International Monetary Fund

Malawi and the IMF

Press Release:
IMF Executive Board Approves New US$ 156.http://www.imf.org/external/np/sec/pr/2012/pr12273.htm2 Million Extended Credit Facility Arrangement for Malawi
July 13, 2012

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Malawi: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

July 09, 2012

The following item is a Letter of Intent of the government of Malawi, which describes the policies that Malawi intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Malawi, is being made available on the IMF website by agreement with the member as a service to users of the IMF website.

July 9, 2012

Madam Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C. 20431
USA

Dear Madam Lagarde:

1. Malawi recently underwent a peaceful transition in leadership following the unexpected death of President Bingu wa Mutharika. On April 7, 2012, the then vice President, Mrs. Joyce Banda, was sworn into office as President. President Banda has formed a new cabinet in which she appointed ministers from different political parties.

2. In February 2010, the Executive Board of the IMF approved a three-year Extended Credit Facility (ECF) arrangement for Malawi for an amount of SDR 52.05 million (75 percent of quota). The program supported by this arrangement went off-track shortly after completion of the first review in December 2010, reflecting a lack of progress in implementing policy commitments under the program to adopt a flexible exchange rate regime and liberalize current account transactions in line with Malawi's obligations under Article VIII of the IMF Articles of Agreement.

3. The government of Malawi wishes to cancel the current ECF arrangement, which is due to expire in February 2013, effective as of July 23, 2012. In its place, we request a new three-year ECF arrangement to support our medium term economic objectives and policy framework for the fiscal years 2012/13 through 2014/15 (July 2012–June 2015). The new arrangement will provide the administration of President Banda a clean slate on which to re-establish Malawi's credibility in implementing sound economic policies. Already, within the short time it has been in office, President Banda's administration has implemented all the exchange rate related measures committed to, but not implemented, by the previous administration. In particular, the kwacha was devalued substantially and has been allowed to float.

4. In view of our large and urgent balance of payments need and the strength of our program, we request access of SDR 104.1 million (150 percent of quota), including a first disbursement of SDR13.02 million upon approval of the arrangement by the IMF's Executive Board. This arrangement will support our medium-term program to address balance of payments weaknesses and to achieve poverty reduction through sustained private-sector-led growth and wealth creation. Re-establishing a close engagement with the IMF will

send a positive signal to domestic stakeholders and our development partners regarding our determination to maintain macroeconomic stability in order to create an environment that is conducive for sustained growth and poverty reduction. To this end, we request quarterly reviews of program implementation in the first year of the arrangement.

5. In the attached Memorandum of Economic and Financial Policies (MEFP), we set out our macroeconomic framework for FY2012/13–FY2014/15, including the policies we intend to implement to achieve our objectives. Specific emphasis is placed on rebuilding international reserves, improving public financial management and fiscal transparency, operational independence of the Reserve Bank of Malawi, and improving the investment climate and the country's international competitiveness.

6. The MEFP and Technical Memorandum of Understanding (TMU) present quantitative performance criteria, indicative targets, and structural benchmarks to be used to monitor implementation of the program. We believe that the policies set forth in the MEFP are adequate to achieve the objectives of the program, but we will take any further measures that may become appropriate for this purpose. We will consult with IMF staff on the adoption of these measures, and in advance of revisions to the policies contained in the MEFP, in accordance with the IMF policies on such consultation. Moreover, we will provide the IMF with such information as the IMF requests in connection with the progress in implementing the policies and reaching the objectives of the program.

7. The Government of Malawi authorizes the IMF to make this letter and the attached MEFP and TMU available to the public, including through the IMF internet website.

Yours sincerely,

/s/

Dr. Ken Lipenga (MP)
Minister of Finance

/s/

Mr. Charles Chuka
Governor of the Reserve Bank of Malawi

Attachments:

– Memorandum on Economic and Financial Policies;
– Technical Memorandum of Understanding.

ATTACHMENT I.

MALAWI: MEMORANDUM OF ECONOMIC AND FINANCIAL POLICES, 2012/13–2014/15

I. Introduction

1. This memorandum summarizes the objectives and policies of the government of Malawi's economic program for July 2012–June 2015, for which the government is seeking support from the International Monetary Fund through a new three-year arrangement under the Extended Credit Facility (ECF). The new arrangement will succeed the one approved by the IMF's Executive Board in February 2010. The program supported by that arrangement went off-track shortly after completion of the first review in December 2010, on account of challenges we had in implementing our commitments under the ECF-supported program, including adopting a flexible exchange rate regime and liberalizing payments for current account transactions. The main objective of the program to be supported by the new arrangement is achievement and maintenance of macroeconomic stability in order to provide a suitable environment for sustained growth, wealth creation and poverty reduction.

2. Following the sudden death of President Bingu wa Mutharika in early April 2012, Mrs. Joyce Banda (Vice President at the time) was sworn into office as President to serve the remainder of the term of the late President, in accordance with Malawi's constitution. General elections are scheduled to be held in May 2014. President Banda formed a new government with the announcement of her cabinet ministers in late-April 2012. The new administration inherited a very difficult economic situation, marked by a severe shortage of foreign exchange which led to shortages of critical imports including fuel, inputs for production and medicines. Delays in making payments abroad led to the loss of credit lines for several businesses, resulting in scaled down operations and the laying off of workers. Malawi's long standing foreign exchange problems intensified in 2011 because of lower tobacco export earnings and the interruption of the ECF-supported program with the IMF which led several donors to cut their general budget support grants to Malawi.

3. Within a month of taking office, the new administration implemented a set of bold measures to address Malawi's chronic balance of payments difficulties and to halt the slowdown in economic activity arising from the shortages of foreign exchange and critical imports. The implemented measures included all the commitments the government had made under the ECF-supported program to adjust the official exchange rate and liberalize the exchange regime for current account transactions, non-implementation of which led to the interruption of the program. The recently implemented measures include:

- Devaluation of the exchange rate from K167 to K250 per U.S. dollar, and adoption of a floating exchange rate regime.

- Allowing banks and foreign exchange bureaus to set the rate at which they buy and sell foreign exchange from/to their customers.

- Removal of requirement for foreign exchange earnings to be surrendered to the RBM; they now flow directly to commercial banks.

- Cancellation of requirement for banks to submit to the RBM for review, any application for external payments exceeding US$50,000.

- Substantial increase in fuel prices to bring them in line with true import costs, and restoration of an automatic adjustment mechanism to ensure that retail prices reflect changes in world prices.

- Substantial increases in electricity tariffs to ensure movement toward cost recovery.

- A tightening of monetary policy to contain inflationary pressures, signaled by the RBM raising its policy rate from 13 percent to 16 percent.

