INTERNATIONAL MONETARY FUND

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MALAWI

May 2020

REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR MALAWI

In the context of the Request for Disbursement Under the Rapid Credit Facility, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on May 1, following discussions that ended on April 17, with the officials of Malawi on economic developments and policies underpinning the IMF arrangement under the Rapid Credit Facility. Based on information available at the time of these discussions, the staff report was completed on April 27, 2020.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Association (IDA).
- A **Statement by the Executive Director** for Malawi.

The documents listed below have been or will be separately released:

Letter of Intent sent to the IMF by the authorities of Malawi*

*Also included in the Staff Report

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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PRESS RELEASE

PR20/200

IMF Executive Board Approves a US$91 Million Disbursement under the Rapid Credit Facility for Malawi

FOR IMMEDIATE RELEASE

- The International Monetary Fund approved a disbursement of US$91 million under the Rapid Credit Facility to help Malawi meet the urgent balance of payment (BOP) needs stemming from the COVID-19 pandemic.
- The pandemic is expected to have a significant impact on Malawi including affecting the near-term economic outlook, which has deteriorated significantly.
- The authorities have proactively responded to the pandemic with a national response plan—supported by the World Health Organization and other development partners—and measures to preserve macroeconomic stability while protecting the vulnerable.

Washington, DC – May 1, 2020 The Executive Board of the International Monetary Fund (IMF) today approved a disbursement under the Rapid Credit Facility (RCF) equivalent to SDR 66.44 million (US$91 million or 47.9 percent of quota) to help Malawi meet the urgent balance of payment (BOP) needs stemming from the COVID-19 pandemic.

Malawi is being severely affected by the COVID-19 pandemic. Spillovers from the sharp global slowdown as well as the economic disruption in the region are weighing on international trade, tourism, remittances, investment, and consumption. The national lockdown introduced to contain the pandemic has also impacted the near-term economic outlook, which has deteriorated significantly, with large uncertainties surrounding the duration and spread of the pandemic.

The authorities have proactively responded to the pandemic with a national response plan—supported by the World Health Organization and other development partners—and measures to preserve macroeconomic stability while protecting the vulnerable. Key elements include increased health sector outlays, supporting incomes and food security of the most vulnerable households with expanded social assistance and grain purchase programs, and easing liquidity constraints in the banking system.

The deteriorating macroeconomic outlook and policy responses to mitigate the impact of the pandemic on Malawi are creating an urgent BOP need. IMF financing will help fill part of the external financing gap and catalyze other concessional financing.

Following the Executive Board's discussion of Malawi, Mr. Zhang, Deputy Managing Director and Chair, issued the following statement:

"The COVID-19 pandemic is having a severe impact on Malawi, creating an urgent balance of payments need. The authorities have been proactive in mitigating the impact of the pandemic, including through increased spending on health care and social assistance, supporting small and medium enterprises, bolstering farmers' incomes and ensuring food security through purchase and storage of agricultural harvests, and easing liquidity constraints in the banking system.

“The IMF’s emergency financing under the Rapid Credit Facility will help the authorities meet the large external financing gap and catalyze further assistance from the international community. Additional concessional donor support will be critical to close the remaining external financing gap and facilitate the needed interventions to ease the economic and social impacts of the pandemic, while preserving Malawi’s hard-earned macroeconomic stability.

“A widening of the budget deficit is appropriate in the near-term, given the fiscal costs associated with the economic slowdown and critical additional health care and social spending needs, which should be executed transparently and targeted to the most affected parts of society. The authorities’ commitment to the audit of COVID-19 related spending is welcome. Once the crisis abates, it will be important to safeguard medium-term debt sustainability by boosting domestic revenue mobilization and enhancing public financial management.’’

More information:

IMF Lending Tracker (emergency financing request approved by the IMF Executive Board)

https://www.imf.org/en/Topics/imf-and-covid19/COVID-Lending-Tracker

IMF Executive Board calendar

https://www.imf.org/external/NP/SEC/bc/eng/index.aspx

INTERNATIONAL MONETARY FUND

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 2nd and 3rd 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 4th 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 4th 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 2nd and 3rd 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.[1] 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

[1] 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.

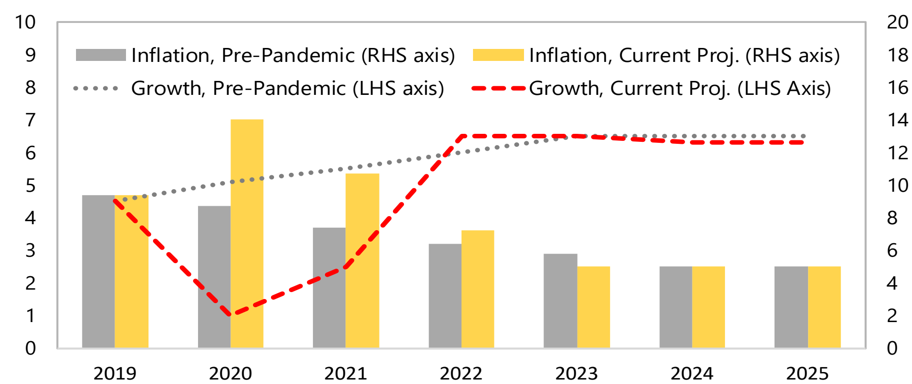
- On the fiscal side, both domestic and customs tax revenues are impacted. Border closures, since end-March, have resulted in significant reductions of customs and import VAT revenues. The lockdown is impeding collection of domestic revenues.

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.

Text Figure 1. Malawi: Real GDP Growth and Average Annual Inflation
(Percent)



Sources: Malawian authorities; IMF staff estimates.

- 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
Financing Needs	**1.7**	**2.2**
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 4th and 5th 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)[1,2]

	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
External financing gap (A-B)	**176**	**2.1**
Additional financing:	176	2.1
Prospective grants for debt relief under IMF CCRT[3]	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.

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

[2]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.

[3]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).

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

	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[2]	0.2	0.2
Social spending (all on-budget)	0.1	0.3
Social assistance (SCTP)	0.0	0.2
Government-financed[3]	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.

[1]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.

[2]These estimates are subject to upward revisions as development partners mobilize further support.

[3]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.

- 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 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 2nd and 3rd 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 4th and 5th 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)[2]—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.

[2] 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).

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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.

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

	2018	2019	2020		2021	2022	2023	2024	2025
	Est.	Est.	2nd & 3rd Review	Proj.			Proj.		
National accounts and prices (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
Investment and savings (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
Central government (percent of GDP on a fiscal year basis)[1]									
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[2]	-2.6	-1.2	0.9	-3.4	-1.3	-0.4	-0.1	0.2	0.3
Money and credit (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
External sector (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	750	819	950	861	900	984	1,059	1,156	1,261
(months of imports)	3.0	3.2	3.3	3.2	3.3	3.4	3.5	3.7	3.8
Current account (percent of GDP)[3]	-20.5	-17.2	-17.2	-17.8	-18.0	-17.0	-16.8	-16.1	-15.4
Current account, excl. official transfers (percent of GDP)	-20.5	-17.7	-17.2	-18.1	-18.0	-17.0	-16.7	-16.1	-15.4
Current account, excl. 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)[4]	-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
Financing gap	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
Debt stock and service (percent of GDP, unless otherwise indicated)[5]									
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.

[1] The fiscal year starts in July and ends in June. The current financial year, 2020, runs from July 1, 2019 to June 30, 2020.

[2] Domestic primary balance is calculated by subtracting current expenditures (except interest payment) and domestically-financed development expenditures from tax and nontax revenues.

[3] The current account assuming the financing gap is closed, includes $30 million of budget support from the World Bank in 2020.

[4] The current account assuming the financing gap is not closed, excludes $30 million of budget support from the World Bank in 2020.

[5] 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			2020/21	2021/22	2022/23	2023/24	2024/25
	Est.	Approved Budget	2nd & 3rd Review	Proj.	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 levey 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[1]	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[2]	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[3]	-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.

[1] This includes promissory notes issued for the repayment of domestic arrears accumulated before FY2014/15.

[2] Other external loans include program loans other than budgetary support.

