

**EXECUTIVE  
BOARD  
MEETING**

EBS/20/81

April 27, 2020

To: Members of the Executive Board  
From: The Secretary  
Subject: **Malawi—Request for Disbursement Under the Rapid Credit Facility**

Board Action:	Executive Directors' <b>consideration</b> (Formal)
Tentative Board Date:	<b>Friday, May 1, 2020</b>
Proposed Decision:	Page 14
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Questions:	Ms. Mitra, AFR (ext. 39523)
Document Transmittal in the Absence of an Objection and in accordance with Board policy:	After Board Consideration—African Development Bank, World Trade Organization

**\*The authorities have indicated that they consent to the Fund's publication of this paper.**





# MALAWI

## REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY

April 27, 2020

### EXECUTIVE SUMMARY

**Context.** The COVID-19 pandemic is having a severe impact on Malawi's economy. Spillovers from the global slowdown, border closures, and economic disruption in neighboring countries have reduced exports, raised trade transit costs, and weighed on remittances, tourism, and foreign direct investment; and a country-wide lockdown—to curb growing cases and deaths from COVID-19—has slowed domestic activity. Malawi's public health system is poorly equipped to manage this major public health emergency.

**Program Status.** The 2<sup>nd</sup> and 3<sup>rd</sup> reviews under the ECF arrangement and request for augmentation (20 percent of quota) were approved by the Executive Board in November 2019. Discussions on the 4<sup>th</sup> review under the ECF arrangement will be continued when there is greater clarity on the outlook, which is clouded by the evolving nature of the pandemic. Preliminary data suggest that all quantitative performance criteria for the end-December 2019 test date were observed.

**Request.** Malawi is experiencing an urgent balance of payments need arising from the COVID-19 pandemic, with an external financing gap—estimated at 2.1 percent of GDP (\$176 million)—that would result in an immediate and severe economic disruption. In the attached letter of intent (LOI), the authorities are seeking financial assistance under the "exogenous shocks" window of the Rapid Credit Facility (RCF), requesting a disbursement of SDR 66.44 million (equivalent to 47.9 percent of quota or \$93 million). Malawi received SDR 7.202 million under the CCRT on April 13. Staff supports the authorities' request—expected to play a catalytic role in securing additional financing from Malawi's development partners, which the authorities are actively seeking.

**Macroeconomic policies.** To cope with the impact of the COVID-19 pandemic on Malawi, the authorities are increasing spending on health care and social assistance, especially for the most vulnerable; supporting farmers' incomes and ensuring food security through purchase and storage of agricultural harvests; enhancing financial sector monitoring and injecting liquidity as needed to maintain a smoothly functioning banking system; implementing an emergency liquidity assistance framework; taking measures to support small and medium enterprises; and are committed to greater exchange rate flexibility to buffer this external shock. The authorities also continue to prioritize policies to achieve higher and more broad-based medium-term growth and governance reforms while preserving macroeconomic stability and debt sustainability.

**Approved By**  
**David Robinson (AFR)**  
**and S. Ali Abbas (SPR)**

A staff team comprised of Ms. Mitra (head), Ms. Farahbaksh, Ms. Gwenhamo, Ms. Yoon (all AFR), Mr. Lee (SPR), Mr. Swistak (FAD), Mr. Banda (local economist), and Mr. Anderson (FAD long-term expert) exchanged information and held discussions with the Hon. Joseph Mwanamvekha (Minister of Finance), Dr. Dalitso Kabambe (Governor of the Reserve Bank of Malawi), and other senior officials by videoconference on April 15-17, 2020. Mr. Sitima-wina (OED) joined in the discussions. Ms. Fabo and Ms. Kumar assisted in the preparation of the staff report.

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## CONTEXT

**1. The impact of the COVID-19 pandemic is rapidly unfolding and the authorities have requested emergency Fund financial assistance under the Rapid Credit Facility (RCF).** As of April 27, there were thirty-six confirmed cases of COVID-19 in Malawi and three deaths. These numbers are likely to rise rapidly as currently limited testing capacity improves. The public health system is poorly equipped to manage a major public health disaster. To curb spread of the pandemic, the government has implemented a response plan which was developed with the support of the World Health Organization and other development partners. The subsequent lockdown of Malawi (essential services continue to function) since early April and spillovers from the pandemic's global and regional impact are creating severe economic pressures. To preserve macroeconomic stability—especially, to address urgent balance of payments needs—the authorities are seeking financial assistance under the RCF.

**2. Discussions on the 4<sup>th</sup> review under the Extended Credit Facility (ECF) arrangement will be continued when there is greater clarity on the outlook**—necessary for developing or modifying future performance criteria and setting timelines for structural reforms under the arrangement—which is clouded by the evolving nature of the pandemic. Preliminary data suggest that all the quantitative performance criteria for the end-December 2019 test date were observed and good progress has been made on the structural reform agenda, despite some delays (Table 8). The 2<sup>nd</sup> and 3<sup>rd</sup> reviews under the ECF arrangement and request for augmentation (equivalent to 20 percent of quota) were approved by the Executive Board in November 2019. Debt relief under the CCRT covering two years' debt service to the Fund (SDR 32.842 million) was approved on April 13, 2020, with an initial tranche of SDR 7.202 million provided during April-October.

**3. Political tensions remain elevated.** New presidential elections are scheduled for July 2, 2020—following the Constitutional Court's February 2020 ruling nullifying the May 2019 presidential election results given their finding of systematic irregularities in the election proceedings. President Mutharika (who won by a narrow margin last May with just 38 percent of the votes) has challenged the ruling in the Supreme Court.

## PRE-COVID-19 ECONOMIC DEVELOPMENTS

**4. Economic conditions strengthened in the second half of 2019.**

- Growth rose to 4.5 percent in 2019 despite the impact of Tropical Cyclone Idai—driven by reconstruction and an agricultural rebound. Stark agricultural losses in the South, where the cyclone hit, were more than compensated by bumper harvests in the rest of the country following widespread drought and insect infestations in 2018. Activity in other sectors, burdened with political uncertainties and continued electricity shortages, picked up in 2019Q4 with post-cyclone reconstruction.

- To contain inflation, the Reserve Bank of Malawi (RBM) maintained its policy rate at 13.5 percent. Average inflation rose to 9.4 percent in 2019 reflecting rising food inflation caused by the cost of transporting food to the South of the country and suppliers hoarding maize. Non-food inflation was stable at 5 percent though increased activity in energy and mining raised credit to the private sector to 21.3 percent in 2019Q4. Based on available data, the banking system remains well capitalized, liquid, and profitable.
- The domestic primary balance overperformed by 1 percent of GDP in FY 2019/20H1. Domestic revenues were in line with expectations. Underperformance of tax revenues—due to lower than expected imports, slow implementation of new tax measures, and weak income tax collection—was offset by large non-tax revenues. Transfers to public entities and the Farm Input Subsidy Program as well as spending on maize, health care, and domestically financed development were under-executed but the wage bill and spending on rural electrification and road maintenance were stepped up.
- The current account deficit narrowed to 17.2 percent of GDP in 2019 from 20.5 percent in 2018. The improvement mainly reflects slow import growth—notwithstanding an increase in reconstruction-related imports at end-2019. Strengthened exports of non-tobacco commodities (e.g., sugar) compensated for reduced global tobacco demand and the suspension of Malawian tobacco exports to the U.S. following child labor allegations.<sup>1</sup> Reserves coverage in months of prospective imports improved from 3.0 months at end-2018 to 3.2 months at end-2019.

## 5. The pre-COVID-19 outlook was favorable, notwithstanding important risks.

- Economic growth was forecast at around 5 percent in 2020, with strong agricultural production, post-cyclone reconstruction, investments to build resilience to climate change, and improved electricity generation. Over the medium-term, greater access to finance, additional resilience investments, enhanced electricity generation and irrigation (e.g., the Shire Valley project), crop diversification, and better telecommunications were anticipated to boost growth to just over 6 percent.
- Inflation was anticipated to converge towards 5 percent by 2025 at the latest, benefitting from strengthened fiscal and monetary policy implementation and improved resilience to climate change. However, in 2020, average inflation was expected to be near 10 percent due to elevated maize prices, with non-food inflation projected at 5 percent. Improvements in competitiveness, export diversification, and fiscal restraint were projected to gradually narrow the current account deficit.
- Key risks to this outlook included political uncertainties denting confidence and reform implementation; lackluster economic growth raising food insecurity and unemployment; intensified natural disasters weighing on economic activity and raising inflation and balance of

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<sup>1</sup><https://www.cbp.gov/newsroom/national-media-release/cbp-issues-withhold-release-order-tobacco-malawi>

payments pressures; and escalated global trade tensions depressing export demand and raising import costs.

## IMPACT OF THE COVID-19 PANDEMIC

### 6. The economy is expected to be severely impacted by the COVID-19 pandemic through several channels:

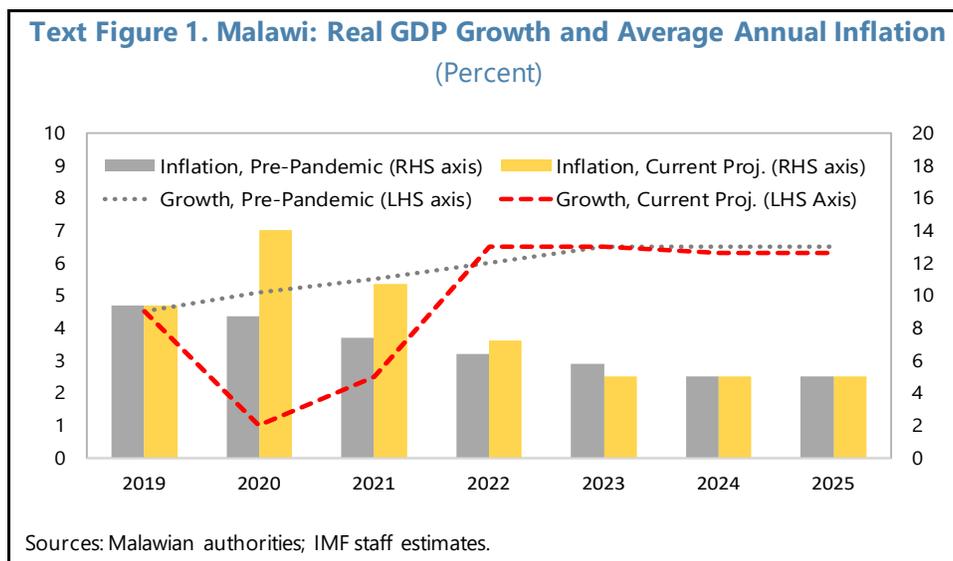
- The global and resultant regional economic slowdown is weighing on remittances, tourism, and foreign direct investment (FDI) and border closures and economic disruptions in neighboring countries have multiplied trade transit costs—altogether worsening the balance of payments by about 3.6 percent of GDP in 2020 relative to the pre-pandemic expectations, despite a positive terms of trade shock. Project-related inflows have also slowed as the lockdown is hindering execution of development projects.
- Exports, mainly agricultural products (including tobacco and tea) are projected at about 2 percent of GDP lower than pre-pandemic expectations in 2020—despite solid crop production owing to good weather—due to reduced global demand, border closures, and partial closure of Malawi’s commodities trading markets. Most of these harvests have been stored with the intent of selling them in late-2020 or early 2021, once the pandemic passes.
- Lower international oil prices are having a lagged effect as oil import contracts (lasting 3-6 months) are locked-in at higher pre-pandemic prices for 2020Q1.
- The lockdown has substantially slowed domestic activity, especially in domestic manufacturing and wholesale and retail trade. Maize harvests of flush fields in the Central and Northern regions are also suffering; harvests in the South are finished but sales are down given partial market closures.
- The economic slowdown will raise banks’ non-performing loans and balance sheet pressures, especially for smaller, less liquid banks.
- On the fiscal side, both domestic and customs tax revenues are impacted. Border closures, since end-March, have resulted in significant reductions of customs and import VAT revenues. The lockdown is impeding collection of domestic revenues.