4. The adjustment measures are beginning to show positive results. Sales of tobacco through official channels have increased, suggesting a decline in smuggling of the crop to neighboring countries; the parallel market for foreign exchange has almost collapsed, with premiums over the official exchange rate falling from 60–80 percent before the devaluation to 5–10 percent, while rates offered by banks and foreign exchange bureaus are converging; and the private sector's access to foreign exchange has eased considerably. The government is working with the World Bank and other partners to scale up social protection programs to mitigate the adverse effects of the adjustment measures on the welfare of the most vulnerable segments of the population.

5. The administration of President Banda has also moved swiftly to repair strained relations with Malawi's development partners and neighboring countries. Parliament has revoked a number of laws that were widely seen as undermining human rights and political freedoms, which were of concern to civil society organizations in Malawi and to major donors. Donors have responded positively to the reforms being implemented by the new administration. Based on information from donors, we project external grants to increase from US$281.5 million in FY2011/12 to US$480.5 million in FY2012/13, with general budget support grants going from less than US$2 million to US$208 million. Normalization of relations with neighboring countries is also bearing fruit: the government has signed a Memorandum of Understanding with Mozambique to resuscitate the electricity Interconnector Project which is expected to ease Malawi's electricity shortages in the short to medium term. The government has also been able to recover its maize loan to Zimbabwe through an exchange with petroleum products.

II. Recent Developments and the Near Term Outlook

8. Economic growth slowed significantly in 2011. After averaging over 8 percent a year during 2007–10, real GDP grew at 4.3 percent in 2011. Sectors that are heavily dependent on imports—manufacturing, transportation, construction, and wholesale and retail trade

sectors—slowed down the most, reflecting the impact of the foreign exchange shortage. Following the recent policy measures, the private sector has began to clear the backlog of external arrears which should help re-establish credit lines and improve the flow of imported inputs to allow enterprises to gradually increase output from the current low levels of capacity utilization.

9. Inflation has been on a rising trend since early 2011, with the year-on-year headline rate reaching 12.4 percent in April 2012 and jumping to 17.3 percent in May 2012. Rising import costs have been the principal factor behind the upswing as a growing share of imports were being priced at the parallel market exchange rate before the May devaluation, and the devaluation triggered large adjustments in the retail prices of petroleum products which have ripple effects to other prices. The spike in inflation is expected to persist for a few months but should be reversed with implementation of restrained fiscal and monetary policies.

10. Fiscal performance improved in FY2009/10 (the first year of the ECF-supported program) but deteriorated thereafter as government expenditure remained steady (in relation to GDP) while external grants fell sharply and domestic revenue performance deteriorated. The government relied heavily on domestic financing of its growing deficit. The overall fiscal deficit widened from nearly 3 percent of GDP in FY2010/11 to 7 percent in FY2011/12, with domestic financing rising from 1.7 percent of GDP to 5.6 percent in the respective years. The government and state owned enterprises have also accumulated about K72 billion in domestic arrears over the last few years. The new administration has taken steps to restrain spending, including by reducing the number of official trips abroad, cutting the number of vehicles available to senior officials, and postponing new development projects which were to be funded entirely by domestic resources.

11. Monetary developments in the last few years reflect a dominant influence of fiscal policy. The RBM accommodated the government's financing requirement and cost considerations held it back from conducting open market operations to mop up excess liquidity. Growth in both reserve money and broad money has trended upwards since mid-2010. At end-April 2012, reserve money and broad money grew at year-on-year rates of 47 percent and 31 percent, respectively. The RBM began tightening its policy stance in April 2012, including by removing excess liquidity using some of its holdings of treasury bills. In May the RBM raised its policy rate from 13 percent to 16 percent, and after the devaluation, used foreign exchange sales to further mop up excess liquidity. Kwacha liquidity conditions tightened significantly and several banks resorted to the RBM discount window to meet their needs.

III. The Medium-Term Framework

12. The medium-term framework for Malawi's economic development policies is set out in the second Malawi Growth and Development Strategy (MGDS II) which was approved by the government in April 2012. It covers the period 2011/12–2015/16, and has the same main

objective as the first MGDS (2006–11), i.e., to achieve poverty reduction through sustainable growth and infrastructure development. A key element of the strategy for achieving sustainable economic growth is the pursuit of sound economic policies with a view to maintaining inflation at single digit levels and increasing the level of international reserves. An increase in national investment—with emphases in areas such as electricity generation and supply, transportation and irrigation, and in selected priority sectors (agriculture, manufacturing, mining, and tourism)—is expected to deliver high growth, while prudent fiscal and monetary policies deliver low inflation.

13. The macroeconomic framework in MGDS II needs updating in light developments since the document was completed in early 2011. The annual growth rate which was expected to average over 7 percent a year is now projected to rise gradually from 4.3 percent in 2012 to 6.7 percent in 2016. Similarly, the annual rate of inflation which was projected to decline from 8.7 percent to 5.9 percent over the five years covered by the strategy, is now expected to reach 23 percent in December 2012 and then fall to 6 percent by the end of 2016. The government will present updated medium-term outlooks in annual reports on MGDS implementation.

14. MGDS I and II were designed to move Malawi towards achievement of the Millennium Development Goals (MDGs). The 2011 MDG report shows remarkable progress toward achieving five out of the eight MDGs: (i) eradicating extreme poverty and hunger; (ii) reducing child mortality; (iii) combating HIV and AIDS, malaria and other diseases; (iv) ensuring environmental sustainability; and (v) enhancing global partnership for development. MDGS II contains measures to accelerate progress toward achievement of the three MDGs for which Malawi is lagging behind: (i) universal primary education; (ii) gender equality and empowerment of women; and (iii) improvement in maternal health.

15. Recent economic developments have underlined Malawi's susceptibility to external shocks. Adverse terms of trade developments and a marked reduction in aid inflows contributed to the severe foreign exchange shortage in the country in 2011 and the first half of 2012. However, overvaluation of the kwacha has also been an important factor in the country's weak balance of payments position, with growth of imports outpacing that of exports. The recent devaluation and floating of the kwacha will help address this imbalance by boosting exports and slowing down growth in imports (especially of consumer goods). Against this background, the key medium-term objectives of our ECF-supported program include:

- Recovery in real GDP growth from 4.3 percent in 2012 to about 6½ percent per year in the medium term.

- Achieving and maintaining a stable macroeconomic environment with low inflation, founded on sustainable fiscal and external balances.

- Increasing foreign reserves coverage to three months of imports, to provide a buffer against exogenous shocks (e.g., weather, terms of trade, and aid flows).
- Enhancing the operational independence of the RBM.
- Pursuing reforms to deepen the financial sector and promote greater financial inclusion.
- Undertaking structural reforms to improve the investment climate and promote sustained and inclusive growth, including through improvements in infrastructure and regulatory reforms.