[3] 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	Proj.	Proj.				
Revenue	21.1	25.7	22.0	20.4	20.4	21.9	22.7	22.7	22.6
Tax and nontax revenue	19.1	22.8	19.8	18.2	18.2	19.4	20.1	20.1	20.1
Tax Revenue	17.4	20.3	18.0	16.0	16.1	17.2	17.9	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	8.4
Taxes on goods and services	7.6	8.7	7.8	6.7	6.9	7.5	8.0	8.0	8.0
Taxes on international trade	1.6	1.8	1.9	1.4	1.5	1.6	1.6	1.6	1.6
Other taxes	-0.4	-0.1	-0.5	-0.1	-0.2	-0.2	-0.1	-0.1	-0.1
Nontax revenue[1]	1.7	2.5	1.8	2.2	2.1	2.2	2.2	2.2	2.2
Grants	2.0	2.9	2.2	2.3	2.2	2.5	2.7	2.6	2.5
Budget support grants	0.6	0.0	0.0	0.4	0.0	0.0	0.0	0.0	0.0
Project grants	1.0	1.8	1.3	1.4	1.5	1.6	1.7	1.8	1.7
Dedicated grants	0.5	1.1	0.9	0.5	0.8	0.9	0.9	0.8	0.8
Expenditure and net lending	28.2	30.7	26.8	29.7	27.7	28.0	27.5	27.3	26.7
Current expenditure	22.3	22.8	20.9	23.8	21.6	20.6	19.7	19.9	19.3
Wages and salaries	7.2	7.6	7.3	7.6	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	0.0
Interest payments	4.2	4.0	4.1	4.3	4.0	3.4	2.3	2.5	2.1
Domestic	3.9	3.8	3.8	4.0	3.7	3.0	2.0	2.2	1.8
Foreign	0.3	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	5.5	5.4
Generic goods and services	2.5	3.3	2.7	3.3	2.6	2.5	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	0.4
Agricultural sector	0.1	0.2	0.2	0.1	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	1.1
Of which: COVID-19 related	…	…	…	0.2	0.2	0.0	0.0	0.0	0.0
Education sector	0.5	0.5	0.5	0.5	0.5	0.5	0.6	0.6	0.6
National / local elections	1.2	0.5	0.0	0.5	0.0	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	0.0
Maize purchases and winter cropping programs	0.2	0.2	0.1	0.2	0.1	0.1	0.1	0.1	0.1
Rural electrification	0.7	0.5	0.3	0.6	0.6	0.6	0.6	0.6	0.5
Subsidies and other current transfers	4.2	4.4	4.2	4.4	4.1	4.1	4.1	4.0	4.0
Pension and gratuities	1.6	1.6	1.6	1.7	1.6	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	0.5
Transfers to public entities and households	1.4	1.6	1.5	1.6	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	0.0
Fertilizer and seed subsidy	0.7	0.6	0.6	0.6	0.5	0.4	0.4	0.3	0.3
Of which : seed subsidy	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Arrears payments[1]	0.1	0.1	0.1	0.5	0.3	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	7.3
Foreign financed	3.5	5.5	3.9	3.9	4.2	4.9	5.0	5.0	4.9
Of which : related to climate resilience building	…	…	…	0.0	0.2	0.3	0.3	0.3	0.3
Domestically financed	2.2	2.3	1.9	1.9	1.8	2.5	2.8	2.5	2.5
Of which : related to climate resilience building	…	…	…	0.0	0.1	0.3	0.6	0.3	0.0
Net lending	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0
Discrepancy	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (including grants and discrepancy)	-6.9	-5.0	-4.9	-9.3	-7.3	-6.1	-4.8	-4.7	-4.1
Total financing (net)	6.9	5.0	4.9	9.3	7.3	6.1	4.8	4.7	4.1
Foreign financing (net)	1.5	1.8	0.9	1.3	1.4	1.7	1.6	1.5	1.5
Borrowing	2.1	2.6	1.7	2.0	2.0	2.4	2.3	2.4	2.4
Budget support loans	0.0	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	2.2
Other external loans[2]	0.2	0.1	0.1	0.0	0.1	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	-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	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	0.0
Net domestic financing (NDF)	6.8	3.2	4.1	8.1	5.9	4.4	3.3	3.1	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	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:									
Primary balance (including grants and discrepancy)	-2.7	-1.0	-0.8	-5.0	-3.3	-2.8	-2.5	-2.2	-2.1
Domestic primary balance[3]	-1.2	1.6	0.9	-3.4	-1.3	-0.4	-0.1	0.2	0.3
Maturing promissory notes for domestic arrears	1.4	0.0	0.2	0.2	0.0	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	3.1	2.6
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.

[1] This includes promissory notes issued for the repayment of domestic arrears accumulated before FY2014/15.

[2] Other external loans include program loans other than budgetary support.

[3] 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	...	...	...	...
Memorandum items:												
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.	Mar.	June.	Sept.	Dec.
								Est.		Proj.		
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	…	…	…	…
Of which: foreign currency deposits	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
Memorandum items:												
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[1]	-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[2]	714.3	794.1	238.0	854.3	890.2	978.2	986.8	1,005.5	998.9
Financial account balance[3]	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
Overall balance	-12.7	48.5	138.0	-166.3	-11.2	120.1	112.4	130.7	146.5
Financing	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[4]	0.0	16.4	19.3	19.3	26.1	37.1	32.6	33.8	42.3
Financing gap	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	…	…	…	…
Memorandum items:									
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[5]	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						
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.

[1] 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.

[2] Includes estimate for project grants not channeled through the budget.

[3] 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.

[4] 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.

[5] 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[1]	-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[2]	10.3	10.4	2.9	10.1	10.5	11.2	10.9	10.7	10.2
Financial account balance[3]	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
Overall balance	-0.2	0.6	1.7	-2.0	-0.1	1.4	1.2	1.4	1.5
Financing	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[4]	0.0	0.2	0.2	0.2	0.3	0.4	0.4	0.4	0.4
Financing gap	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	…	…	…	…
Memorandum items:									
Gross official reserves	10.9	10.7	11.5	10.2	10.7	11.3	11.7	12.3	12.8
Months of imports[5]	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.

[1]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.

[2]Includes estimate for project grants not channeled through the budget.

[3]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.

[4]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.

[5]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
Capital Adequacy						
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[1]	17.1	16.7	15.9	14.7	16.4	16.7
Asset composition and quality						
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
Earnings and profitability						
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
Liquidity						
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.

[1] 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	…	…	…
Financial support from other donors (incl. WB, UN, GAVI, DFID, Irish Aid, GIZ, KfW, USAID)	…	…	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[1]

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Projected Payments based on Existing Drawings:														
(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
Projected Payments based on Prospective Drawings:														
(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
Projected Payments based on Existing and Prospective Drawings:														
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
Projected Level of Credit Outstanding based on Existing and Prospective Drawings:														
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	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	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	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	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	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	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
Memorandum items:														
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)	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)	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)	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)	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.

[1]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
Public financial management			
Submission to the MoF of five reports by the MDAs[1] 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 *Implemented with Delay*
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 *Implemented with Delay*
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 asscociated with SOEs; enhance transparency in financial performance and market operations.	Not Met *Implemented with Delay*
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, NOCMA, ADMARC, and Blantyre Water Board).	End-March 2020	Mitigate fiscal risks asscociated 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
Financial sector			
Develop a roadmap for increasing access to finance.	End-December 2019	Increase financial sector intermediation.	Not met *Partially completed*, Expected for end-June 2020

Sources: IMF staff and Malawian authorities.

[1] 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 4th 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

INTERNATIONAL MONETARY FUND

MALAWI

REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY—DEBT SUSTAINABILITY ANALYSIS[1]

April 27, 2020

Approved By
David Robinson and S. Ali Abbas (IMF) and Marcello Estevão (IDA)

Prepared by the staffs of International Monetary Fund and the International Development Association (IDA)

Malawi: Joint Bank-Fund Debt Sustainability Analysis	
Risk of external debt distress	*Moderate[1]*
Overall risk of debt distress	*High*
Granularity in the risk rating	*Some space to absorb shocks*
Application of judgement	*No*
Macroeconomic projections	Growth is expected to fall to 1 percent in 2020 and to 2.5 percent in 2021—assuming it will take time for businesses to re-open after the partial lockdown ends and for trade flows to normalize. An economic recovery is expected thereafter, with growth averaging 6.4 percent during 2022-25. Over the long-term, growth is expected to stabilize around 5.5 percent.
Financing strategy	External financing in the form of concessional project loans is expected to gradually increase. There is a risk that the pace of this increase may accelerate if the economy's absorption capacity increases faster than expected. The grant element of project loans will remain relatively high over the forecast period, with no access to market financing.