### 7. A sharp deterioration in growth and fiscal and external balances is anticipated (Text Figure 1, Text Tables 1-2).

- Growth is expected to fall to 1 percent in 2020 (four percentage points below pre-pandemic projections) and to 2.5 percent in 2021—assuming it will take time for businesses to re-open after the lockdown ends and for trade flows to normalize. This implies, in 2020, that real per capita income will decline by around 2 percent. A gradual recovery is expected thereafter, with growth averaging 6.4 percent during 2022-25. The rapid rise in unemployment and loss of

incomes and purchasing power will take a toll on poverty, which is expected to improve much more slowly.

- Inflation is projected to rise to 14.0 and 10.7 percent in 2020 and 2021; and moderate towards 5 percent over the medium-term. The impact of hoarding, market closures, and scarcity of imported inputs on both food and non-food prices more than offset the effect of lower economic growth and oil prices.



- The domestic primary deficit is expected at 3.4 percent of GDP in FY 2019/20 and 1.3 percent of GDP in FY 2020/21 (just over a 4 and 3 percent of GDP deterioration in FY 2019/20 and FY 2020/21 relative to pre-pandemic expectations). This reflects revenue shortfalls attributed to lower activity from border closures, the lockdown, and political uncertainties. Spending has also increased substantially on health care and social assistance, maize purchases, as well as preparations to hold new elections and payment of domestic arrears. The additional fiscal financing needs are anticipated to be financed with development partners' support (mainly budget support from the World Bank) and domestic sources (mainly large banks, pension funds, and insurance companies).

**Text Table 1. Malawi: COVID-19 Fiscal Financing Needs, FY 2019/20-20/21 (Percent of GDP)**

	FY19/20	FY20/21
Revenue shortfalls	1.3	1.5
Spending	0.5	0.6
Health care	0.3	0.3
Social spending	0.1	0.3
<b>Financing Needs</b>	<b>1.7</b>	<b>2.2</b>
Financing Sources	1.7	2.2
Foreign	0.5	0.2
Budget support	0.4	0.0
Project grants	0.1	0.2
Domestic	1.2	1.9

Sources: Malawian authorities; IMF staff estimates.

- The anticipated widening of the current account deficit to 18.1 percent of GDP in 2020 and 18.0 percent of GDP in 2021 is more limited (about 1 percent of GDP deterioration in each of 2020 and 2021 relative to pre-pandemic expectations). In 2020, the decline in remittances accounts for most of the deterioration, the effects of higher trade transit costs and reduced exports, remittances, and tourism mitigated by domestic import contraction, a lower oil import bill, and a cease in Malawians' travel abroad. A slow global recovery in 2021 will weigh on the recovery of

Malawi's agricultural exports while imports will gradually rise with a pick-up in project-related imports and higher international oil prices.

**8. Consequently, an external financing gap projected at \$176 million (2.1 percent of**

**GDP) has emerged in 2020**, after taking into account anticipated IMF disbursements (net of repayments) of 0.5 percent of GDP for the 4<sup>th</sup> and 5<sup>th</sup> reviews under the ECF and 0.1 percent of GDP in debt relief under the IMF's Catastrophe Containment and Relief Trust (CCRT, until mid-October 2020); and assuming reserves in months of imports is maintained at 3.2. The overall balance of payments deteriorates from a projected pre-pandemic surplus of 1.7 percent of GDP to a deficit of 2.0 percent of GDP. This reflects a projected current account deficit of 18.1 percent of GDP (described above) and a capital and financial account surplus of only 16.1 percent of GDP (reduced by 2.7 percent of GDP relative to pre-pandemic expectations mainly due to reduced FDI). Notably, large balance of payments needs, related to the pandemic are expected to persist in 2021, with the external financing gap for 2020-21 totaling almost 3 percent of GDP or about \$240 million.

**Text Table 2. Malawi: COVID-19 External Financing Needs, 2020**  
(Millions of U.S. dollars)<sup>1,2</sup>

	U.S. Dollars	Percent GDP
Financing needs from COVID-19 pandemic (A)	308	3.7
Widening of current account deficit, excluding official current transfers	103	1.2
Widening of trade and service account deficit	-2	0.0
Decline in private transfers	105	1.2
Deterioration in capital and financial account	205	2.4
Decline in FDI	122	1.4
Policy adjustment (lower accumulation of gross reserves) (B)	132	1.6
<b>External financing gap (A-B)</b>	<b>176</b>	<b>2.1</b>
Additional financing:	176	2.1
Prospective grants for debt relief under IMF CCRT <sup>3</sup>	5	0.1
Financial support from other donors (incl. WB, UN, GAVI, DFID, Irish Aid, GIZ, KfW, USAID)	43	0.5
Of which: World Bank	37	0.4
Disbursement under IMF RCF	93	1.1
Residual gap	35	0.4

Sources: Malawian authorities; IMF staff estimates.

<sup>1</sup>Financing needs from the COVID-19 pandemic are estimated relative to projections under the 2nd and 3rd reviews of the ECF arrangement.

<sup>2</sup>The IMF has adopted the Malawi National Statistics Office (NSO)'s capital and financial account data following adoption of the NSO's current account data in 2019. Previously, the IMF's reported series was based on staff estimates. Consequently, the IMF's reported capital account balance increased from 3.8 percent of GDP to 11.7 percent of GDP in 2018 while financial account balance including net errors and omission decreased from 16.5 percent of GDP to 8.6 percent of GDP.

<sup>3</sup>Financial support from the first tranche of debt relief under IMF CCRT is recorded as grant and corresponds to the amount of SDR 7.202 million for the period April 14-October 13, 2020.

**9. Downside risks to the outlook—either from a slower than envisaged global or regional economic recovery or from a more significant spread of COVID-19 within Malawi—are substantial and could result in significantly larger balance of payments needs.** The extent of the current external shock is highly uncertain; and projections are based on a global scenario assuming a gradual economic normalization throughout 2021. Delays in such a normalization would lead to longer disruptions to international trade and related transit costs as well as inflows from tourism, remittances, and FDI. Domestically, if the pandemic spreads widely across Malawi, economic growth could become sharply negative. The resulting impact on tax revenues as well as added health and social assistance spending pressures would lead to a further deterioration in the fiscal deficit—resulting in larger fiscal financing needs.

## POLICY ISSUES

The authorities' immediate priority is to limit the impact of the pandemic and preserve macroeconomic stability. Beyond this short-term objective, the government remains committed to its medium-term strategy of attaining higher and more broad-based medium-term growth and governance reforms while preserving debt sustainability—supported by the ECF arrangement.

### 10. To mitigate the impact of the pandemic on Malawi, the government is implementing the following measures, which staff broadly support:

- Increase health sector outlays related to containing and managing COVID-19—including developing testing capabilities, equipping treatment centers, importing medical equipment and supplies, hiring 2000 additional medical staff, and raising public awareness—by 0.3 percent of GDP in FY 2019/20 and at least 0.3 percent of GDP in FY 2020/21. Beyond this, development partners, who finance and administer nearly half of total health care provision in Malawi (mostly off-budget), are also in the process of increasing their outlays (Text Table 3).
- Increase social assistance spending under the social cash transfer program (SCTP) to help the most vulnerable households mitigate the economic impact of the virus. Government spending on SCTP covers only one district and less than 10 percent of total SCTP spending; development partners directly finance and administer the rest of the SCTP program (on-budget). In response to COVID-19, during FY 2019/20, under the foreign-financed portion of the SCTP, the number of beneficiaries—especially in urban areas—has been expanded through universal transfers to all residents of vulnerable urban neighborhoods (identified from census data). In FY 2020/21, the transfers provided to each recipient of the SCTP will be permanently raised by 40 percent (for both the government and foreign-financed portions).
- Purchase and storage of maize by the Agricultural Development and Market Corporation (ADMARC, a state-owned enterprise), financed by borrowing from banks and 0.1 percent of GDP from the budget for each of FY 2019/20 and FY 2020/21. This measure is intended to mitigate

**Text Table 3. Malawi: Major COVID-Related Fiscal Measures, FY 2019/20-20/21 (Percent of GDP)<sup>1</sup>**

	FY19/20	FY20/21
Health care	0.3	0.3
On-Budget	0.3	0.3
Hiring additional health care workers	0.0	0.1
Goods and services	0.3	0.2
Government-financed	0.2	0.2
Development partner-financed	0.1	0.0
Off-Budget	0.2	0.2
Goods and services, development partner-financed <sup>2</sup>	0.2	0.2
Social spending (all on-budget)	0.1	0.3
Social assistance (SCTP)	0.0	0.2
Government-financed <sup>3</sup>	0.0	0.0
Development partner-financed (on-budget)	0.0	0.2
Maize purchases (via ADMARC)	0.1	0.1
Total	0.5	0.6
Government-financed	0.3	0.4

Sources: Malawian authorities; IMF staff estimates.

<sup>1</sup>Estimated cost of tax waivers on medical equipment, medicine, and supplies as well as reduced salaries of high ranking government officials and spending on goods and services to contain the virus are very small and, consequently, not included in this table.

<sup>2</sup>These estimates are subject to upward revisions as development partners mobilize further support.

<sup>3</sup>The government-financed increase in SCTP related to mitigating the impact of the pandemic is zero in FY 2019/20 and MK 1 billion in FY 2020/21.

the impact of partial market closures on farmers' incomes and ensure food security for the second half of the year—especially for the most vulnerable.

- Granted tax waivers on imports of medical equipment, medicine and other supplies directly needed to counter the pandemic.
- To free resources to fight the pandemic, temporarily reduced salaries of high-ranking government officials and will delay spending on goods and services and development projects (in non-health areas)—including through review of on-going and planned projects—that are not essential to tackling the immediate crisis.
- Injected liquidity into the economy, by paying domestic arrears accrued by the Roads Fund during 2012-19. The Auditor General has verified unpaid bills of close to 1.1 percent of GDP in the Roads Fund and certified that, of these unpaid bills, 0.8 percent of GDP were arrears as of end-December 2019. As of end-March 2020, the government had already cleared half of these (0.4 percent of GDP) and the other half is expected to be cleared by end-2020—assuming no additional pandemic-related spending needs. The remaining 0.3 percent of GDP in unpaid bills are under dispute. To prevent future arrears, procedures have been implemented that require Ministry of Finance vetting and registration of contract sums against available funding before contract signing.
- Continue implementing the automatic fuel pricing mechanism, where the pass-through of lower international fuel prices will help contain inflation.
- Introduced measures to ease banking system liquidity constraints. These include the recent reductions in the Liquidity Reserve Requirement (LRR) on local currency deposits by 125 basis points to 3.75 percent (aligning the rates on local and foreign currency LRR) and lowering the Lombard Rate from 0.4 to 0.2 percentage points above the policy rate; and loan restructuring and a three-month moratorium on debt service for small and medium enterprises (SMEs)—provisioning relief is being provided to banks with these restructured or on-moratorium loans. The RBM will carefully consider further easing of monetary policy should liquidity pressures increase, taking into account inflation developments.
  - The RBM stressed that banks' decisions on restructuring will be applied on a case-by-case basis, based on an assessment of the borrower's capacity to pay under the new terms and ensuring that borrowers that were highly unlikely to repay prior to the pandemic do not unduly benefit. In administering the moratorium, banks will ensure that borrowers facing temporary difficulties are not disincentivized to resume loan repayment at the end of the moratorium.
  - Banks will continue to assess the credit quality of the relevant exposures and identify situations in which borrowers are unlikely to pay. Banks and supervisors will also collect information about the scope of moratoria, identify precisely borrowers and exposures subject to these measures, and improve the quality of disclosure.

