International Monetary Fund

Malawi and the IMF

Press Release:
IMF Executive Board Completes Seventh and Eighth Reviews under Malawi's ECF Arrangement and Approves US$ 76.8 Million Disbursement

June 20, 2016

Country's Policy Intentions Documents

E-Mail Notification
Subscribe or Modify your subscription

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

June 2, 2016

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.

Letter of Intent

June 2, 2016

Madam Christine Lagarde
Managing Director
International Monetary Fund
700, 19th Street, N.W.
Washington, D.C. 20431
United States

Dear Madam Lagarde:

1. On March 23, 2015, the Executive Board of the International Monetary Fund (IMF) completed the fifth and sixth reviews under the three year Extended Credit Facility (ECF) arrangement for Malawi and extended the arrangement to May 2016. This letter and the attached Memorandum of Economic and Financial Policies (MEFP) report on recent economic developments and performance under the ECF arrangement since that time, and on the policies we plan to implement in the remainder of fiscal year 2015/16 as well as over the medium term.

2. Following the last Board meeting, program implementation initially suffered from policy slippages that prevented the completion of the seventh review, but these have now been corrected. In particular, we missed the end-June 2015 performance criterion (PC) on net domestic financing by a large margin. Most programmed public financial management reforms were not met. However, we made good progress with structural reforms in the financial sector.

3. Since that time, however, the momentum of our reform process has increased considerably. In particular, net domestic financing at end-December 2015 was contained substantially within the program's ceiling. This improvement was facilitated by the institution of commitment controls mandating that spending units submit detailed monthly fiscal reports as a condition for receiving regular funding. All other PCs for end-December 2015 were also met except that for net international reserves. At the same time, we have kept monetary policy tight and improved our policy framework by better aligning the interbank rate with the policy rate. We strongly believe that the appropriate adjustments in monetary and fiscal policies are having their intended effects as underlying non-food inflation has declined for the fifth consecutive month. With support from the Fund and other development partners, we have also made good progress in strengthening our public financial management system. We have prepared a report on the stock and flows of domestic arrears at end-2015 as prior actions for completion of the seventh and eight reviews.

Bank reconciliations for our main government account and five of the six operational accounts for the first half of FY15/16 are pending.

4. We remain committed to the objectives of the original ECF arrangement, namely attaining strong inclusive growth, single digit inflation, and an increase of reserves to at least three months of import cover. Important to these ends will be preservation of our flexible exchange rate regime and automatic fuel pricing mechanism, both of which have served us well since 2012. We will continue to keep monetary and fiscal policies tight to reduce inflation. Our revised fiscal program for FY2015/16 has been approved by parliament and is in line with the program, and we have reached agreements with your staff on the broad contours of the FY16/17 fiscal framework. With donor assistance, we have also responded to the humanitarian needs of some 2.8 million Malawians. However, the program faces elevated risks arising from the prolonged effects of the El Niño-induced drought, including that we now face potentially higher costs of providing more humanitarian assistance and replenishing depleted grain stocks in the context of region-wide food insecurity.

5. We are requesting waivers for the nonobservance two periodic performance criteria. The performance criterion (PC) on net domestic borrowing was missed at end-June 2015 due mainly to the unplanned recruitment of teachers, revenue shortfalls, and unbudgeted wage increases. We are requesting a waiver for this on the basis of the strong remedial actions we have since taken to bring domestic borrowing back on track and into conformity with the end-December 2015 target. The PC on net international reserves was missed at end-December 2015 because of the effects of the El Niño-induced drought on exports and a strengthening of the dollar relative to the currencies of our region. We request a waiver for this on the basis of the tightening of our policy stance. At the same time the flexible exchange rate regime continues to serve us well in responding to external shocks.