[1] The analysis presented in this document is based on the debt sustainability framework for low-income countries approved by the Boards of both the International Monetary Fund and the International Development Association. It has been prepared in the context of the 2020 request for emergency financing under the IMF's Rapid Credit Facility. The macroeconomic framework underlying this DSA update is the same as that included in the staff report of the 2020 RCF request which reflects currently available information, including recent global and domestic developments. However, updates with respect to the economic impact and policy response to the COVID-19 pandemic are rapidly evolving and risks are heavily tilted to the downside.

Malawi: Joint Bank-Fund Debt Sustainability Analysis (Concluded)	
Mechanical risk rating under the external DSA	Moderate
Mechanical risk rating under the public DSA	High
[1]Malawi's debt carrying capacity is classified as "medium" according to the composite indicator (CI) score. Malawi's CI score based on the current vintage (2019 CPIA and 2019 October WEO) is 2.84 and was 2.72 in the previous vintage (2018 CPIA and 2019 April WEO)—both above the threshold value of 2.69—resulting in an upgrade of the debt carrying capacity as the CI score has been above the threshold for two consecutive vintages.	

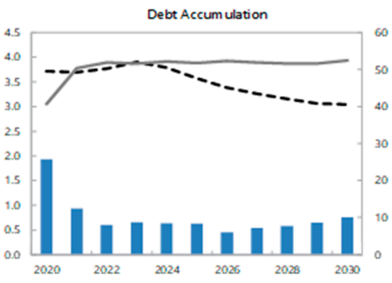
Malawi is at moderate risk of external debt distress with some space to absorb shocks and high risk of overall debt distress. Under the baseline scenario reflecting the macroeconomic impact and rise in external borrowing in 2020 related to the COVID-19 pandemic and a gradual increase in project loans over the medium term, a moderate rating is maintained for external debt distress with debt carrying capacity upgraded to "medium"—revision in October 2019. The present value of total public debt to GDP is projected to exceed the benchmark for 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.

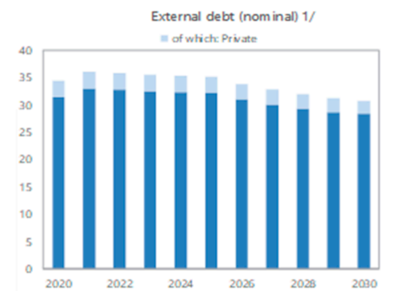
This DSA incorporates current projections of the impact from the COVID-19 pandemic: (i) GDP growth is expected to fall to 1 percent in 2020 and to 2.5 percent in 2021 as a lockdown substantially slows domestic activity, especially in domestic manufacturing and wholesale and retail trade, and the global and resultant regional economic slowdown is weighing on exports, remittances, and foreign direct investment (FDI); (ii) the domestic primary balance is expected to deteriorate (relative to pre-pandemic projections) to -3.4 percent of GDP in FY 2019/20 and -1.3 percent of GDP in FY 2020/21; (iii) the current account deficit is expected to widen to 18.1 percent of GDP in 2020 and remain broadly unchanged in 2021. However, the economic impact of the COVID-19 pandemic and policy responses are rapidly evolving and risks are heavily tilted to the downside, which could lead to a faster-than-expected deterioration in external and public debt indicators.

Table 1. Malawi: External Debt Sustainability Framework, Baseline Scenario, 2017–2040
(in percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/ 9/	
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030	2040	Historical	Projections
External debt (nominal) 1/	36.5	34.6	32.8	34.4	36.1	35.8	35.6	35.3	35.1	30.8	30.2	30.5	33.9
of which: public and publicly guaranteed (PPG)	32.8	31.2	29.6	31.4	33.0	32.8	32.6	32.4	32.2	28.4	28.6	26.9	31.1
Change in external debt	0.7	-1.9	-1.9	1.6	1.7	-0.2	-0.3	-0.2	-0.2	-0.4	0.1		
Identified net debt-creating flows	16.5	15.4	12.4	16.3	15.7	13.1	12.9	12.2	11.3	10.3	7.7	11.4	12.3
Non-interest current account deficit	22.0	20.2	16.9	17.5	17.6	16.7	16.4	15.8	15.1	14.1	11.5	13.6	15.6
Deficit in balance of goods and services	27.3	26.3	23.1	22.6	23.0	22.3	22.1	21.4	20.8	19.7	17.3	22.4	21.2
Exports	16.9	16.1	16.3	13.8	15.0	15.7	16.4	17.0	17.7	18.7	21.0		
Imports	44.2	42.4	39.4	36.5	38.0	38.0	38.4	38.5	38.5	38.3	38.3		
Net current transfers (negative = inflow)	-7.5	-8.1	-8.3	-7.0	-7.3	-7.6	-7.7	-7.8	-7.9	-7.7	-7.5	-6.5	-7.7
of which: official	-0.2	0.0	-0.5	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other current account flows (negative = net inflow)	2.2	2.1	2.1	1.9	2.0	2.0	2.1	2.1	2.2	2.1	1.8	-2.2	2.1
Net FDI (negative = inflow)	-1.5	-1.6	-1.4	-1.2	-1.5	-1.6	-1.6	-1.7	-1.9	-2.4	-2.5	-1.8	-1.9
Endogenous debt dynamics 2/	-4.0	-3.3	-3.1	0.0	-0.5	-2.0	-1.9	-1.9	-1.8	-1.3	-1.3		
Contribution from nominal interest rate	0.3	0.3	0.3	0.3	0.4	0.3	0.3	0.3	0.3	0.3	0.3		
Contribution from real GDP growth	-1.3	-1.0	-1.4	-0.3	-0.9	-2.3	-2.2	-2.1	-2.1	-1.6	-1.5		
Contribution from price and exchange rate changes	-3.0	-2.6	-2.0	...	...	...	...	...	...	...	...		
Residual 3/	-15.8	-17.3	-14.3	-14.6	-14.0	-13.3	-13.1	-12.4	-11.6	-10.7	-7.6	-9.7	-12.5
of which: exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	...	...	18.8	18.9	19.8	19.8	19.7	19.5	19.3	16.5	16.8		
PV of PPG external debt-to-exports ratio	...	...	115.4	136.3	132.1	126.0	120.4	114.4	109.1	88.2	79.8		
PPG debt service-to-exports ratio	9.3	12.1	6.5	8.3	8.8	9.5	8.9	8.6	8.3	6.5	4.4		
PPG debt service-to-revenue ratio	8.0	9.7	5.6	6.6	6.9	7.6	7.3	7.3	7.3	6.0	6.0		
Gross external financing need (Billion of U.S. dollars)	1.4	1.4	1.3	1.5	1.5	1.5	1.5	1.5	1.5	1.8	2.6		
Key macroeconomic assumptions													
Real GDP growth (in percent)	4.0	3.2	4.5	1.0	2.5	6.5	6.5	6.3	6.3	5.5	5.5	4.1	5.2
GDP deflator in US dollar terms (change in percent)	9.1	7.5	6.1	8.9	-2.3	-3.2	-2.7	-1.8	-1.8	1.1	1.7	-1.1	0.2
Effective interest rate (percent) 4/	0.9	0.9	0.9	0.9	1.2	0.8	0.9	0.8	0.8	0.9	1.0	0.8	0.9
Growth of exports of G&S (US dollar terms, in percent)	-10.7	5.6	12.4	-6.7	8.3	8.0	8.1	8.6	8.3	7.7	8.7	5.8	6.7
Growth of imports of G&S (US dollar terms, in percent)	13.0	6.2	3.2	1.8	4.2	3.2	4.8	4.5	4.5	6.5	7.5	4.7	5.1
Grant element of new public sector borrowing (in percent)	...	...	...	40.6	50.3	51.9	51.6	52.2	51.8	52.5	48.8	...	50.8
Government revenues (excluding grants, in percent of GDP)	19.5	20.2	18.8	17.4	19.2	19.6	20.0	20.0	20.0	20.5	15.5	18.4	19.9
Aid flows (in Billion of US dollars) 5/	0.4	0.2	0.4	0.3	0.4	0.4	0.4	0.4	0.4	0.5	0.7		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	3.7	3.7	3.8	3.9	3.8	3.6	3.0	2.0	...	3.5
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	64.5	73.8	77.1	77.5	77.1	75.9	72.7	59.5	...	74.1
Nominal GDP (Billion of US dollars)	6.2	6.9	7.7	8.4	8.4	8.7	9.0	9.4	9.8	13.5	26.3		
Nominal dollar GDP growth	13.4	10.9	10.9	10.0	0.1	3.1	3.7	4.4	4.4	6.7	7.3	3.1	5.3
Memorandum items:													
PV of external debt 7/	...	...	22.0	21.8	22.8	22.8	22.7	22.4	22.2	18.9	18.4		
In percent of exports	...	...	134.9	157.8	152.5	145.4	138.8	131.8	125.5	101.2	87.6		
Total external debt service-to-exports ratio	9.3	12.1	8.6	10.5	10.9	11.4	10.7	10.2	9.8	7.6	4.9		
PV of PPG external debt (in Billion of US dollars)			1.4	1.6	1.7	1.7	1.8	1.8	1.9	2.2	4.4		
(PVt-PVt-1)/GDPt-1 (in percent)				1.9	0.9	0.6	0.7	0.6	0.6	0.8	1.3		
Non-interest current account deficit that stabilizes debt ratio	21.3	22.1	18.8	15.9	16.0	17.0	16.7	16.0	15.3	14.5	11.4		