- Enhance the RBM's monitoring of financial sector risks and inject liquidity as needed to maintain a smoothly functioning banking system. Off-site supervision has been intensified with daily monitoring. Staff stressed the importance of ensuring regulatory reporting is not compromised; the introduction of enhanced supervisory reporting is being considered.
- Activated the newly announced Emergency Liquidity Assistance (ELA) framework to support banks in the event of worsening liquidity conditions and to provide support to banks on a case by case basis. The ELA is anticipated to be used by small banks as the large banks have substantial liquidity and capital buffers.
- Implement greater exchange rate flexibility to buffer shocks while keeping reserves at an adequate level. Recent exchange rate super-stability is arising from pricing being determined in a segmented and underdeveloped interbank FX market while most transactions occur in the retail market and directly with the RBM (IMF Country Report No. 18/336). The RBM is studying obstacles to FX market development and developing an action plan to deepen the market and channel the RBM's role to dampening excess volatility and accumulating reserves—though under current circumstance reserves could be drawn upon in the event of unfilled external financing gaps.

**11. The FY 2020/21 budget will include the fiscal measures described above to mitigate the impact of the pandemic.** The budget will be submitted to Cabinet in May and is expected to be approved by Parliament by end-June. Contingency measures, should COVID-19 related revenue shortfalls and spending exceed projections at the time of budget approval, are being discussed. These could include reprioritizing non-essential spending on goods and services and development projects in non-health areas (¶10) and reduced purchases of motor vehicles, office equipment, and non-essential recurrent spending. Staff and the authorities agreed it would also be important to adopt revenue administration measures that ensure business continuity during the pandemic (elaborated in LOI ¶9).

**12. The authorities are actively continuing improvements in fiscal oversight**—especially in budgeting processes, cash management, and bank account reconciliation—consistent with the understandings reached under the ECF arrangement. Regular publication of procurement documentation (including tenders, bids, and names of awarded companies, products or services procured and their costs) on the Public Procurement and Disposal of Assets (PPDA) website is continuing during the lockdown. To ensure enhanced transparency and accountability of COVID-19 related spending, the PPDA will also publish the names of the beneficial owners of the awarded companies and conduct and publish a thorough ex-post validation of delivery; and the Ministry of Finance will publish quarterly statements on commitments and payments of COVID-19 related activities, specify COVID-19 related costs in the published monthly salary report and in their budget funding and cash management analysis. The National Audit Office will submit quarterly audits of COVID-19 related spending to the Minister of Finance (for submission to Cabinet) and, once the pandemic abates, will publish and submit to Parliament a comprehensive audit of COVID-19-related spending by the government and ADMARC.

**13. Concurrently, the authorities are committed to advancing their medium-term economic reform program, supported by the ECF arrangement, which seeks to entrench macroeconomic stability and enhance poverty-reducing and resilient growth. Key measures include:**

- To strengthen medium-term public debt sustainability and ensure sufficient fiscal space for critical resilience building and social and development spending, a domestic revenue mobilization strategy will be implemented as soon as the pandemic passes—including comprehensive VAT reforms—as well as continued improvements in spending efficiency.
- To improve governance and support the objectives above, reforms in tax administration, procurement, public financial management (including implementation of a new IFMIS in line with FAD advice), public investment management, oversight of state-owned enterprises, and debt management are continuing.
- The RBM will continue to actively manage bank liquidity and gradually transition towards an inflation targeting framework by 2023; and study and address obstacles to FX market development.
- Strengthening resilience to climate change and promoting more broad-based private sector development and export diversification. This includes implementing priority resilience building projects and improving healthcare, gender inequality, and education in coordination with donors, enhancing the business environment, reforming agricultural regulations and market intervention systems, and raising access to finance by addressing structural challenges such as improving property rights.

## MODALITIES OF FUND SUPPORT UNDER THE RAPID CREDIT FACILITY

**14. The authorities are requesting a disbursement under the RCF “exogenous shock” window equivalent to 47.9 percent of quota (SDR 66.44 million or about US\$93 million).** The disbursement would be provided to the RBM and would meet 53 percent of the urgent balance of payments needs caused by the sudden exogenous shock from the COVID-19 pandemic—budget support is not being proposed at this time given sufficient domestic liquidity to finance the larger deficits and that a substantial portion of health care and social assistance programs are off-budget programs financed and operated by development partners. The authorities are actively seeking additional support from development partners, beyond what has already been disbursed or committed (including \$43 million in 2020 from the World Bank, DFID, and GAVI, UN, Irish Aid, GIZ, and KfW). Absent additional support in 2020 or a widening of the financing gap should downside risks materialize, the rest of the external financing gap will be closed with a drawdown of international reserves, leaving reserves coverage at 3 months of imports—substantially below the staff assessed adequate level of 3.6. The same applies to the financing gap in 2021—though development partners (including the World Bank) are currently discussing how to mobilize

additional funds. Balance of payment difficulties are expected to be resolved by end-2021 without major policy adjustments—although the authorities are implementing immediate measures to mitigate the short-term economic impact and to preserve macroeconomic stability while continuing to advance reforms consistent with the understandings reached under the ECF arrangement.

**15. Malawi’s capacity to repay the Fund remains strong.** Malawi’s current ECF arrangement was approved in April 2018 for the amount of SDR 78.1 million (56.25 percent of quota) and augmented by SDR 27.76 million (20 percent of quota) in November 2019 at the time of the 2<sup>nd</sup> and 3<sup>rd</sup> reviews. With the RCF disbursement, outstanding PRGT credit would reach 167 percent of quota and total PRGT disbursements over a twelve month-period would reach 100 percent of quota (assuming the 4<sup>th</sup> and 5<sup>th</sup> reviews under the ECF are completed in 2020), all within normal access limits. Malawi has a strong track record in meeting its obligations to the Fund and servicing risks are mitigated by the country’s low indebtedness and the availability of concessional financing. Support under the CCRT will also ease the near-term burden.

**16. Malawi is at moderate risk of external debt distress and high overall risk of debt distress** (Annex I) based on an update of the November 2019 Debt Sustainability Analysis (IMF Country Report No. 19/361)<sup>2</sup>—staff assess Malawi’s debt to be sustainable. The present value of external debt to exports is projected to breach the benchmark under the most extreme shock scenario (which assumes a 6 percent decline in exports that could occur in 2021 should recovery from the COVID-19 shock be slower than expected)—all other indicators remain below the benchmark under the baseline scenario. The present value of total public debt to GDP is projected to remain above the benchmark in the near and medium terms and then gradually decline under the baseline scenario. This mainly reflects larger primary deficits during FY 2019/20-20/21 resulting in increasing amounts of domestic debt.

**17. The authorities are committed to undertaking an update of the safeguards assessment** before Board approval of any subsequent arrangement to which the safeguards policy applies. This would include an authorization for Fund staff to hold discussions with the RBM’s external auditors, and to have access to the RBM’s most recent external audit reports. The last safeguards assessment was undertaken in July 2018. Most safeguards recommendations have been implemented, including enactment of a new RBM Act in 2019 that strengthens the RBM’s governance and autonomy as well as progress towards implementation of a comprehensive ELA framework but limited progress has been made in addressing concerns over the RBM’s reserve management practices.

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<sup>2</sup> Although, the assessment of Malawi’s external and overall risk of debt distress remain unchanged from the November 2019 Debt Sustainability Analysis, Malawi’s debt carrying capacity under the current DSA has been upgraded from “weak” to “medium” as the Composite Index exceeded the threshold of 2.69 for two consecutive vintages; it is 2.84 in the current vintage (2019 CPIA and 2019 October WEO) and was 2.72 in the previous vintage (2018 CPIA and 2019 April WEO).

## STAFF APPRAISAL

**18. Staff welcomes the authorities' swift efforts to contain and manage the spread of the COVID-19 pandemic.** The government quickly developed a response plan—with support of the World Health Organization and other development partners—that requires additional health and social assistance spending of 0.3 percent of GDP in 2020H1 (FY 2019/20) and 0.6 percent of GDP more in 2020H2 (FY 2020/21). Development partners have also stepped up their support to health and social assistance programs (substantial parts of which are implemented off-budget), complementing the authorities' efforts. Soon after the first reported cases of COVID-19 in Malawi, a lockdown was instituted to curb spread of the pandemic and testing and treatment facilities were ramped up. Measures are being taken to ensure food security and to support farmers' incomes and SMEs through this difficult period; the local currency LRR rate was lowered to ease banking system liquidity constraints; monitoring of financial sector risks has been stepped up; and a newly established ELA framework has been announced. A flexible exchange rate will be maintained to buffer the shock.

**19. Nevertheless, the pandemic is having a severe impact on Malawi's economy.** Spillovers from the global slowdown and border closures and economic disruption in neighboring countries have reduced exports, raised trade transit costs, and weighed on remittances, tourism, and FDI. These external factors, combined with the slowdown in domestic activity related to the lockdown is expected to reduce growth to 1 percent in 2020, well below pre-pandemic projections, and a contraction in real per capita terms.

**20. Based on these developments, the country is facing urgent balance of payments needs.** An external financing gap, stemming from the pandemic, is estimated at 2.1 percent of GDP in 2020. Revenue shortfalls from the economic slowdown and additional spending to mitigate the effects of the pandemic are contributing to the widening of the domestic primary deficit to 3.4 percent of GDP in FY 2019/20 (nearly 4 percent of GDP deterioration from pre-pandemic projections)—expected to be financed mainly with budget support from the World Bank and by large domestic commercial banks. Given the deterioration in the near-term fiscal path, the authorities are committed to preserving public debt sustainability and to bring down debt over the medium-term, including through the implementation of a comprehensive domestic revenue mobilization strategy soon after the pandemic passes.

**21. Against this background, staff supports the authorities' request for a disbursement under the Rapid Credit Facility in the amount of SDR 66.44 million (47.9 percent of quota).** Staff's support is based on the urgent balance of payments needs arising from a sudden exogenous shock stemming from the COVID-19 pandemic and the authorities' existing and prospective policies to address this external shock and the balance of payments difficulties, including their commitment to greater exchange rate flexibility and to seek additional financing from other development partners. While the risks to the outlook are substantial, Malawi is assessed to be at moderate risk of external debt distress and its capacity to repay the Fund remains strong. The authorities continue to be committed to advancing their medium-term economic reform program, supported by the ECF arrangement, which seeks to entrench macroeconomic stability and enhance poverty-reducing and resilient growth.

## Proposed Decision

The following decision, which may be adopted by a majority of the votes cast, is proposed for adoption by the Executive Board.

1. Malawi has requested a loan disbursement in an amount equivalent to SDR 66.44 million (47.9 percent of quota) under the Rapid Credit Facility of the Poverty Reduction and Growth Trust.
2. The Fund notes the intentions of Malawi as set forth in the letter from the Minister of Finance, Economic Planning and Development and the Governor of the Reserve Bank of Malawi, dated April 27, 2020, and approves the disbursement in accordance with the request.

