10, 2004, and based on the findings of the mission that took place during May 8–21, 2003) for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording, respectively, are fully observed (O); largely observed (LO); largely not observed (LNO); not observed (NO); and not available (NA).

¹⁰ Same as footnote 9, except referring to international standards concerning, respectively, source data, assessment of source data, statistical techniques, assessment and validation of intermediate data and statistical outputs, and revision studies.