Definition of external/domestic debt	**Currency-based**
Is there a material difference between the two criteria?	**Yes**





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.
2/ Derived as [r - g - p(1+g)]/(1+g+p+gp) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and p = growth rate of GDP deflator in U.S. dollar terms.
3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.
4/ Current-year interest payments divided by previous period debt stock.
5/ Defined as grants, concessional loans, and debt relief.
6/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).
7/ Assumes that PV of private sector debt is equivalent to its face value.
8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.
9/ 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.

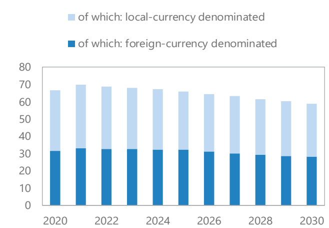
Table 2. Malawi: Public Sector Debt Sustainability Framework, Baseline Scenario, 2017–2040

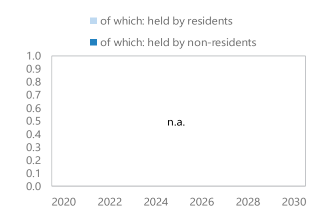
(in percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030	2040	Historical	Projections
Public sector debt 1/	**56.7**	**59.7**	**59.5**	**66.5**	**69.9**	**68.8**	**68.0**	**67.4**	**65.8**	**58.7**	**45.2**	**47.2**	**64.9**
of which: external debt	**32.8**	**31.2**	**29.6**	**31.4**	**33.0**	**32.8**	**32.6**	**32.4**	**32.2**	**28.4**	**28.6**	**26.9**	**31.1**
Change in public sector debt	1.6	3.0	-0.1	7.0	3.3	-1.0	-0.8	-0.6	-1.6	-1.4	-0.7		
Identified debt-creating flows	**0.3**	**0.4**	**-0.1**	**5.3**	**3.4**	**-0.6**	**-0.5**	**-0.3**	**-1.2**	**-1.2**	**-0.7**	**0.6**	**0.1**
Primary deficit	**3.5**	**2.1**	**2.2**	**4.8**	**3.7**	**2.5**	**2.0**	**2.2**	**1.6**	**-0.3**	**0.6**	**1.5**	**1.6**
Revenue and grants	22.7	21.5	21.2	19.7	21.6	22.2	22.7	22.6	22.4	22.3	16.3	**22.6**	**22.1**
of which: grants	3.3	1.3	2.3	2.3	2.4	2.6	2.7	2.6	2.4	1.8	0.7		
Primary (noninterest) expenditure	26.3	23.6	23.3	24.5	25.3	24.8	24.8	24.8	24.0	22.0	16.9	**24.1**	**23.7**
Automatic debt dynamics	**-3.2**	**-1.7**	**-2.3**	**0.5**	**-0.3**	**-3.2**	**-2.5**	**-2.5**	**-2.8**	**-0.9**	**-1.3**		
Contribution from interest rate/growth differential	-0.8	-0.2	-1.0	0.4	-1.5	-4.4	-3.7	-3.7	-3.9	-1.1	-1.4		
of which: contribution from average real interest rate	1.3	1.6	1.6	1.0	0.1	-0.2	0.5	0.4	0.0	2.0	1.0		
of which: contribution from real GDP growth	-2.1	-1.7	-2.6	-0.6	-1.6	-4.3	-4.2	-4.0	-4.0	-3.1	-2.4		
Contribution from real exchange rate depreciation	-2.4	-1.6	-1.3	...	...	...	...	...	... .	...	...		
Other identified debt-creating flows	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	**1.3**	**2.6**	**0.0**	**1.7**	**1.1**	**0.8**	**0.8**	**0.8**	**0.8**	**0.0**	**0.1**	**2.0**	**0.5**
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	**...**	**...**	**48.7**	**55.1**	**57.7**	**56.6**	**55.7**	**55.1**	**53.4**	**47.0**	**33.7**		
PV of public debt-to-revenue and grants ratio	**...**	**...**	**229.9**	**280.2**	**267.4**	**255.0**	**245.4**	**243.7**	**238.7**	**211.2**	**207.1**		
Debt service-to-revenue and grants ratio 3/	**35.6**	**25.3**	**27.8**	**34.9**	**53.3**	**64.7**	**71.1**	**76.4**	**80.3**	**97.8**	**84.6**		
Gross financing need 4/	7.6	3.6	8.0	11.7	15.2	16.9	18.2	19.5	19.6	21.4	14.4		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	4.0	3.2	4.5	1.0	2.5	6.5	6.5	6.3	6.3	5.5	5.5	**4.1**	**5.2**
Average nominal interest rate on external debt (in percent)	1.0	1.1	1.0	1.0	1.4	1.0	1.1	0.9	0.9	1.0	1.1	**1.0**	**1.0**
Average real interest rate on domestic debt (in percent)	6.6	8.4	7.2	4.6	1.0	0.5	2.4	2.1	1.1	7.6	7.3	**3.6**	**4.3**
Real exchange rate depreciation (in percent, + indicates depreciation)	-8.0	-4.9	-4.3	...	...	...	...	...	... .	...	...	**5.4**	**...**
Inflation rate (GDP deflator, in percent)	10.9	7.8	8.0	13.2	9.5	6.4	4.5	4.4	4.4	4.4	4.9	**16.0**	**5.9**
Growth of real primary spending (deflated by GDP deflator, in percent)	16.2	-7.2	3.3	6.0	5.9	4.2	6.6	6.5	2.7	2.8	0.3	**3.5**	**4.6**
Primary deficit that stabilizes the debt-to-GDP ratio 5/	1.9	-0.9	2.3	-2.2	0.4	3.6	2.9	2.9	3.2	1.1	1.3	**1.1**	**1.7**
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Definition of external/domestic debt	**Currency-based**
Is there a material difference between the two criteria?	**Yes**

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central government, central bank, government-guaranteed debt. Definition of external debt is Currency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

