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Malawi—Recent Economic Developments

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MALAWI

Recent Economic Developments

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I. INTRODUCTION

1. Following a short recovery in 1993, Malawi's financial situation deteriorated significantly in early 1994 as increasing problems of expenditure control ahead of its first multiparty elections, and administrative problems in revenue collection led a large overall fiscal deficit mainly financed by the banking system. The resulting acceleration in inflation was further fuelled by strong upward pressures on food prices induced by a severe drought and the pass-through effect of a major adjustment of the exchange rate following the introduction of a market-based exchange rate system. Additionally, the external position weakened considerably as gross official reserves declined to less than a month of imports. Against this background, Malawi embarked, in early 1995, on an adjustment program designed to re-establish financial stability and set the basis for sustainable economic growth. Since then, the authorities' efforts have led to a significant transformation of the Malawian economy, as evidenced by average annual real GDP growth of 9¼ percent during 1995-96.

2. The most impressive of these efforts is the major fiscal adjustment over the period 1994/95-1996/7, which resulted in a reduction of the overall deficit (excluding grants) by 20 percentage points of GDP, as a consequence of significant measures to curtail expenditure and to improve the administration and collection of taxes. This adjustment was still more commendable in light of the significant increases in social spending during this period and the introduction of free primary education. The fiscal adjustment permitted the adoption of a tight monetary policy which, in addition to declining food prices on account of two successive good harvests, facilitated a decline in the inflation rate from a peak of 98 percent in July 1995 to less than 7 percent in 1996. At the same time, the current account deficit was reduced by half from 1994 to 1996, while renewed confidence in the domestic economy resulting from increasing macroeconomic stability led to substantial capital inflows. Accordingly, gross official reserves rose to more than 4 months of imports of goods and non-factor services by end-1996.

3. In the context of re-establishing the basis for sustained growth, the authorities embarked on an ambitious program of structural reform. In the agricultural sector, such reforms were directed to providing smallholder farmers access to cash crops and to liberalizing the marketing of agricultural output, including terminating the monopsony position of the marketing parastatal as the sole purchaser of smallholder crops. Additionally, the marketing of inputs was liberalized, encouraging the participation of private traders in this activity and increasing the supply of inputs to farmers. As a result of these measures, and two successive bumper harvests, the incomes of farmers have increased significantly and have been accompanied by a diversification of agricultural production.

4. Structural reforms designed to liberalize the economy and facilitate the growth of private enterprise were also implemented in several other areas. In the external sector, the exchange and trade system was reformed with the introduction of a market based exchange rate system in February 1994 and a formal foreign exchange interbank market in September 1996. All restrictions on external current account transactions were removed, and on

December 7, 1995 Malawi accepted the obligations under Article VIII of the IMF's Articles of Agreement. The external trading environment was significantly liberalized, with a phased reduction in the temporary export levy and in import duties, with the weighted average tariff rate declining from 18 percent in 1994 to about 15 percent in 1996. These changes, along with the significant real depreciation of the kwacha in 1994, facilitated strong growth of nontraditional exports, albeit from a small base.

5. In an effort to promote competition and enhance efficiency in the domestic economy, the public enterprise sector underwent significant restructuring while the privatization program gained momentum in 1995-96 with the passage of the Privatization Act and subsequent implementation of the program. Divestiture of unprofitable concerns and the restructuring of other major public sector enterprises has resulted in a significant increase in the profitability of the public sector. At the same time, the Malawian authorities have been formulating and implementing a comprehensive reform of the civil service with a view to improving its efficiency.

II. REAL SECTOR DEVELOPMENTS

6. Malawi has a predominantly agrarian economy and, thus, aggregate real GDP growth is strongly influenced by climatic conditions. Accordingly, severe droughts in 1992 and 1994 led to a decline in real GDP (at factor cost) of 8 percent and 11½ percent respectively, while the favorable harvests in 1995 and 1996 were largely responsible for annual real GDP growth averaging 9¼ percent during those years (Table 1).

7. Developments at the sectoral level reflect the pattern of aggregate GDP growth. Agricultural growth, which ranged from 53 percent in 1993 to negative 29¼ percent in 1994, experienced average annual real growth of 28¾ percent over 1995-96 (Table 1). Within agriculture, changes in weather conditions have traditionally had a greater impact on the output of smallholders because of their very limited access to irrigation facilities. However, recent structural reforms, such as the liberalization of production and marketing arrangements, have reduced the vulnerability of smallholders to droughts by encouraging a diversification of output towards drought resistant crops. At the same time, the elimination of constraints on the production of burley tobacco by smallholders has also led to their increased participation in the production of cash crops. Accordingly, over the period 1992-96, the production of drought resistant crops such as cassava and sweet potatoes increased manifold, production of tobacco, Malawi's primary export, more than tripled, that of cotton almost doubled, while the production of maize, Malawi's main staple, increased by only 13 percent (Table 4). Moreover, recent estimates indicate that smallholder maize output in 1997 is expected to be some 27 percent lower than that realized during 1996, as a result of flooding in the south of the country during January-February 1997 and a drought in certain parts of the north, and also because of a diversification of the cropping pattern, as evidenced by considerable estimated increases in the production of drought resistant crops.

8. Marketing reforms and increased participation by smallholders in the production of cash crops have increased considerably their earnings, while reducing the supply of labor to estates and contributing to their relatively poor performance in recent years. Furthermore, a number of estates have begun to shift from the production of tobacco, a labor intensive crop, towards the production of maize, which is more amenable to techniques of large scale production. This is evidenced by the fact that sales at the tobacco auction floors increased by 11½ percent over the period 1992–96 as lower output growth of the estates partly offset the rapid increase in smallholder production (Table 4).
9. Real GDP growth in the construction, distribution, and transportation, and communication sectors, which are greatly influenced by developments in agriculture, showed large declines in the three year period 1992–94, but recovered in 1995–96. The recovery was particularly strong in 1996 with real growth rates of 11 percent in the construction sector, 12¼ percent in distribution and 7¼ percent in transport and communication (Table 1).
10. As regards the manufacturing sector, there is an anomaly in the official data; these indicate moderate output growth of about 3 percent a year during the drought years of 1992 and 1994, and a decline of 10½ percent in 1993 and 5½ percent in 1996, both years of strong GDP growth in all sectors of the economy (Table 1). By contrast, the index of industrial production, based on a sample of 50 firms which account for 75 percent of manufacturing output, indicates a pattern of growth broadly similar to that of the other non-agricultural sectors: a decline in manufacturing output of about 19 percent over 1992–94 before increasing by about 5¼ percent over 1995–96 (Table 6). Moreover, the figures in the index are based on an outdated sample of industries, and are therefore likely to underestimate output growth during the last two years stemming from new export oriented clothing factories, as well as many new businesses in the informal sector.¹
11. The official data on real GDP growth in the electricity and water sectors are similarly anomalous, when compared with data on industrial output. They indicate steady growth over the period 1991–95, averaging about 5¾ percent a year, followed by a decline of about 1¼ percent in 1996 (Table 1). The index of industrial production, however, indicates more modest average GDP growth of 2¾ percent over the period 1991–95, followed by an increase in the growth rate to 3½ percent in 1996 (Table 6).
12. Inflation in Malawi as measured by the consumer price index, remained very high over the period from 1992–95, with an average 12-month inflation rate of 49 percent. During this period inflation of food prices was 57½ percent, while that of non-food prices was 35½ percent. However, the bumper harvest in 1996 led to a sharp decline in the end-year inflation of food prices to just 2¼ percent. In addition, the tight monetary policies implemented by the authorities contributed to a decline in the inflation of non-food prices

¹In view of these anomalies the National Statistical Office is developing a new sample that will be more representative of firms in the industrial sector.

from 50¾ percent at end-1995 to 16½ percent at end-1996. Accordingly, the inflation rate of the overall CPI declined from 75 percent at end-1995 to just 6¾ percent at end-1996. Moreover, the inflation rate declined further to 6¼ percent by end-June 1997, despite the sharply lower estimates of food production in 1997, as a small increase in the inflation of food prices was offset by a continuation in the decline of nonfood inflation from tight monetary policies (Table 7).

III. PUBLIC FINANCES

A. Overall Fiscal Developments

13. Following a relaxation of the fiscal policy stance in 1992/93, Malawi's fiscal situation worsened considerably in 1994/95 when the overall deficit (excluding grants) reached 28 percent of GDP. This sharp deterioration in Malawi's financial position resulted from a major breakdown in expenditure control on account of political pressures ahead of Malawi's first multiparty elections, exacerbated by a severe drought, as well as stagnant tax revenues in the face of difficulties in customs collection.² Since then Malawi has made a significant fiscal adjustment: the overall deficit (excluding grants) declined to almost 14 percent of GDP in 1995/96 and further to 8 percent in 1996/97; similarly, the deficit (including grants) was lowered from 17 percent of GDP in 1994/95 to about 3 percent in 1996/97, despite a decline in grant receipts by nearly 6 percentage points of GDP. This large adjustment primarily reflects a reduction in current expenditure from 36½ percent of GDP in 1994/95 to 20 percent in 1996/97, including the elimination of drought related expenditure which amounted to nearly 6½ percent of GDP in 1994/95. Over the same period revenue rose by 1 percentage point of GDP to 17 percent of GDP in 1996/97, mainly reflecting higher collections from domestic and international trade taxes, offset by a decline in nontax revenues (Table 8).

14. As regards financing of the budget, net foreign financing declined from 7½ percent of GDP in 1994/95 to just 2 percent in 1995/96 as Malawi recovered from the drought of the previous year. However, in 1996/97 net foreign financing increased to about 5 percent of GDP, as the composition of external assistance shifted from grants to loans. At the same time, the considerable fiscal adjustment as well as the continued high levels of external assistance permitted net domestic financing to decline from 9½ percent of GDP in 1994/95 to a repayment of 2 percent in 1996/97 (Table 8).

²Despite a major depreciation of the kwacha there was hardly any impact on customs revenue because of significant undervaluation of imports, inadequate inspection and border patrol, lack of enforcement, as well as fraud and corruption.

B. Revenue Developments

15. As part of the deterioration in the overall fiscal position, domestic revenue declined from 18½ percent of GDP in 1992/93 to just 16 percent by 1994/95. Since then, facilitated by an increase of almost 1¾ percentage points of GDP in tax revenue, domestic revenue increased somewhat to 17 percent of GDP in 1996/97 (Table 8). The increase in tax revenue, which reflected considerable efforts towards improving tax administration, a modest broadening of the tax base, as well as the introduction of new levies, was the result of improved collections of direct taxes and higher revenue from taxes on international trade. The increases in the collection of direct taxes was mostly confined to the corporate sector as the taxes on the income and profits of companies rose by almost 1½ percentage points of GDP from 1994/95 to 1996/97, fueled largely by the higher profitability of banks and tobacco companies in 1995 and 1996.

16. Taxes on international trade rose by about 1 percentage point of GDP during 1995/96, largely as a result of the imposition of a temporary 10 percent levy on the exports of sugar, tea and tobacco, to offset in part the large increases in profits resulting from the major depreciation of the kwacha in 1994. Given the temporary nature of this levy and the ongoing liberalization of trade, the 1996/97 budget lowered this levy to 8 percent, certain import tariffs on raw materials and intermediate goods, and the maximum import tariff rate from 45 percent to 40 percent; the latter resulted in a reduction in the weighted average import tariff rate from 18 percent to 15 percent. Consequently, the intake from trade taxes declined from 4½ percent of GDP in 1995/96 to less than 4 percent in 1996/97.³ Revenues from taxes on goods and services increased sharply in nominal terms from 1994/95 to 1996/97 (Table 9), reflecting the ongoing improvements in customs administration, the extension of the surtax to certain services and previously exempt raw materials, a reduction in the list of items receiving tax credit and the elimination of surtax suspensions, as well as the increase in income. Nevertheless, their ratio to total GDP remained broadly unchanged because of the considerable growth of the subsistence economy which does not impact on the revenue from these taxes.

C. Expenditure Developments

17. The decline in expenditure from 44¼ percent of GDP in 1994/95 to 25 percent in 1996/97 reflected an across the board reduction in both of the major categories of expenditure: current expenditure was lowered by 16½ percentage points of GDP, and development expenditure by 2¾ percentage points of GDP. All expenditure items, except outlays on interest, were reduced over this period: drought related expenditure (by

³Considerable improvements have been made in customs administration, including redesign of the recruit course and refurbishment of the training center; training was provided to more than 200 customs officers in 1996/97. Collections in this area as a percent of GDP mask these efforts because the kwacha had remained stable since late 1994.

6½ percentage points of GDP), wages and salaries (2¼ percentage points of GDP), and other goods and services (7¾ percentage points of GDP). The sharp reduction in expenditure was facilitated by the use of a cash budget system which limited the monthly allocation for expenditure to the available cash inflow. In 1996/97 an improved budgeting process was adopted to permit advanced planning and funding of priority expenditures, but large expenditure overruns during the first five months of the year led to the reinstatement of the cash budget system. The authorities also made significant efforts to root out unauthorized expenditures;⁴ as a result such expenditures were lowered from 1¾ percent of GDP in 1994/95 to almost negligible levels in 1995/96 and 1996/97 (Table 8).

18. In the last three years there has been a determined effort to redirect expenditure to priority areas, such as education and health. Accordingly, expenditure allocated to education increased sharply from 10¼ percent of current expenditure in 1994/95 to 16 percent in 1995/96 and further to 18 percent in 1996/97, as a result of a government program to provide free primary education to all citizens established in late 1994. Similarly, expenditure allocation to health rose from an average of 5½ percent of current expenditure in 1992/93-1993/94 to 6 percent in 1995/96 and almost 8¾ percent in 1996/97 (Table 11). The wage bill declined from about 7¼ percent of GDP in 1994/95 to 6½ percent in 1995/96 and further to 5 percent in 1996/97 (Tables 8 and 10), as a result of the layoff of some 20,000 temporary and non-established workers in September 1995, increases in wages below inflation rates, acceleration in the separation of civil servants who have reached the age of retirement,⁵ and, effective April 1, 1996, implementation of a freeze on all non-project related employment.

19. Inflationary pressures, which led to an increase in interest rates,⁶ were also reflected in an increase in interest payments from 3 percent of GDP in 1992/93 to about 6¾ percent in 1995/96. The subsequent decline in inflation in the second half of 1996, led to lower interest rates, which alongside a repayment of government debt equivalent to 2 percent of GDP reduced interest payments to about 5½ percent of GDP in 1996/97 (Tables 8 and 10).