6. On the basis of our overall performance, the corrective actions that are being taken, as well as, the strength of policies set forth in the attached MEFP, we request that the Executive Board of the IMF complete the seventh and eighth reviews under the ECF arrangement and release the eighth and ninth tranches totaling SDR 19.52 million. We also request an extension of the arrangement by 6 months to end-December 2016 to allow for the completion of the ninth review. We also request an augmentation of access of 25 percent of quota under the program to respond the El-Niño-induced shock.

7. We believe that the policies set forth in the attached 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 the Fund on the adoption of these measures, and in advance of

any revisions to the policies contained in the MEFP, in accordance with the IMF's policies on such consultation. Moreover, we will provide the IMF with such information as they request in connection with progress in implementing our policies and obtaining the objectives of the program.

8. The Government of Malawi authorizes the IMF to make this letter and the attached MEFP and Technical Memorandum of Understanding available to the public, including through the IMF internet website.

Yours sincerely,

/s/	/s/
Mr. Goodall Gondwe, Minister of Finance	Mr. Charles Chuka, Governor of the Reserve Bank of Malawi

Attachments:

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

Memorandum of Economic and Financial Policies June 2016

BACKGROUND

1. **This memorandum supplements the Memorandum of Economic and Financial Policies (MEFP) attached to the Letter of Intent** dated March 4, 2015, and describes recent developments and performance under the ECF arrangement since completion of the fifth and sixth reviews in March 2015. It also elaborates on the policies and structural reforms we intend to carry out in the year ahead to regain macroeconomic stability, improve our public financial management systems, and safeguard financial sector stability.

2. **The Government, led by His Excellency Professor Arthur Peter Mutharika, remains committed to correcting macroeconomic imbalances and setting the country on a path to sustainable and inclusive noninflationary growth.** In the sections below, we describe our policy agenda for significantly enhancing and accelerating our macroeconomic and structural reform process. Over the six months immediately following the conclusion of the fifth and sixth reviews some policy slippage occurred, that delayed program implementation. However, these have now been corrected and policy, both in the macroeconomic area and in our ambitious structural agenda, is now back on track. We intend to vigorously implement all the policy commitments set out in this memorandum, as evidenced by our completion of the prior actions in the public financial management (PFM) area. We also remain committed to the fundamental reforms adopted in 2012 that established a flexible exchange rate and cost recovery based fuel pricing mechanism, as we view these as necessary and appropriate to Malawi's present economic circumstances.

3. **The risks to the program have risen as the drought has continued for a second consecutive year.** On April 12, 2016 we announced a state of national disaster as the prolonged effects of the drought, which has already affected 2.8 million persons, is expected to place an estimated 8.4 million people at risk of food insecurity in the near term. The scale of the humanitarian needs had increased and the costs of procuring maize had risen owing to the region-wide effects of the drought and the possible necessity of importing some maize from outside the continent. Preliminary estimates of the maize deficit are about 1.1 million metric tons. Of this amount about 790,000 metric tons will be allocated to provide relief to the affected population and the remainder to replenish the strategic grain reserves and to stabilize prices. The total cost of the humanitarian efforts is estimated at about US$276 million. We have appealed to our development partners to assist with financing the humanitarian relief and are requesting IMF assistance through an

augmentation of access equivalent to 25 percent of quota. The requested augmentation will facilitate additional maize purchases by the Malawian government to contribute to the humanitarian relief.

RECENT ECONOMIC DEVELOPMENTS AND NEAR-TERM OUTLOOK

Recent Economic Developments

4. Weather-related shocks negatively impacted our growth in 2015 and, combined with some policy slippage, contributed to an uptick in inflation:

- **Real GDP grow this estimated to have declined by 2.7 percentage points to 3 percent in 2015.** Heavy floods and drought during the first quarter of the year decreased overall agricultural production by 1.5 percent of which the staple maize crop declined by 28 percent. This had negative impact on the manufacturing and trade sectors, which was only partially mitigated by relative good outturns in the information and communication, accommodation, and food service sectors.