Table 1. Malawi: Selected Economic Indicators, 2018–25

	2018	2019	2020		2021	2022	2023	2024	2025
	Est.	Est.	2nd & 3rd Review	Proj.			Proj.		
<b>National accounts and prices</b> (percent change, unless otherwise indicated)									
GDP at constant market prices	3.2	4.5	5.1	1.0	2.5	6.5	6.5	6.3	6.3
Nominal GDP (billions of Kwacha)	5,060	5,711	6,466	6,528	7,326	8,301	9,241	10,256	11,373
GDP deflator	7.8	8.0	7.9	13.2	9.5	6.4	4.5	4.4	4.4
Consumer prices (end of period)	9.9	11.5	7.9	15.7	7.8	6.6	5.0	5.0	5.0
Consumer prices (annual average)	9.2	9.4	8.7	14.0	10.7	7.2	5.0	5.0	5.0
<b>Investment and savings</b> (percent of GDP)									
National savings	-7.2	-4.7	-4.6	-6.2	-4.3	-2.8	-2.3	-1.6	-1.2
Gross investment	13.3	12.5	12.6	11.6	13.7	14.3	14.5	14.4	14.1
Government	5.0	5.7	5.8	5.4	7.5	7.5	7.6	7.3	7.0
Private	8.3	6.8	6.8	6.2	6.2	6.8	6.9	7.1	7.1
Saving-investment balance	-20.5	-17.2	-17.2	-17.8	-18.0	-17.0	-16.8	-16.1	-15.4
<b>Central government</b> (percent of GDP on a fiscal year basis) <sup>1</sup>									
Revenue	21.0	21.1	22.0	20.4	20.4	21.9	22.7	22.7	22.6
Tax and nontax revenue	19.6	19.1	19.8	18.2	18.2	19.4	20.1	20.1	20.1
Grants	1.5	2.0	2.2	2.3	2.2	2.5	2.7	2.6	2.5
Expenditure and net lending	28.9	28.2	26.8	29.7	27.7	28.0	27.5	27.3	26.7
Overall balance (excluding grants)	-9.3	-9.1	-7.0	-11.6	-9.5	-8.6	-7.5	-7.3	-6.6
Overall balance (including grants)	-7.9	-7.0	-4.9	-9.3	-7.3	-6.1	-4.8	-4.7	-4.1
Foreign financing	2.6	1.5	0.9	1.3	1.4	1.7	1.6	1.5	1.5
Total domestic financing	7.8	6.8	4.3	8.3	5.9	4.4	3.3	3.1	2.6
Discrepancy	-0.4	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Primary balance	-4.3	-2.7	-0.8	-5.0	-3.3	-2.8	-2.5	-2.2	-2.1
Primary balance (excluding budget support and dedicated grants)	-4.8	-3.8	-1.7	-5.9	-4.0	-3.7	-3.4	-3.0	-2.9
Domestic primary balance <sup>2</sup>	-2.6	-1.2	0.9	-3.4	-1.3	-0.4	-0.1	0.2	0.3
<b>Money and credit</b> (change in percent of broad money at the beginning of the period, unless otherwise indicated)									
Money and quasi money	11.4	8.1	13.4	14.3	12.2	13.3	11.3	11.0	10.9
Net foreign assets	-7.8	2.4	10.1	-5.3	5.9	9.7	8.3	9.2	10.0
Net domestic assets	22.9	5.7	3.3	16.5	6.3	3.6	3.1	1.8	0.9
Credit to the government	7.3	1.7	2.3	9.0	5.7	3.5	3.0	3.0	2.0
Credit to the private sector (percent change)	11.5	21.3	14.8	7.8	7.2	11.0	13.6	14.4	14.4
<b>External sector</b> (US\$ millions, unless otherwise indicated)									
Exports (goods and services)	1,112	1,250	1,365	1,167	1,264	1,365	1,476	1,603	1,736
Imports (goods and services)	2,927	3,022	3,270	3,075	3,205	3,308	3,467	3,621	3,784
Gross official reserves (months of imports)	750	819	950	861	900	984	1,059	1,156	1,261
Current account (percent of GDP) <sup>3</sup>	3.0	3.2	3.3	3.2	3.3	3.4	3.5	3.7	3.8
Current account, excl. official transfers (percent of GDP)	-20.5	-17.2	-17.2	-17.8	-18.0	-17.0	-16.8	-16.1	-15.4
Current account, excl. project related imports (percent of GDP)	-20.5	-17.7	-17.2	-18.1	-18.0	-17.0	-16.7	-16.1	-15.4
Current account, excl. official transfers and project related imports (percent of GDP)	-18.6	-14.6	-14.9	-15.5	-15.0	-13.9	-13.6	-13.0	-12.4
Current account, excl. official transfers and project related imports (percent of GDP)	-18.6	-15.1	-14.9	-15.8	-15.0	-13.9	-13.5	-12.9	-12.4
Current account (percent of GDP, assuming financing gap is not closed) <sup>4</sup>	-20.5	-17.2	...	-18.1	-18.0	-17.0	-16.8	-16.1	-15.4
Real effective exchange rate (percent change)	7.6	13.9	...	...	...	...	...	...	...
Overall balance (percent of GDP)	-0.2	0.6	1.7	-2.0	-0.1	1.4	1.2	1.4	1.5
<b>Financing gap</b>	0.0	0.0	0.0	175.9	65.2	5.3	0.0	0.0	0.0
Of which: Prospective grants for debt relief under IMF CCRT	...	...	...	4.5	25.2	5.3	...	...	...
Financial support from other donors (incl. WB, UN, GAVI, DFID, Irish Aid, GIZ, KfW, USAID)	...	...	...	43.4	...	...	...	...	...
Of which: World Bank	...	...	...	37.0	...	...	...	...	...
Disbursement under IMF RCF	...	...	...	93.0	...	...	...	...	...
Residual gap	...	...	...	35.0	40.0	...	...	...	...
Terms of trade (percent change)	-4.9	0.3	0.5	6.3	-1.8	-1.8	-1.7	-1.9	-1.0
<b>Debt stock and service</b> (percent of GDP, unless otherwise indicated) <sup>5</sup>									
External debt (public sector)	31.2	29.6	29.5	31.4	33.0	32.8	32.6	32.4	32.2
NPV of public external debt (percent of exports)	123.3	115.4	110.8	136.3	132.1	126.0	120.4	131.8	125.5
Domestic public debt	28.2	30.0	30.5	35.1	36.8	36.0	35.4	35.0	33.6
Total public debt	59.4	59.5	60.0	66.5	69.9	68.8	68.0	67.4	65.8
External debt service (percent of exports)	9.8	6.5	6.9	8.3	8.8	9.5	8.9	8.6	8.3
External debt service (percent of revenue excl. grants)	9.7	5.6	5.5	6.6	6.9	7.6	7.3	7.3	7.3
91-day treasury bill rate (end of period)	11.4	6.2	...	...	...	...	...	...	...

Sources: Malawian authorities and IMF staff estimates and projections.

<sup>1</sup>The fiscal year starts in July and ends in June. The current financial year, 2020, runs from July 1, 2019 to June 30, 2020.<sup>2</sup>Domestic primary balance is calculated by subtracting current expenditures (except interest payment) and domestically-financed development expenditures from tax and nontax revenues.<sup>3</sup>The current account assuming the financing gap is closed, includes \$30 million of budget support from the World Bank in 2020.<sup>4</sup>The current account assuming the financing gap is not closed, excludes \$30 million of budget support from the World Bank in 2020.<sup>5</sup>The suspension of debt service to Malawi's official bilateral creditors under the G20 Initiative is not incorporated due to a lack of sufficient information at this time.

**Table 2a. Malawi: Central Government Operations, 2018/2019–2024/2025**  
(Billions of Kwacha)

	2018/19	2019/20		Proj.	2020/21	2021/22	2022/23	2023/24	2024/25
	Est.	Approved Budget	2nd & 3rd Review		Proj.				
Revenue	1,133	1,564	1,330	1,245	1,409	1,703	1,984	2,200	2,429
Tax and nontax revenue	1,023	1,389	1,198	1,106	1,256	1,509	1,752	1,948	2,161
Tax Revenue	931	1,235	1,087	971	1,110	1,339	1,559	1,733	1,923
Taxes on income and profits	456	603	531	486	550	645	733	814	903
Taxes on goods and services	408	529	470	407	475	585	700	778	863
Taxes on international trade	88	111	115	87	101	124	140	156	173
Other taxes	-22	-7	-28	-9	-16	-15	-13	-15	-16
Nontax revenue	92	154	111	135	146	170	193	214	238
Grants	109	175	132	139	153	194	232	253	269
Budget support grants	31	0	0	22	0	0	0	0	0
Project grants	52	110	77	86	101	121	152	171	183
Dedicated grants	27	65	55	30	52	73	80	81	86
Expenditure and net lending	1,509	1,870	1,624	1,810	1,914	2,181	2,406	2,655	2,876
Current expenditure	1,196	1,390	1,266	1,450	1,487	1,604	1,724	1,929	2,083
Wages and salaries	387	466	443	464	521	587	660	733	813
Of which: COVID-19 related	...	...	...	2	8	0	0	0	0
Interest payments	224	244	246	260	279	261	205	244	221
Domestic	209	229	230	243	255	234	177	214	191
Foreign	16	15	15	16	23	27	27	30	30
Goods and services	354	407	318	428	384	414	479	532	583
Generic goods and services	131	203	164	202	181	196	220	245	271
Census	6	1	1	1	0	0	0	0	0
Road maintenance and storage levy expenses	23	37	27	37	27	30	33	37	41
Agricultural sector	6	9	9	8	10	12	13	14	16
Health sector	43	54	54	67	80	81	100	111	124
Of which: COVID-19 related	...	...	...	13	13	0	0	0	0
Education sector	27	30	30	30	34	42	52	58	65
National / local elections	63	30	1	29	1	0	0	0	0
Statutory expenditures	6	5	8	7	4	2	1	1	2
Maize purchases and winter cropping program	9	10	8	10	10	7	8	9	10
Rural electrification	39	28	16	38	39	44	49	54	54
Subsidies and other current transfers	225	267	252	267	285	320	356	391	434
Pension and gratuities	84	98	95	107	110	124	140	155	172
Transfers to road and revenue authorities	29	38	34	30	33	40	47	52	58
Transfers to public entities and households	74	95	88	95	107	123	138	154	170
Of which: COVID-19 related	...	...	...	0	1	0	0	0	0
Fertilizer and seed subsidy	39	36	36	35	34	33	31	30	34
Of which: seed subsidy	10	5	5	5	5	5	5	5	6
Arrears payments <sup>1</sup>	5	7	7	31	19	21	25	28	31
Development expenditure	305	471	349	351	416	573	678	723	788
Foreign financed	189	333	233	236	291	381	436	481	523
Of which: related to climate resilience building	...	...	...	0	10	23	26	29	32
Domestically financed	116	137	115	115	125	192	242	241	265
Of which: related to climate resilience building	...	...	...	0	7	27	56	33	5
Net lending	8	9	9	9	10	4	4	4	4
Discrepancy	5	0	0	0	0	0	0	0	0
Overall balance (incl. grants and discrepancy)	-371	-305	-294	-565	-505	-477	-422	-455	-446
Total financing (net)	371	305	294	565	505	477	422	455	446
Foreign financing (net)	80	112	55	81	95	132	136	150	166
Borrowing	111	158	102	120	138	187	204	229	254
Budget support loans	0	0	0	0	0	0	0	0	0
Project loans	100	152	96	119	131	178	195	217	242
Other external loans <sup>2</sup>	11	7	6	2	7	8	10	11	13
Amortization	-31	-47	-47	-39	-43	-55	-68	-78	-88
Sale of non-financial assets (privatization proceeds)	0	0	0	0	0	0	0	0	0
Net issuance of promissory notes for securitizing domestic arrears	-75	0	-9	-9	0	0	0	0	0
Net domestic financing (NDF)	367	194	249	493	410	345	286	305	280
of which: RBM financing of central government	-79	0	0	-50	0	0	0	0	0
Financing gap	0	0	0	0	0	0	0	0	0
Memorandum items:									
Issuance of promissory notes for securitizing domestic arrears	0	0	0	0	0	0	0	0	0
Primary balance (including grants and discrepancy)	-147	-61	-49	-305	-226	-216	-218	-211	-225
Domestic primary balance <sup>3</sup>	-67	97	53	-208	-88	-29	-13	17	29
Maturing promissory notes for domestic arrears	75	0	9	9	0	0	0	0	0
NDF adjusted for payment of arrears	292	194	239	484	410	345	286	305	280
Nominal GDP (fiscal year)	5,360	6,088	6,055	6,088	6,896	7,776	8,735	9,709	10,772

Sources: Malawi Ministry of Finance and IMF staff projections.

<sup>1</sup> This includes promissory notes issued for the repayment of domestic arrears accumulated before FY2014/15.

<sup>2</sup> Other external loans include program loans other than budgetary support.

<sup>3</sup> Domestic primary balance is calculated by subtracting current expenditures (except interest payment) and domestically-financed development expenditures from tax and nontax revenues.