20. With regard to development expenditure, these are largely financed by external assistance, whose ratio to GDP has declined since 1994/95, partly because of high domestic inflation and a stable kwacha in US dollar terms. Accordingly, such expenditures declined from 7¾ percent of GDP in 1994/95 to 5 percent in 1996/97 (Table 8). Nevertheless, the authorities have initiated a number of important projects, including notably, the Malawi Social Action Fund (MASAF) with support from the World Bank. This project, which provides

⁴As an example of eliminating unauthorized expenditures, the authorities have conducted internal audits in each ministry to eliminate "ghost" workers, yielding significant savings.

⁵By end-May 1997 some 2,643 employees who were of retirement age had been separated from the civil service.

⁶91-day Treasury bill rates rose from 22¼ percent at end-1993 to 53¼ percent by end-1995.

funding for infrastructural projects initiated by the community, has proven to be very successful, with demand for projects far exceeding initial projections.

21. In other areas, the authorities have made significant progress in the restructuring and privatization of public sector enterprises. Since the passage of the Privatization Act in 1995, 25 public enterprises have been sold or offered for sale, with another 20 scheduled to be brought to the point of sale in 1997/98. The proceeds from the program thus far have amounted to about ½ a percentage point of GDP, with about 80 percent of that accruing to the government and 20 percent to the Malawi Development Corporation (MDC) and the Agricultural Development and Marketing Corporation (ADMARC).⁷ The receipts from the program have facilitated a reduction of the government's debt. In addition, the authorities' have restructured a number of public sector enterprises, including Air Malawi and Malawi Railways. The authorities' efforts have paid considerable dividends with a significant improvement in the profitability of public enterprises; the consolidated accounts show that following losses in both 1993/94 (MK 17 million) and 1994/95 (MK 157 million), the profits of the public enterprise sector exceeded MK 500 million in both 1995/96 and 1996/97 (Table 12).

D. Program for 1997/98

22. The fiscal program for 1997/98 seeks to consolidate the gains achieved thus far in adjusting the public finances (a cumulative 20 percentage points of GDP in two years). Accordingly, the overall deficit (excluding grants) is targeted to decline from 8 percent of GDP in 1996/97 to less than 7½ percent of GDP in 1997/98 and is expected to be more than fully financed through external sources (Table 8). The targeted decline in the deficit masks the large structural changes in the public finances on both the revenue and expenditure sides.

23. In 1997/98, the level of revenue is targeted to remain broadly unchanged at 17 percent of GDP, as a significant reduction in international trade taxes is to be largely offset by increases in domestic taxes. In particular, the temporary levy on the export of tobacco, sugar and tea—commodities that comprise the bulk of Malawi's exports—was halved to 4 percent, although coffee exports were also made subject to this tax; the maximum import tariff rate was reduced from 40 to 35 percent in August; and registered manufacturers are now eligible for a full rebate of import duty on all imports of raw materials. To minimize the revenue loss caused by these measures, the authorities increased the duty on imported cigarettes from 10 to 35 percent, on imported beer and spirits from 10 to 25 percent, and introduced a 10 percent surtax on imported fruits. At the same time, the budget introduced a 10 percent surtax on domestic sales of cooking oil; the withholding tax on rents, royalties, fees and commissions,

⁷The MDC is a parastatal holding company, and ADMARC is a marketing parastatal for agricultural products. Their stock in a number of companies has been divested as part of the privatization program.

public entertainment, and interest payments by banks was raised from 15 percent to 20 percent; and the exemptions from the withholding tax were eliminated.

24. On the expenditure side, a reduction in the projected interest bill of 2¾ percentage points of GDP in 1997/98 will facilitate a budgeted decline in total expenditure by more than half a percentage point of GDP while allowing for higher outlays on priority sectors. Accordingly, the budget provides for an increase in other recurrent expenditure of ½ a percentage point of GDP to ensure adequate funding for the social sectors and also to prevent a recurrence of unauthorized expenditures.⁸ Development expenditure in 1997/98 is budgeted to increase by more than 1 percentage point of GDP. The 1997/98 budget also allows for an increase in the wage bill by a little more than ¼ percentage point of GDP in order to partially compensate civil servants for a significant decline in real wages in the last five years (Table 8).⁹

25. The authorities remain committed to enhancing the efficiency and effectiveness of public service, by undertaking a comprehensive reform of the civil service. Key elements of the reform are: (1) a review of the compensation system, including further decompression of the remuneration structure; (2) setting civil service priorities; and (3) eliminating duplicate functions and outsourcing. In this regard the authorities have prepared an action plan, and several measures have already been taken, including (1) completion of a detailed strategic review of 27 ministries; (2) the restructuring of various ministries and reduction in their number from 27 to 23; (3) a reduction in the number of permanent secretaries by 12; (4) the identification of some 7,000 industrial class workers who will be laid off in the near term; and (5) the identification of functions that can be eliminated, contracted out to the private sector or privatized. In this regard, the government has identified 90 functions which will be reviewed during the process of detailed functional reviews which will take place in three ministries at a time on a rolling basis over the next eighteen months.

26. In other areas of structural reform, the authorities plan to continue the fundamental reform of the customs administration already under way through better recruitment and training, installation of modern systems and procedures, and improvements in infrastructure, while continuing to make preparations for computerization of customs data. Moreover, the authorities' medium term plans to improve the efficiency of tax administration include the establishment of a professionally managed National Revenue Authority by mid-1998, and the replacement of the current surtax with a VAT during the following year.

⁸Experience of earlier years show an increase in unauthorized expenditure in periods of low budgetary provisions on other recurrent expenditure, suggesting that ministries and departments may have simply overspent.

⁹By some estimates, even after the current increase in civil service wages, in real terms they would still be 24 percent below their level in 1992.

IV. DEVELOPMENTS IN THE MONETARY SECTOR

27. Overall monetary developments in Malawi, which mirror overall developments in the economy, may be divided into two distinct phases. The first phase—through fiscal year 1994/95—reflected a significant relaxation of domestic credit policy which led to a rapid expansion of broad money and a sharp acceleration of inflation. In particular, broad money growth increased during this period to about 59½ percent in the 12-month period ending in March 1995, fueled by a rapid expansion of the net domestic assets (NDA) of the banking system and, except for 1993/94, was also accompanied by a large decline in the net foreign assets (NFA) of the banking system. During the second phase 1995/96–1996/97 the growth of broad money declined significantly to about 39 percent by March 1996 and further to 19 percent by March 1997. In the second phase, the growth of broad money reflected a robust increase in the NFA of the banking system (Table 14).

28. Developments in the NDA of the banking system mainly reflect the borrowing of the government from the banking system, though credit to statutory bodies and to the private sector have also been important factors in some years.¹⁰ During the first phase, except for 1993/94 when there was a short-lived strengthening of the public finances, credit to the government to finance large fiscal deficits, largely through the automatic access of the government to the ways and means advances at the Reserve Bank of Malawi (RBM), was mainly responsible for the expansion in the NDA. During this period, net bank credit to the statutory bodies fluctuated considerably, reflecting to a large extent the build-up of deposits by parastatals that enjoyed a monopoly/monopsony position within the economy. During the second phase, there were very significant repayments by the government to the banking sector, which were largely offset by credit to the rest of the economy, resulting in the NDA of the banking system remaining largely unchanged. Bank credit to the private sector expanded steadily through December 1996, but fell considerably in real terms. After increasing sharply during the first quarter of 1997 to finance imports, reflecting the public's anticipation of a significant depreciation of the kwacha, credit to the private sector declined considerably in the following quarter, reflecting the repayment of credit extended to the agricultural sector (Tables 14 and 16).

29. The tightening of monetary policy which occurred after 1994/95 was facilitated by sharply lower fiscal deficits as well as significant measures implemented by the RBM. In 1995, the government's automatic access to ways and means advances at the RBM was curtailed, open market type operations were conducted, and the discount rate of the RBM was raised from 40 percent to 50 percent (Table 13). Further tightening occurred in early 1996, with the inclusion of government deposits in the commercial banks base for liquidity reserve requirement purposes.

¹⁰In 1994/95 the changes in NDA also include a very large change in other assets, reflecting the counterpart to the valuation changes in the NFA of the banking system following the nominal depreciation of the Kwacha.

30. In response to the tightening of monetary policy, the 12-month inflation rate steeply declined from 75 percent at end-1995 to less than 7 percent at end-1996. As a consequence of the fall in inflation, interest rates also declined, albeit more slowly than inflation, and in 1996 became positive in real terms for the first time since 1993. As regards the term structure, the interest rate differential between the 182-day Treasury bill rate and the 91-day Treasury bill rate declined from about 11 percent in 1995 to 1¼ percent in 1996. Spreads between lending and deposit rates have however remained high reflecting the dominant position of two large commercial banks in Malawi's financial system (Table 13).

31. The financial system in Malawi mainly consists of the RBM and five commercial banks.¹¹ In addition, there are two savings banks, one building society, four development finance institutions, four leasing/finance companies, and seven insurance companies. The financial system is highly concentrated with the RBM and the two large commercial banks—the National Bank of Malawi and the Commercial Bank of Malawi—who hold the bulk of assets as well as liabilities. In turn, the two leading commercial banks are owned by a few key conglomerates which have a dominant position within the economy and are major depositors and borrowers of the banking system.

32. In recent years there have been some efforts to increase the depth of the financial system. Two new banks—the First Merchant Bank and the Finance Bank—were licensed; the Malawi Stock Exchange was established, and a broker, Stockbrokers Malawi Limited commenced operations in 1995, selling securities over the counter. This development has been instrumental in the emergence and growth of a secondary market in Treasury bills. In turn, the development of the stock market is expected to benefit from the listing of selected public enterprises marked for privatization.

33. The authorities have also been making progress in other areas. On the regulatory front, a directive on Foreign Currency Exposure limits was introduced in 1994 and subsequently strengthened in August 1995. At the same time, penalties were introduced for failing to observe these limits. In addition, with technical assistance from the Fund, the RBM is developing a regulatory framework for non-bank institutions as well as improving procedures for bank supervision. There have also been significant efforts to improve the payments system and coordination between the RBM, commercial banks, and the Treasury, which has resulted in reducing the lag in the check clearing process to 2–5 days from 5–21 days previously.

¹¹The five commercial banks are the National Bank of Malawi, the Commercial Bank of Malawi, Indefinance, the First Merchant Bank, and the Finance Bank.

V. EXTERNAL SECTOR DEVELOPMENTS

A. Balance of Payments and External Debt

34. Malawi's external position strengthened during 1992–1996, despite the severe droughts of 1992 and 1994. The current account deficit (excluding grants) narrowed from 20 percent of GDP in 1992 to about 8½ percent in 1996, mirroring developments in the trade deficit. This largely reflected an expansion of non-traditional exports, albeit from a small base, and lower imports, owing in part to a decline in drought-related food imports as weather conditions improved. The overall balance of payments shifted to a surplus of US\$45 million in 1993, which rose to US\$116 million in 1996 (Table 19), leading to an increase in gross official reserves from the equivalent of less than 1 month of imports of goods and nonfactor services in 1992 to 4¼ months by end-1996.

35. Tobacco continues to be Malawi's main export. In 1996, it accounted for 63 percent of total exports (compared with 72 percent in 1992), and for 73 percent of traditional exports (Table 20). Accordingly, largely as the consequence of a 25½ percent decline in tobacco exports caused by a similar decline in international tobacco prices, Malawi's traditional exports declined by 23 percent in 1993. However, led by a growth in tobacco exports at an average annual rate of 9 percent a year during 1993–96, traditional exports have grown by 9 percent a year over the same period. At the same time, boosted by the sharp depreciation of the Kwacha in 1994 and the structural reforms implemented since 1995, the growth of nontraditional exports, mainly in the clothing industry, averaged 37 percent a year during the period 1995–96. Nevertheless, their share in total exports remains small.

36. In the aftermath of the 1992 drought, Malawi's import capacity was severely constrained by a lack of foreign exchange. Accordingly, changes in imports largely reflected changes in disbursements of balance of payments assistance, and commodity and project inflows. Non-maize imports declined at an average rate of 10 percent a year during 1993–94, and by 4½ percent in 1995. However, as the constraint on foreign exchange became less binding, the growth of non-maize imports picked up to over 5½ percent in 1996.

37. Malawi's services account showed large deficits over the period 1992–96, averaging about US\$75 million a year, because of considerable interest payments on external debt and the high transport cost of imports, on account of Malawi's land locked status. Net unrequited transfers declined during 1992–94, in line with the drop in drought-related grant assistance—the latter fell from US\$78 million in 1992 to US\$28 million in 1994—but picked up in 1995 as a result of increased disbursements for balance of payments and project support. However, disbursements fell in 1996, as donors shifted their support from grants to project financing.

38. The capital account surplus (including errors and omissions) rose sharply in 1993 to US\$270 million, reflecting a similar increase in loan disbursements and short-term private capital inflows. However, the surplus narrowed significantly in 1994 to US\$122 million as

political and economic uncertainties culminated in renewed cutbacks of donor assistance and in short-term capital flight. However, the capital account surplus strengthened markedly in 1995–96, mainly as a result of the shift noted above and increased private sector capital inflows.

39. Malawi's external debt increased from US\$1.7 billion in 1992 to US\$2.2 billion at end-1996, equivalent to 99 percent of GDP (Table 23). Reflecting the highly concessional nature of the debt, the ratio of the net present value of debt-to-GDP was only 50 percent, and amounted to 257 percent of exports of goods and nonfactor services at end-1996; the debt service ratio averaged about 23½ percent over the period 1992–96.¹² The structure of Malawi's debt has remained relatively unchanged in the recent past, and by the end of 1996, multilateral creditors (including the Fund) accounted for 85 percent of total debt outstanding, bilateral creditors accounted for 13½ percent, and commercial creditors for 1½ percent. The single largest creditor was IDA, which accounted for 61 percent of total debt.

B. Exchange and Trade System

40. Malawi has continued to liberalize its exchange and trade system over the past several years. The exchange rate has been determined by market forces since end-1994, and the RBM has intervened to smooth out the large seasonal fluctuations. As a result, despite large capital inflows, the Kwacha/dollar exchange rate has fluctuated in a narrow band around Kwacha 15.3 per US dollar since November 1994. However, the real effective exchange rate (REER) has fluctuated significantly since the beginning of 1994. The REER index (Base: 1990 = 100), which had reached a peak of 108.4 in January 1994 declined to 41.8 by November of that year. Thereafter, as a result of higher inflation in Malawi than in its trading partners, the index rose to 76.1 by May 1997. In late July 1997, in response to considerable pressures in the exchange market, the authorities allowed the Kwacha to depreciate by 12½ percent in nominal terms to MK 17.2 per US dollar.