- **Inflation**, after declining by 6 percentage points from end-2014 to 18 percent in March 2015, rose steadily to 24.9 percent at end-December2015, led by rising food prices and a sharp depreciation of the kwacha. Excessive domestic borrowing at this time was also a contributing factor. Inflation subsequently fell somewhat up to February 2016 but, at 23.4 percent, remained substantially above its level of a year ago. This was due, mainly however, to supply side effects, in particular the persistence of food inflation related to the poor harvest and low level of domestic supply. Core inflation—as measured broadly by the non-food component of the CPI basket—has been on a clear declining trend for the last five months, implying that our renewed commitment to appropriately calibrated demand management policies are beginning to have their intended effect.

- **We have largely met the needs of the 2.8 million people who were put in positions of food insecurity as a result of the poor maize harvest in 2015.** A major operation, coordinated by the World Food Program was launched at a cost of US$111 million, and later raised to US$127 million after the full extent of the situation became apparent. The Government of Malawi provided about US$22 million in funding, in cash and in the form of maize from our Strategic Grain Reserves (SGR), with the remainder generously provided by the donor community. This proved sufficient to meet basic needs up to the start of the 2016 harvest at end-April. While we are pleased with the relatively successful outcome of the operation, it has left us in a vulnerable position—our SGR is virtually exhausted, fiscal space is limited, and the countries that make up our traditional sources of imports are themselves being pressed on food security and are increasingly reluctant to export.

5. Budget execution suffered in latter part of the last fiscal year, but firm control was regained by the first half of FY15/16 (July to December):

- **In the period leading up to June 2015, tax and external financing shortfalls, and an unplanned recruitment of 10,500 teachers temporarily derailed our fiscal program.** While we took corrective expenditure measures of about ¾ percentage points of GDP, and benefited from almost ½ percentage points of GDP of unanticipated one-off nontax revenues, total domestic borrowing by the end of FY 2014/15 still exceeded our target by 2 percentage points of GDP.

- **However, by the end of the first half of FY 2015/16, we had regained firm fiscal control.** Revenues since December 2015 were marginally lower than projected, but we have exercised firm compensatory control over spending even when revenues have been much lower than anticipated. For example, we are now requiring detailed monthly fiscal reports from all spending units as a condition for the subsequent month's funding, and have withheld funding from some for noncompliance. As a result, net domestic financing for the first half of the 2015/16 fiscal year was held at a much lower level than programmed. In this process, we did miss our end-December 2015 indicative target (IT) on social expenditure (the outturn was MK140.9 billion compared with MK146.7 billion programmed). This was mostly due to a logistical delay in spending on the Farm Input Subsidy Program (FISP).

6. **We conducted a payroll audit to strengthen control over the wage bill** with donor funding. The payroll audit revealed a number of weaknesses in internal controls in management of the wage bill. We have since taken measures to deal with the weaknesses identified by (i) eliminating ghost workers; (ii) stopping illicit editing of the salary schedule; (iii) ceasing overstating salary funding; and (iv) eliminating employees beyond the retirement age. We also concluded a headcount in April 2016, which revealed that an estimated 10 percent of the labor force of 177,000 employees needed further tracking to establish their authenticity. We resolved to remove all the suspected employees from the payroll and examine their cases as they come forward to present them.
Of these, an extricated 2,300 are unquestionably physically non-existent in the system.
These measures are expected to result in a reduction in the wage bill by an estimated amount of MK4.1 billion this fiscal year.

7. **The auditing of old arrears has now been completed and incorporated into our fiscal framework.** Of the MK157 billion (6 percent of GDP), MK72 billion have been verified as legitimate arrears, MK30 billion were rejected due to the absence of supporting documentation and the remaining MK55 billion require additional documentation from Ministries, for which we have fixed a deadline of end-June, 2016. Regarding bone fide arrears, we have issued zero coupon bonds with one to three year maturities and have implemented reporting procedures to mitigate the emergence of new arrears.