**Table 2b. Malawi: Central Government Operations, 2018/2019–2024/2025**  
(Percent of GDP)

	2018/19	2019/20		2020/21	2021/22	2022/23	2023/24	2024/25
	Est.	Approved Budget	2nd & 3rd Review					
<b>Revenue</b>	21.1	25.7	22.0	20.4	20.4	21.9	22.7	22.6
Tax and nontax revenue	19.1	22.8	19.8	18.2	18.2	19.4	20.1	20.1
Tax Revenue	17.4	20.3	18.0	16.0	16.1	17.2	17.9	17.9
Taxes on income and profits	8.5	9.9	8.8	8.0	8.0	8.3	8.4	8.4
Taxes on goods and services	7.6	8.7	7.8	6.7	6.9	7.5	8.0	8.0
Taxes on international trade	1.6	1.8	1.9	1.4	1.5	1.6	1.6	1.6
Other taxes	-0.4	-0.1	-0.5	-0.1	-0.2	-0.2	-0.1	-0.1
Nontax revenue <sup>1</sup>	1.7	2.5	1.8	2.2	2.1	2.2	2.2	2.2
Grants	2.0	2.9	2.2	2.3	2.2	2.5	2.7	2.5
Budget support grants	0.6	0.0	0.0	0.4	0.0	0.0	0.0	0.0
Project grants	1.0	1.8	1.3	1.4	1.5	1.6	1.7	1.7
Dedicated grants	0.5	1.1	0.9	0.5	0.8	0.9	0.9	0.8
<b>Expenditure and net lending</b>	28.2	30.7	26.8	29.7	27.7	28.0	27.5	26.7
Current expenditure	22.3	22.8	20.9	23.8	21.6	20.6	19.7	19.3
Wages and salaries	7.2	7.6	7.3	7.6	7.6	7.6	7.6	7.6
Of which : COVID-19 related	...	...	...	0.0	0.1	0.0	0.0	0.0
Interest payments	4.2	4.0	4.1	4.3	4.0	3.4	2.3	2.5
Domestic	3.9	3.8	3.8	4.0	3.7	3.0	2.0	2.2
Foreign	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Goods and services	6.6	6.7	5.2	7.0	5.6	5.3	5.5	5.4
Generic goods and services	2.5	3.3	2.7	3.3	2.6	2.5	2.5	2.5
Road maintenance and storage levy expenses	0.4	0.6	0.5	0.6	0.4	0.4	0.4	0.4
Agricultural sector	0.1	0.2	0.2	0.1	0.1	0.1	0.1	0.1
Health sector	0.8	0.9	0.9	1.1	1.2	1.0	1.1	1.1
Of which: COVID-19 related	...	...	...	0.2	0.2	0.0	0.0	0.0
Education sector	0.5	0.5	0.5	0.5	0.5	0.5	0.6	0.6
National / local elections	1.2	0.5	0.0	0.5	0.0	0.0	0.0	0.0
Statutory expenditures	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0
Maize purchases and winter cropping programs	0.2	0.2	0.1	0.2	0.1	0.1	0.1	0.1
Rural electrification	0.7	0.5	0.3	0.6	0.6	0.6	0.6	0.5
Subsidies and other current transfers	4.2	4.4	4.2	4.4	4.1	4.1	4.1	4.0
Pension and gratuities	1.6	1.6	1.6	1.7	1.6	1.6	1.6	1.6
Transfers to road and revenue authorities	0.5	0.6	0.6	0.5	0.5	0.5	0.5	0.5
Transfers to public entities and households	1.4	1.6	1.5	1.6	1.6	1.6	1.6	1.6
Of which : COVID-19 related	...	...	...	0.0	0.0	0.0	0.0	0.0
Fertilizer and seed subsidy	0.7	0.6	0.6	0.6	0.5	0.4	0.4	0.3
Of which : seed subsidy	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Arrears payments <sup>1</sup>	0.1	0.1	0.1	0.5	0.3	0.3	0.3	0.3
Development expenditure	5.7	7.7	5.8	5.8	6.0	7.4	7.8	7.4
Foreign financed	3.5	5.5	3.9	3.9	4.2	4.9	5.0	4.9
Of which : related to climate resilience building	...	...	...	0.0	0.2	0.3	0.3	0.3
Domestically financed	2.2	2.3	1.9	1.9	1.8	2.5	2.8	2.5
Of which : related to climate resilience building	...	...	...	0.0	0.1	0.3	0.6	0.3
Net lending	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0
Discrepancy	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Overall balance (including grants and discrepancy)</b>	-6.9	-5.0	-4.9	-9.3	-7.3	-6.1	-4.8	-4.1
<b>Total financing (net)</b>	6.9	5.0	4.9	9.3	7.3	6.1	4.8	4.1
Foreign financing (net)	1.5	1.8	0.9	1.3	1.4	1.7	1.6	1.5
Borrowing	2.1	2.6	1.7	2.0	2.0	2.4	2.3	2.4
Budget support loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project loans	1.9	2.5	1.6	1.9	1.9	2.3	2.2	2.2
Other external loans <sup>2</sup>	0.2	0.1	0.1	0.0	0.1	0.1	0.1	0.1
Amortization	-0.6	-0.8	-0.8	-0.6	-0.6	-0.7	-0.8	-0.8
Sale of non-financial assets (privatization proceeds)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net issuance of promissory notes for securitizing domestic arrears	-1.4	0.0	-0.2	-0.2	0.0	0.0	0.0	0.0
<b>Net domestic financing (NDF)</b>	6.8	3.2	4.1	8.1	5.9	4.4	3.3	2.6
of which: RBM financing of central government	-1.5	0.0	0.0	-0.8	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Memorandum items:</b>								
Primary balance (including grants and discrepancy)	-2.7	-1.0	-0.8	-5.0	-3.3	-2.8	-2.5	-2.1
Domestic primary balance <sup>3</sup>	-1.2	1.6	0.9	-3.4	-1.3	-0.4	-0.1	0.2
Maturing promissory notes for domestic arrears	1.4	0.0	0.2	0.2	0.0	0.0	0.0	0.0
NDF adjusted for payment of arrears	5.4	3.2	4.0	7.9	5.9	4.4	3.3	2.6
Nominal GDP (fiscal year)	5,360	6,088	6,055	6,088	6,896	7,776	8,735	9,709

Sources: Malawi Ministry of Finance and IMF staff projections.

<sup>1</sup> This includes promissory notes issued for the repayment of domestic arrears accumulated before FY2014/15.

<sup>2</sup> Other external loans include program loans other than budgetary support.

<sup>3</sup> Domestic primary balance is calculated by subtracting current expenditures (except interest payment) and domestically-financed development expenditures from tax and nontax revenues.

Table 3a. Malawi: Monetary Authorities' Balance Sheet, 2018–20

(Billions of Kwacha, unless otherwise indicated)

	2018				2019				2020			
	Mar.	June	Sept.	Dec.	Mar.	June	Sept.	Dec.	Mar.	June	Sept.	Dec.
	Proj.											
Reserve Money	255	301	299	289	274	309	330	278	332	359	363	369
Currency outside banks	147	207	192	189	165	217	208	202	...	...	...	...
Cash in vault	27	24	25	40	26	28	36	50	...	...	...	...
Commercial bank deposits with RBM	81	70	81	60	83	64	86	26	...	...	...	...
Net foreign assets (NFA)	248	315	274	313	329	338	246	353	330	281	280	279
Foreign assets	481	546	501	547	562	582	467	605	621	649	678	708
Foreign liabilities	-234	-231	-228	-234	-233	-244	-221	-252	-291	-367	-397	-429
Net domestic assets	7	-15	65	17	-15	14	125	-34	2	77	82	91
Credit to government (net)	419	295	280	320	145	215	303	165	165	165	165	165
Credit to domestic banks	0	0	0	0	0	0	0	0	0	0	0	0
Other items (net)	-411	-309	-215	-303	-160	-201	-178	-200	-163	-88	-83	-75
Open market operations	-395	-283	-201	-214	-91	-120	-140	-169	...	...	...	...
Others	-16	-26	-14	-90	-68	-81	-38	-31	...	...	...	...
<i>Memorandum items:</i>												
Money multiplier	4.0	3.8	3.8	4.1	4.3	4.1	3.9	4.6	4.0	4.0	4.0	4.0
Annual growth of reserve money (percent)	18.7	14.2	17.1	3.8	7.4	2.8	10.6	-3.9	21.3	16.1	9.8	32.9
91-day treasury bill rate	14.0	14.1	14.0	11.4	9.7	9.0	9.1	6.2	...	...	...	...
NFA of the central bank (US\$ millions)	434	434	376	428	444	423	330	476	442	364	352	339
Foreign assets (US\$ millions)	753	753	689	750	761	741	632	819	830	840	851	861
Foreign liabilities (US\$ millions)	-318	-318	-313	-322	-316	-318	-301	-343	-388	-476	-499	-521

Sources: Reserve Bank of Malawi; and IMF staff projections.

**Table 3b. Malawi: Monetary Survey, 2018–20**  
(Billions of Kwacha, unless otherwise indicated)

	2018				2019				2020			
	Mar.	Jun.	Sept.	Dec.	Mar.	June.	Sept.	Dec. Est.	Mar.	June. Proj.	Sept.	Dec.
Money and quasi-money	1,021	1,142	1,141	1,196	1,174	1,263	1,273	1,293	1,329	1,435	1,450	1,478
Money	477	551	502	555	532	596	597	635	...	...	...	...
Quasi-money	544	591	638	642	642	667	685	664	...	...	...	...
<i>Of which: foreign currency deposits</i>	184	211	228	200	196	218	188	187	...	...	...	...
Net foreign assets (NFA)	344	408	330	371	413	421	281	400	378	331	331	331
Monetary authorities	248	315	274	313	329	338	246	353	330	281	280	279
Gross foreign assets	481	546	501	547	562	582	467	605	621	649	678	708
Foreign liabilities	-234	-231	-228	-234	-233	-244	-221	-252	-291	-367	-397	-429
Commercial banks (net)	96	92	56	59	84	82	35	47	48	49	51	53
Net domestic assets	677	734	850	865	801	886	1,032	933	951	1,104	1,119	1,146
Credit to government (net)	583	510	546	607	547	616	707	628	653	701	720	744
Credit to statutory bodies (net)	4	12	34	34	45	49	58	56	59	61	65	68
Credit to private sector	398	428	447	457	442	502	527	554	531	537	566	597
Other items (net)	-308	-216	-217	-273	-273	-323	-299	-345	-292	-195	-232	-262
<i>Memorandum items:</i>												
Velocity of money (annualized GDP divided by broad money)	4.6	4.2	4.3	4.2	4.4	4.2	4.3	4.4	4.4	4.2	4.3	4.4
Annual growth of broad money (percent)	17.0	14.6	6.2	11.4	15.0	10.7	11.6	8.1	13.2	13.6	13.9	14.3
Annual growth of credit to the private sector (percent)	0.4	2.1	9.1	11.5	11.1	17.1	17.7	21.3	20.1	7.1	7.5	7.8
NFA of the commercial banks (US\$ millions)	132.9	127.1	77.6	80.3	105.0	47.8	63.9	63.9	63.9	63.9	63.9	63.9
Gross foreign assets (US\$ millions)	163.8	187.2	145.0	153.4	156.7	105.5	128.8	128.8	128.8	128.8	128.8	128.8
Foreign liabilities (US\$ millions)	-30.9	-60.2	-67.5	-73.1	-51.7	-57.7	-64.9	-64.9	-64.9	-64.9	-64.9	-64.9
Foreign currency deposits (US\$ millions)	251.6	289.3	311.7	272.3	266.2	279.2	254.2	252.5	...	...	...	...
Nominal GDP (billions of Kwacha)	4,655	4,785	4,919	5,060	5,194	5,360	5,531	5,711	5,830	6,022	6,216	6,528

Sources: Reserve Bank of Malawi; and IMF staff projections.