41. Malawi accepted the obligations of Article VIII, Sections 2,3, and 4 on December 7, 1995, and has since maintained an exchange system free of restrictions on the making of payments and transfers for current international transactions. Malawi has also liberalized restrictions on capital movements by non-residents, and foreigners are allowed to make direct investments, purchase publicly traded commercial paper, and repatriate investment proceeds without constraints. Registration is required for record keeping purposes only.

42. Malawi has made significant progress in trade reform. In April 1996, the maximum tariff rate was reduced from 45 percent to 40 percent, and resulted in a weighted average

¹²A detailed debt sustainability analysis prepared by the Fund staff indicates that Malawi will be able to continue financing its current account deficits while accumulating international reserves, provided that it continues to implement appropriate financial and structural policies, and continues to receive donor support.

import tariff rate of about 15 percent. Nonetheless, the tariff structure contained 10 bands (including for zero-rated items) ranging from 0–40 percent.¹³ In continuing their efforts to reduce tariff dispersion, the Government further reduced the maximum import duty to 35 percent in August 1997 and lowered the temporary export levy on tobacco, tea and sugar, which was introduced in April 1995, from 10 percent to 8 percent in April 1996 and to 4 percent in April 1997; however, the export levy was extended to coffee under the 1997/98 budget. In addition, Malawi completed the removal of nontariff barriers when it eliminated all licensing requirements on imports and exports (except for items related to health, security, and environmental considerations) on June 6, 1997.

43. As for the direction of trade, Malawi's exports to developing countries have been increasing rapidly as a share of total exports. South Africa has become Malawi's main export market, accounting for about 17 percent of total exports during the first three-quarters of 1996 (Table 22). The increasing share of exports to South Africa, reflects in part, the non-reciprocal free trade agreement which allows Malawi's export goods duty free entry into South Africa. Other important export markets were the United States (15½ percent), and Germany (11½ percent), while the exports to Japan dropped sharply in 1996. On the import side, those from developing countries—particularly non-African—also increased their share markedly. South African goods accounted for the largest share (37½ percent) of imports in 1996; other important trading partners during 1996 included Zimbabwe (15½ percent)¹⁴ and the United Kingdom (4½ percent).

44. Malawi is currently a member of both the Common Market for Eastern and Southern Africa (COMESA) and the Southern Africa Development Community (SADC), whose objectives, inter alia, are to promote intra-regional trade through a gradual reduction and eventual elimination of tariff and non-tariff barriers. Malawi also participates in the Cross Border Initiative (CBI) to promote regional integration in trade and investment. The CBI calls on participants to dismantle trade restrictions on a most favored nation basis, to gradually eliminate interregional tariffs, harmonize tariff structures, and to establish a common external tariff by 1998. Under this initiative, for countries outside the region, Malawi has targeted a weighted import tariff of 15 percent—this has already been achieved—and a maximum rate of not more than 25 percent by 1998.

¹³The imports bands were 0, 5, 7½, 10, 15, 20, 25, 30, 35, and 40 percent. However, only a few items were levied at the 5, 7½, 15, 20, and 25 percent ranges.

¹⁴Malawi and Zimbabwe currently have a free trade agreement which has facilitated the growth of Zimbabwean imports to Malawi. However, since Zimbabwe imposes a surcharge on all imports, Malawian exporters have not received the same benefit as their counterparts in Zimbabwe.

Table 1. Malawi: Gross Domestic Product by Economic Activity at Constant 1978 Factor Cost, 1992-96

	1992	1993	1994	1995	1996 Prel.
(In millions of Malawi kwacha)					
Agriculture	275.2	421.0	297.6	381.8	493.3
Smallholders ^{1/}	168.3	311.1	206.9	277.1	387.4
Estates	106.9	109.9	90.7	104.7	105.9
Manufacturing	141.6	126.8	130.8	139.1	131.3
Electricity and water	26.3	27.2	29.3	30.2	29.8
Construction	43.0	41.2	39.8	41.5	46.1
Distribution	129.5	118.4	112.6	114.7	128.8
Transport and communication	59.4	56.7	51.8	53.2	57.1
Financial and professional services	71.4	67.3	62.3	66.5	71.3
Ownership of dwellings	44.4	44.9	45.9	47.0	48.2
Private community services	44.9	45.1	46.4	47.4	48.4
Government services	154.8	154.2	147.3	142.0	146.5
Unallocable financial charges	-18.4	-25.7	-11.5	-25.4	-64.0
GDP at 1978 factor cost	972.2	1,076.9	952.1	1,038.0	1,136.8
(Annual percentage change)					
Agriculture	-25.1	53.0	-29.3	28.3	29.2
Smallholders ^{1/}	-37.4	84.8	-33.5	33.9	39.8
Estates	8.5	2.8	-17.5	15.4	1.1
Manufacturing	3.0	-10.5	3.2	6.3	-5.6
Electricity and water	7.3	3.4	7.7	3.1	-1.3
Construction	-2.1	-4.2	-3.4	4.3	11.1
Distribution	-2.0	-8.6	-4.9	1.9	12.3
Transport and communication	-1.0	-4.5	-8.6	2.7	7.3
Financial and professional services	-0.4	-5.7	-7.4	6.7	7.2
Ownership of dwellings	1.8	1.1	2.2	2.4	2.6
Private community services	2.3	0.4	2.9	2.2	2.1
Government services	3.3	-0.4	-4.5	-3.6	3.2
Unallocable financial charges	2.1	-39.7	55.3	-120.9	-152.0
GDP at 1978 factor cost	-7.9	10.8	-11.6	9.0	9.5
Memorandum items:					
GDP at current factor cost					
In millions of Malawi kwacha	5,835.4	8,355.6	10,116.2	19,351.8	30,664.8
Annual percentage change	4.2	43.2	21.1	91.3	58.5
GDP deflator at factor cost (1978=100)	600.2	775.9	1,062.5	1,864.7	2,697.5
GDP deflator (Annual percentage change)	13.1	29.3	36.9	75.5	44.7

Source: Department of Economic Planning and Development; and Fund staff estimates.

^{1/} Including small scale manufacturing, construction and distribution.

Table 2. Malawi: Gross Domestic Product by Expenditure at Constant 1978 Market Prices, 1992-96

	1992	1993	1994	1995	1996 Prel.
(In millions of Malawi kwacha)					
GDP at market prices	1,051.4	1,153.3	1,035.2	1,134.2	1,226.9
Net exports or imports (-)	-12.1	-2.7	56.1	76.0	67.3
Imports of goods, f.o.b.	-205.3	-174.0	-154.3	-156.9	-160.2
Imports of nonfactor services	-122.0	-127.9	-119.5	-134.7	-144.6
Exports and re-exports of goods	306.4	291.8	319.6	354.8	357.0
Exports of nonfactor services	8.9	7.4	10.3	12.9	15.1
Gross domestic expenditure	1,063.5	1,156.0	979.1	1,058.2	1,159.6
Consumption	917.6	1,033.9	866.1	920.2	990.3
Private	664.0	788.8	573.4	648.5	757.9
Government and statutory bodies	253.6	245.1	292.7	271.7	232.4
Employee compensation	186.3	175.2	181.5	197.5	152.4
Goods and services	67.3	69.9	111.2	74.2	80.0
Fixed capital formation	117.5	102.2	90.9	109.6	141.0
Public Investments	72.5	72.3	63.4	71.0	85.7
Private Investments	45.0	29.9	27.5	38.6	55.3
Stock Building	28.4	19.9	22.1	28.4	28.4
(Annual percentage change)					
GDP at market prices	-7.3	9.7	-10.2	9.6	8.2
Net exports or imports	-130.3	77.5	2,155.8	35.5	-11.5
Imports of goods, f.o.b.	-14.5	15.3	11.3	-1.6	-2.1
Imports of nonfactor services	-15.8	-4.8	6.6	-12.7	-7.3
Exports and re-exports of goods	-0.8	-4.8	9.5	11.0	0.6
Exports of nonfactor services	-43.4	-17.2	40.4	24.6	17.4
Gross domestic expenditure	-2.8	8.7	-15.3	8.1	9.6
Consumption	0.7	12.7	-16.2	6.2	7.6
Private	0.7	18.8	-27.3	13.1	16.9
Government and statutory bodies	0.7	-3.4	19.4	-7.2	-14.5
Employee compensation	4.0	-6.0	3.6	8.8	-22.8
Goods and services	-7.4	3.9	59.1	-33.3	7.8
Fixed capital formation	-19.5	-13.0	-11.1	20.6	28.6
Public Investments	-0.6	-0.3	-12.2	11.9	20.7
Private Investments	-38.4	-33.6	-8.2	40.5	43.3
Stockbuilding	-24.2	-29.9	11.1	28.3	0.0
Memorandum items:					
GDP deflator at market prices (1978=100)	616.7	790.5	1,086.0	1,917.3	2,750.3
GDP deflator (annual percentage change)	13.3	28.2	37.4	76.5	43.4

Source: Department of Economic Planning and Development; and Fund staff estimates.

Table 3. Malawi: Gross Domestic Product by Expenditure at Current Market Prices, 1992-96

	1992	1993	1994	1995	1996 Prel.
(In millions of Malawi kwacha)					
GDP at market prices	6,484.2	9,116.6	11,242.4	21,742.9	33,743.5
Net exports or imports (-)	-1,248.2	-1,467.0	-1,752.9	-2,781.7	-2,053.1
Imports of goods, f.o.b. 1/	-1,697.0	-1,657.4	-2,891.5	-5,037.4	-4,852.1
Imports of nonfactor services 1/	-1,055.9	-1,280.2	-2,239.5	-4,327.3	-4,380.0
Exports and re-exports of goods	1,432.0	1,396.6	3,238.3	6,263.5	6,663.0
Exports of nonfactor services	72.8	74.0	139.9	319.4	516.0
Gross domestic expenditure	7,732.4	10,583.6	12,995.3	24,524.6	35,796.6
Gross fixed capital formation					
Public	1,112.6	1,183.1	1,247.9	2,761.3	4,217.9
Private	664.3	763.7	1,045.5	2,065.6	2,834.5
Consumption					
Private	448.3	419.4	202.4	695.8	1,383.5
Government and statutory bodies	6,439.8	9,200.5	11,507.4	21,219.7	30,798.7
Employee compensation	5,526.5	8,012.6	8,897.3	17,730.6	26,228.0
Goods and services	913.3	1,187.9	2,610.1	3,489.1	4,570.7
Stock building	409.9	544.5	907.5	1,502.5	1,744.3
	503.4	643.4	1,702.6	1,986.6	2,826.4
(In percent of GDP)					
GDP at market prices	100.0	100.0	100.0	100.0	100.0
Net exports or imports (-)	-19.2	-16.1	-15.6	-12.8	-6.1
Imports of goods, f.o.b.	-26.2	-18.2	-25.7	-23.2	-14.4
Imports of nonfactor services	-16.3	-14.0	-19.9	-19.9	-13.0
Exports and re-exports of goods	22.1	15.3	28.8	28.8	19.7
Exports of nonfactor services	1.1	0.8	1.2	1.5	1.5
Gross domestic expenditure	119.2	116.1	115.6	112.8	106.1
Gross fixed capital formation					
Public	17.2	13.0	11.1	12.7	12.5
Private	10.2	8.4	9.3	9.5	8.4
Consumption					
Private	6.9	4.6	1.8	3.2	4.1
Government and statutory bodies	99.3	100.9	102.4	97.6	91.3
Employee compensation	85.2	87.9	79.1	81.5	77.7
Goods and services	14.1	13.0	23.2	16.0	13.5
Stock building	6.3	6.0	8.1	6.9	5.2
	7.8	7.1	15.1	9.1	8.4
Memorandum items:					
Net indirect taxes					
In millions of Malawi kwacha	648.8	761.0	1,126.2	2,391.1	3,078.7
In percent of total GDP	10.0	8.3	10.0	11.0	9.1

Source: Department of Economic Planning and Development; and Fund staff estimates.

1/ Including drought-related free maize imports for 1992-1995 and excluding maize for refugees.

Table 4. Malawi: Agricultural Production by Principal Crops, 1992-96

(In thousands of metric tons)

	1992	1993	1994	1995	1996 Prel.
Total Production					
Tobacco (auction sales)	127.2	130.4	97.6	130.2	141.7
Flue-cured	24.4	24.6	20.7	20.0	15.4
Fire-cured	8.6	4.1	5.5	8.2	7.7
Northern division	8.1	3.4	5.5	7.5	6.5
Southern division	0.5	0.7	0.0	0.7	1.2
Burley	93.5	101.6	71.3	101.5	117.9
Other	0.7	0.1	0.0	0.6	0.7
Tea	28.1	39.5	35.1	34.2	37.2
Sugar	200.4	144.2	203.0	224.4	217.5
Smallholder Production					
Maize	657.0	2,034.0	817.0	1,327.9	1,793.5
Rice	23.8	65.4	41.1	39.1	72.6
Groundnuts	12.1	31.9	30.6	30.6	40.3
Tobacco	16.5	28.5	15.5	35.4	69.0
Cotton	13.6	45.3	16.9	25.2	82.6
Sorghum	4.0	21.1	16.7	20.1	54.7
Millet	3.9	15.2	9.7	13.3	20.3
Pulses	55.9	109.6	78.3	99.8	183.1
Cassava	128.8	216.1	250.1	328.4	534.6
Sweet Potatoes	43.1	210.6	165.3	317.7	596.5

Sources: *Monthly Statistical Bulletin*, National Statistical Office; and data provided by the Malawi authorities.

Table 5. Malawi: Average Auction Prices for Tobacco and Tea, 1992-96

(In Malawi kwacha per metric ton)

	1992	1993	1994	1995	<u>1996</u> Prel.
Tobacco <u>1/</u>	6,117	4,956	10,380	23,800	25,480
Flue-cured	7,182	5,830	11,250	29,890	35,020
Fire-cured	3,455	4,069	15,219	25,752	28,919
Northern division	3,630	2,623	15,370	25,860	28,390
Southern division	3,279	5,314	13,000	23,460	24,890
Burley	6,481	4,889	9,760	22,500	24,130
Sun/air cured	3,676	6,151	14,200	22,980	11,070
Tea					
London auction <u>2/</u>					
Pence sterling per kg	85	97	85	78	83
Tambala per kg	248	...	1,085	1,862	1,977
Malawi auction					
Tambala per kg	298	426	643	1,163	1,123

Sources: *Monthly Statistical Bulletin*, National Statistical Office; data provided by the Malawi authorities; and Fund staff estimates.