8. **Similarly, we have now tightened monetary policy after the LRR was halved in July 2015.** In July 2015, the liquid reserve ratio (LRR) was cut in half. This measure was aimed at reducing banks' costs and thereby encouraging lower interest rates as a stimulus to bank lending and higher economic activity. Since then, we have absorbed the liquidity expansion from the change in the LRR and kept monetary conditions very tight. As a result, short-term interest rates have risen and are now positive in real terms, while liquidity in the interbank market has been markedly contained.

9. **The exchange rate depreciated significantly during the second half of 2015 up to early March, but is now appreciating.** The Kwacha depreciated by more than 34 percent from July 2015 to early March 2016, a trend broadly mirroring that of neighboring countries. It is likely that deteriorating expectations—including when our ECF arrangement went off-track—and the liquidity expansion of July 2015 following the LRR reductions also played a role in this. We intervened more than programmed to smooth volatility at various times but, on the whole, largely allowed the depreciation to run its course. In this manner, we managed to hold our reserve cover close to 3 months of imports.

10. The situations in both the interbank and foreign exchange markets have now improved significantly:

- Interbank rates have responded to the less liquid conditions and are now close to the policy rate of 27 percent, quite positive in real terms. To reduce volatility, we have introduced a deposit facility, set at 2 percentage points below the policy rate. Together with a Lombard facility at 2 percentage points above the policy rate, this establishes an interest rate corridor of +/- two percent around the policy rate—25 to 29 percent at current values. We expect the combination of these two facilities to help us keep the interbank rate close to the policy rate, and establish a true and binding opportunity cost of money. With the corridor rising and falling with changes in the policy rate, we would also expect a significant improvement in the monetary transmission mechanism, and hence more effective and efficient monetary policy.

- Partly in response to the tightened liquidity conditions, and also because of the beginning of the tobacco purchase season, the exchange rate has now strengthened, and up to May 2016 has regained 5.7 percent of its value. On the strength of this, we have also managed to purchase additional reserves in the market, and our stock now stands at 3.0 months of import cover as of May 2016.

PERFORMANCE UNDER THE PROGRAM

11. Our ECF arrangement suffered setbacks in the run-up to the seventh review, as a result of fiscal overruns and delays in implementing structural measures. Both net domestic assets (NDA) and net international reserves (NIR) of the Reserve Bank of Malawi (RBM) at end-June were met, but net domestic financing (NDF) was missed by a large margin (2 percent of GDP). The overrun on NDF was mainly due to the unplanned recruitment of teachers, unbudgeted wage increases, and revenue shortfalls. The remaining quantitative performance criteria (PCs) and indicative targets (ITs) were met, and good progress was made in implementing structural benchmarks (SBs) related to the financial sector. However, all PFM-related structural benchmarks—the cornerstone of our structural agenda—were missed.

12. Following this setback, and after witnessing a rebound in inflation due in part to the expansion of NDF, we re-committed ourselves to achieving our program goals. To this end, beginning in early FY 2015/16, we contained expenditure and reined in banking sector liquidity. As a result, by end-December 2015, NDF had been held well below the program target, despite widespread demand to expand expenditure in the face of what is undeniably strong domestic need. We resisted these pressures because we believe reducing inflation will bring greater benefits to the population as a whole and to vulnerable groups in particular, than would sporadic increases in government expenditure regardless of the efficiency with which it is executed. However, while we largely allowed the exchange rate to depreciate to adjust to a changing external environment, the effect of lower-than-expected export revenues, the need to carry out some limited smoothing in the foreign exchange market, and an unanticipated regional shift in preferences away from domestic currencies nonetheless pushed our reserve levels below program targets and we missed the NIR target for end-December 2015. Against this background, we are requesting a waiver for non-attainment of the December 2015 PC floor on NIR on the basis that we permitted a large depreciation in line with program understandings on the exchange rate regime. We are also requesting a waiver for the breach of the end-June 2015 program ceiling on NDF on the strength of the remedial actions we have taken since that time and our compliance with the end-December 2015 target.