**Table 4a. Malawi: Balance of Payments, 2018–25**  
(Millions of USD, unless otherwise indicated)

	2018	2019	2020		2021	2022	2023	2024	2025
	Est.	Est.	2nd & 3rd Review	Proj.			Proj.		
Current account balance <sup>1</sup>	-1,418.6	-1,318.0	-1,426.6	-1,529.5	-1,522.8	-1,481.7	-1,510.7	-1,513.0	-1,510.1
Merchandise trade balance	-1,663.5	-1,621.2	-1,802.5	-1,734.6	-1,808.2	-1,814.9	-1,856.9	-1,893.2	-1,945.8
Exports	929.8	1,050.7	1,144.6	985.4	1,067.5	1,146.5	1,232.9	1,334.7	1,446.1
Of which: Tobacco	426.4	397.1	444.2	353.5	370.6	377.7	390.9	409.2	429.7
Imports	-2,593.3	-2,671.9	-2,947.1	-2,720.1	-2,875.7	-2,961.4	-3,089.9	-3,227.9	-3,391.8
Of which: Petroleum products	-342.6	-344.9	-341.4	-233.6	-265.8	-307.2	-346.9	-387.1	-418.3
Project related	-131.5	-198.9	-189.3	-194.3	-258.5	-269.7	-288.5	-293.2	-293.0
Services balance	-315.4	-331.3	-291.7	-357.6	-333.5	-330.1	-352.1	-352.2	-342.6
Interest public sector	-10.1	-20.1	-20.0	-21.4	-32.9	-24.0	-28.3	-25.2	-25.7
Other factor payments (net)	-153.9	-161.0	-169.3	-162.8	-167.1	-178.1	-189.7	-201.8	-214.5
Nonfactor (net)	-151.4	-150.2	-102.4	-173.3	-133.6	-128.0	-134.1	-125.2	-102.4
Receipts	182.4	199.5	220.8	181.5	196.0	218.7	243.0	268.3	290.0
Payments	-333.8	-349.7	-323.2	-354.8	-329.6	-346.7	-377.1	-393.5	-392.4
Unrequited transfers (net)	560.3	634.5	667.6	562.7	618.9	663.3	698.4	732.5	778.3
Private (net)	561.4	595.6	668.7	563.7	620.0	664.5	699.5	733.6	779.5
Official (net)	-1.1	38.9	-1.1	-1.0	-1.1	-1.1	-1.2	-1.2	-1.2
Receipts	0.0	40.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Budget support	0.0	40.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payments	-1.1	-1.1	-1.1	-1.1	-1.1	-1.1	-1.2	-1.2	-1.2
Capital account balance	806.8	931.8	404.5	1,015.7	1,089.6	1,200.7	1,229.9	1,246.1	1,229.8
Project and dedicated grants	92.4	137.7	166.5	161.4	199.4	222.5	243.1	240.6	230.9
Off-budget project support <sup>2</sup>	714.3	794.1	238.0	854.3	890.2	978.2	986.8	1,005.5	998.9
Financial account balance <sup>3</sup>	408.9	434.6	1,160.2	347.5	422.0	401.0	393.2	397.6	426.8
Medium- and long-term flows (net)	40.0	127.2	79.4	82.4	155.8	134.7	141.6	144.6	156.1
Disbursements	127.0	171.1	133.1	137.0	207.4	202.0	211.1	221.8	230.8
Budget support and other program loans	3.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project support loans	109.8	168.2	124.6	130.5	198.2	192.4	200.8	210.4	219.8
Other medium-term loans	14.2	2.9	8.5	6.5	9.1	9.6	10.4	11.3	11.0
Amortization	-87.0	-43.9	-53.7	-54.6	-51.6	-67.3	-69.5	-77.2	-74.7
SDR allocation	-2.0	-0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign direct investment and other inflows	107.1	104.8	224.3	102.2	124.3	143.2	148.4	164.4	186.5
Short-term capital and other inflows	153.5	186.7	856.5	162.8	141.9	123.1	103.1	88.6	84.2
Commercial banks net foreign assets	108.3	15.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions	190.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Overall balance</b>	-12.7	48.5	138.0	-166.3	-11.2	120.1	112.4	130.7	146.5
<b>Financing</b>	12.7	-48.5	-138.0	-9.6	-54.0	-125.4	-112.4	-130.7	-146.5
Gross reserves (- increase)	7.8	-69.4	-173.0	-41.5	-39.3	-83.7	-75.5	-96.8	-104.3
Liabilities	4.9	20.9	34.9	31.9	-14.7	-41.7	-36.9	-33.8	-42.3
Of which: IMF ECF (net)	31.4	27.0	37.9	38.0	-10.3	-37.1	-32.6	-33.8	-42.3
Purchases/drawings	31.4	43.4	57.3	57.3	15.8	0.0	0.0	0.0	0.0
Repurchases/repayments <sup>4</sup>	0.0	16.4	19.3	19.3	26.1	37.1	32.6	33.8	42.3
<b>Financing gap</b>	0.0	0.0	0.0	175.9	65.2	5.3	0.0	0.0	0.0
Of which: Prospective grants for debt relief under IMF CCRT	...	...	...	4.5	25.2	5.3	...	...	...
Financial support from other donors (incl. WB, UN, GAVI, DFID, Irish Aid, GIZ, KfW, USAID)	...	...	...	43.4	...	...	...	...	...
Of which: World Bank	...	...	...	37.0	...	...	...	...	...
Disbursement under IMF RCF	...	...	...	93.0	...	...	...	...	...
Residual gap	...	...	...	35.0	40.0	...	...	...	...
<i>Memorandum items:</i>									
Gross official reserves	750.1	819.5	950.0	860.9	900.2	983.9	1,059.4	1,156.3	1,260.5
Months of imports <sup>5</sup>	3.0	3.2	3.3	3.2	3.3	3.4	3.5	3.7	3.8
Net International Reserves	486.2	534.7	624.7	451.0	505.0	630.4	742.7	873.4	1,019.9
Current account balance (percent of GDP)	-17.2	-17.2	-17.2	-18.1	-18.0	-17.0	-16.7	-16.1	-15.4
Excluding official transfers	-20.5	-17.7	-17.2	-18.1	-18.0	-17.0	-16.7	-16.1	-15.4
Excluding project related imports	-18.6	-14.6	-14.9	-15.8	-15.0	-13.9	-13.6	-13.0	-12.4
Excluding official transfers and project related imports	-18.6	-15.1	-14.9	-15.8	-15.0	-13.9	-13.5	-12.9	-12.4
Import price index (2005 = 100)	114.2	113.4	120.8	102.9	103.8	105.7	107.4	109.4	110.5
Import volume (percent change)	9.8	3.7	7.4	12.2	4.8	1.1	2.7	2.6	4.0
REER (percent change)	7.6	13.9	...	...	...	...	...	...	...
Terms of trade (percent change)	-4.9	0.3	0.5	6.3	-1.8	-1.8	-1.7	-1.9	-1.0
Nominal GDP (millions of U.S. dollars)	6,911.0	7,663.5	8,289.7	8,432.2	8,441.4	8,700.5	9,018.2	9,417.6	9,829.3

Sources: Malawian authorities; and IMF staff estimates and projections.

<sup>1</sup>The IMF has adopted the Malawi National Statistics Office (NSO)'s capital and financial account data following adoption of the NSO's current account data in 2019. Previously, the IMF's reported series was based on staff estimates. Consequently, the IMF's reported capital account balance increased from 3.8 percent of GDP to 11.7 percent of GDP in 2018 while financial account balance including net errors and omission decreased from 16.5 percent of GDP to 8.6 percent of GDP.

<sup>2</sup>Includes estimate for project grants not channeled through the budget.

<sup>3</sup>The suspension of debt service to Malawi's official bilateral creditors under the G20 Initiative is not incorporated due to a lack of sufficient information at this time.

<sup>4</sup>Financial support from the first tranche of debt relief under IMF CCRT is recorded as grant and corresponds to the amount of SDR 7.202 million for the period April 14-October 13, 2020.

<sup>5</sup>In months of imports of goods and nonfactor services in the following year.

**Table 4b. Malawi: Balance of Payments, 2018–25**  
(Percent of GDP)

	2018	2019	2020		2021	2022	2023	2024	2025
	Est.	Est.	2nd & 3rd Review	Proj.			Proj.		
Current account balance <sup>1</sup>	-20.5	-17.2	-17.2	-18.1	-18.0	-17.0	-16.8	-16.1	-15.4
Merchandise trade balance	-24.1	-21.2	-21.7	-20.6	-21.4	-20.9	-20.6	-20.1	-19.8
Exports	13.5	13.7	13.8	11.7	12.6	13.2	13.7	14.2	14.7
Of which: Tobacco	6.2	5.2	5.4	4.2	4.4	4.3	4.3	4.3	4.4
Imports	-37.5	-34.9	-35.6	-32.3	-34.1	-34.0	-34.3	-34.3	-34.5
Of which: Petroleum products	-5.0	-4.5	-4.1	-2.8	-3.1	-3.5	-3.8	-4.1	-4.3
Project related	-1.9	-2.6	-2.3	-2.3	-3.1	-3.1	-3.2	-3.1	-3.0
Services balance	-4.6	-4.3	-3.5	-4.2	-4.0	-3.8	-3.9	-3.7	-3.5
Interest public sector (net)	-0.1	-0.3	-0.2	-0.3	-0.4	-0.3	-0.3	-0.3	-0.3
Other factor payments (net)	-2.2	-2.1	-2.0	-1.9	-2.0	-2.0	-2.1	-2.1	-2.2
Nonfactor (net)	-2.2	-2.0	-1.2	-2.1	-1.6	-1.5	-1.5	-1.3	-1.0
Receipts	2.6	2.6	2.7	2.2	2.3	2.5	2.7	2.8	3.0
Payments	-4.8	-4.6	-3.9	-4.2	-3.9	-4.0	-4.2	-4.2	-4.0
Unrequited transfers (net)	8.1	8.3	8.1	6.7	7.3	7.6	7.7	7.8	7.9
Private (net)	8.1	7.8	8.1	6.7	7.3	7.6	7.8	7.8	7.9
Official (net)	0.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Receipts	0.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Budget support	0.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital account balance	11.7	12.2	4.9	12.0	12.9	13.8	13.6	13.2	12.5
Project and dedicated grants	1.3	1.8	2.0	1.9	2.4	2.6	2.7	2.6	2.3
Off-budget project support <sup>2</sup>	10.3	10.4	2.9	10.1	10.5	11.2	10.9	10.7	10.2
Financial account balance <sup>3</sup>	5.9	5.7	14.0	4.1	5.0	4.6	4.4	4.2	4.3
Medium- and long-term flows (net)	0.6	1.7	1.0	1.0	1.8	1.5	1.6	1.5	1.6
Disbursements	1.8	2.2	1.6	1.6	2.5	2.3	2.3	2.4	2.3
Budget support and other program loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project support loans	1.6	2.2	1.5	1.5	2.3	2.2	2.2	2.2	2.2
Other medium-term loans	0.2	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Amortization	-1.3	-0.6	-0.6	-0.6	-0.6	-0.8	-0.8	-0.8	-0.8
SDR allocation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign direct investment and other inflows	1.6	1.4	2.7	1.2	1.5	1.6	1.6	1.7	1.9
Short-term capital and other inflows	2.2	2.4	10.3	1.9	1.7	1.4	1.1	0.9	0.9
Commercial banks net foreign assets	1.6	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions	2.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Overall balance</b>	-0.2	0.6	1.7	-2.0	-0.1	1.4	1.2	1.4	1.5
<b>Financing</b>	0.2	-0.6	-1.7	-0.1	-0.6	-1.4	-1.2	-1.4	-1.5
Gross reserves (- increase)	0.1	-0.9	-2.1	-0.5	-0.5	-1.0	-0.8	-1.0	-1.1
Liabilities	0.1	0.3	0.4	0.4	-0.2	-0.5	-0.4	-0.4	-0.4
Of which: IMF (net)	0.5	0.4	0.5	0.5	-0.1	-0.4	-0.4	-0.4	-0.4
Purchases/drawings	0.5	0.6	0.7	0.7	0.2	0.0	0.0	0.0	0.0
Repurchases/repayments <sup>4</sup>	0.0	0.2	0.2	0.2	0.3	0.4	0.4	0.4	0.4
<b>Financing gap</b>	0.0	0.0	0.0	2.1	0.8	0.1	0.0	0.0	0.0
Of which: Prospective grants for debt relief under IMF CCRT	...	...	...	0.1	0.3	0.1	...	...	...
Financial support from other donors (incl. WB, UN, DFID, GAVI, Irish Aid, GIZ, KfW, USAID)	...	...	...	0.5	...	...	...	...	...
Of which: World Bank	...	...	...	0.4	...	...	...	...	...
Disbursement under IMF RCF	...	...	...	1.1	...	...	...	...	...
Residual gap	...	...	...	0.4	0.5	...	...	...	...
<b>Memorandum items:</b>									
Gross official reserves	10.9	10.7	11.5	10.2	10.7	11.3	11.7	12.3	12.8
Months of imports <sup>5</sup>	3.0	3.2	3.3	3.2	3.3	3.4	3.5	3.7	3.8
Current account balance (percent of GDP)									
Excluding official transfers	-20.5	-17.7	-17.2	-18.1	-18.0	-17.0	-16.7	-16.1	-15.4
Excluding project related imports	-18.6	-14.6	-14.9	-15.8	-15.0	-13.9	-13.6	-13.0	-12.4
Excluding official transfers and project related imports	-18.6	-15.1	-14.9	-15.8	-15.0	-13.9	-13.5	-12.9	-12.4
Value of exports of GNFs (percent change)	5.6	12.4	10.2	-6.7	8.3	8.0	8.1	8.6	8.3
Value of imports of GNFs (percent change)	6.2	3.2	5.2	1.8	4.2	3.2	4.8	4.5	4.5