1/ Weighted average of auction prices in Lilongwe and Limbe.

2/ Weighted average of London auction prices for Malawi tea.

Table 6. Malawi: Index of Industrial Production, 1992-96 ^{1/}
(1984=100)

	Weight	1992	1993	1994	1995	1996 Prel.
Total production	100.0	137.0	129.2	122.9	124.5	128.9
Total manufacturing	86.0	132.4	123.1	114.2	116.1	120.2
Domestic goods	63.0	138.1	123.6	116.0	113.8	114.1
Consumer goods	45.0	142.9	131.5	127.9	125.7	126.1
Food, beverage, and Tobacco	13.0	158.8	162.0	164.8	156.1	159.1
Footwear, clothing, and textiles	9.0	99.4	79.5	69.8	56.2	51.6
Other	23.0	151.0	134.7	130.0	135.4	136.5
Products for building and construction	18.0	126.2	103.8	86.7	84.1	84.2
Export goods	23.0	116.6	121.9	108.2	122.4	137.0
Electricity and water	14.0	164.0	116.5	176.3	176.0	182.1

Sources: *Monthly Statistical Bulletin*, National Statistical Office; and data provided by the Malawian authorities.

^{1/} The index is based on the monthly production of about 50 firms, each with over 100 employees. These firms account for approximately 75 percent of the net output of all manufacturing firms with 20 or more employees, and for over 60 percent of the total monetary net output of the manufacturing sector.

Table 7. Malawi: National Composite Consumer Price Index, 1991-97

	All Items	Food	Non-food	All Items	Food	Non-food	All Items	
Weights	100.0	55.5	45.5	100.0	55.5	45.5	100.0	
	Base 1990 = 100			12-month inflation ^{1/}			Average inflation ^{2/}	
1991	108.2	108.4	108.0	...	...	...	8.2	
1992	133.4	138.9	126.5	36.1	47.0	22.3	23.2	
1993	163.8	175.7	148.9	18.3	19.5	16.6	22.8	
1994	220.5	242.9	192.6	66.0	74.9	52.1	34.7	
1995	403.9	468.6	323.1	75.0	88.5	50.8	83.1	
1996	556.2	680.7	401.0	6.7	2.3	16.5	37.7	
1996	Jan	554.4	699.9	372.9	71.7	89.0	41.5	82.6
	Feb	565.9	715.5	379.3	67.8	83.3	40.1	81.6
	Mar	569.4	718.3	383.8	61.2	79.2	30.5	79.7
	Apr	577.6	730.7	386.6	58.4	81.0	22.3	77.3
	May	582.1	727.7	400.4	55.1	73.6	24.8	74.5
	Jun	580.8	722.9	403.7	51.1	67.5	24.1	71.0
	Jul	577.3	713.1	407.9	45.3	60.1	21.1	66.9
	Aug	526.3	619.2	410.5	30.5	36.1	21.2	61.8
	Sep	520.6	608.3	411.2	21.5	22.3	20.0	56.1
	Oct	520.5	607.8	411.7	13.0	10.4	18.1	49.9
	Nov	540.9	638.4	419.3	9.2	5.1	18.1	43.7
	Dec	559.0	666.8	424.5	6.7	2.3	16.5	37.7
1997	Jan	592.7	722.5	430.9	6.9	3.2	15.5	32.2
	Feb	606.1	746.2	431.3	7.1	4.3	13.7	27.3
	Mar	611.5	754.7	433.0	7.4	5.1	12.8	23.0
	Apr	619.0	763.2	439.2	7.2	4.4	13.6	19.2
	May	622.2	763.4	446.2	6.9	4.9	11.4	15.7
	Jun	617.7	754.4	447.1	6.3	4.4	10.8	12.6

Source: Data provided by the Malawian authorities.

^{1/} For annual data refers to 12-month inflation at end-December.

^{2/} For monthly data refers to percentage change of the average index for the 12-month period ending in that month over the same for the previous year.

Table 8. Malawi: Central Government Operations, 1992/93-1996/97 ^{1/}

	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98 Prog.
(In millions of Malawi Kwacha)						
Total revenue and grants	1,505.4	1,912.8	3,746.3	6,423.4	7,650.7	6,880.0
Revenue	1,331.4	1,628.6	2,231.0	4,437.1	5,943.1	6,490.0
Tax	1,126.4	1,407.7	2,031.5	3,854.3	5,651.2	3,949.6
Domestic taxes	679.1	833.6	1,172.7	1,995.0	3,300.7	2,540.4
International taxes	447.3	574.1	858.8	1,859.3	2,350.5	199.1
Of which : Export taxes	0.0	0.0	0.0	354.1	331.8	199.1
Nontax	205.0	220.9	199.5	582.8	291.9	390.0
Of which : Transfer of RBM profits	0.0	0.0	0.0	100.0	0.0	40.0
Grants	174.0	284.2	1,515.3	1,986.3	1,707.6	1,412.4
Balance of payments support	0.0	192.3	986.9	1,250.9	1,273.0	1,068.9
Drought-related	0.0	0.0	428.1	290.0	0.0	0
Other (project)	0.0	91.9	100.4	445.4	434.6	343.5
Expenditure	2,379.4	2,428.0	6,122.6	7,864.4	8,736.8	9,908.4
Current expenditure	1,910.0	1,963.6	5,056.3	6,225.2	6,999.2	7,428.8
Wages and salaries	450.0	576.2	1,018.5	1,664.2	1,771.4	2,215.6
Interest payments	218.5	300.5	716.7	1,653.6	1,881.3	1,090.0
Drought-related expenditure ^{2/}	450.0	124.7	920.5	305.1	0.0	0.0
Other ^{3/}	791.5	962.2	2,400.6	2,602.3	3,346.5	4,123.2
Of which : Unidentified expenditure ^{4/}	196.9	-62.2	239.0	-4.2	23.2	0.0
Development expenditure	469.4	464.4	1,066.3	1,639.2	1,737.6	2,479.6
Overall deficit excluding grants	-1,048.0	-799.3	-3,891.6	-3,427.3	-2,793.7	-3,028.4
Overall deficit including grants	-874.0	-515.2	-2,376.3	-1,441.1	-1,086.0	-1,616.0
Financing	874.0	515.2	2,376.3	1,441.1	1,086.0	1,616.0
Net foreign financing	356.0	657.9	1,045.4	509.6	1,781.5	1,922.9
Borrowing	532.7	820.2	1,402.1	1,356.6	2,367.2	2,558.4
Of which : Balance of payments support	188.2	701.0	318.9	211.0	1,912.4	952.8
Repayments	-176.7	-162.3	-356.7	-847.0	-585.7	-635.5
Net domestic financing	518.0	-142.8	1,330.9	931.4	-695.5	-306.9
Nonbank financing	-9.0	0.5	286.2	1,022.5	-7.8	0
Bank financing	527.0	-143.3	749.7	-137.0	-539.7	-448.9
Change in domestic arrears	0.0	0.0	295.0	46.0	-283.0	-58.0
Privatization proceeds	0.0	0.0	0.0	0.0	135.0	200.0
(In percent of GDP)						
Total revenue and grants	20.7	19.8	27.0	26.0	21.9	16.9
Revenue	18.4	16.9	16.1	17.9	17.0	15.9
Tax	15.5	14.6	14.6	15.6	16.2	9.7
Domestic taxes	9.4	8.6	8.5	8.1	9.5	6.2
International taxes	6.2	6.0	6.2	7.5	6.7	0.5
Nontax	2.8	2.3	1.4	2.4	0.8	1.0
Transfer of RBM profits	0.0	0.0	0.0	0.4	0.0	0.1
Grants	2.4	2.9	10.9	8.0	4.9	3.5
Expenditure	32.8	25.2	44.2	31.8	25.0	24.3
Current expenditure	26.3	20.4	36.5	25.2	20.0	18.2
Wages and salaries	6.2	6.0	7.3	6.7	5.1	5.4
Interest payments	3.0	3.1	5.2	6.7	5.4	2.7
Drought-related expenditure	6.2	1.3	6.6	1.2	0.0	0.0
Other	10.9	10.0	17.3	10.5	9.6	10.1
Of which : Unidentified expenditure	2.7	-0.6	1.7	0.0	0.1	0.0
Development expenditure	6.5	4.8	7.7	6.6	5.0	6.1
Overall deficit excluding grants	-14.4	-8.3	-28.1	-13.9	-8.0	-7.4
Overall deficit including grants	-12.0	-5.3	-17.1	-5.8	-3.1	-4.0
Financing	12.0	5.3	17.1	5.8	3.1	4.0
Net foreign financing	4.9	6.8	7.5	2.1	5.1	4.7
Net domestic financing	7.1	-1.5	9.6	3.8	-2.0	-0.8
Memorandum item:						
GDP (millions of MK, fiscal year)	7,255.2	9,648.1	13,867.5	24,743.1	34,912.8	40,813.0

Sources: Ministry of Finance; and Fund staff estimates.

^{1/} Fiscal year beginning April 1.

^{2/} For 1995/96, includes maize imports and expenditures on fertilizer stocks replenishment.

^{3/} Includes pension and gratuities payments, and for 1995/96 expenditures on maize marketing and agricultural inputs program.

^{4/} Statistical discrepancy between fiscal and monetary accounts.

Table 9. Malawi: Central Government Revenue, 1992/93-1996/97

(In millions of Malawi kwacha)

	1992/93	1993/94	1994/95	1995/96	1996/97
Total revenue	1,331.4	1,628.6	2,231.5	4,437.1	5,943.1
Total tax revenue	1,126.4	1,407.7	2,031.5	3,854.3	5,651.2
Taxes on income and profits	424.8	509.2	747.8	1,405.0	2,462.3
Companies	207.0	251.9	338.2	690.7	1,356.0
Individuals	217.8	257.3	409.6	714.3	1,106.3
Minimum	1.8	0.0	0.0	0.0	0.0
Graduated	10.0	10.3	3.7	0.0	0.0
PAYE deductions ^{1/}	142.0	196.5	328.8	505.9	739.0
Fringe benefits	13.0	7.2	25.8	24.5	74.7
Non-resident tax	2.3	0.0	5.7	9.0	20.0
Small business tax	0.4	0.8	0.4	0.0	0.0
Withholding tax	48.3	42.5	45.2	174.9	272.6
Taxes on property	0.5	0.6	0.5	0.0	0.0
Taxes on goods and services	422.7	619.4	816.6	1,439.9	1,965.0
Surtax	372.3	548.1	700.4	1,239.6	1,655.3
Imports	190.9	304.2	400.2	737.9	991.8
Domestic	181.4	243.9	300.2	501.8	663.5
Excise duties	37.8	59.6	104.9	185.6	290.6
Licenses for goods and services	7.4	10.3	11.3	14.7	19.1
Business and professional	1.4	1.6	1.4	1.8	2.1
Motor vehicle	6.0	8.7	9.9	12.9	17.0
Accommodation and refreshment tax	5.2	1.4	0.0	0.0	0.0
Taxes on international trade	256.4	269.9	458.6	1,121.3	1,358.7
Import duties	255.5	267.9	457.0	746.4	1,018.2
Export levy	0.0	0.0	0.0	354.1	331.8
Miscellaneous	0.9	2.0	1.6	20.9	8.7
Stamp duties	8.0	8.6	8.0	9.0	16.7
Drought levy	14.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Tax refunds	0.0	0.0	0.0	-120.9	-151.5
Non-tax revenue	205.0	220.9	200.0	582.8	291.9
Treasury fund receipts	15.7	23.5	2.6	5.1	2.1
Rents	18.0	28.9	35.7	81.2	36.0
Departmental receipts	143.1	153.7	151.5	482.7	242.9
Other	28.2	14.8	10.2	13.8	10.9
Memorandum item:					
GDP at market prices (fiscal year) ^{2/}	7,255.2	9,648.1	13,867.5	24,743.1	34,912.8

Source: Ministry of Finance; and Fund staff estimates.

^{1/} Pay-as-you-earn deductions.

^{2/} Fiscal year beginning April 1.

Table 10. Malawi: Economic Classification of Government Expenditure, 1992/93-1996/97

	1992/93	1993/94	1994/95	1995/96	1996/97
(In millions of Malawi kwacha)					
Total expenditure	2,379.4	2,428.0	6,122.6	7,864.4	8,737.2
Current expenditure	1,910.0	1,963.6	5,056.3	6,225.3	6,999.2
Wages and salaries	450.0	576.2	1,018.0	1,664.2	1,771.4
Other goods and services	522.4	659.1	1,943.6	1,595.8	2,187.9
<i>Of which: Unidentified expenditure</i>	196.9	-62.2	239.0	-4.2	23.2
Interest payments	218.5	300.5	716.8	1,653.6	1,881.7
External	112.7	115.1	277.3	558.6	401.7
Domestic	105.8	185.4	439.5	1,095.0	1,480.0
Pensions and gratuities	55.0	75.0	124.0	243.2	373.7
Transfers	164.7	160.8	276.0	645.2	562.1
Local authorities	4.9	5.5	9.5	5.7	10.0
Public bodies	115.5	110.3	186.6	592.4	445.0
Private	20.7	21.3	34.9	33.5	37.7
Abroad	23.6	23.7	45.0	13.6	69.4
Gross fixed capital formation	41.3	57.6	48.8	95.7	160.3
Loans and capital transfers	8.1	9.7	8.6	22.5	62.1
Drought-related expenditure	450.0	124.7	920.5	305.1	0.0
Development expenditure	469.4	464.4	1,066.3	1,639.1	1,738.0
(In percent of total expenditure)					
Current expenditure	61.4	75.7	67.6	75.3	80.1
Wages and salaries	18.9	23.7	16.6	21.2	20.3
Other goods and services	22.0	27.1	31.7	20.3	25.0
<i>Of which: Unidentified expenditure</i>	8.3	-2.6	3.9	-0.1	0.3
Interest payments	9.2	12.4	11.7	21.0	21.5
External	4.7	4.7	4.5	7.1	4.6
Domestic	4.4	7.6	7.2	13.9	16.9
Pensions and gratuities	2.3	3.1	2.0	3.1	4.3
Transfers	6.9	6.6	4.5	8.2	6.4
Local authorities	0.2	0.2	0.2	0.1	0.1
Public bodies	4.9	4.5	3.0	7.5	5.1
Private	0.9	0.9	0.6	0.4	0.4
Abroad	1.0	1.0	0.7	0.2	0.8
Gross fixed capital formation	1.7	2.4	0.8	1.2	1.8
Loans and capital transfers	0.3	0.4	0.1	0.3	0.7
Drought-related expenditure	18.9	5.1	15.0	3.9	0.0
Development expenditure	19.7	19.1	17.4	20.8	19.9

Source: Ministry of Finance; and staff estimates.