13. The pace of implementation of PFM measures under the program faltered after the conclusion of the fifth and sixth reviews, but has since accelerated significantly:

- Bank reconciliation initially proved difficult to effect. However, as a prior action (PA) for completion of the seventh and eight reviews, we have now completed monthly reconciliations for the first six months of the 2015/16 fiscal year for our main government account (the MG1 account) and five of the six operational accounts. Reconciliation of the remaining operational account—the wage and salary account—was delayed for technical reasons, but is expected to be completed by end-June 2016. Progress in reconciliation was slow at first due to the need to fully account for (i) revenues received at the Bank but not captured in IFMIS in real time (ii) FY 2014/15 payments recorded in FY 2015/16, (iii) un-presented checks, (iv) system problems where processed transactions were not updating the cash book in IFMIS, (v) foreign payments made by the RBM on behalf of Government but not recorded in IFMIS, such as public debt transactions, and (vi) funding not done in both systems i.e. TIBCO and IFMIS. Human error and omissions also needed to be accounted for. Resolving these sources of discrepancy took time, but solutions were eventually found that allowed full reconciliation to take place. The process was assisted with the help of a PFM resident advisor supplied by the Fund. Government is making progress towards capturing all expenditures of Government in the IFMIS system by end April 2016—a major step forward—and the monthly reconciliations between these book records and bank statements now constitute a strong safeguard against theft of government funds. They also help provide a needed and welcome assurance that an event such as Cashgate is unlikely to be repeated. The reconciliations for the first half of FY 2015/16 have been verified by the Secretary to Treasury and the Accountant General. The wages account was excluded from the reconciliation of the six operational accounts (prior action) for technical reasons related to five electronic platforms that are not interconnected. To reaffirm our commitment the reconciliation of this account has been set as a benchmark for end-June. We will use these reconciled bank statements to produce an interim audit report by the Auditor General of the first six months of FY 2015/16 and publish this report on the Ministry of Finance web site by end-September 2016 (SB). Going forward, we will continue to produce bank reconciliations on a monthly basis with a lag of no more than four weeks (SB).

- **To further improve fiscal control and accountability, we have also, as a PA, issued a report on the quarterly flow and stock of domestic payment arrears.** These reports, prepared for end-September 2015, and end-December 2015indicate only a marginal accumulation of new domestic arrears, which provides strong assurance that our control over fiscal expenditure is significantly improved from past years. Despite the small volumes of new arrears, we are, nonetheless, actively investigating how each one arose, with a view to normalizing the entire stock quickly and efficiently. Going forward, we will continue to produce quarterly reports on the flow and stock of domestic arrears with a lag of no more than two months (structural benchmark).

- **Other PFM reforms have also advanced.** To further fiscal transparency, we have begun publishing detailed monthly budget execution data by vote on the Ministry of Finance web site. To date, monthly data for July 2015 to February 2016 have been posted. We have finished reviewing all government bank accounts and, in the process, closed over 282 redundant and dormant accounts. We are pushing ahead with fiscal accountability. We continue to prosecute persons accused of perpetrating the Cashgate scandal, using evidence collected by the forensic audit for the period 1st April 2013 to 30 September 2013, and the results of the investigations of the Directorate of Public Prosecutions and the Anti-Corruption Bureau. To date, 9 cases have been prosecuted—all successfully—and 11 perpetrators have been convicted, receiving sentences of between 3 and 10 years. Looking ahead, we will expand the range of prosecutions, based on existing case files, and with the results of a new forensic audit. This audit, financed with assistance from the German Government, will examine all fiscal records from January 1, 2009–December 2014, and this auditor has also been commissioned to prepare banks reconciliations for this period. We intend to evaluate prosecutable opportunities once this report is submitted.