Sources: Malawian authorities; and IMF staff estimates and projections.

<sup>1</sup>The IMF has adopted the Malawi National Statistics Office (NSO)'s capital and financial account data following adoption of the NSO's current account data in 2019. Previously, the IMF's reported series was based on staff estimates. Consequently, the IMF's reported capital account balance increased from 3.8 percent of GDP to 11.7 percent of GDP in 2018 while financial account balance including net errors and omission decreased from 16.5 percent of GDP to 8.6 percent of GDP.

<sup>2</sup>Includes estimate for project grants not channeled through the budget.

<sup>3</sup>The suspension of debt service to Malawi's official bilateral creditors under the G20 Initiative is not incorporated due to a lack of sufficient information at this time.

<sup>4</sup>Financial support from the first tranche of debt relief under IMF CCRT is recorded as grant and corresponds to the amount of SDR 7.202 million for the period April 14–October 13, 2020.

<sup>5</sup>In months of imports of goods and nonfactor services in the following year.

**Table 5. Malawi: Selected Banking Soundness Indicators, 2015–20**

Key ratios	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19	Jan-20
<b>Capital Adequacy</b>						
1. Regulatory Tier 1 capital to risk weighted assets	12.4	13.8	15.3	15.5	17.0	19.3
2. Total regulatory capital to risk weighted assets	15.8	17.0	19.4	19.0	21.0	23.4
3. Total capital to total assets <sup>1</sup>	17.1	16.7	15.9	14.7	16.4	16.7
<b>Asset composition and quality</b>						
1. Non-performing loans to gross loans and advances	10.6	17.0	15.7	6.1	6.3	5.9
2. Provisions to non-performing loans	25.7	25.5	34.5	42.4	38.6	42.2
3. Total loans and advances to total assets	40.0	34.8	28.06	30.5	33.2	33.3
4. Foreign currency loans to total loans and advances	28.6	21.8	27.9	24.3	20.9	20.9
<b>Earnings and profitability</b>						
1. Return on assets (ROA)	3.1	2.7	2.3	2.2	2.7	2.9
2. Return on equity (ROE)	19.2	18.4	15.7	16.6	20.5	20.5
3. Non-interest expenses to gross income	51.4	50.0	49.7	52.1	51.8	49.6
4. Interest margin to gross income	50.2	47.8	50.8	46.5	59.6	58.1
5. Non-interest income to revenue□	30.5	28.0	27.3	34.2	33.6	34.5
6. Net interest income to assets	9.7	9.7	8.7	7.9	8.4	0.7
7. Personnel expenses to non-interest expenses	45.3	43.8	46.5	42.9	43.0	44.1
<b>Liquidity</b>						
1. Liquid assets to deposits and short-term liabilities	59.0	72.3	77.0	63.3	58.9	58.5
2. Total loans to total deposits	58.5	54.2	45.1	47.4	54.2	54.3
3. Liquid Assets to total assets	43.3	50.4	55.0	44.8	39.8	39.6
4. Foreign exchange liabilities to total liabilities	26.1	19.7	19.8	13.8	15.8	15.6

Source: Reserve Bank of Malawi.

<sup>1</sup>In the total capital to total assets series, total capital refers to regulatory capital.

**Table 6. Malawi: External Financing Requirement and Source, 2018–25**  
(Millions of USD)

	2018	2019	2020	2021	2022	2023	2024	2025
Total requirement	-1497	-1470	-1625	-1613	-1631	-1655	-1686	-1688
Current account, excluding official transfers	-1418	-1357	-1528	-1522	-1481	-1510	-1512	-1509
Debt amortization	-87	-44	-55	-52	-67	-70	-77	-75
Gross reserves accumulation (- increase)	8	-69	-41	-39	-84	-76	-97	-104
Total sources	1497	1470	1449	1547	1626	1655	1686	1688
Expected disbursements (official)	933	1142	1152	1296	1402	1440	1467	1459
Grants	806	971	1015	1088	1200	1229	1245	1229
Medium- and long-term loans	127	171	137	207	202	211	222	231
Private sector (net)	533	301	259	262	262	247	253	271
SDR Allocation	0	0	0	0	0	0	0	0
IMF ECF (net)	31	27	38	-10	-37	-33	-34	-42
Drawings	31	43	57	16	0	0	0	0
Repayments	0	16	19	26	37	33	34	42
Financing gap	0	0	176	65	5	0	0	0
Of which: Prospective grants for debt relief under IMF CCRT	...	...	5	25	5	...	...	...
<i>Financial support from other donors (incl. WB, UN, GAVI, DFID, Irish Aid, GIZ, KfW, USAID)</i>	...	...	43	...	...	...	...	...
Of which: World Bank	...	...	37	...	...	...	...	...
Disbursement under IMF RCF	...	...	93	...	...	...	...	...
Residual gap	...	...	35	40	...	...	...	...
Gross official reserves	750	819	861	900	984	1059	1156	1261
Months of imports	3.0	3.2	3.2	3.3	3.4	3.5	3.7	3.8

Source: IMF staff estimates.

Table 7. Malawi: Indicators of Capacity to Repay the Fund, 2020–33<sup>1</sup>

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
<b>Projected Payments based on Existing Drawings:</b>														
(SDR millions)														
Principal	3.3	18.4	25.81	22.37	23.11	26.82	20.09	12.72	9.66	6.31	0.00	0.00	0.00	0.00
Charges and interest	0.08	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05
<b>Projected Payments based on Prospective Drawings:</b>														
(SDR millions)														
Principal	0	0	0	0	0	7	13.29	13.29	13.29	13.29	6.64	0.00	0.00	0.00
Charges and interest	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Projected Payments based on Existing and Prospective Drawings:</b>														
SDR millions														
SDR millions	3.38	18.49	25.86	22.42	23.16	33.51	33.43	26.06	23.00	19.65	6.69	0.05	0.05	0.05
US\$ Millions	4.67	25.65	36.00	31.30	32.42	47.08	46.97	36.61	32.31	27.61	9.40	0.07	0.07	0.07
Percent of exports of goods and services	0.37	2.20	2.85	2.29	2.20	2.94	2.71	1.95	1.60	1.27	0.40	0.00	0.00	0.00
Percent of debt service	5.72	26.58	32.21	24.16	24.64	34.25	32.65	21.98	19.59	16.36	5.57	0.04	0.05	0.05
Percent of quota	2.44	13.32	18.63	16.15	16.69	24.14	24.09	18.78	16.57	14.16	4.82	0.04	0.04	0.04
Percent of gross official reserves	0.57	2.98	4.00	3.18	3.06	4.07	3.73	2.69	2.22	1.80	0.59	0.00	0.00	0.00
Percent of GDP	0.06	0.30	0.43	0.36	0.36	0.50	0.48	0.35	0.29	0.23	0.07	0.00	0.00	0.00
<b>Projected Level of Credit Outstanding based on Existing and Prospective Drawings:</b>														
SDR millions														
SDR millions	231.8	213.3	187.5	165.1	142.0	108.6	75.2	49.2	26.2	6.6	0.0	0.0	0.0	0.0
US\$ Millions														
US\$ Millions	320.9	296.4	261.4	230.8	199.2	152.8	105.8	69.2	36.9	9.3	0.0	0.0	0.0	0.0
Percent of exports of goods and services														
Percent of exports of goods and services	25.7	25.4	20.7	16.9	13.5	9.5	6.1	3.7	1.8	0.4	0.0	0.0	0.0	0.0
Percent of debt service														
Percent of debt service	393.4	307.1	233.8	178.1	151.4	111.1	73.5	41.5	22.4	5.5	0.0	0.0	0.0	0.0
Percent of quota														
Percent of quota	167.0	153.7	135.1	119.0	102.3	78.2	54.2	35.4	18.9	4.8	0.0	0.0	0.0	0.0
Percent of gross official reserves														
Percent of gross official reserves	39.2	34.4	29.0	23.5	18.8	13.2	8.4	5.1	2.5	0.6	0.0	0.0	0.0	0.0
Percent of GDP														
Percent of GDP	4.2	3.5	3.1	2.7	2.2	1.6	1.1	0.7	0.3	0.1	0.0	0.0	0.0	0.0
<i>Memorandum items:</i>														
Exports of goods and services (millions of U.S. dollars)														
Exports of goods and services (millions of U.S. dollars)	1,250	1,167	1,264	1,365	1,476	1,603	1,736	1,874	2,022	2,179	2,347	2,529	2,724	2,935
Debt service (millions of U.S. dollars)														
Debt service (millions of U.S. dollars)	81.6	96.5	111.8	129.6	131.6	137.5	143.9	166.6	164.9	168.8	168.8	165.4	139.3	145.5
Quota (SDR millions)														
Quota (SDR millions)	138.8	138.8	138.8	138.8	138.8	138.8	138.8	138.8	138.8	138.8	138.8	138.8	138.8	138.8
Gross official reserves (millions of U.S. dollars)														
Gross official reserves (millions of U.S. dollars)	819	861	900	984	1,059	1,156	1,261	1,363	1,458	1,535	1,602	1,664	1,830	1,997
GDP (millions of U.S. dollars)														
GDP (millions of U.S. dollars)	7,663	8,432	8,441	8,701	9,018	9,418	9,829	10,400	11,121	11,878	12,694	13,544	14,421	15,377

Source: IMF staff projections.

<sup>1</sup>Financing support from the IMF CCRT is recorded as a grant for debt relief. Malawi is receiving SDR 32.842 million under the CCRT grants from the IMF to cover scheduled debt service to the IMF from April 14, 2020 to October 13, 2022.