16. In the last five years, agriculture has been the main engine of growth, supported by the government's Farm Input Subsidy Program (FISP) and good weather conditions. The floating of the kwacha and liberalization of the foreign exchange regime is expected to foster growth over the medium term by redirecting resources to exports and import-competing production, while containing import demand. In the near term, growth will come mainly from the sectors that were hardest hit by the foreign exchange shortages, including manufacturing, transportation service, construction, and trade, as production levels increase toward capacity. Other sectors, including agriculture, will also benefit from the easing of fuel shortages. Over time, growth is expected to be led by mining and non-traditional agricultural exports (including through enhanced value addition in the form of agro-processing).

IV. Policies

Fiscal Policies and Related Structural Reforms

17. The FY2012/13 budget is anchored by a zero net domestic borrowing target in order to begin to reduce domestic debt to sustainable levels. This represents a sharp reduction from about 5.6 percent of GDP domestic borrowing in FY2011/12. In consultation with IMF staff and other development partners, the Ministry of Finance established a realistic resource envelope that formed the basis for expenditure plans in the FY2012/13 budget. Substantially higher donor support in the form of grants and concessional loans reduce the domestic financing need, but a sizeable revenue effort and tight control of spending will be needed to ensure that expenditures are aligned with the government's top priorities, including safeguarding social safety net provisions.

18. The government is committed to strengthening its revenue mobilization efforts in order to reverse the recent marked decline in domestic revenue in relation to GDP. The largest contribution to increased revenue is expected to come from fuel taxes. This reflects a change in the pricing and taxation of petroleum products from a system that implicitly subsidized retail prices by foregoing revenue to one based on the actual cost of imports and adoption of an automatic adjustment mechanism to ensure that retail prices reflect changes in import costs. A number of tax measures introduced last year which turned out to be punitive

on businesses and regressive in nature and which did not yield as much revenue as expected are being repealed in order to help improve the business climate. At the same time, the range of items subject to VAT is being expanded and excise duties are being harmonized with regional partners.

19. The government will enhance its enforcement mechanisms through increased audits and use of modern ICT systems to improve revenue collection. Tax revenues are expected to improve through the adoption and use of electronic fiscal devices in the enforcement of VAT and the use of computerized cargo scanners coupled with the implementation of web-based ASYCUDA System for Customs. With respect to nontax revenues, the government will continue enhancing its oversight function through monitoring and auditing of the various revenue collecting institutions to ensure transparency and accountability in the management of departmental receipts collected from user fees and charges.

20. Reflecting government's top priorities, the FY2012/13 budget increases the share of total expenditures allocated to social protection programs, most notably the FISP. Other programs that will be scaled up include public works, school feeding, school bursary, and cash transfers. Responsibility for these programs span several ministries and departments but the Ministries of Agriculture, Education and Health which bear most of the responsibilities have received the largest increases in resources. With assistance from World Bank staff, the government has established priorities in three of the largest Ministries—Agriculture, Education and Health—to guide budget execution. In order to instill fiscal discipline and signal a change from the loose fiscal policy stance of the last year, the Ministry of Finance will establish and enforce quarterly spending limits on all ministries, departments and agencies (MDAs), consistent with estimated available resources. The limits for the first quarter will be announced shortly after the budget is approved by parliament, and limits for subsequent quarters will be informed by revenue performance to date and by the outlook for grants, and will be announced in the last month of the preceding quarter. The Ministry of Finance will report to cabinet every quarter on how the system is working.

21. The budget provides increased resources to wages and salaries and interest payments. The nominal wage bill was increased by 30 percent over the projected outturn for FY2011/12 to accommodate a 21 percent pay increase to government employees and allow additional hiring of staff in the education and health sectors. Interest costs are projected to increase although there will be no net domestic borrowing for the year as a whole. A tightening of monetary policy by the RBM is expected to push up interest rates, and increase the cost of rolling over maturing treasury bills.

22. Over the last three years, government ministries and departments as well as parastatal organizations accumulated domestic arrears of about K72 billion (7 percent of GDP). Government intends to verify these arrears through the Office of the Auditor General, before making plans to settle them. In the 2012/13 budget, a provision of K10 billion has been made for the settlement of some of the arrears. It is expected that it will take 3 to 4 years to clear

the arrears. Government will also look at some alternatives such as raising funds through long-term Treasury Bonds to settle some of the bills. In order to strengthen commitment control and avoid the accumulation of arrears, the government will accelerate implementation of the commitment module in the IFMIS. The government will inform the general public of its procurement rules through the media. It will include warnings that those who provide goods or services to MDAs outside of the established government system will not be paid.

23. The government has initiated steps to reduce the risks to the budget posed by contingent liabilities and operational losses of state owned enterprises. The contingent liabilities are mainly loans from banks and payment arrears while the operational losses arise from administratively set prices and tariffs that are below cost recovery levels and generate substantial implicit and explicit subsidies. The government recognizes that the operations of the recently established National Oil Company of Malawi (NOCMA), including government guaranteed loans for fuel imports, pose severe risks to the budget. In order to minimize these risks, NOCMA will be limited to its core activity of managing strategic reserves of fuel. The bulk of fuel importation for regular use will revert to the private sector.

24. The government through the Malawi Energy Regulatory Authority (MERA) has established a clear regulatory regime for the Electricity Supply Corporation of Malawi, Ltd. (ESCOM) that covers operating costs and avoids the need for budgetary transfers and that minimizes recourse to commercial bank borrowing. A similar regime will be established for the Regional Water Boards. This will enable the utilities with a view to enabling them to invest in needed capital infrastructure to improve the quality, availability, and reliability of their service delivery, with a view to supporting the expansion of economic activities.

Monetary Policy in a Floating Exchange Rate Regime

25. Monetary policy will be geared toward achieving price stability, while providing room for sufficient credit to the private sector and supporting a buildup of international reserves. Broad money will be the nominal anchor, with reserve money as an intermediate target. To help manage domestic demand and contain inflation, broad money is programmed to grow at about the pace of nominal GDP in the near term. Further financial deepening in the medium term would allow broad money to grow faster than nominal GDP without fueling inflation.

26. The RBM has a liquidity forecasting framework which it uses to guide monetary operations. The RBM will continue to develop its instruments of indirect monetary control and strengthen its ability to implement monetary policy through changes in interest rates, underpinned by open market operations. To that end it will welcome technical assistance from the IMF, drawing on the experiences of other countries, and focusing on practical advice on enhancing the operational framework, including open market operations of varying maturity profiles, combined with the use of reserve averaging and standing facilities.

27. The RBM is reviewing options for obtaining resources for conducting open market operations without being constrained by cost considerations. It is requesting technical assistance from the IMF to complete the review and decide on the way forward. Possible options include: (i) issuance of treasury bills (over and above government financing needs) for monetary operations, with the Ministry of Finance carrying the interest costs; and (ii) issuance of an income generating security to the RBM, with the RBM bearing the cost of its monetary operations.