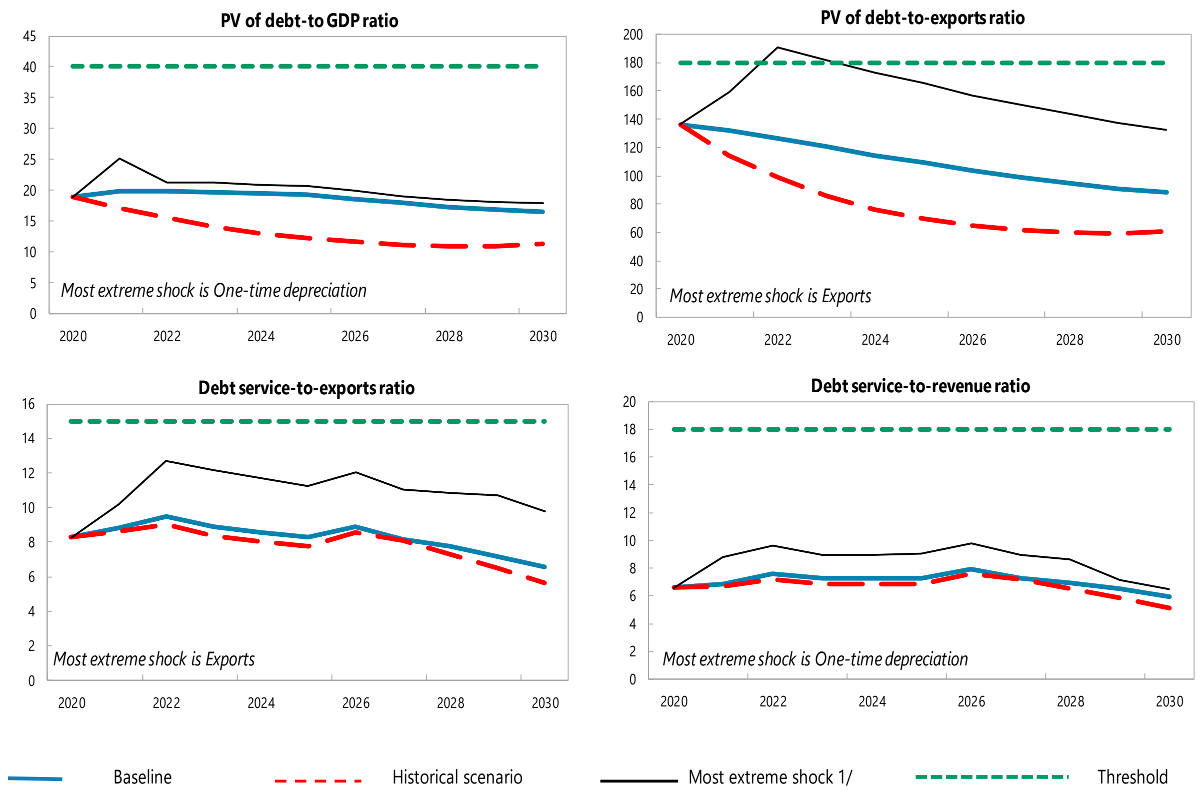
3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.

5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.

6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Figure 1. Malawi: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2020–2030



Customization of Default Settings		
	Size	Interactions
Tailored Tests		
Combined CLs	Yes	
Natural Disasters	No	No
Commodity Prices [2/]	n.a.	n.a.
Market Financing	n.a.	n.a.

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing Assumptions for Stress Tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	0.8%	0.8%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	35	35
Avg. grace period	6	6

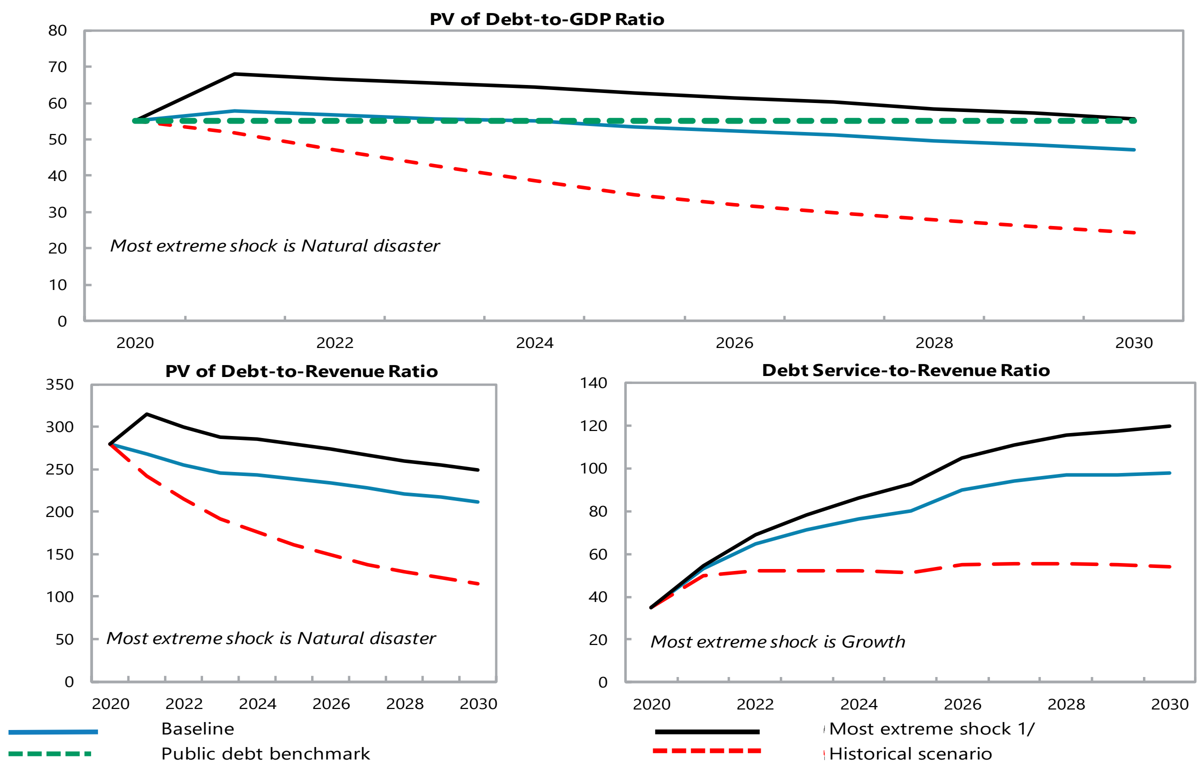
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2030. Stress tests with one-off breaches are also presented (if any), while these one-off breaches are deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

Figure 2. Malawi: Indicators of Public Debt Under Alternative Scenarios, 2020–2030



Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	14%	14%
Domestic medium and long-term	26%	26%
Domestic short-term	60%	60%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	0.8%	0.8%
Avg. maturity (incl. grace period)	35	35
Avg. grace period	6	6
Domestic MLT debt		
Avg. real interest rate on new borrowing	7.0%	7.0%
Avg. maturity (incl. grace period)	2	2
Avg. grace period	1	1
Domestic short-term debt		
Avg. real interest rate	3%	3.0%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2030. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Table 3. Malawi: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2020–2030