Table 8. Malawi: Structural Benchmarks Under ECF Arrangement, 2019-20

Structural benchmark	Target date	Macro Rationale	Status
<b>Public financial management</b>			
Submission to the MoF of five reports by the MDAs <sup>1</sup> by mid-following month and publication of the summary on the MoF website (except for the reconciliation report which will be submitted 6 weeks after the end of the month). Maintain/strengthen sanctions on MDAs for misreporting/non-compliance.	Continuous (monthly from May 15, 2018)	Improve fiscal transparency; prevent accumulation of new domestic arrears; reduce vulnerabilities to corruption.	Not Met <i>Implemented with Delay</i>
Prepare quarterly consolidated financial reports (including all MDAs) with fully reconciled bank accounts and publish within four months after the end of each quarter in FY 2019/20 and within 90 days after the end of each quarter in following years. The financial reports should be certified by the Auditor General.	Continuous (quarterly from March 31, 2019)	Improve fiscal transparency and integrity of the accounting system; routinize reconciliation of all bank accounts; strengthen cash planning; reduce vulnerabilities to corruption.	Not Met <i>Implemented with Delay</i>
Reconcile all debt data between the MOF and RBM.	Continuous (monthly from April 30, 2018)	Enhance debt management; improve transparency and monitoring of public debt.	Met
Cabinet approval of the dividend policy relating to SOEs.	End-December 2019	Mitigate fiscal risks associated with SOEs; enhance transparency in financial performance and market operations.	Not Met <i>Implemented with Delay</i>
Ensure DAD front office operations include more active engagement in domestic debt management policies and operations in collaboration with the RBM.	End-December 2019	Enhance debt management; improve transparency and monitoring of public debt.	Met
Submit to Parliament and publish on the MoFEPD website a consolidated annual report on SOEs (including case studies for ENGenco, NOGMA, ADMARC, and Blantyre Water Board).	End-March 2020	Mitigate fiscal risks associated with SOEs; enhance transparency in financial performance and market operations.	Met
Develop a domestic revenue mobilization strategy.	End-March 2020	Increase domestic revenues in an efficient and equitable manner.	Not Met Expected for end-June 2020
<b>Financial sector</b>			
Develop a roadmap for increasing access to finance.	End-December 2019	Increase financial sector intermediation.	Not met <i>Partially completed</i> , Expected for end-June 2020
Sources: IMF staff and Malawian authorities.			
<sup>1</sup> Ministry, department, and agency.			

## Appendix I. Letter of Intent

Lilongwe, Malawi

April 27, 2020

Ms. Kristalina Georgieva  
Managing Director  
International Monetary Fund  
Washington, D.C. 20431

Dear Ms. Georgieva,

1. The COVID-19 pandemic is having severe effects on both the health prospects for the general public and on the level of economic activity both across the globe and within our region.
2. In Malawi, there have so far been only a few confirmed cases of COVID-19 and limited loss of life. The low cases could be due to limited testing capacity as our local COVID-19 testing systems are only just being established with assistance from development partners and the private sector. Should the disease spread country-wide, the loss of lives could be substantial given our weak public health system.
3. With the pandemic's global onset, our government quickly developed a response plan, with support of the World Health Organization (WHO) and other development partners. In line with this plan, we are undertaking additional health care and social assistance spending of 0.3 percent of GDP in the remainder of FY 2019/20 and at least 0.6 percent of GDP more in FY 2020/21—including developing testing capabilities, equipping treatment centers which requires importing medical equipment and supplies, hiring 2000 additional medical staff, and raising public awareness. To curb the pandemic's spread, a close to full lockdown has been in place since early April and testing and treatment facilities have been ramped up.
4. We have taken a number of substantial measures to mitigate the economic impact of the pandemic. These include, but are not limited to: ADMARC (the state-owned enterprise for agricultural development and marketing) purchasing maize from farmers under COVID-19 enhanced measures to store and distribute during the lean period—this measure is intended to ensure protection of farmers' incomes and food security (many farming households are amongst the most poor and vulnerable); tax waivers have been granted on imports of medical equipment, medicine and other supplies directly needed to counter the pandemic; lower international fuel prices are being passed-through to consumers with continued implementation of the automatic fuel price adjustment mechanism; small and medium enterprises (SMEs), have also been given a three month moratorium on their debt service and their loans are being restructured on a case by case basis; and the newly established Emergency Liquidity Assistance (ELA) framework has been activated to support banks in the event of worsening liquidity conditions. To ease banking system liquidity constraints, the Reserve Bank of Malawi (RBM) recently reduced the Liquidity Reserve Requirement

(LRR) on local currency deposits by 125 basis points to 3.75 percent (aligning the rates on local and foreign currency LRR) and lowered the Lombard Rate from 0.4 to 0.2 percentage points above the policy rate; the RBM stands ready to inject liquidity as needed to maintain a smoothly functioning banking system while carefully considering rising inflation. The RBM has also enhanced its monitoring of financial sector risks. To help mitigate the impact of the pandemic on our balance of payments, we are committed to greater exchange rate flexibility.

5. In the coming months, we intend to pay the remaining arrears on domestic bills accrued by the Roads Fund during 2012-19. The Auditor General has verified unpaid bills of close to 1.1 percent of GDP in the Roads Fund and certified that, of these unpaid bills, 0.8 percent of GDP were arrears as of end-December 2019. By end-March 2020, 0.4 percent of GDP of these arrears were cleared and the remaining 0.4 percent of GDP will be paid by end-2020. These payments will also contribute to injecting liquidity into the economy. The remaining 0.3 percent of GDP in unpaid bills are under dispute and will be settled immediately should their resolution require payment by the government. To prevent future arrears, we have introduced procedures that require MOF vetting and registration of contract sums against available funding before contract signing.

6. We will ensure that all government spending to manage and contain the impact of the COVID-19 pandemic is transparent and efficient. In line with our existing practices, we will regularly publish procurement documentation (including tenders, bids, and names of awarded companies, products or services procured and their costs) on the Public Procurement and Disposal of Assets (PPDA) website—this applies to all competitive bids and direct procurement by all Ministries, Agencies and Departments (MDAs). To ensure enhanced transparency and accountability, we will also publish on the PPDA website the names of the beneficial owners of the awarded companies and the results of a thorough ex-post validation of delivery; we will publish (on the Ministry of Finance website and in the press) quarterly statements on commitments and payments of COVID-19 related activities (in all MDAs); and we will specify COVID-19 related costs in our published monthly salary report (costs of hiring additional medical staff, risk allowances) as well as in our budget funding and cash management analysis. The National Audit Office will submit quarterly audits of COVID-19 related spending (across all MDAs) to the Minister of Finance (for submission to Cabinet) and, once the pandemic abates, will publish and submit to Parliament a comprehensive audit of COVID-19-related spending (across all MDAs and ADMARC).

7. The near-term economic impact of the pandemic is expected to be severe, notwithstanding the mitigating measures we are undertaking. Spillovers from the global recession and border closures in neighboring countries have reduced exports, raised trade transit costs, and weighed on remittances, tourism, and foreign direct investment. These adverse impacts, including on the country's foreign exchange reserves, are only partly offset by lower international oil prices and reduced import demand. The net effect of these external factors combined with the slowdown in domestic activity related to the lockdown is expected to reduce growth to 1 percent in 2020, 4 percentage points below pre-pandemic projections.

8. Related revenue shortfalls and additional spending to mitigate the effects of the pandemic are anticipated to worsen the domestic primary deficit to 3.4 percent of GDP in FY 2019/20 and 1.3 percent of GDP in FY 2020/21 (over 4 and 3 percent of GDP deterioration in FY 2019/20 and FY 2020/21 relative to pre-pandemic projections), expected to be financed domestically (mainly by banks) and with budget support from the World Bank. As we plan for FY 2020/21, we will seek to create budgetary space for COVID-19 spending and revenue shortfalls by delaying spending on goods and services and development projects (in non-health areas) that are not essential to tackling the immediate crisis, including through review of on-going and planned projects. The budget for FY 2020/21 submitted to Parliament will be in line with the recommendations of IMF staff.

9. We are also taking measures to support business continuity of revenue administration during the pandemic. These include promoting use of e-payment platforms and filing taxes using specific email addresses; specific teams engaging remotely with large taxpayers to assess the impact of COVID-19 on their operations and agree on specific terms for filing and paying taxes during the pandemic; continuing desk review for audits already in progress and completing the full audit when the lockdown is lifted; for the largest importers, applying documentary customs checks (desk audits) to verify classification and valuation of declarations; encouraging use of pre-clearance facilities for imports; and setting up remote monitoring of usage of exempted and duty suspended goods (focusing on those with a large revenue impact if diverted).

10. Based on these developments, we are experiencing an exceptional and urgent balance of payments need arising from the pandemic and our response to it. To help fill the resulting external financing gap, estimated at 2.1 percent of GDP (US\$176 million) in 2020, we are requesting emergency financing from the IMF under the “exogenous shocks” window of Rapid Credit Facility (RCF) in the amount of SDR 66.44 million, equivalent to 47.9 percent of quota. These large balance of payments needs related to the pandemic, characterized by a large external financing gap, are expected to persist in 2021, with the total external financing gap during 2020-21 totaling 3 percent of GDP or \$240 million—even after support under the CCRT which covers two year’s debt service to the Fund (SDR 32.842 million), with an initial tranche of SDR 7.202 million already disbursed. We intend to request the suspension of debt service from our official bilateral creditors, in line with the April 15 G-20 Finance Ministers’ endorsement of the COVID-19 debt service relief initiative. We are confident that IMF involvement in the international effort to assist Malawi in dealing with the global pandemic will play a catalytic role in securing additional support from our development partners (including the World Bank)—which we are actively seeking, beyond the US\$43 million already committed.

11. The projected outlook assumes the spread of COVID-19 in Malawi is limited and that the lockdown (full or partial) is lifted by early summer. This outlook is highly uncertain and should the situation deteriorate, our balance of payments needs and associated external financing gap could rapidly and significantly increase.

12. We remain fully committed to meeting the objectives of our current Extended Credit Facility (ECF) arrangement with the IMF. We have met all end-December 2019 quantitative performance

criteria and made substantial progress in advancing the structural reform agenda. Discussions on the 4<sup>th</sup> review under the ECF arrangement will be concluded as soon as there is clarity on the outlook, which is clouded by the evolving nature of the pandemic.

13. To strengthen medium-term public debt sustainability and ensure sufficient fiscal space for critical resilience building and social and development spending, we will prepare for implementation of our comprehensive domestic revenue mobilization strategy (including VAT reforms) soon after the pandemic passes. To support these objectives and improve governance, we will continue to progress in reforms in tax administration, procurement, public financial management (including implementation of a new IFMIS), public investment management, oversight of state-owned enterprises, and debt management. The RBM will continue to gradually transition towards an inflation targeting framework by 2023 and study and address obstacles to FX market development.

14. We will continue to pursue our medium-term economic reform program which seeks to entrench macroeconomic stability and enhance poverty-reducing and resilient growth—particularly by strengthening resilience to climate change and promoting more broad-based private sector development and export diversification. This includes implementing priority resilience building projects and improving healthcare, gender inequality, and education in coordination with donors, enhancing the business environment, reforming agricultural regulations and market intervention systems, and raising access to finance by addressing structural challenges such as improving property rights.

15. In line with IMF safeguards policy, we commit to undergo an update of the 2018 safeguards assessment before IMF Board approval of any subsequent arrangement to which the safeguards policy applies, provide IMF staff with the RBM's most recently completed external audit reports, and authorize our external auditors to hold discussions with IMF staff.

16. We value our cooperation with the IMF and do not intend to introduce measures or policies that would exacerbate balance of payments difficulties. We do not intend to impose new or intensify existing restrictions on the making of payments and transfers for current international transactions, trade restrictions for balance of payments purposes, or multiple currency practices, or to enter into bilateral payments agreements which are inconsistent with Article VIII of the Fund's Articles of Agreement.

17. We are determined to meet the immense challenge we are facing due to the COVID-19 pandemic. Support from the international community will be critical, and we look forward to an early approval of financial assistance by the IMF.

18. We authorize the IMF to publish this Letter and the staff report for the request for disbursement under the RCF.

Sincerely yours,

/s/

/s/

Hon. Joseph M. Mwanamvekha, M.P  
Minister of Finance, Economic Planning and  
Development

Dr. Dalitso Kabambe  
Governor of the Reserve Bank of Malawi