28. The RBM is also undertaking a review of the RBM Act with a view to recommending amendments to modernize it. Proposed amendments will be ready for discussion with government by December 2012, and for submission to parliament by the government by June 2013. In order to enhance the operational independence of RBM, the government agrees to include an amendment to limit the outstanding amount of the government's total borrowing of all kinds from RBM. Currently, the RBM Act limits the amount of advances to the government but has no limits on other forms of RBM lending to the government (e.g., through holdings of treasury bills).

Financial Sector Reforms

29. Financial stability indicators suggest that the banking sector in Malawi remains sound. Non-performing loans are at low levels—their share as a ratio of total loans was about 4 percent in 2011. However, the deterioration in the macroeconomic environment in the last two years has elevated the risks to banks' portfolios. The RBM has intensified its monitoring and surveillance of the financial system with a view to detecting at an early stage emerging threats to financial stability. The RBM has adopted a risk-based supervision approach to examining bank performance and is working with banks to enhance their stress-testing capacities and practices. The RBM currently compiles the results of its stress-testing of banks on a semi-annual basis and will begin publishing the report of its analysis starting with the report for end-March 2012, which will be published by end-July 2012. The RBM is establishing Basel II governance structures and committees, with full compliance with Basel II principles envisaged for January 2014.

30. Two credit reference bureaus are currently operating in Malawi. These bureaus, underpinned by sound legal and regulatory framework for the sharing of credit information, should bring down the cost of lending by lowering credit risks through easier identification of sound borrowers.

31. The RBM is strengthening its supervision of nonbank financial institutions. Two departments have been established for this purpose; one focusing on pension and insurance sectors and the other on microfinance. Extending the supervisory framework to the non-bank institutions would help ensure an equal playing field for all participants in the financial market and prevent a situation where risks are built up in the non-bank financial sector.

32. To deepen financial intermediation and ensure financial inclusion, government has developed a financial sector strategy and launched a National Strategy for Financial Inclusion. The financial sector strategy is envisaged for cabinet approval by end-December 2012. The World Bank, through technical assistance, continues to provide support towards achieving the attainment of inclusive finance for growth and financial deepening and competiveness. Ensuring increased access of the population (including small- and medium-sized enterprises (SMEs)) to finance is critical for expanding production and job creation and key to the attainment of the overarching goal of inclusive growth.

33. With the support of development partners, the government is in the process of establishing the Malawi Financial Sector Deepening Trust (MFSDT). The trust will support the development of financial markets in Malawi as a means to stimulate wealth creation and reduce poverty. Working in partnership with the financial services industry, the Trust will be used to significantly expand access to financial services among lower-income households and small and medium-sized enterprises both in urban and rural areas. The trust will operate independently under the supervision of professional trustees, with policy guidance from a program investment committee (consisting of representatives of donors and the government).

Enhancing International Competitiveness

34. A number of indicators of external competitiveness suggest that Malawi is lagging behind its neighbors in this dynamic region of sub-Saharan Africa. Our share of regional exports to the world has declined sharply over time, and we rank behind our neighbors in indicators of the business environment such as transactions costs and infrastructure. In view of the push toward greater regional integration (including the Grand Tripartite Free Trade Area encompassing COMESA, EAC, and SADC), the government is determined to address these competitiveness issues. Although the recent liberalization of the exchange rate regime has addressed the issue of overvaluation of the kwacha, a key step towards enhancing Malawi's international competitiveness, the government recognizes that further steps are required, especially removal of structural bottlenecks—e.g., reliable and adequate supply of energy—that are holding back growth and diversification of the economy.

35. The government is developing a National Export Strategy (NES) through a participatory process involving a broad range of stakeholders. The NES seeks to transform Malawi from being a predominantly importing and consuming nation to becoming a producing and exporting nation. The NES will prioritize investment incentives to develop productive capacity, encourage foreign and domestic investment and ultimately create sustainable export capacity. The investment incentives for enhancing export capacity will focus on areas that contribute towards inclusive growth and have extensive forward and backward linkages in the economy, especially through potential for value addition. The NES takes a long run view of building productive capacity and has a 10–15 year horizon and builds upon and synchronizes a number of existing government policies, frameworks and initiatives. The NES is expected to be launched in the second half of 2012.

Information Sharing, Data Quality and Capacity Building

36. In order to enhance economic policy making, we will adopt processes and practices to improve real time information sharing among departments in the Ministry of Finance (Revenue, Expenditure, Debt and Aid Management, Economic Affairs), and between the Ministry of Finance and the RBM. This will involve more effective use of the Integrated Financial Management Information System (IFMIS) and is expected to improve the quality of public finance data. The Ministry of Finance (Treasury) will provide more timely information on government operations to the RBM to help the latter conduct more effective liquidity management and foreign exchange operations.

37. In view of the recent revelation of reporting of inflated revenue data to parliament, the government has decided that the Malawi Revenue Authority should publish its monthly revenue collections in the local media with a lag of no more than a month.

38. The government is grateful for the assistance it has received from the IMF and other partners to build capacity for the compilation and dissemination of economic statistics. We continue to need assistance to improve the quality of a wide range of statistics, including national accounts, prices, and the balance of payments. We are also in need of assistance to build capacity for the production of high frequency indicators of economic activity to guide timely policy making.

V. Program Monitoring

39. Program implementation will be monitored with quantitative financial targets and structural benchmarks (see Tables 1 and 2 below), and quarterly reviews in the first year of the program and semi-annual reviews thereafter. Definitions of key concepts and indicators, as well as reporting requirements, are set out in the accompanying Technical Memorandum of Understanding. The first review is scheduled to be completed by mid-December 2012 based on the end-September 2012 test date and the second review by mid-March 2013 based on the end-December 2012 test date. Performance criteria are also being established for end-March 2013 and end-June 2013.

40. Performance criteria will be set on: (i) net domestic assets of the RBM; (ii) net international reserves of the RBM; (iii) net domestic borrowing by the central government; (iv) new non-concessional external loans contracted or guaranteed by the central government; and (v) accumulation of external arrears by the government or RBM. There are also continuous performance criteria which include the criterion on non-imposition or intensification of exchange restrictions on the making of payments and transfers for current international transactions (in line with Malawi's obligations under Article VIII of the IMF's Articles of agreement). In addition, there are indicative targets on reserve money and on government expenditure on the social sectors and social protection programs. The program also contains a set of structural benchmarks to underpin fiscal discipline and monitor

structural reforms in the areas of public financial management, operational independence of the RBM, and financial system stability.

41. The RBM stands ready to undergo a safeguards assessment before the completion of the first review under the new ECF arrangement.

ATTACHMENT II.

TECHNICAL MEMORANDUM OF UNDERSTANDING (TMU)

1. This memorandum sets out the understandings between the Malawian authorities and the International Monetary Fund regarding the definitions of quantitative performance criteria, benchmarks, and indicative targets for the program supported by the ECF arrangement, and the related reporting requirements.