Table 11. Malawi: Functional Classification of Central Government Current Expenditure, 1992/93-1996/97

	1992/93	1993/94	1994/95	1995/96	1996/97
(In millions of Malawi Kwacha)					
General services	648.5	657.6	1,313.5	1,710.2	1,757.5
General administration	439.2	475.3	826.3	1,086.6	1,039.1
Ncala	33.0	0.0	0.0	0.0	0.0
Defence	99.1	90.4	159.4	247.4	339.8
Justice	77.2	91.9	327.9	376.2	378.6
Social services	328.9	408.2	1,502.2	1,733.2	2,111.0
Education	190.3	251.0	497.6	997.0	1,270.8
Health	94.6	113.2	547.9	378.9	616.0
Community and social development	44.0	44.0	456.7	357.3	224.2
Economic services	237.1	390.5	787.7	571.9	670.6
Natural resources	141.1	184.7	279.1	251.2	358.4
Transport	40.6	60.2	152.1	168.3	170.0
Post and telecommunications	14.0	2.7	2.7	0.0	0.0
Other	41.4	142.9	353.8	152.4	142.2
Unallocable	498.6	569.5	1,213.9	2,214.2	2,436.9
Public debt services	218.5	300.5	716.8	1,653.6	1,881.7
Pensions and gratuities	55.0	75.0	124.0	243.2	373.7
Other	225.1	194.0	373.1	317.4	181.5
Total ^{1/}	1,713.1	2,025.8	4,817.3	6,229.5	6,976.0
(In percent of current expenditure)					
General services	37.9	32.5	27.3	27.5	25.2
General administration	25.6	23.5	17.2	17.4	14.9
Ncala	1.9	0.0	0.0	0.0	0.0
Defence	5.8	4.5	3.3	4.0	4.9
Justice	4.5	4.5	6.8	6.0	5.4
Social services	19.2	20.2	31.2	27.8	30.3
Education	11.1	12.4	10.3	16.0	18.2
Health	5.5	5.6	11.4	6.1	8.8
Community and social development	2.6	2.2	9.5	5.7	3.2
Economic services	13.8	19.3	16.4	9.2	9.6
Natural resources	8.2	9.1	5.8	4.0	5.1
Transport	2.4	3.0	3.2	2.7	2.4
Post and telecommunications	0.8	0.1	0.1	0.0	0.0
Other	2.4	7.1	7.3	2.4	2.0
Unallocable	29.1	28.1	25.2	35.5	34.9
Public debt services	12.8	14.8	14.9	26.5	27.0
Pensions and gratuities	3.2	3.7	2.6	3.9	5.4
Other	13.1	9.6	7.7	5.1	2.6

Source: Ministry of Economic Planning and Development, Economic Reports

^{1/} Excludes unidentified expenditure and includes drought-related expenditure.

Table 12. Malawi: Accounts of Leading Public Enterprises, 1992/93-1996/97

(In thousands of Malawi kwacha)

	Revenue	Interest Charges	Depreciation	Net Profit or Loss	Gross Investment
ADMARC					
1992/93	213,668	9,679	5,000	-527	6,744
1993/94	324,902	16,999	5,367	32,849	7,545
1994/95	406,386	42,004	5,352	22,119	33,201
1995/96	646,912	80,126	12,660	33,363	67,367
1996/97 Prel.	1,603,829	21,633	13,525	42,695	35,000
Malawi Railways					
1992/93	28,835	2,350	6,134	-13,217	6,108
1993/94	30,000	5,514	6,178	-25,775	28,097
1994/95	41,272	7,236	4,854	-61,664	3,070
1995/96	44,405	2,087	14,552	8,303	...
1996/97	...	...	...	...	...
Electricity Supply Commission (ESCOM)					
1992/93	114,290	10,712	21,452	43,872	158,831
1993/94	148,464	17,817	24,094	44,433	258,176
1994/95	222,858	28,260	76,667	117,921	535,999
1995/96	360,399	26,625	90,617	243,147	637,709
1996/97 Prel.	457,503	48,517	87,252	321,724	677,824
Malawi Development Corporation 1/					
1992	13,556	1,757	250	6,005	938
1993	31,303	3,551	296	20,316	850
1994	41,901	7,151	390	26,245	2,981
1995	57,837	12,329	739	32,142	6,071
1996 Prel.	70,702	12,758	1,681	34,011	6,411
Malawi Housing Corporation					
1992/93	34,911	8,225	1,454	1,850	4,648
1993/94	31,780	6,287	16,244	-24,076	3,908
1994/95	36,715	8,089	17,169	-32,336	1,843
1995/96	59,612	8,335	15,580	-1,375	6,010
1996/97 Prel.	84,099	7,927	15,564	12,121	95,500
Air Malawi					
1992/93	84,211	5,136	11,076	7,222	6,486
1993/94	100,823	1,136	8,766	-22,780	23,170
1994/95	278,484	1,737	10,150	-3,046	9,420
1995/96	371,149	1,672	11,957	18,190	15,337
1996/97 Prel.	427,890	3,480	35,671	12,140	21,450

Table 12. Malawi: Accounts of Leading Public Enterprises, 1992/93-1996/97 (concluded)

(In thousands of Malawi kwacha)

	Revenue	Interest Charges	Depreciation	Net Profit or Loss	Gross Investment
Blantyre Water Board					
1992/93	26,755	3,798	8,059	-2,547	8,744
1993/94	30,319	2,932	10,862	-10,753	6,022
1994/95	47,106	3,893	21,723	3,084	58,147
1995/96	105,536	3,901	23,360	9,966	139,191
1996/97 Prel.	155,251	3,793	30,437	18,461	151,556
Lilongwe Water Board					
1992/93	15,035	2,929	3,898	931	11,237
1993/94	17,544	10,664	6,434	-33,374	9,345
1994/95	27,061	16,130	10,976	-102,550	5,457
1995/96	48,834	17,291	16,610	-22,822	7,007
1996/97 Prel.	100,936	19,316	22,500	5,426	17,457
Malawi Book Service					
1992/93	12,686	300	248	-649	1,565
1993/94	13,372	120	163	-622	251
1994/95	14,895	323	308	-3,466	348
1995/96	25,600	10,859	316	537	727
1996/97 Prel.	Privatized				
Mining Investment and Development Corporation (MIDCOR)					
1992/93	21	651	800	351	...
1993/94	113	125	87	-86	360
1994/95	2,110	0	113	567	39
1995/96	2,372	0	50	58	23
1996/97 Prel.	...	...	...	...	...
Malawi Dairy Industries 2/					
1992/93	24,699	476	2,200	1,074	4,509
1993/94	38,658	500	2,520	1,886	5,408
1994/95	44,236	135	2,576	707	4,036
1995/96	84,459	74	4,244	4,797	12,495
1996/97 Prel.	138,192	1,158	4,244	9,075	19,163
Consolidated 3/					
1992/93	596,168	47,762	61,330	38,963	211,296
1993/94	812,732	67,818	84,546	-16,836	345,050
1994/95	1,228,898	88,728	147,897	-156,639	733,124
1995/96	3,377,815	132,163	181,662	502,171	968,298
1996/97 Prel.	4,414,865	135,109	221,468	586,855	1,088,091

Source: Data provided by the Ministry of Statutory Corporations.

1/ Year ended December 31.

2/ Year ended September 30.

3/ Includes other public enterprises not listed here.

Table 13. Malawi: Interest Rates, 1992-96

(In percent per annum; end of period)

	1992	1993	1994	1995	1996
Reserve Bank of Malawi					
Bank rate	20.00	25.00	40.00	50.00	27.00
Treasury bills					
30 days	...	...	40.71	43.88	...
61 days	...	...	42.68	48.72	...
91 days	16.50	22.26	45.61	53.31	13.89
182 days	...	...	54.38	64.42	15.08
Commercial banks ^{1/}					
Lending rates ^{2/}					
Minimum (= prime lending rate)	21.00	26.00	40.00	46.00	26.00
Maximum	28.00	31.00	...	51.00	31.00
Deposits					
Savings					
Short-term ^{3/}					
3 months	19.25	24.25	34.00	40.00	12.00
12 months	19.75	24.75	33.00	nego.	10.00
Other financial institutions ^{1/}					
Malawi Savings Bank ^{4/}					
Deposits					
New Building Society					
Fixed deposits (6-11 months)	19.50	...	25.25	36.00	8.00
Savings deposits	17.00	22.00	23.00	33.00	12.50
Investment deposits	17.50	22.50	23.50	34.00	13.00
Minimum mortgage rate ^{2/}	12.75	19.75	19.75	34.00	30.00
Leasing and Finance Co.					
Lending rate					
3-month time deposits	31.00	36.00	36.00	56.00	36.50
12-month time deposits	19.75	24.75	24.75	44.75	11.50
24-month time deposits	21.25	26.25	26.25	40.00	...
36-month time deposits	22.00	27.25	27.25	27.25	...
60-month time deposits	23.25	28.25	28.25	28.25	...
	24.00	29.00	29.00	29.00	...
Investment and Development Bank					
24-hour notice of withdrawal (minimum MK 250,000)					
	7.50	8.00	17.50	20.00	5.00
30-day time deposits	13.50	18.00	31.00	40.00	13.00
12-month time deposits	20.00	25.00	35.50	nego.	nego.
Local registered stock ^{5/}					
	15.50	23.75	38.00	38.00	38.00
Memorandum items:					
Real interest rates ^{6/}					
Commercial banks					
Prime lending rate	-11.10	6.50	-15.70	-16.60	18.10
Savings deposits	-11.80	4.80	-19.30	-24.00	5.90
12-month time deposits	-12.00	5.50	-19.90	...	3.10
Local registered stock	-15.10	4.60	-16.90	-21.10	29.30
Composite consumer price index (end of period)					
	36.10	18.30	66.00	75.00	6.70

Sources: Reserve Bank of Malawi, *Financial and Economic Review*; and Fund staff estimates.

^{1/} Selected from a much wider range of rates offered by the institutions.

^{2/} Effective July 23, 1987, these rates were deregulated and set independently by the commercial banks.

^{3/} MK 10,000 or over; subject to 30 days' written notice of withdrawal; maximum MK 1 million.

^{4/} After the separation from the Post Office in 1993, the Post Office Savings Bank has been renamed Malawi Savings Bank.

^{5/} Maximum available nominal rate on stock with five years or more to redemption.

^{6/} Deflated by the 12-month rate of change of the consumer price index.

Table 14. Malawi: Monetary Survey, March 1992-March 1997

	1992		1993		1994		1995		1996			1997	
	Mar.	Sep.	Mar.	Sep.	Mar.	Sep.	Mar.	Sep.	Mar.	June	Sept.	Dec.	Mar.
(In millions of Malawi kwacha; end of period)													
Net foreign assets	-203.9	-410.3	-565.4	-399.0	-272.5	-471.0	-1,191.7	519.6	-101.4	1,314.8	2,248.4	1,966.2	523.2
Monetary authorities 1/	-191.7	-356.5	-499.6	-415.3	-401.9	-842.9	-1,609.8	149.0	-301.5	913.7	1,946.6	1,570.8	410.0
Foreign assets	140.3	223.8	105.0	105.2	473.9	302.3	537.4	1,893.3	1,310.2	2,657.2	3,632.5	3,338.7	2,183.9
Foreign liabilities	-332.0	-580.3	-604.6	-520.5	-875.8	-1,145.2	-2,147.2	-1,740.3	-1,611.7	-1,743.5	-1,685.9	-1,767.9	-1,773.9
Commercial banks	-12.2	-53.8	-65.8	16.3	129.4	371.9	418.1	370.6	200.1	401.1	301.8	395.4	113.2
Net domestic assets	1,095.4	1,729.4	1,706.6	2,183.4	1,977.3	3,050.7	3,912.6	4,006.1	3,881.2	4,052.9	3,893.4	3,468.3	3,963.4
Domestic credit (net)	951.6	1,523.7	1,540.2	1,856.8	1,595.3	2,348.4	2,575.3	2,265.2	2,484.3	2,926.0	2,936.4	2,712.0	2,583.4
Credit to the Government	254.8	681.1	781.6	1,105.0	637.8	1,421.4	1,358.7	1,050.4	1,222.9	1,443.7	1,511.6	1,104.1	683.2
Credit to statutory bodies	-1.3	-15.5	-88.3	-7.7	21.5	-149.4	-74.6	23.9	-136.9	76.2	100.1	201.4	170.4
Credit to the private sector	698.1	838.1	846.9	759.5	936.0	1,076.4	1,291.2	1,190.9	1,398.3	1,406.1	1,324.7	1,406.5	1,729.8
Other assets (net)	143.8	205.7	166.4	326.6	382.0	702.3	1,337.3	1,740.9	1,396.9	1,126.9	957.0	756.3	1,380.0
Money and quasi-money	891.5	1,319.1	1,141.2	1,784.4	1,704.8	2,579.7	2,720.9	4,525.7	3,779.8	5,367.7	6,141.8	5,434.5	4,486.6
Money	446.1	782.1	627.0	1,055.6	857.5	1,256.7	1,430.2	2,478.9	2,024.2	2,702.9	3,088.3	2,612.2	2,334.0
Currency outside banks	196.1	331.5	283.4	501.8	398.7	580.1	628.2	1,140.4	863.8	1,356.4	1,472.9	1,223.8	1,143.6
Demand deposits	250.0	450.6	343.6	553.8	458.8	676.6	802.0	1,338.5	1,160.4	1,346.5	1,615.4	1,388.4	1,190.4
Quasi-money	445.4	537.0	514.2	728.8	847.3	1,323.0	1,290.7	2,046.8	1,755.6	2,664.8	3,053.5	2,822.3	2,152.6
Of which: foreign currency deposits	0.0	0.0	0.0	0.0	89.6	411.3	321.9	586.4	262.0	414.8	391.8	474.2	334.7
(Twelve-month change as percent of beginning period money stock) 2/													
Net foreign assets	-13.4	-21.5	-40.5	0.9	25.7	-4.0	-53.9	38.4	40.1	39.3	38.2	45.6	16.5
Net domestic assets	31.6	29.4	68.6	34.4	23.7	48.6	113.5	37.0	-1.2	-8.2	-2.5	-5.7	2.2
Credit to the Government	-6.7	21.1	59.1	32.1	-12.6	17.7	42.3	-14.4	-5.0	1.4	10.2	0.9	-14.3
Credit to statutory bodies	9.7	5.9	-9.8	0.6	9.6	-7.9	-5.6	6.7	-2.3	1.1	1.7	3.9	8.1
Credit to the private sector	19.2	17.3	16.7	-7.5	7.8	17.8	20.8	4.4	3.9	2.1	3.0	4.0	8.8
Other assets (net)	9.4	-14.9	2.5	9.2	18.9	21.1	56.0	40.3	2.2	-12.8	-17.3	-14.5	-0.4
Money and quasi-money	18.2	7.8	28.0	35.3	49.4	44.6	59.6	75.4	38.9	31.1	35.7	39.9	18.7
Memorandum items:													
Credit to the private sector	26.1	32.7	21.3	-10.3	10.5	41.7	37.9	10.6	8.3	6.6	11.2	12.3	23.7
(12 - month Percentage change)													

Sources: Reserve Bank of Malawi.