	Projections 1/										
	2020	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**
					PV of debt-to GDP ratio						
Baseline	18.9	19.8	19.8	19.7	19.5	19.3	18.6	17.9	17.3	16.8	16.5
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	18.9	17.1	15.5	14.1	13.0	12.3	11.6	11.2	10.9	11.0	11.4
B. Bound Tests											
B1. Real GDP growth	18.9	20.3	20.8	20.7	20.5	20.3	19.6	18.9	18.2	17.7	17.3
B2. Primary balance	18.9	19.9	20.1	20.2	20.1	20.0	19.5	18.8	18.3	17.8	17.5
B3. Exports	18.9	20.9	22.9	22.8	22.6	22.4	21.7	20.9	20.2	19.5	18.9
B4. Other flows 3/	18.9	21.5	23.5	23.4	23.2	23.0	22.3	21.5	20.7	19.9	19.4
B5. One-time 30 percent nominal depreciation	18.9	25.2	21.3	21.2	20.9	20.6	19.9	19.1	18.4	18.1	17.9
B6. Combination of B1-B5	18.9	22.1	23.1	23.0	22.8	22.5	21.9	21.1	20.3	19.6	19.1
C. Tailored Tests											
C1. Combined contingent liabilities	18.9	20.4	20.8	21.1	21.1	21.2	20.8	20.2	19.7	19.3	19.1
C2. Natural disaster	18.9	20.8	21.2	21.6	21.7	21.9	21.5	21.1	20.7	20.4	20.2
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	40	40	40	40	40	40	40	40	40	40	40
					PV of debt-to-exports ratio						
Baseline	136.3	132.1	126.0	120.4	114.4	109.1	103.4	98.6	94.5	91.0	88.2
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	136.3	114.3	98.8	86.0	76.2	69.4	64.5	61.4	59.7	59.3	61.1
B. Bound Tests											
B1. Real GDP growth	136.3	132.1	126.0	120.4	114.4	109.1	103.4	98.6	94.5	91.0	88.2
B2. Primary balance	136.3	132.9	128.1	123.3	118.0	113.2	108.0	103.6	99.7	96.4	93.7
B3. Exports	136.3	159.4	**190.4**	**182.1**	173.2	165.3	157.1	150.1	143.7	137.4	132.4
B4. Other flows 3/	136.3	143.9	149.6	143.1	136.2	130.0	123.6	118.2	112.9	107.9	103.7
B5. One-time 30 percent nominal depreciation	136.3	132.1	106.5	101.6	96.4	91.8	86.7	82.5	78.9	76.6	75.1
B6. Combination of B1-B5	136.3	155.7	141.6	158.6	150.9	144.0	136.7	130.6	124.8	119.5	115.2
C. Tailored Tests											
C1. Combined contingent liabilities	136.3	136.2	132.3	128.6	124.1	119.9	115.2	111.2	107.7	104.6	102.2
C2. Natural disaster	136.3	141.3	137.6	134.3	130.1	126.2	121.8	118.1	114.9	112.2	110.2
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	180	180	180	180	180	180	180	180	180	180	180
					Debt service-to-exports ratio						
Baseline	8.3	8.8	9.5	8.9	8.6	8.3	8.9	8.2	7.7	7.2	6.5
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	8.3	8.6	9.0	8.4	8.0	7.8	8.6	8.1	7.3	6.5	5.7
B. Bound Tests											
B1. Real GDP growth	8.3	8.8	9.5	8.9	8.6	8.3	8.9	8.2	7.7	7.2	6.5
B2. Primary balance	8.3	8.8	9.5	8.9	8.6	8.3	9.0	8.2	7.9	7.3	6.7
B3. Exports	8.3	10.2	12.7	12.1	11.7	11.3	12.0	11.1	10.8	10.7	9.8
B4. Other flows 3/	8.3	8.8	9.7	9.3	8.9	8.6	9.2	8.4	8.5	8.4	7.6
B5. One-time 30 percent nominal depreciation	8.3	8.8	9.5	8.6	8.3	8.0	8.6	7.9	7.5	6.2	5.6
B6. Combination of B1-B5	8.3	9.6	11.3	10.7	10.3	9.9	10.6	9.8	9.8	9.3	8.5
C. Tailored Tests											
C1. Combined contingent liabilities	8.3	8.8	9.6	9.0	8.7	8.4	9.0	8.3	7.9	7.4	6.7
C2. Natural disaster	8.3	9.1	9.9	9.3	9.0	8.7	9.4	8.6	8.2	7.7	7.0
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	15	15	15	15	15	15	15	15	15	15	15
					Debt service-to-revenue ratio						
Baseline	6.6	6.9	7.6	7.3	7.3	7.3	7.9	7.2	6.9	6.5	6.0
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	6.6	6.7	7.2	6.8	6.8	6.9	7.6	7.2	6.6	5.9	5.1
B. Bound Tests											
B1. Real GDP growth	6.6	7.1	8.0	7.7	7.7	7.7	8.3	7.6	7.3	6.8	6.3
B2. Primary balance	6.6	6.9	7.6	7.3	7.3	7.4	8.0	7.3	7.0	6.6	6.1
B3. Exports	6.6	6.9	7.8	7.6	7.6	7.6	8.2	7.5	7.4	7.4	6.8
B4. Other flows 3/	6.6	6.9	7.7	7.6	7.6	7.6	8.2	7.5	7.6	7.6	7.0
B5. One-time 30 percent nominal depreciation	6.6	8.8	9.7	9.0	9.0	9.0	9.8	9.0	8.6	7.1	6.5
B6. Combination of B1-B5	6.6	7.1	8.0	7.8	7.8	7.8	8.4	7.7	7.8	7.5	6.9
C. Tailored Tests											
C1. Combined contingent liabilities	6.6	6.9	7.6	7.4	7.4	7.4	8.1	7.4	7.1	6.7	6.1
C2. Natural disaster	6.6	6.9	7.6	7.4	7.4	7.5	8.1	7.4	7.1	6.7	6.2
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	18	18	18	18	18	18	18	18	18	18	18

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
3/ Includes official and private transfers and FDI.

Table 4. Malawi: Sensitivity Analysis for Key Indicators of Public Debt, 2020–2030

	Projections 1/										
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
	PV of Debt-to-GDP Ratio										
Baseline	**55.1**	**57.7**	**56.6**	**55.7**	**55.1**	53.4	52.5	51.3	49.6	48.5	47.0
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	**55**	52	47	43	39	35	32	30	28	26	24
B. Bound Tests											
B1. Real GDP growth	**55**	**60**	**61**	**61**	**61**	**60**	**59**	**59**	**58**	**57**	**56**
B2. Primary balance	**55**	**59**	**60**	**59**	**58**	**56**	**55**	54	52	51	49
B3. Exports	**55**	**59**	**60**	**59**	**58**	**56**	**55**	54	52	51	49
B4. Other flows 3/	**55**	**60**	**60**	**60**	**59**	**57**	**56**	55	53	52	50
B5. One-time 30 percent nominal depreciation	**55**	**58**	**55**	54	52	50	48	46	43	42	39
B6. Combination of B1-B5	**55**	**57**	**56**	54	53	52	51	49	48	47	45
C. Tailored Tests											
C1. Combined contingent liabilities	**55**	**66**	**64**	**63**	**62**	**60**	**59**	**57**	**55**	54	52
C2. Natural disaster	**55**	**68**	**67**	**65**	**64**	**63**	**61**	**60**	**58**	**57**	**56**
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Public debt benchmark	55	55	55	55	55	55	55	55	55	55	55
	PV of Debt-to-Revenue Ratio										
Baseline	280.2	267.4	255.0	245.4	243.7	238.7	234.0	227.6	221.0	217.1	211.2
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	280	242	215	192	176	161	149	138	130	122	115
B. Bound Tests											
B1. Real GDP growth	280	275	272	265	267	266	264	260	256	255	252
B2. Primary balance	280	275	270	259	257	251	246	239	231	227	221
B3. Exports	280	272	268	258	257	252	247	240	233	228	221
B4. Other flows 3/	280	276	272	262	261	256	251	244	236	231	224
B5. One-time 30 percent nominal depreciation	280	271	251	239	234	225	216	205	195	187	178
B6. Combination of B1-B5	280	265	254	237	236	231	226	220	215	211	205
C. Tailored Tests											
C1. Combined contingent liabilities	280	306	290	277	274	268	261	254	246	241	234
C2. Natural disaster	280	315	299	287	285	279	274	267	260	256	249
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Debt Service-to-Revenue Ratio										
Baseline	34.9	53.3	64.7	71.1	76.4	80.3	89.9	94.1	96.9	96.9	97.8
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	35	50	52	52	52	51	55	55	56	55	54
B. Bound Tests											
B1. Real GDP growth	35	54	69	78	86	93	105	111	116	117	120
B2. Primary balance	35	53	70	81	86	89	97	101	103	102	103
B3. Exports	35	53	65	71	77	81	90	94	97	98	98
B4. Other flows 3/	35	53	65	71	77	81	90	94	97	98	99
B5. One-time 30 percent nominal depreciation	35	50	62	65	72	76	85	89	91	91	92
B6. Combination of B1-B5	35	52	63	70	75	79	88	92	96	96	97
C. Tailored Tests											
C1. Combined contingent liabilities	35	53	90	95	97	99	106	109	110	109	109
C2. Natural disaster	35	54	94	100	103	105	113	116	117	116	116
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the threshold.

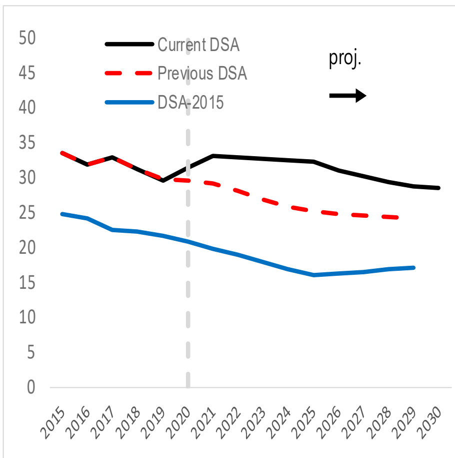
2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

3/ Includes official and private transfers and FDI.