2. **Coverage:** The central government includes all units of government that exercise authority over the entire economic territory. However, in contrast to the System of National Accounts 1993 (SNA 1993) and Government Finance Statistics Manual 2001 (GFSM 2001) standards, nonprofit institutions that are controlled and financed by the central government are excluded for purposes of this memorandum. The accounts of the monetary authorities include those of the RBM. Monetary aggregates under the program are based on the twelve-bank monetary survey.

II. QUANTITATIVE PERFORMANCE CRITERIA: DEFINITIONS AND DATA SOURCES

A. Floor on Net International Reserves of the RBM

3. **Definition of net international reserves (NIR) of the RBM:** The NIR of the RBM is defined as gross reserves minus IMF and other short-term liabilities. The values of all foreign assets and liabilities will be converted into U.S. dollars at each test date using the program cross exchange rates for the various currencies and then converted into kwacha using the program exchange rate for the U.S. dollar–kwacha exchange rate. The program exchange rate of the Malawi Kwacha to the U.S. dollar is set at MK260 = US$1. The corresponding cross exchange rates and program gold price for the duration of the program are in Table 3.

4. **Gross reserve assets of the RBM** are defined in the International Reserves and Foreign Currency Liquidity Guidelines for a Data Template as external assets immediately available and controlled by RBM "for meeting balance of payments financing needs, for intervention in exchange markets to affect the currency's exchange rate, and for other related purposes (such as maintaining confidence in the currency and the economy, and serving as a basis for foreign borrowing)." (*BPM6,* paragraph 6.64).

5. **This concept includes the following:** (1) monetary gold holdings of the RBM; (2) holdings of SDRs; (3) the reserve position in the IMF; (4) foreign convertible currency holdings; (5) deposits held in foreign central banks, the Bank for International Settlements, and other banks; (6) loans to foreign banks redeemable upon demand; (7) foreign securities; and (8) other unpledged convertible liquid claims on nonresidents. It excludes the following: (1) any foreign currency claims on residents; (2) capital subscriptions in international institutions; (3) foreign assets in nonconvertible currencies; (4) transfers of foreign currency

claims to RBM by other institutional units in Malawi just prior to reporting dates with accompanying reversals of such transfers soon after those dates; (5) gross reserves that are in any way encumbered or pledged, including, but not limited to: (i) assets blocked when used as collateral for third party loans and third-party payments, pledged to investors as a condition for investing in domestic securities, and (ii) assets lent by RBM to third parties that are not available before maturity, and are not marketable.

6. **Gross reserve liabilities of the RBM** are defined as the sum of the following: (1) SDR allocations; (2) outstanding medium and short-term liabilities of the RBM to the IMF; and (3) all short-term foreign currency liabilities of the RBM to nonresidents with an original maturity of up to, and including, one year.

7. **Definition of budget support:** Budget support includes all grants and foreign financing not directly linked to additional budgetary expenditure. Excluded from this definition is external project financing to fund particular activities, including food security funding from the European Union and loan financing from the IMF, and donor inflows (in kwacha) from the U.S. dollar–denominated donor pool accounts for the health SWAp, education SWAp, agricultural SWAps, and National AIDS Commission (NAC) held in the Malawi banking system.

8. **Adjustment clause on NIR—budget support:** The floor on the NIR of the RBM will be adjusted upward by the full amount by which the cumulative receipts from the budget support are greater than US$30 million above the program baseline (See Table 1). The floor on NIR of the RBM will be adjusted downward by the full amount up to a maximum of US 10 million by which the cumulative receipts from the budget support are less than the program baseline. Budget support is measured as the cumulative flow from the beginning of the fiscal year.

9. Adjustment clause on NIR—donor accounts for the social sector (including health, education, and other SWAps, and National AIDS Commission (NAC): The floor on the NIR of the RBM will be adjusted downward by the amount by which the donor inflows (in kwacha) from the U.S. dollar–denominated donor accounts for SWAps and NAC held in the RBM are smaller than the donor inflow (in kwacha) to those accounts in the program baseline. The downward adjustment will be capped at US$ 30 million. Donor inflows are measured as the receipts (in kwacha) by the budget from the beginning of the fiscal year.

10. **Adjustment clause on NIR—debt service payments:** The floor on NIR of the RBM will be adjusted upward (downward) by the full cumulative amount by which debt service payments to the World Bank and the African Development Bank (ADB) fall short of (exceed) the program baseline. The cumulative amount will be measured from the beginning of the fiscal year.

11. The total downward adjustment to NIR from a shortfall of (i) budget support and (ii) donor inflows to the donor accounts for the social sector relative to the program

assumptions, and (iii) an excess of debt service payments to the World Bank and the African Development Bank (ADB) relative to the program assumptions will be capped at US$40 million. The floor on the NIR of the RBM will be adjusted upward by the full amount by which the cumulative receipts from the budget support are greater than US$30 million above the program baseline and by the full cumulative amount by which debt service payments to the World Bank and the African Development Bank (ADB) fall short of the program baseline.

12. For this target and those for external debt and arrears, valuation will be in U.S. dollars, using the above defined program exchange rates.

13. Data on NIR, including its components, will be reported by the RBM on a weekly and end-month basis.

B. Ceiling on the Net Domestic Assets of the Reserve Bank of Malawi and Reserve Money

14. **Definition of net domestic assets (NDA) of the RBM:** NDA of the RBM are defined in kwacha terms as end-quarter reserve money less NFA of the RBM at the program exchange rate. Reserve money consists of currency issued by the RBM and balances of commercial banks' accounts with the RBM. It includes required reserves held for Malawi kwacha deposits and any other domestic currency reservable liabilities and other demand and time deposits held with the RBM. The NDA program ceilings are the indicative money targets defined below less the NFA of the RBM.

15. **Definition of NFA of the RBM:** The NFA of the RBM are defined as the above-defined NIR plus other foreign assets of the RBM—including but not limited to: (1) capital subscriptions in international institutions; (2) foreign assets in nonconvertible currencies; and (3) gross reserves that are in any way encumbered or pledged, less any medium- and long-term foreign liabilities of the RBM.

16. **Adjustment clause on NDA—budget support:** The ceiling on NDA of the RBM will be adjusted downward by the full amount by which the cumulative receipts from the budget support are greater than US$30 million above the program baseline. The ceiling on NDA of the RBM will be adjusted upward by the amount by which the cumulative flow of receipts from budget support are less than the program baseline, up to a maximum of $30 million. The kwacha value of the cumulative shortfall (excess) will be calculated at the program exchange rate. Budget support is measured as the cumulative flow from the beginning of the fiscal year.

17. **Adjustment clause on NDA—donor pool accounts for the social sector (including health, education, and other SWAps, and NAC):** The ceiling on NDA of the RBM will be adjusted upward by the amount by which the donor inflows (in kwacha) from the U.S. dollar–denominated donor accounts for the SWAps and NAC held in the RBM fall

short of the donor inflow (in kwacha) to those accounts in the program baseline. The upward adjustment will be capped at US$30 million. Donor inflows are measured as the receipts received (in kwacha) by the budget. Donor inflows are measured from the beginning of the fiscal year.