1/ Valued at current MK/SDR exchange rate; prior to January 1994 liabilities to the IMF and SDR allocations revalued every May.

2/ On the basis of the beginning broad money stock including foreign currency deposits, which were introduced in February 1994.

Table 15. Malawi: Summary Accounts of the Monetary Authorities, March 1992-March 1997 1/

(In millions of Malawi kwacha, end of period)

	1992		1993		1994		1995		1996			1997	
	Mar.	Sept.	Mar.	Sept.	Mar.	Sept.	Mar.	Sept.	Mar.	Jun.	Sept.	Dec.	Mar.
Net foreign assets 2/	-191.7	-356.5	-499.6	-415.3	-401.9	-842.9	-1,609.8	149.0	-301.5	913.7	1,946.6	1,570.8	409.9
Foreign assets	140.3	223.8	105.0	105.2	473.9	302.3	537.4	1,889.3	1,310.2	2,657.2	3,632.5	3,338.7	2,183.9
Foreign liabilities	-332.0	-580.3	-604.6	-520.5	-875.8	-1,145.2	-2,147.2	-1,740.3	-1,611.7	-1,743.5	-1,685.9	-1,767.9	-1,774.0
IMF 3/	-290.4	-391.0	-362.4	-371.4	-608.4	-863.6	-1,709.8	-1,583.0	-1,615.4	-1,743.6	-1,682.9	-1,767.6	-1,776.5
Other	-41.6	-189.3	-242.2	-149.1	-267.4	-281.6	-437.4	-157.3	3.7	0.1	-3.0	-0.3	2.5
Net domestic assets	204.2	549.2	499.8	858.9	539.4	677.3	-214.8	-285.3	613.9	773.5	288.3	81.3	692.0
Net domestic credit	204.2	642.2	627.5	950.8	560.2	975.3	900.3	617.3	426.6	855.2	267.2	-13.7	200.0
Credit to the Government (net)	161.9	565.2	551.2	870.6	477.1	877.0	791.3	506.7	312.6	749.1	156.3	-172.5	41.2
Credit to Government (gross)	463.6	799.3	771.3	1,096.5	760.2	1,082.2	1,183.2	1,254.3	1,256.8	1,255.0	1,191.0	710.8	933.7
Deposits	-301.7	-234.1	-220.1	-225.9	-283.2	-205.2	-391.9	-747.6	-944.2	-505.9	-1,034.7	-883.3	-892.5
Credit to statutory bodies (net)	42.3	77.0	76.3	80.2	83.1	98.3	109.0	110.6	114.0	106.1	110.9	158.8	158.8
Credit	91.8	101.9	104.6	113.7	117.9	116.2	116.1	115.8	119.2	111.4	111.4	159.2	159.2
Deposits	-49.5	-24.9	-28.3	-33.5	-34.8	-17.9	-7.1	-5.2	-5.2	-5.3	-0.5	-0.4	-0.4
Other assets (net)	0.0	-93.0	-127.7	-91.9	-22.2	44.9	184.7	-35.5	187.3	-81.7	21.1	95.0	492.0
Other items (net)	-256.5	-380.7	-381.1	-377.8	-613.8	-869.6	-1,648.6	-1,722.0	-1,615.2	-1,629.4	-1,638.7	-1,616.8	-1,616.7
Reserve money	269.0	573.4	435.4	938.4	722.1	1,019.3	1,060.2	2,614.1	1,927.6	3,316.6	3,873.6	3,268.9	2,718.6
Liabilities to banks	72.9	241.9	132.0	436.6	323.4	439.2	432.0	1,473.7	1,063.8	1,960.2	2,400.7	2,045.1	1,575.0
Cash in vault	16.4	23.3	21.8	26.6	25.2	34.8	52.9	91.3	91.8	113.1	168.8	174.1	99.8
Deposits with RBM	56.5	218.6	130.2	410.0	298.2	404.4	379.1	1,382.4	972.0	1,847.1	2,231.9	1,871.0	1,475.2
Liabilities to the private sector (currency in circulation)	196.1	331.5	283.4	501.8	398.7	580.1	628.2	1,140.4	863.8	1,356.4	1,472.9	1,223.8	1,143.6

Source: Reserve Bank of Malawi.

1/ Totals may not be the sum of their parts, owing to rounding.

2/ Valued at end of month MK/SDR exchange rate; prior to January 1994 liabilities to the IMF and SDR allocations revalued every May.

3/ Outstanding use of Fund resources plus outstanding Trust Fund obligations as recorded in the Reserve Bank of Malawi's balance sheet, less Malawi's reserve tranche with the Fund.

Table 16. Malawi: Summary Accounts of the Commercial Banks, March 1992-March 1997 1/

(In millions of Malawi kwacha; end of period)

	1992		1993		1994		1995		1996			1997	
	Mar.	Sept.	Mar.	Sept.	Mar.	Sept.	Mar.	Sept.	Mar.	Jun.	Sept.	Dec.	Mar.
Net foreign assets	-12.2	-53.8	-65.8	16.3	129.4	371.9	418.1	370.6	200.2	401.1	301.8	395.4	113.2
Foreign assets	45.2	28.4	57.0	152.1	243.7	507.6	569.7	534.5	437.1	808.2	458.7	554.2	373.9
Foreign liabilities	-57.4	-82.2	-122.8	-135.8	-114.3	-135.7	-151.6	-163.9	-236.9	-407.1	-156.9	-158.8	-260.7
Cash and reserves	94.0	269.6	152.0	436.6	323.4	439.2	432.0	1,473.7	1,145.5	1,995.8	2,087.3	1,814.6	1,552.9
Cash	16.4	23.3	21.8	26.6	25.2	34.8	52.9	91.3	91.8	113.1	168.8	174.1	99.8
Deposits with Reserve Bank	77.6	246.3	130.2	410.0	298.2	404.4	379.1	1,382.4	1,053.7	1,882.7	1,918.5	1,640.5	1,453.1
Net domestic assets	613.6	771.8	771.6	829.7	853.3	1,188.5	1,242.6	1,541.0	1,570.3	1,614.6	2,279.7	2,000.5	1,676.9
Domestic credit (net)	747.4	881.5	912.7	906.0	1,035.1	1,373.1	1,675.0	1,647.9	2,057.6	2,070.8	2,669.2	2,725.7	2,383.4
Credit to the Government (net) 2/	92.9	115.9	230.4	234.4	160.7	544.4	567.4	543.7	910.2	694.6	1,355.3	1,276.6	642.0
Credit to statutory bodies	-43.6	-92.5	-164.6	-87.9	-61.6	-247.7	-183.6	-86.7	-250.9	-29.9	-10.8	42.6	11.6
Credit	71.6	47.4	26.4	140.8	148.5	77.4	48.9	210.5	88.1	295.3	362.7	398.0	407.4
Deposits	-115.2	-139.9	-191.0	-228.7	-210.1	-325.1	-232.5	-297.1	-339.0	-325.2	-373.5	-355.4	-395.8
Credit to the private sector	698.1	858.1	846.9	759.5	936.0	1,076.4	1,291.2	1,190.9	1,398.3	1,406.1	1,324.7	1,406.5	1,729.8
Other assets (net)	-133.8	-109.7	-141.1	-76.3	-181.8	-184.6	-432.4	-106.9	-487.3	-456.2	-389.5	-725.2	-706.5
Deposits of the private sector	695.4	987.6	857.8	1,282.6	1,306.1	1,999.6	2,092.7	3,385.3	2,916.0	4,011.3	4,668.9	4,210.7	3,343.0
Demand deposits	250.0	450.6	343.6	553.8	548.4	1,087.9	1,123.9	1,924.9	1,422.4	1,761.3	2,007.2	1,862.6	1,525.1
Of which: Foreign currency deposits 3/	0.0	0.0	0.0	0.0	89.6	411.3	321.9	586.4	262.0	414.8	391.8	474.2	334.7
Time and saving deposits	445.4	537.0	514.2	728.8	757.7	911.7	968.8	1,460.4	1,493.6	2,250.0	2,661.7	2,348.1	1,817.9
Memorandum item:													
Reserve/deposit ratio (in percent) 4/	11.6	23.9	14.5	28.9	21.3	18.9	18.6	40.0	36.1	46.9	41.1	39.0	43.5

Source: Reserve Bank of Malawi.

1/ Totals may not be the sum of their parts, owing to rounding.

2/ With effect from January 1995 treasury bill holdings recorded at the discount value.

3/ Foreign currency deposits were introduced in February 1994.

4/ Including deposits of statutory bodies.

Table 17. Malawi: Distribution of Commercial Banks' Advances by Main Sector, 1992-1996

	1992	1993	1994	1995	1996
(In millions of Malawi kwacha; end of period)					
Agriculture	219.9	218.4	304.4	352.3	365.3
Mining and quarrying	0.5	1.2	1.0	0.4	0.9
Manufacturing	134.3	214.3	353.5	316.2	331.9
Electricity, water, and gas	0.2	0.1	0.2	0.1	15.6
Construction and civil engineering	6.7	14.2	25.8	54.0	34.9
Wholesale and retail trade	346.5	193.5	238.7	239.3	265.1
Transport, storage, and communications	23.4	22.7	35.4	25.5	43.4
Finance, insurance, real estate, and business services	94.1	72.5	92.8	125.6	91.0
Community, social, and personal services	14.1	13.8	24.8	22.5	52.6
Personal accounts	43.0	30.8	36.2	95.3	22.5
Total	882.7	795.6	1,112.8	1,231.1	1,223.3
(In percent of total) ^{1/}					
Agriculture	24.9	27.4	27.3	28.6	29.9
Mining and quarrying	0.1	0.2	0.1	0.0	0.1
Manufacturing	15.2	26.9	31.8	25.7	27.1
Electricity, water, and gas	0.0	0.0	0.0	0.0	1.3
Construction and civil engineering	0.8	1.8	2.3	4.4	2.9
Wholesale and retail trade	39.2	24.3	21.5	19.4	21.7
Transport, storage, and communications	2.6	2.9	3.1	2.1	3.6
Finance, insurance, real estate, and business services	10.6	9.1	8.3	10.2	7.4
Community, social, and personal services	1.6	1.7	2.2	1.8	4.3
Personal accounts	4.9	3.8	3.3	7.7	1.8

Sources: Reserve Bank of Malawi, *Financial and Economic Review*; and data provided by the Malawian authorities.

^{1/} Totals may not add due to rounding.

Table 18. Malawi: Summary Accounts of Nonbank Financial Institutions, March 1992-March 1996
(In millions of Malawi kwacha; end of period)

	1992		1993		1994		1995		1996	
	March	Dec	March	Dec	March	Dec	March	Dec	March	Dec
Nonbank financial institutions 1/										
Cash deposits with monetary authorities	6.4	4.8	18.0	10.7	4.6	2.4	1.0	4.1	0.0	0.0
Domestic assets (net)	305.8	355.7	393.4	338.3	368.7	833.4	928.3	942.2	658.3	658.3
Credit to the Government	30.2	27.4	22.5	29.2	28.6	38.9	111.8	164.5	24.6	24.6
Credit to statutory bodies	1.0	6.3	6.0	5.3	5.8	5.7	5.1	9.8	0.0	0.0
Credit to the private sector	280.9	331.1	390.9	324.5	342.5	804.2	785.6	907.2	489.9	489.9
Other assets (net)	-6.3	-9.1	-26.0	-20.7	-8.2	-15.4	25.8	-139.3	143.8	143.8
Other assets (gross), including bank credit, if any, of MSB, NBS and Indebank 1/	24.1	21.2	23.2	31.5	37.6	371.8	410.5	445.2	254.9	254.9
Other liabilities (gross), including non-deposit liabilities of MSB and NBS 1/	-30.4	-30.3	-49.2	-52.2	-45.8	-387.2	-384.7	-584.5	-111.1	-111.1
Deposits	240.0	290.5	307.1	280.6	292.0	294.4	571.9	704.9	494.0	494.0
Share capital	66.5	88.0	109.1	99.2	102.9	172.6	149.3	187.1	164.4	164.4
Liabilities to banks (MCB only)	0.9	2.8	8.9	0.0	0.0	68.1	29.9	22.4	0.0	0.0
Insurance and assurance companies										
Credit to the Government	62.9	84.9	...	71.1	61.5	93.5	135.9	174.6	190.4	190.4
Credit to the private sector	128.9	140.8	...	197.6	200.2	256.5	254.7	362.6	468.8	468.8
Credit to banks	43.9	49.9	...	58.6	73.3	63.5	43.1	68.3	28.1	28.1
Demand deposits	2.5	5.6	...	-0.8	22.8	-2.8	0.9	2.1	4.8	4.8
Time and savings deposits	41.4	44.3	...	59.4	50.5	66.3	42.2	66.2	23.3	23.3
Other assets	10.4	11.4	...	29.9	39.6	47.0	48.5	99.1	81.8	81.8
Total assets	246.1	287.0	...	357.2	374.6	460.5	482.2	704.6	769.1	769.1
Premiums received	10.9	12.0	...	11.7	15.0	18.0	17.2	30.2	28.0	28.0
Expenses, commissions, and claims paid	8.1	8.8	...	9.1	13.3	12.8	10.4	16.9	29.2	29.2
Premiums (net)	2.8	3.2	...	2.6	1.7	5.2	6.8	13.3	-1.2	-1.2
Investment income	...	...	...	...	...	...	...	...	49.2	49.2
Miscellaneous income	...	...	...	...	...	...	...	...	6.1	6.1

Sources: Reserve Bank of Malawi, *Financial and Economic Review*; and other data provided by the Reserve Bank of Malawi.