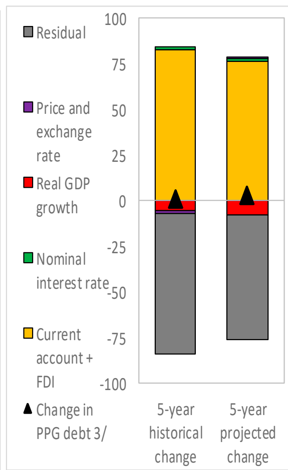
Figure 3. Malawi: Drivers of Debt Dynamics—Baseline Scenario

External debt

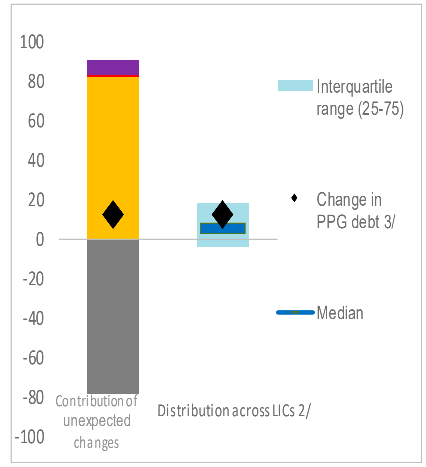
Gross Nominal PPG External Debt
(in percent of GDP; DSA vintages)



Debt-creating flows
(percent of GDP)

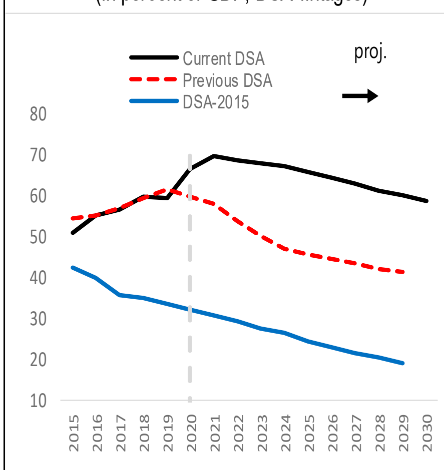


Unexpected Changes in Debt 1/
(past 5 years, percent of GDP)

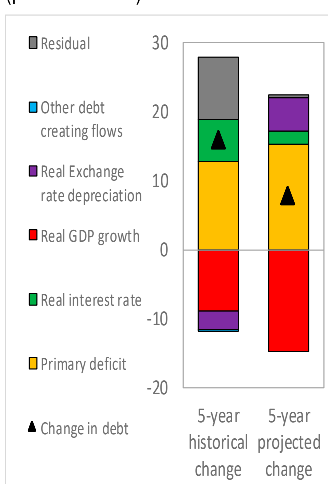


Public debt

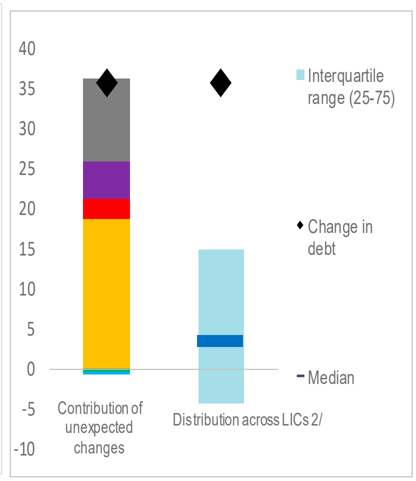
Gross Nominal Public Debt
(in percent of GDP; DSA vintages)



Debt-creating flows
(percent of GDP)



Unexpected Changes in Debt 1/
(past 5 years, percent of GDP)



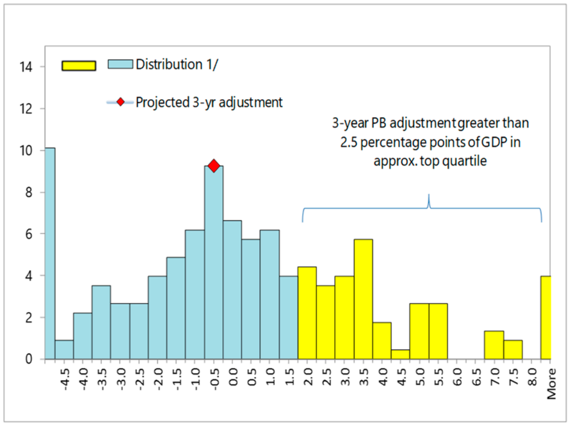
1/ Difference between anticipated and actual contributions on debt ratios.

2/ Distribution across LICs for which LIC DSAs were produced.

3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

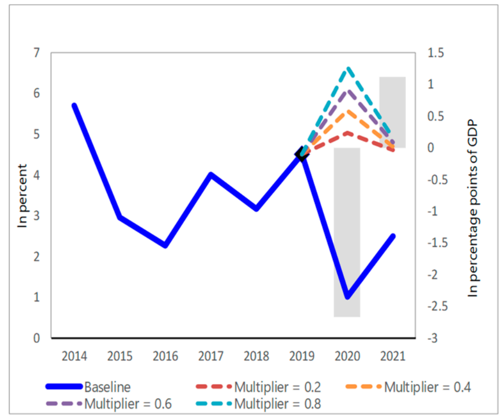
Figure 4. Malawi: Realism Tools

3-Year Adjustment in Primary Balance
(Percentage points of GDP)



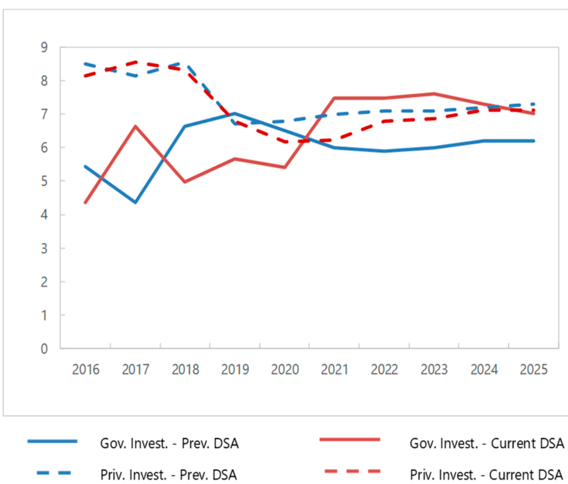
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(% of GDP)



Contribution to Real GDP growth
(percent, 5-year average)

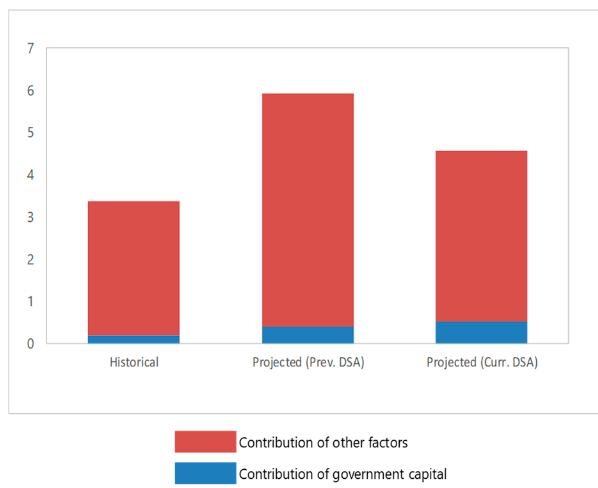
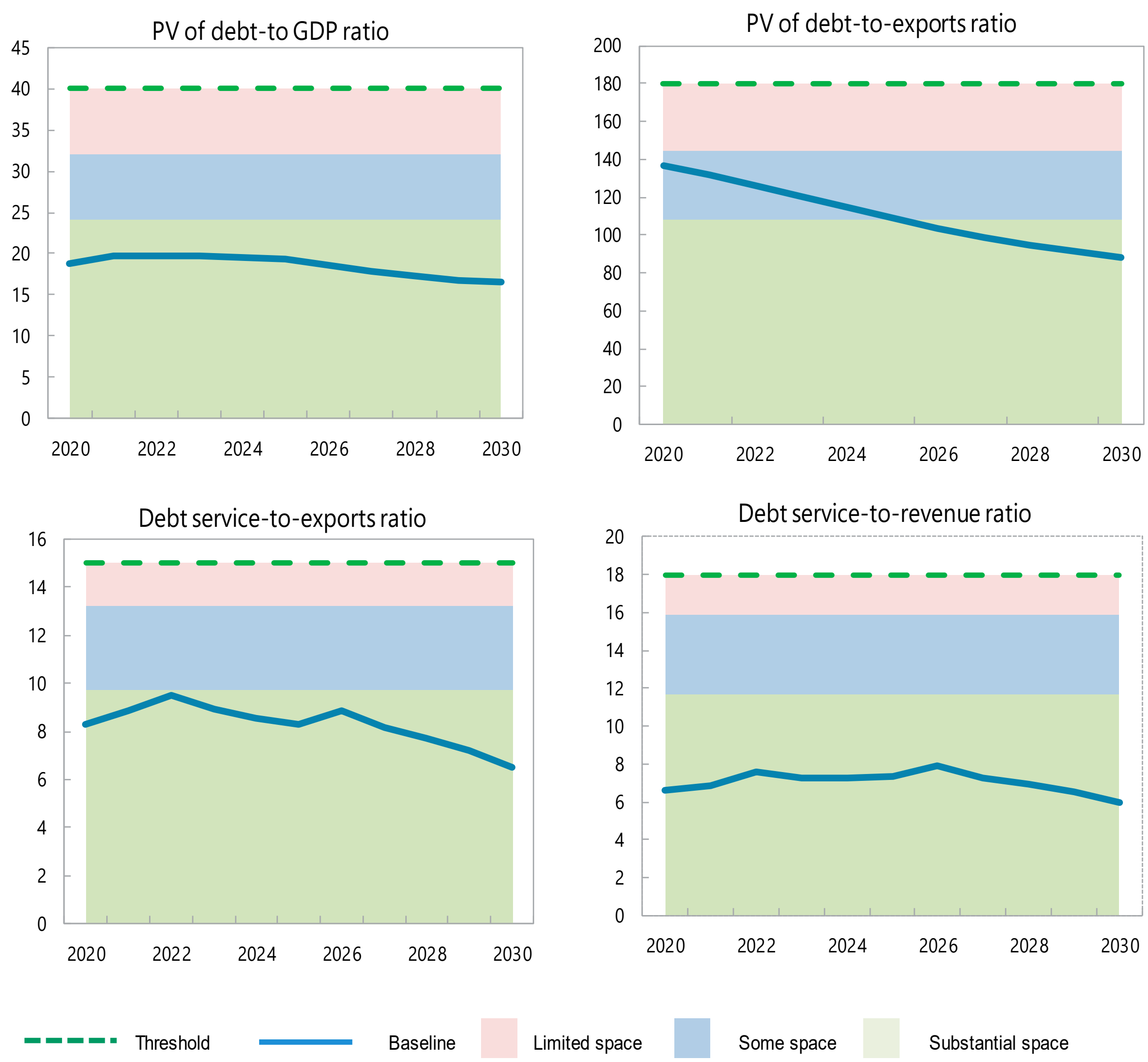