18. **Adjustment clause on NDA—debt service payments:** The ceiling on NDA of the RBM will be adjusted downward (upward) by the full cumulative amount by which debt service payments to the World Bank and the ADB falls short of (exceeds) the program baseline (Table 1). The cumulative amount will be measured from the beginning of the fiscal year.

19. The total upward adjustment to NDA from a shortfall of (i) budget support (ii) donor inflows to the donor accounts for the social sector relative to the program assumptions and (iii) an excess of debt service payments to the World Bank and the African Development Bank (ADB) relative to the program assumptions will be capped at US$40 million. The downward adjustment to NDA will reflect the full amount by which the cumulative receipts from the budget support are greater than US$30 million above the program baseline and by the full cumulative amount by which debt service payments to the World Bank and the African Development Bank (ADB) fall short of the program baseline.

20. **Adjustment clause on NDA—liquidity reserve requirement:** The ceiling on NDA of the RBM will be adjusted downward for a decrease in the reserve requirement ratio on domestic deposits, and will be adjusted upward for an increase in the ratio. The adjustment will be spread equally over two quarters, starting in the quarter in which the reserve requirement ratio is reduced. The adjuster will be calculated as follows: (one minus the existing required percentage of reserve assets) multiplied by (the program baseline required reserve ratio minus the new required reserve ratio) multiplied by (the amount of average reservable deposit liabilities in commercial banks during the last month before the change in regulation).

C. Ceiling on Central Government Net Domestic Borrowing (CGDB)

21. **Definition of CGDB:** CGDB is computed as the sum of (1) net borrowing from the RBM (including ways and means advances, loans, holdings of local registered stocks, government bonds, and holdings of treasury bills minus deposits); (2) net borrowing from commercial banks (including advances, holdings of local registered stocks, and holdings of treasury bills minus deposits); (3) net borrowing from nonbanks (including, but not limited to, holdings of local registered stocks and holdings of treasury bills); and (4) holdings of promissory notes. The treasury bills and locally registered stocks are valued at cost rather than face value. The ceiling is measured as the change in the stock of CGDB since June 30, 2012, including promissory notes and securities transferred to the RBM from the treasury since the beginning of the fiscal year. Transfers from extra-budgetary funds will not be considered revenues for this performance criterion. They will be treated the same as

borrowing from the private sector (as their accounts are outside the definition of government) and therefore as domestic borrowing. Asset sales or privatization revenues will be accounted for under financing as a separate category, separate from domestic or foreign financing in calculating CGDB.

22. **Definition of domestic arrears:** Domestic arrears are overdue payment obligations of the central government other than external payment arrears, including on wages and salaries, pensions, transfers, domestic interest, goods and services, obligations arising from court cases, legally established compensation claims, and tax refunds. Payments on wages and salaries, pensions, transfers, court-established obligations, and compensations are in arrears when they remain unpaid for more than 30 days beyond their due date. Domestic interest payments are in arrears when the payment is not made on the due date. Payments for goods and services are deemed to be in arrears if they have not been made within 90 days of the date of invoice, or—if a grace period has been agreed—within the contractually agreed grace period.

23. **Adjustment clause on CGDB—budget support:** The ceiling of CGDB will be adjusted downward (upward) by the full amount by which cumulative kwacha receipts from budget support are greater (less than) the program baseline. The upward adjustment will be capped at US$30 million. In the event of excess budget support, the ceiling on CGDB will be adjusted by the full amount less US$30 million. The kwacha value of the cumulative shortfall (excess) will be calculated at the program exchange rate. Budget support is measured as the cumulative flow from the beginning of the fiscal year.

24. **Adjustment clause on CGDB—donor accounts for the social sector (including health, education, and other SWAps, and NAC):** The ceiling on CGDB will be adjusted upward by the full amount by which the donor inflows (in kwacha) from the U.S. dollar–denominated donor accounts for health, education, and other SWAps, and NAC held in RBM are smaller than the donor inflows (in kwacha) to those accounts in the program baseline. The upward adjustment will be capped at US$30 million. Donor inflows are measured as receipts received (in kwacha) by the budget. Donor inflows are measured from the beginning of the fiscal year.

25. **Adjustment clause on CGDB—debt service payments:** The ceiling (floor) on CGDB will be adjusted downward (upward) by the full cumulative amount by which debt service payments to the World Bank and the ADB fall short of (exceed) the program baseline. The cumulative amount will be measured from the beginning of the fiscal year.

26. **The total upward adjustment to CGDB** from a shortfall of (i) budget support (ii) donor inflows to the donor accounts for the social sector relative to the program assumptions and (iii) an excess of debt service payments to the World Bank and the African Development Bank (ADB) relative to the program assumptions will be capped at US$[40] million. The downward adjustment to NDA will reflect the full amount by which the cumulative receipts from the budget support are greater than US$30 million above the

program baseline and by the full cumulative amount by which debt service payments to the World Bank and the African Development Bank (ADB) fall short of the program baseline.

D. Ceiling on External Payment Arrears

27. **Definition of external payment arrears:** External payment arrears consist of debt-service obligations (principal and interest) of the central government or the RBM to nonresidents that have not been paid at the time they are due, as specified in contractual agreements, except on external debt subject to rescheduling or restructuring. This performance criterion will be monitored on a continuous basis.

E. Ceiling on Nonconcessional External Debt

28. **Definition of nonconcessional external debt:** The definition of debt, for the purpose of the limit, is set out in Executive Board Decisions No. 6230-(79/140) August 3, 1979, and as amended by Decisions No. 11096-(95/100), October 25, 1995; 12274-(00/85) August 24, 2000; and 14416-(09/91), August 31, 2009. For program purposes, short-, medium-, and long-term debt is nonconcessional if it includes a grant element of less than 35 percent, as indicated in Decision No. 11248-(96/38), April 15, 1996. The ceiling on nonconcessional debt applies to the contracting and guaranteeing of debt with nonresidents by the central government, the RBM, public enterprises, and other official sector entities, unless an explicit selective exclusion is made. This performance criterion is monitored on a continuous basis. The ceiling applies to debt and commitments contracted or guaranteed for which value has not been received. The ceiling is measured cumulatively from the beginning of the fiscal year.

29. **Short-term debt:** Outstanding stock of debt with an original maturity of one year or less.

30. **Medium- and long-term debt:** Outstanding stock of debt with a maturity of more than one year.

31. Excluded from the limit is the use of IMF resources, and any kwacha-denominated treasury bill and local registered stock holdings by nonresidents. Excluded from the limit are also (i) debts classified as international reserve liabilities of the RBM; (ii) new debt issued to restructure, refinance, or repay existing debt up to the amount actually used for the above-mentioned purposes; (iii) normal import financing; and (iv) arrangements to pay overtime obligations arising from judicial awards to external creditors. A financing arrangement for imports is considered to be "normal" when the credit is self-liquidating.