1/ Malawi Savings Bank (MSB), New Building Society (NBS), Mercantile Credit Bank (MCB), and Investment Development Bank (Indebank).

Table 19. Malawi: Balance of Payments, 1992-96

(In millions of U.S. dollars)

	1992	1993	1994	1995	1996 Prel.
Current account balance	-224.3	-225.2	-119.3	-80.4	-92.7
Trade balance	-315.1	-310.2	-182.6	-144.8	-93.0
Exports, f.o.b.	397.4	317.2	372.2	404.5	435.2
Traditional exports	369.6	284.7	340.9	355.8	376.2
<i>Of which: Tobacco</i>	285.8	213.0	256.5	255.9	273.0
Non-traditional	27.8	32.5	31.3	48.7	58.9
Imports, c.i.f.	-712.5	-627.4	-554.8	-549.3	-528.2
<i>Of which: Maize</i>	-96.9	-93.8	-60.3	-75.6	-27.9
Services balance	-69.9	-64.7	-66.1	-86.1	-88.1
Interest public sector (net)	-28.4	-32.9	-35.7	-36.8	-23.0
Receipts	6.3	2.2	1.9	3.7	7.4
Payments	-34.7	-35.0	-37.5	-40.4	-30.4
Other factor payments	-10.6	-8.9	-10.7	-6.8	-23.9
Nonfactor (net)	-30.9	-22.9	-19.7	-42.5	-41.1
Unrequited transfers (net)	160.7	149.8	129.4	150.5	88.5
Private (net)	13.7	29.8	18.2	-1.3	-8.1
Official	147.0	120.0	111.2	151.8	96.6
Receipts	150.2	124.0	114.3	153.5	98.9
BOP assistance	7.0	50.0	58.5	88.3	73.2
Project-related	65.0	12.0	27.8	36.4	25.7
Drought-related	78.2	62.0	28.0	28.8	0.0
Payments	-3.2	-4.0	-3.1	-1.7	-2.4
Capital account balance	78.3	270.2	123.4	185.9	208.4
Medium- and long-term flows	106.2	198.9	145.8	108.6	115.0
Disbursements	139.0	234.0	192.8	155.7	193.4
Amortization (public sector)	-32.8	-35.1	-47.0	-47.1	-78.4
Foreign direct investment and other inflows	...	...	...	...	40.0
Short-term capital and errors and omissions	-27.8	71.3	-22.4	77.4	53.4
Overall balance	-146.0	45.0	4.1	105.5	115.7
Financing	146.0	-45.0	-4.1	-105.5	-115.7
Central Bank	114.0	-29.0	29.1	-87.0	-109.5
Reserves (-increase)	...	...	17.0	-69.0	-112.4
Liabilities	...	...	12.1	-18.0	2.9
IMF (net)	-19.2	-5.9	20.2	1.7	7.3
Commercial banks	4.0	-12.0	-24.2	-2.5	-6.3
Arrears	28.0	-4.0	-9.0	-16.0	0.0
Memorandum items:					
Gross official reserves					
In millions of U.S. dollars	47.0	54.0	36.8	105.8	218.2
In months of imports of goods and nonfactor services	0.7	1.0	0.7	2.1	4.3
Current account balance (percent of GDP)					
Excluding official transfers	-20.0	-17.0	-17.8	-16.3	-8.6
Including official transfers	-12.1	-11.1	-9.2	-5.7	-4.2

Source: Malawian authorities; and Fund staff estimates.

Table 20. Malawi: Composition of Exports, 1992-96

(Values in millions of U.S. dollars)

	1992	1993	1994	1995	<u>1996</u> Est.
Tobacco					
Value	285.8	213.0	256.5	255.9	273.0
Volume	97.3	95.7	98.4	99.5	95.7
Price (US\$/mt)	2,936.9	2,226.1	2,607.2	2,571.9	2,852.7
Sugar					
Value	27.1	15.6	25.8	26.5	33.0
Volume	46.0	26.8	40.2	44.8	57.5
Price (US\$/lb)	0.3	0.3	0.3	0.3	0.3
Tea					
Value	29.7	35.6	30.1	27.1	26.0
Volume	37.1	35.3	38.7	32.6	35.9
Price (US\$/kg)	0.8	1.0	0.8	0.8	0.7
Coffee					
Value	8.6	7.9	14.6	15.6	10.6
Volume	8.3	5.7	4.7	5.4	4.6
Price (US\$/lb)	0.5	0.6	1.4	1.3	1.1
Cotton					
Value	4.6	2.0	1.7	3.8	10.8
Volume	4.7	1.9	2.5	2.2	8.8
Price (US\$/lb)	0.4	0.5	0.3	0.8	0.6
Rice					
Value	0.5	0.0	0.9	1.5	1.5
Volume	0.9	0.0	3.2	4.5	2.4
Price (US\$/mt)	603.9	0.0	286.2	326.8	637.5
Maize					
Value	0.0	0.0	1.9	5.3	0.0
Volume	0.0	0.0	12.4	25.7	0.0
Price (US\$/mt)	0.0	0.0	155.1	205.2	0.0
Pulses					
Value	1.9	1.4	1.5	7.3	10.3
Volume	5.7	3.5	7.2	28.6	31.4
Price (US\$/mt)	341.8	389.2	206.7	256.9	326.6
Other					
Value	27.8	32.5	31.3	48.7	58.9
Total domestic exports f.o.b.	386.2	308.0	364.3	391.6	424.2
Re-exports	11.2	9.1	7.9	12.9	11.0
Memorandum items					
Total exports f.o.b.	397.4	317.2	372.2	404.5	435.2
Traditional exports (incl.re-exports)	369.6	284.7	340.9	355.8	376.2
Nontraditional exports	27.8	32.5	31.3	48.7	58.9

Source: Malawian Authorities; and staff estimates.

Table 21. Malawi: Tobacco Exports, 1992-96

(Value in millions of U.S. dollars; volume in thousands of tons;
and unit value in U.S. dollars per ton)

	1992	1993	1994	1995	1996 Est.
Flue-cured					
Value	75.5	53.7	57.9	57.7	51.3
Volume	23.4	22.6	22.2	22.4	16.4
Unit value	3,228.6	2,376.7	2,608.1	2,575.9	3,137.6
Burley					
Value	182.8	142.4	176.0	176.0	203.4
Volume	58.1	63.5	68.0	68.8	73.0
Unit value	3,147.1	2,242.9	2,588.2	2,558.1	2,786.3
Flue-cured (Northern Division)					
Value	23.7	14.7	19.6	18.0	14.8
Volume	14.2	8.6	7.0	6.1	4.9
Unit value	1,667.2	1,706.0	2,800.0	2,977.9	2,990.5
Fire-cured (Southern Division)					
Value	1.1	0.3	0.5	0.9	0.7
Volume	0.6	0.2	0.2	0.3	0.3
Unit value	1,865.5	1,622.3	2,500.0	3,00.0	2,641.2
Sun/air-cured					
Value	1.6	0.9	1.7	1.1	0.7
Volume	0.6	0.4	0.6	0.4	0.3
Unit value	2,428.5	2,116.3	2,833.3	3,071.8	2,450.5
Other					
Value	1.0	0.9	0.8	2.2	2.1
Volume	0.3	0.3	0.4	1.1	0.8
Unit value	3,330.6	3,028.2	2,000.0	2,000.0	2,625.0
Total					
Value	285.8	213.0	256.5	255.9	273.0
Volume	97.3	95.7	98.4	99.5	95.7
Unit value	2,936.9	2,226.1	2,607.2	2,571.9	2,852.7

Source: Malawi authorities; and Fund staff estimates.

Table 22. Malawi: Direction of Trade, 1993-96

	Exports				Imports			
	1993	1994	1995	1996 ^{1/}	1993	1994	1995	1996 ^{1/}
(In millions of U.S. dollars)								
DOTS World total	353.6	388.6	397.5	322.7	452.1	477.0	533.8	527.2
Industrial	240.4	276.1	259.2	173.3	151.2	158.8	151.9	108.7
France	7.7	17.8	10.7	6.6	8.0	6.5	12.8	6.9
Germany	36.1	50.1	57.9	36.6	23.9	17.6	24.1	15.0
Japan	47.7	45.4	44.0	10.5	25.7	31.8	14.5	14.7
Netherlands	19.9	22.2	24.0	17.7	15.5	6.2	5.0	5.2
United Kingdom	29.6	35.8	25.4	17.0	29.9	32.9	23.0	22.5
United States	60.5	57.0	43.3	50.2	17.4	20.8	20.4	9.8
Other	38.9	47.7	53.8	34.7	31.0	43.0	52.1	34.6
Developing countries	113.2	112.5	138.3	128.0	300.9	318.1	381.9	388.8
Africa	82.2	95.3	117.7	92.6	263.5	266.4	327.1	312.3
Botswana	5.3	6.3	7.8	...	6.5	7.6	8.7	...
Mozambique	20.7	24.6	30.3	2.6	1.5	1.8	2.2	4.2
South Africa	48.8	52.2	64.2	55.2	199.6	192.7	237.0	196.7
Tanzania	1.1	1.3	1.6	2.6	0.7	0.8	1.0	3.0
Zambia	1.9	3.8	4.6	4.1	5.1	3.5	4.3	3.8
Zimbabwe	1.9	2.3	2.8	3.8	47.1	56.0	68.9	81.6
Other	2.4	4.8	6.4	24.3	3.0	4.0	4.9	23.0
Other developing countries	31.0	17.1	20.6	35.4	37.3	51.7	54.8	76.5
(In percent of total)								
DOTS World total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Industrial	68.0	71.1	65.2	53.7	33.5	33.3	28.5	20.6
France	2.2	4.6	2.7	2.0	1.8	1.4	2.4	1.3
Germany	10.2	12.9	14.6	11.3	5.3	3.7	4.5	2.8
Japan	13.5	11.7	11.1	3.3	5.7	6.7	2.7	2.8
Netherlands	5.6	5.7	6.0	5.5	3.4	1.3	0.9	1.0
United Kingdom	8.4	9.2	6.4	5.3	6.6	6.9	4.3	4.3
United States	17.1	14.7	10.9	15.6	3.8	4.4	3.8	1.9
Other	11.0	12.3	13.5	10.8	6.8	9.0	9.8	6.6
Developing countries	32.0	28.9	34.8	46.3	66.5	66.7	71.5	79.4
Africa	23.2	24.5	29.6	28.7	58.3	55.9	61.3	59.2
Botswana	1.5	1.6	2.0	...	1.4	1.6	1.6	...
Mozambique	5.9	6.3	7.6	0.8	0.3	0.4	0.4	0.8
South Africa	13.8	13.4	16.1	17.1	44.2	40.4	44.4	37.3
Tanzania	0.3	0.3	0.4	0.8	0.1	0.2	0.2	0.6
Zambia	0.5	1.0	1.2	1.3	1.1	0.7	0.8	0.7
Zimbabwe	0.6	0.6	0.7	1.2	10.4	11.7	12.9	15.5
Other	0.7	1.2	1.6	7.5	0.7	0.8	0.9	4.4
Other developing countries	8.8	4.4	5.2	17.6	8.3	10.8	10.3	20.2
Memorandum Items:								
Group of countries								
(in million of U.S. dollars)								
European Union	119.3	158.5	152.2	...	104.4	102.5	109.0	...
Cross Border initiative countries	6.1	8.8	10.9	...	55.8	63.8	78.5	...
Preferential trade area countries	26.8	33.4	41.2	...	57.3	65.6	80.7	...
Group of countries								
(in percent of total)								
European Union	33.7	40.8	38.3	...	23.1	21.5	20.4	...
Cross border initiative countries	1.7	2.3	2.7	...	12.3	13.4	14.7	...
Preferential trade area countries	7.6	8.6	10.4	...	12.7	13.8	15.1	...

Source: IMF Direction of Trade Statistics (DOTS)

^{1/} Data through the third quarter of 1996

Table 23. Malawi: Public Sector External Debt and Debt Service, 1992-96

(In millions of U.S. dollars)

	1992	1993	1994	1995	1996
Total debt stock	1,690.1	1,857.0	1,949.5	1,977.4	2,177.0
Multilateral	1,369.9	1,521.7	1,631.7	1,673.2	1,853.3
IMF	101.3	86.1	112.3	121.1	119.6
Other	1,268.5	1,435.6	1,519.4	1,552.1	1,733.8
Bilateral	281.3	305.4	301.7	296.7	293.2
Paris Club	223.0	237.6	230.8	222.6	244.7
Non-Paris Club	58.2	67.8	70.8	74.2	48.5
Other	39.0	29.9	16.1	7.4	30.4
Total scheduled debt service	97.5	77.1	88.2	108.5	103.4
Principal obligations due	66.7	48.1	52.9	75.4	61.7
Multilateral	39.4	28.2	28.8	35.0	43.7
IMF	18.8	7.4	5.8	10.1	15.7
Others	20.6	20.8	23.0	24.9	28.0
Bilateral	16.3	10.2	11.2	12.1	9.5
Paris Club	14.6	6.4	7.5	8.3	7.6
Non-Paris Club	1.6	3.8	3.7	3.8	1.9
Other	11.0	9.7	12.8	2.1	8.6
Interest obligations due	30.9	29.0	35.3	33.0	41.7
Multilateral	21.5	20.8	27.0	24.2	33.8
IMF	2.7	1.7	1.3	1.8	2.1
Others	18.8	19.1	25.7	22.3	31.6
Bilateral	8.7	7.6	7.4	8.1	7.3
Paris Club	8.2	6.6	6.5	7.1	7.3
Non-Paris Club	0.5	1.0	0.9	0.9	0.0
Other	0.7	0.6	0.9	0.8	0.6
Memorandum items					
Debt service ratio ^{1/}	23.4	23.1	23.2	28.3	24.1
Debt/GDP ratio	91.0	91.4	150.6	139.1	98.7

Source: Malawian authorities; and Fund staff estimates.

^{1/} Three year average of exports of goods and non-factor services, except for 1992 and 1993 where current year exports are used.