Figure 5. Malawi: Qualification of the Moderate Category, 2020–2030 1/



Sources: Country authorities; and staff estimates and projections.

1/ For the PV debt/GDP and PV debt/exports thresholds, x is 20 percent and y is 40 percent. For debt service/Exports and debt service/revenue thresholds, x is 12 percent and y is 35 percent.

Statement by Mr. Dumisani Mahlinza, Executive Director for Malawi, and Mr. Ted Sitima-wina, Senior Advisor to the

May 1, 2020

I. Introduction

1. On behalf of our Malawian authorities, we thank management and staff for their timely response to the request for emergency financial assistance under the Rapid Credit Facility (RCF).

2. The Malawi economy has been severely affected by the COVID-19 pandemic, causing exceptional and urgent balance of payments needs. To help fill the external financing gap, estimated at 2.1 percent of GDP in 2020, the authorities request emergency financing from the Rapid Credit Facility (RCF) in the amount of SDR 66.44 million, equivalent to 47.9 percent of quota. The large balance of payments need is expected to persist into 2021, with the total external financing gap during 2020-21 totaling 3 percent of GDP or $240 million. Given that the duration and severity of the pandemic remains unknown, the projected outlook is highly uncertain, and should the situation deteriorate, the balance of payments needs and associated external financing gap could increase significantly.

3. To ensure COVID-related resources are used for their intended purpose, the authorities will undertake quarterly audits of COVID-19 related spending and submit a comprehensive audit to Parliament. They will also publish procurement information on the Public Procurement and Disposal of Assets (PPDA) website.

II. Program Performance

4. Performance under the Extended Credit Facility (ECF) arrangement has been broadly satisfactory, with all end-December 2019 quantitative performance criteria met. At the same time, substantial progress has made in advancing the structural reform agenda. The authorities remain fully committed to meeting the objectives of the current ECF arrangement and look forward to the completion of the 4th review once there is greater clarity on the outlook which remains clouded by the evolving nature of the pandemic.

III. Impact of the COVID-19 Pandemic

5. Since the first three confirmed cases of COVID-19 were announced on April 2, 2020, the cases had risen to thirty-six as at April 29, 2020, with three fatalities. These numbers are

likely to continue rising as work to enhance the testing capacity continues. Testing centers have so far been established with assistance from development partners including DFID, UNICEF, and the Global Fund.

6. The global and regional spillovers from the COVID-19 pandemic and implementation of domestic containment measures has disrupted economic activity in Malawi. Consequently, exports have declined, trade transit costs have increased and, remittances, tourism and foreign direct investment (FDI) have declined. The overall balance of payments is expected to weaken, with the external financing gap in 2020-21 totaling almost 3 percent of GDP or about $240million. In addition, GDP growth is expected to sharply decline by 4 percentage points to 1 percent in 2020. The net effect of these external factors combined with the slowdown in domestic activity related to the lockdown continue to weigh on growth prospects.

7. The near-term economic impact of the pandemic is expected to be severe. Revenue shortfalls and additional spending to mitigate the effects of the pandemic are anticipated to worsen the domestic primary deficit by nearly 4 and 3 percent of GDP compared to pre-pandemic projections for FY 2019/20 and FY 2020/21, respectively. The resultant fiscal deficit is expected to be financed through domestic borrowing and budget support from the World Bank.

IV. Policy Responses to the Pandemic

8. Shortly after the first reported cases of COVID-19 in Malawi, the authorities instituted a lockdown to curb the spread of the pandemic, including closing schools and banning large gatherings. In parallel, they quickly developed a response plan, with support of the World Health Organization (WHO) and other development partners. In line with this plan, they have ramped up health care and social assistance spending, including developing testing capabilities, equipping treatment centers, hiring additional medical staff, and intensifying public awareness campaigns. Given the anticipated revenue shortfalls, the authorities plan to create budgetary space for COVID-19 spending as they craft the FY 2020/21 budget by delaying spending on non-essential goods and services and the implementation of development projects that are not critical to tackling the pandemic.

9. The authorities have also implemented measures to mitigate the impact on vulnerable households and businesses. These include protection of farmers' incomes and ensuring food security through continued purchases of maize from farmers by the Agricultural Development and Marketing Corporation (ADMARC) for storage and distribution during the lean period; expansion of the social cash transfer program (SCTP) to help the most vulnerable households; tax waivers on imports of medical equipment, medicine and other supplies; and lower international fuel prices through the automatic fuel price adjustment mechanism. In addition, the President and his Cabinet have also taken a voluntary pay cut of 10 percent for three months to free up resources in support of the response. The authorities have also injected liquidity into the economy by paying domestic arrears accrued by the Roads Fund Administration during FY2012-19. Of the verified bills, half have already been cleared and the other half is expected to be cleared by end-2020.

10. 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 and lowered the Lombard Rate by 50 percent. In addition, the RBM has activated the newly established Emergency Liquidity Assistance (ELA) framework to support small banks in the event of worsening liquidity conditions. They have also enhanced the monitoring of financial sector risks to ensure smooth functioning of the banking. Further, small and medium-sized enterprises (SMEs) have been given a three-month moratorium on their debt services, and their loans are being restructured on a case by case basis. At the same time, the RBM remains committed to implementing greater exchange rate flexibility to absorb shocks.

V. Post-crisis Measures

11. Supported by the ECF, the authorities remain committed to pursuing their medium-term economic reform program which seeks to entrench macroeconomic stability and achieve higher, more inclusive and resilient growth. In this respect, the reform program encompasses strengthening resilience to climate change and promoting broad-based private sector development and export diversification as well as raising access to finance. To reinforce medium-term public debt sustainability and create fiscal space for critical resilience building and, social and development spending, a domestic revenue mobilization strategy is expected to be implemented as soon as the pandemic passes.

12. While significant progress has been achieved in governance reforms, the authorities will press ahead with efforts to enhance governance including through further procurement reforms, public financial management, public investment management and oversight of state-owned enterprises.

VI. Conclusion

13. Our authorities remain committed to implementing prudent macroeconomic policies that would further entrench macroeconomic stability and achieve higher, more inclusive and resilient growth once the crisis is over. They look forward to Executive Directors' support for a disbursement under the Rapid Credit Facility to sustain their efforts to contain the spread of the pandemic and to dampen the impact on the economy. Our authorities consider Fund financing instrumental to catalyze additional grant and concessional financing from development partners to strengthen their efforts to contain the pandemic. They greatly appreciate the provision of debt relief under the CCRT.