III. Quantitative Indicative Targets and Structural Benchmarks

32. **Definition of reserve money:** Reserve money is defined as the sum of currency issued by the RBM, including the vault cash of commercial banks, and balances of commercial bank accounts with the RBM. It includes required reserves held for kwacha

deposits, other domestic currency liabilities, and other demand and time deposits held with the RBM. The reserve money targets are the projected end-quarter values starting with end-September r 2012 to end-December 2013.

33. **Definition of social spending:** Using functional classification of expenditure, social spending is computed as the sum of central government spending on health, education, the farm input subsidy program, and government social protection (comprising the government expenditures by the ministry of gender, children and social welfare, the ministry of disability and elderly affairs, and the local development fund) . In order to maintain Malawi's commitment and progress toward poverty reduction and the MDGs, the social spending allocations in the government budget will not be adjusted downward to meet fiscal targets of the program (Table 4).

IV. Reporting of Certain Transactions in the Fiscal Accounts

34. **Donor pool–funded expenditures in support of the SWAps:** The Government of Malawi has embarked on an integrated program of service delivery in the health and education sectors (the so-called SWAps). In support of the health and education SWAps, some donors pool resources (the donor pool), and release these resources through normal government procedures (i.e., recurrent budget or development Part II budget) to the relevant sector. Financial flows into and out of this account will be reported on a monthly basis from the beginning of the fiscal year.

35. **Farm input subsidy program:** The government has embarked on a program of subsidizing agricultural inputs, in particular, fertilizer, to smallholder farmers to improve agricultural production, financed by the budget. The spending on the farm input subsidy program will be reported quarterly from the beginning of the fiscal year.

V. Exchange Regime

36. **Avoiding multiple currency practices and exchange restrictions:** The RBM will ensure on-going assessment of the foreign exchange regime with support from IMF to ensure the consistency of the regime with Malawi's obligations under Article VIII. The RBM will continue to work towards ensuring that the spread between the official exchange rate and other market determined rates (bureau and parallel market rates) fall within 2 percent. The RBM will abide by the continuous PC on non-introduction or intensification of exchange restrictions and multiple currency practices.

VI. Reporting Requirements

37. Monitoring of the program requires that the information listed in Table 5 below be reported to the IMF within the timeframe indicated.

Table 1. Malawi: Quantitative Targets [1]

	Criteria [2]	End-Mar 2012 Stock Prel.	End-June. 2012 Stock Proj.	End-Sep. 2012 Prog.	End-Dec. 2012 Prog.	End-Mar. 2013 Prog.	Indicative End-Jun. 2013 Prog.
I. Monetary targets (millions of kwacha)							
1. Ceiling on net domestic assets of the RBM [3,4, 5, 6]	PC	119,709	114,579	109,417	118,542	106,256	100,930
2. Ceiling on reserve money[3]	IT	89,168	76,178	88,210	97,809	99,120	105,830
II. Fiscal targets (millions of kwacha)							
3. Ceiling on central government's net domestic borrowing [5,6,7]	PC			-11,988	18,500	11,609	0
4. Floor on social spending [8]	IT			39,034	94,044	121,798	151,899
III. External sector targets (US$ millions, unless otherwise indicated)							
5. Floor on net international reserves of the RBM[3, 5, 6]	PC	-7	-49	17	19	71	118
6. Ceiling on the accumulation of external payments arrears [7,9]	PC			0	0	0	0
8. Ceiling on new nonconcessional external debt maturing in more than one year [9]	PC			0	0	0	0
9. Ceiling on new nonconcessional external debt maturing in one year or less [9]	PC			0	0	0	0
10. Prohibition on the imposition or intensification of restrictions on the making [9,10] of payments and transfers for current transactions [9,10]	PC		…				
Memorandum items:							
Net foreign assets of the RBM (US$ millions)		-117	-148	-82	-80	-27	19
Budget support (US$ millions)				86	86	151	208
Budget support (millions of kwacha)				21,945	21,945	38,926	53,864
Debt service payments to the World Bank and African Development Bank (millions of kwacha)							
Health SWAp receipts (millions of kwacha)				5,248	5,364	7,771	7,771
Education SWAp receipts (millions of kwacha)				8,378	13,221	17,073	19,049
NAC receipts (millions of kwacha)				4,777	7,315	10,019	12,220
Program exchange rate (kwacha per US$)		260	260	260	260	260	260

Sources: Reserve Bank of Malawi; Malawi Ministry of Finance; and IMF staff estimates.

[1] Targets are defined in the technical memorandum of understanding (TMU). Presentation uses stocks for all PCs except for the ceiling on the government's net domestic borrowing.

[2] "PC" means Performance Criterion, and "IT" means Indicative Target.

[3] Defined as stocks. All stocks of NDA adjusted for consistency with the program definition (specified in the TMU).

[4] Target is subject to an adjuster for liquidity reserve requirement.

[5] Targets are subject to an adjuster for budget support and debt service payments.

[6] Targets are subject to an adjuster for donor-funded social sector expenditures consistent with the TMU.

[7] Defined as a cumulative flow.

8 Priority social spending as defined and quantified in the TMU.

9 Evaluated on a continuous basis.

10 Other standard PCs include introducing or modfying MCPs, concluding bilateral payments agreements that are inconsistent with Article VIII, and imposing or intensifying import restrictions for balance of payment reasons.

Table 2. Malawi: Structural Benchmarks, 2012–13

Measure	Status/Target Date	Macro Rationale	Status
Prior Actions			
Parliamentary passage of a budget for FY 2012/13 in line with program objectives		Toward fiscal sustainability	Done
Structural benchmarks			
Fiscal transparency			
Publish monthly revenue collections of the Malawi Revenue Authority in newspapers within two weeks of the end of the month.	7/31/2012	Build credibility after recent incidents of inflation of revenue data by the Ministry of Finance.	
Public financial management			
Provide Ministries, Departments and Agencies with quarterly spending ceilings consistent with quarterly fiscal targets in the program, and enforce ceilings.	Begin in Sept 2012 for FY2012/13 Q2 and quarterly thereafter	Keep spending within available resource envelope.	
Verify existing stock of government domestic arrears and formulate a plan for settling verified claims.	31-Dec-12	Ascertain magnitude of government obligations.	
Configure the IFMIS Purchase Order (PO) module to support commitment control.	31-Dec-12	To restrain creation of arrears.	
Progressively extend processes for capturing donor funded project transactions in IFMIS to all projects where bank accounts are controlled by the government of Malawi.	31-Mar-13	Fuller accounting for impact of aid flows on the budget.	
Monetary Policy			
Amend RBM Act to limit the outstanding amount of RBM's total lending to government.	30-Jun-13	Reduce fiscal dominance to enhance effectiveness of monetary policy.	
Financial sector			
RBM to publish a financial stability report on a semi-annual basis, with a lag of no more than four months. Start with publication of report for quarter ending March 2012.	Semi-annual, starting in July 2012.	Promote financial stability.	
Obtain approval and begin implementation of the Financial Sector Development Strategy	31-Dec-12	Financial deepening.	