Malawi: Summary of Tax System, as of End-December 1996

(All amounts in Malawi kwacha)

Tax	Nature of Tax	Exemptions and Deductions	Rates
1. <u>Taxes on net income and profits</u>	A non-resident tax on interest royalties and other accruals		38 percent of taxable income
1.1 Taxes on companies <u>Corporations, and enterprises</u> Taxation Act (Cap. 41:01)	<p>Annual tax on net income, including net capital gains realized in cash or otherwise, received by or accrued to domestic companies from sources in Malawi.</p> <p>Income for services rendered in Malawi. Income for services rendered in Malawi is deemed to be income accrued from a source in Malawi even though the income is received from a source outside Malawi.</p> <p>Dividend income was "grossed up" in the hands of the taxpayers who were allowed a credit for the company tax paid until 1992, but was subsequently phased out. Nonresident companies are subject to tax on income which accrues or is received from sources in Malawi. A 5 percent branch profits tax also applies to these companies. Unabsorbed losses can be carried forward indefinitely.</p>	<p>The receipts of land and agricultural banks, registered trade unions, nonprofit organizations, and religious and educational institutions are exempt, as is the income of certain noncommercial statutory corporations, life insurance companies, and local authorities.</p>	

Malawi: Summary of Tax System, as of End-December 1996

(All amounts in Malawi kwacha)

Tax	Nature of Tax	Exemptions and Deductions	Rates
1.1 <u>Taxes on companies, corporations, and enterprises</u> Taxation Act (Cap. 41:01) (Concluded)	The taxable income of cooperative societies, clubs, and other recreation organizations is deemed to be an amount equivalent to 6.25 percent of turnover.	Deductions include any expenditure and losses (not of a capital nature) wholly and exclusively incurred in the production of income; bad and doubtful debts; direct expenditure on, and sums contributed for, scientific experiments and research related to the taxpayer's trade; ordinary expenditure on repairs to premises, plant and machinery employed in the business; annuity allowance, or pension paid to a retired former employee; and certain expenditure incurred in establishing a manufacturing business.	An additional tax of 5 percent of taxable income is charged in the case of companies: (1) which are not incorporated in Malawi, in respect of profits; (2) which are incorporated in Malawi, in respect of profits distributed to nonresident shareholders, provided in both cases that so much of the 5 percent tax is waived as represents the amount by which the tax rate in the country of incorporation, or residence of the shareholders, respectively, is lower than 40 percent.
	A non-resident tax on interest royalties and other accruals.	Capital allowances are deductible as follows: an investment allowance of 40 percent on new and unused industrial buildings and plants and machinery, or an initial allowance of 10 percent on plant and farm improvements, 20 percent on machinery and equipment, and 33 1/4 percent on farm fencing. These reduce the basis for calculating the annual allowance of 5 percent on industrial buildings, railway lines and farm improvements, 10 percent on farm fencing, and an unspecified annual allowance for machinery and equipment to be determined on the basis of its useful life and rate of utilization.	

Malawi: Summary of Tax System, as of End-December 1996

(All amounts in Malawi kwacha)

Tax	Nature of Tax	Exemptions and Deductions	Rates															
1.2 <u>Taxes on individuals</u>	Applies to individuals accruing or receiving income, in cash or otherwise, from sources in Malawi. In general, the income of a married woman not separated from her husband, and of minor children, is deemed to accrue to the head of the family. Where it is to the taxpayer's advantage, tax is chargeable on the wife's earned income as though she were a single person. Nonresidents are liable to tax on income which accrues or is received from sources in Malawi, with the exception of dividends from companies incorporated in Malawi, and subject to the provisions of the various double taxation agreements in existence.	Exemption includes the emoluments of the President, certain officers of foreign governments and international organizations, and persons rendering service in Malawi whose salaries are exempt under an agreement. Exemptions also apply to retirement and disability benefits; interest received from the Malawi Post Office Savings Bank, Malawi development bonds, and any public loan issued subject to interest exemption; the income of certain noncommercial statutory corporations, certain foreign service allowances; and scholarships.	The amount of tax payable is calculated according to the rates shown below: Table of Tax on Taxable Income															
1.2 <u>Income tax</u> Taxation Act (Cap. 41:01)			<table border="1"> <thead> <tr> <th data-bbox="509 373 634 464">Taxable income (thousands of kwacha)</th> <th data-bbox="509 239 537 373">Drought Rate (percent)</th> <th data-bbox="545 92 573 373">levy (Percent)</th> </tr> </thead> <tbody> <tr> <td data-bbox="699 331 727 464">First 6,000</td> <td data-bbox="699 239 727 373">0</td> <td data-bbox="699 92 727 113">0</td> </tr> <tr> <td data-bbox="732 331 760 464">Next 12,000</td> <td data-bbox="732 239 760 373">15</td> <td data-bbox="732 92 760 113">1</td> </tr> <tr> <td data-bbox="764 331 792 464">" 24,000</td> <td data-bbox="764 239 792 373">25</td> <td data-bbox="764 92 792 113">2</td> </tr> <tr> <td data-bbox="797 331 854 464">In excess of 42,000</td> <td data-bbox="797 239 854 373">35</td> <td data-bbox="797 92 854 113">3</td> </tr> </tbody> </table>	Taxable income (thousands of kwacha)	Drought Rate (percent)	levy (Percent)	First 6,000	0	0	Next 12,000	15	1	" 24,000	25	2	In excess of 42,000	35	3
Taxable income (thousands of kwacha)	Drought Rate (percent)	levy (Percent)																
First 6,000	0	0																
Next 12,000	15	1																
" 24,000	25	2																
In excess of 42,000	35	3																
	Assessable income, in cash or otherwise, including inter alia, annuities, amounts received by reason of cessation of employment or withdrawal from a pension fund; employee cash benefits (excluding foreign passages). Taxable income is assessable income less permissible deductions. In 1995/96, a drought levy of 1-3 percent was introduced on taxable income.	Deductions include any expenditure wholly and exclusively incurred in the production of income, bad and doubtful debts; pension contributions up to 8 percent of pensionable emoluments or MK 3,000 per annum, whichever is the smaller, and approved charitable contributions over MK 250 up to any amount in any one year of assessment.																
	Employers are required to deduct tax under a PAYE scheme according to prescribed deduction tables in respect of wages and salaries exceeding MK 6,000 per annum.	None.																

Malawi: Summary of Tax System, as of End-December 1996

(All amounts in Malawi kwacha)

Tax	Nature of Tax	Exemptions and Deductions	Rates																
1.22 <u>Fringe benefits tax</u>	Employers, both corporate and individuals who provide benefits-in-kind such as accommodation, automobiles, etc.; are chargeable to tax on the value of the benefits provided. The value is determined either by reference to the cost to the employer of providing the benefit or the value is determined by reference to guidelines issued by the Commissioner.	Exempt income includes war disability and war widows' pensions; old age pensions paid out of public funds; and disability benefits.	38 percent																
1.3 <u>Taxes on property</u>	Duty is levied on the principal value of all property belonging to the deceased at his death. The duty is payable by the executor of the deceased; and beneficiary of the estate is also liable up to the amount of his interest in the estate.	<p>Principal value of estate</p> <table border="1"> <tr><td>0 - 30,000</td><td>0</td></tr> <tr><td>30,001 - 40,000</td><td>4</td></tr> <tr><td>40,001 - 80,000</td><td>5</td></tr> <tr><td>80,001 - 140,000</td><td>6</td></tr> <tr><td>140,001 - 200,000</td><td>7</td></tr> <tr><td>200,001 - 400,000</td><td>8</td></tr> <tr><td>400,001 - 600,000</td><td>9</td></tr> <tr><td>600,001 and above</td><td>10</td></tr> </table>	0 - 30,000	0	30,001 - 40,000	4	40,001 - 80,000	5	80,001 - 140,000	6	140,001 - 200,000	7	200,001 - 400,000	8	400,001 - 600,000	9	600,001 and above	10	Rate In %
0 - 30,000	0																		
30,001 - 40,000	4																		
40,001 - 80,000	5																		
80,001 - 140,000	6																		
140,001 - 200,000	7																		
200,001 - 400,000	8																		
400,001 - 600,000	9																		
600,001 and above	10																		
1.31 <u>Death duties</u>	Duty is levied on the principal value of all property belonging to the deceased at his death. The duty is payable by the executor of the deceased; and beneficiary of the estate is also liable up to the amount of his interest in the estate.	Estates valued at less than MK 30,000 are effectively exempt. There is a provision for reduced duty in the case of quick succession to land or a business.																	
2. <u>Taxes on goods and services</u>	Levied on imports (of mainly consumer goods) and on domestic manufactures. The tax is ad valorem and is payable by the importer or the manufacturer of taxable goods.	Exemptions include basic foodstuffs such as live animals, animal products, vegetable products including cereals, and vegetable oils. Also exempt are certain industrial raw materials.	The following rates are applied to the taxable value:																
2.1 <u>Surtax</u> (Cap. 42.01)	Levied on imports (of mainly consumer goods) and on domestic manufactures. The tax is ad valorem and is payable by the importer or the manufacturer of taxable goods.	Exemptions include basic foodstuffs such as live animals, animal products, vegetable products including cereals, and vegetable oils. Also exempt are certain industrial raw materials.	<table border="1"> <tr><td></td><td>Percent</td></tr> <tr><td>For domestic products</td><td>20</td></tr> <tr><td>For imports</td><td></td></tr> <tr><td> Capital</td><td>10</td></tr> <tr><td> Other</td><td>20</td></tr> </table>		Percent	For domestic products	20	For imports		Capital	10	Other	20						
	Percent																		
For domestic products	20																		
For imports																			
Capital	10																		
Other	20																		

Malawi: Summary of Tax System, as of End-December 1996

(All amounts in Malawi kwacha)

Tax	Nature of Tax	Exemptions and Deductions	Rates
2.1 <u>Surtax (Concluded)</u>			(Including petroleum paraffin, diesel). The taxable value is the national wholesale selling price. For domestic manufacturers, it is the normal ex-factory selling price which includes any duty payable other than surtax and the cost of ordinary packaging. For imports, it is 100 percent of the sum of the value for customs duty purposes plus the customs duty payable.
2.2 <u>Selective excises on goods</u>	Excise duties are levied at ad valorem rates on selected goods manufactured or produced in Malawi, including cigarettes and alcoholic drinks. Excise duties are also levied on imported motor vehicles (passenger cars).		Excisable good Unit Tax (percent)
Customs and Excise Act (Cap. 42:01) as amended			<p>Opaque beer 10</p> <p>Beer (excluding Chibuku) 60</p> <p>Potable spirits 60</p> <p>Low to medium-priced Cigarettes 60</p> <p>Other tobacco products 60</p>
2.3 <u>Selective excise on services</u>	Levy on expenditure incurred by individuals in hotels and registered restaurants.	None.	<p>Motor vehicles (passenger cars)</p> <p>a. Up to 2 liters 10</p> <p>b. Above 2 liters 30</p> <p>10 percent</p>
	Airport tax.	None.	MK 150 per Malawian citizen. US\$20 per non-Malawian.

Malawi: Summary of Tax System, as of End-December 1996

(All amounts in Malawi kwacha)

Tax	Nature of Tax	Exemptions and Deductions	Rates
2.4 <u>Withholding tax</u>	Tax on receipts from rent of properties, royalties, fees and commission, and supplies to institutions under tender on any other arrangements with a value of MK 500 or more at any one single time.	None	5-20 percent.
2.5 Taxes on use of goods or property			
2.5.1 <u>Motor vehicle taxes</u>	Owners of motor vehicles are subject to several types of taxes including registration fees, licensing fees, and road service permit fees. The taxes are levied at specific rates that vary according to type of vehicle and weight.	None	
		<u>Registration fees</u> (Kwacha)	
		Commercial vehicles	75.00
		Private cars and public	
		Service vehicles	75.00
		Motorcycles	50.00
			- 45 -
		<u>Licensing fees</u>	
		Vehicles commercial (per 50 kg net weight)	
		Goods	8.00
		Private passenger and public service	
		(a) for each 50 kg net weight	8.00
		(b) for each licensed passenger	7.00

Malawi: Summary of Tax System, as of End-December 1996

(All amounts in Malawi kwacha)

Tax	Nature of Tax	Exemptions and Deductions	Rates
3. <u>Taxes on international transactions</u>			
3.1. <u>Import duties</u>	<p>Malawi maintains a two-column tariff schedule based on the Customs Cooperation Council Nomenclature (CCCN). This provides for a preferential rate of duty for import from "ACP States" within the meaning of the Lome Convention, the Commonwealth, GATT, and EEC countries; and most-favored-nation rate for the rest of the world. Ad valorem customs duties are imposed on all goods imported into Malawi for domestic consumption. With respect to ad valorem import duties, the GATT valuation code applies.</p>	<p>The law provides for suspensions, rebates, remissions, and refunds of duty in certain circumstances, and general exemptions from duty including, inter alia, goods imported for the use of the President and goods entered for transit or temporary importation or exportation. Manufacturers are granted rebates on imported materials required for further processing in Malawi; for most of these goods, a low rate of duty of 10 percent is generally applicable.</p>	<p><u>Road service permit fees (Kwacha)</u></p> <p>Annual fees</p> <p>Public service vehicles 100.00</p> <p>Heavy goods vehicles 100.00</p> <p>Light goods vehicles 100.00</p> <p>Buses 180.00</p> <p>Short-term permits</p> <p>Vehicles registered in Malawi 45.00</p> <p>Shortest period three months</p>
			<p>Ad valorem rates of customs duties may be summarized as follows:</p> <p>(1) low rates of, e.g., 10 and 25 percent applying to necessities and seminecessities; (2) intermediate rates of, e.g., 35 and 40 percent; (3) high rate of, e.g., 45 percent</p>
3.2 <u>Export levies</u>	<p>A temporary export tax is levied on all tobacco, tea, and sugar exports.</p>		8 percent.

Malawi: Summary of Tax System, as of End-December 1996

(All amounts in Malawi kwacha)

Tax	Nature of Tax	Exemptions and Deductions	Rates
4. <u>Other taxes</u>	Duty is levied on a range of instruments including agreements; bills of exchange; bonds; lease and licenses; mortgages; insurance policies.	<p>General exemptions include:</p> <ul style="list-style-type: none"> (1) Any instrument on which stamp duty would be payable by the Government. (2) Any pension warrant issued by any government. (3) Any will or other testamentary disposition. (4) Instruments relating to embassies/diplomatic missions whose countries have reciprocal/similar exemption arrangements granted to Malawi. 	Rates of duty vary depending on the nature of the instrument, the matter to which it relate, and the value thereof.

Source: Ministry of Finance.