Table 3. Malawi: Cross Rates for Nominal Exchanges Rate and Gold Price for the 2012–13 Program

	March 31, 2012
Gold bullion LBM[1] US$/troy ounce	1,668.350
SDR to US$ exchange rate	0.649
Euro to US$ exchange rate	0.758
Yen to US$ exchange rate	82.435
Yuan to US$ exchange rate	6.308
Rand to US$ exchange rate	7.611
UK £ to US$ exchange rate	0.632

Source: IFTS, RBM

[1] LBM connotes London Bullion Market.

Table 4. Malawi: Breakdown of Social Expenditures in 2012/13

	2012/13	Q1	Q2	Q3	Q4
Health Expenditure					
Wages	13,836.67	2,767.33	3,459.17	3,459.17	4,151.00
Other Recurrent					
Ministry of Health ORT	9,134.48	2,283.62	2,283.62	2,283.62	2,283.62
Local Assemblies ORT	9,076.92	2,269.23	2,269.23	2,269.23	2,269.23
Subvented Organisations	100.00	25.00	25.00	25.00	25.00
Development Part II	3,461.00	865.25	865.25	865.25	865.25
Total Health	**35,609.07**	**8,210.43**	**8,902.27**	**8,902.27**	**9,594.10**
Education Expenditure					
Wages	32,646.48	6,529.30	8,161.62	8,161.62	9,793.94
Other Recurrent					
Ministry of Education ORT	12,537.59	3,134.40	3,134.40	3,134.40	3,134.40
Local Assemblies ORT	5,691.99	1,423.00	1,423.00	1,423.00	1,423.00
Subvented Organisations	13,758.03	3,439.51	3,439.51	3,439.51	3,439.51
Development Part II	7,126.45	1,781.61	1,781.61	1,781.61	1,781.61
Total Education	**71,760.55**	**16,307.81**	**17,940.14**	**17,940.14**	**19,572.46**
Farm Input Subsidy Program	**40,884.00**	**13,628.00**	**27,256.0**	**0**	**0**
Gender, Children and Social Welfare					
Wages	415.72	83.14	103.9	103.9	124.72
Other Recurrent	169.53	42.38	42.38	42.38	42.38
Development Part II	295.00	73.75	73.75	73.75	73.75
Total Gender, Children and Social Welfare	**880.24**	**199.28**	**220.06**	**220.06**	**240.85**
Disability and Elderly Affairs					
Wages	53.40	10.68	13.4	13.4	16.02
Other Recurrent	15.89	3.97	3.97	3.97	3.97
Development Part II	80.75	20.19	20.19	20.19	20.19
Total Disability and Elderly Affairs	**150.05**	**34.84**	**37.51**	**37.51**	**40.18**
Local Development Fund	**2,501.87**	**625.47**	**625.47**	**625.47**	**625.47**
Total Social Expenditure	**151,785.78**	**39,005.83**	**54,981.45**	**27,725.45**	**30,073.06**
Cumulative Quarterly Targets		**39,005.83**	**93,987.28**	**121,712.72**	**151,785.78**

Source: Malawi authorities.

Table 5: Reporting Requirements

Data Description	Data Freq.	Reporting Agency	Reporting Freq.	Delivery Lag	Delivery Date	Delivery Mode
Gross international reserves, exchange rate, and foreign exchange purchases and sales	D	RBM	W	2	F	E
Reserve money and its components (NDA and NFA), OMO transactions, and RBM conversion of treasury bills; RBM balance sheet	W	RBM	M	30	30	E
Daily exchange rate	D	RBM	W	1	F	E
Treasury bill auction results	W	RBM	W	2	F	E
Spread between bureau midrate and the official exchange midrate	W	RBM	M	30	30	E
Spread between commercial bank midrate and the official exchange midrate	W	RBM	M	30	30	E
International Reserve and Foreign Currency Liquidity Data Template	M	RBM	M	30	30	E
Central government domestic borrowing	M	RBM	M	30	30	E
Interest rates	M	RBM	M	30	30	E
Holdings of local registered stocks and treasury bills	M	RBM	M	30	30	E
Detailed issue and maturity profile for treasury bills	M	RBM	M	30	30	E
Excess reserves by bank	W	RBM	M	30	30	E
Details of project and balance of payment support	M	RBM	M	30	30	E
FCDA Holdings	M	RBM	M	30	30	E
RBM foreign exchange cash flow	M	RBM	M	30	30	E
Foreign exchange exposure limits by bank	M	RBM	M	30	30	E
Bank statements of the Health SWAp account held at RBM	M	RBM	M	30	30	E
Full banking survey (on monthly basis)	M	RBM	M	45	15	E
Financial soundness indicators by banks	Q	RBM	Q	45	T15	E
NAC consolidated statement of sources and uses of funds (cashflow statement)	M	MOF	M	30	30	E
Health SWAp statement of sources and uses of funds	M	MOF	M	30	30	E
Fiscal table (GFS) including revenue, expenditure, and financing	M	MOF	M	30	30	E
Revenue data (from MRA)	M	MOF	M	30	30	E
D\ata on expenditure for domestically financied capital projects	M	MOF	M	30	30	E
New external loans contracted or guaranteed by the central government[1]	Q	MOF	Q	30	T30	E
External debt services (actual and projections)	Q	MOF	Q	30	T30	E
Borrowing of all major parastatals[2]	Q	MOF	Q	45	T15	E
Annual Financial reports of the eight (8) major parastatals and MSB	A	MOF	Q	90	30	H
Report on IMF program performance	Q	MOF	Q	45	T15	E
Statement on new arrears	Q	AuG	Q	45	T15	E
Consumer price index and monthly statistical bulletin	M	NSO	M	30	30	E
Import and export data	M	NSO	M	45	T15	E
Balance of payments, and quarterly statistical bulletin	Q	NSO	Q	45	T15	E
National accounts, balance of payments, and quarterly statistical bulletin	A	NSO	BA	45	T15	E

D- Daily, W-Weekly, M-Monthly, Q-Quarterly, BA-Bi-annual, F-Friday, 30-Every 30th, T30-Every third 30th, E-Electronic, H-Hard Copy

1Detailed information on the amounts , currencies, terms, and conditions, including debt contracted or guaranteed by the RBM or any other agency on behalf of the central government.

2 Agriculture Development and Marketing Corporation, Air Malawi, Electric Supply Company of Malawi. M*alawi Development Corporation,* Malawi Housing Corporation, Malawi Postal Corporation, Malawi Telecommunications Ltd., Northern Regional Water Board.