- **In the financial sector, most measures covered by structural benchmarks have been met, albeit some with delay.** To safeguard financial sector stability we prepared a strategy to address banking sector wide issues raised by the third-party diagnostic assessments, we obtained detailed remediation plans from all undercapitalized banks, we developed plans for all banks to correct reporting deficiencies within one year, and the RBM produced a detailed report on compliance with regulations on loan classification and provisioning and concentration limits in line with existing directives. To improve the resolution framework, the RBM developed contingency plans to intervene and resolve banks that do not submit or comply with acceptable recapitalization plans. In the area of improving the AML/CFT regime in Malawi, we have not yet submitted to Parliament amendments to the AML/CFT Act, the Penal Code, and the Corrupt Practices Act. These were subjected to significant discussion and revision, and we did not meet the deadline for submission to this parliamentary session. However, we will submit them in the next session that begins in June 2016 and will ensure that they are fully in line with the FATF standard and the United Nations Convention against Corruption.

KEY ECONOMIC OBJECTIVES, OUTLOOK AND RISKS

14. **The macroeconomic outlook remains challenging in light of continued uncertainties related to weather conditions, uncertain financing possibilities, and the persistence of high inflation.** Medium-term projections are predicated on policy actions being taken to reduce inflation, on the normalization of weather conditions, and on progress made in addressing key supply-side bottlenecks. These policies, combined with retention of the flexible exchange rate and the automatic fuel pricing regimes as valuable shock absorbers, are expected to foster a gradual increase in private sector confidence needed to re-ignite investment spending.

15. **Our short-term objective is to stabilize our macroeconomic situation, regain control over our fiscal systems, and safeguard external and financial sector stability.** These goals, largely unchanged from our original program, remain necessary conditions that need to be met if we are to build a solid foundation for reducing poverty and addressing Malawi's development needs in the years ahead.

16. **Responsible fiscal and monetary policies, combined with vigorous PFM reform, will continue to be implemented to reduce inflation, reverse the contraction of real incomes, and restore confidence in the budget process.** We believe that achieving price stability, and demonstrating a strong ability to control fiscal spending, and adhere to a responsible fiscal strategy, will boost private sector confidence. This would be reinforced by clear wins in public financial management. As confidence returns, and as our business environment improves—including through a decline in bank lending rates in lagged steps with inflation—we would expect investment levels to rise sufficiently to promote significant growth-enhancing investment over the medium term.
We would also anticipate a rebound in consumption demand, once the real income-eroding effect of high inflation on household spending is mitigated by our disinflation program.

17. **With restrictive financial policies in place throughout 2016, and the negative impact of El Niño, growth will remain subdued this year.** The increase in real GDP is therefore unlikely to exceed 4 percent in 2016. However, inflation should decline to about 16 percent (year-on-year) by end 2016. The effect of sustained high interest rates—which will increase the attractiveness of holding kwacha-denominated assets—and another good tobacco purchasing season will strengthen net foreign currency inflows, and we expect foreign exchange reserves to remain at 3 months of import cover.

18. **As confidence and investment and consumption levels rise, we would expect an improvement in economic activity in 2017 and beyond.** With rising investment, real growth in

2017 could reach 5.5 percent, before gradually increasing to around 6 percent in the medium term. Inflation will decline to single digits by the end of 2017. The tight fiscal stance over this period will also improve our debt sustainability position, and we expect domestic debt as a share of GDP to be placed on a declining trend over the medium term. We recognize, however, that this goal will require strengthening of our debt management capacity.

19. **Short-term risks are tilted to the downside as the looming food crisis—aggravated by the El Niño weather phenomenon—will weigh heavily on the outlook.** Additional downside risks could arise from slippages in macroeconomic policy implementation, but we will remain vigilant against these as they would place further pressure on the kwacha and dampen public and private financial inflows. The requested augmentation of access under the ECF arrangement will help us in responding to the looming humanitarian crisis. We are actively engaged with donors to mobilize urgent humanitarian assistance.

POLICIES

Monetary and Financial Sector Policies

20. **We are determined to use monetary policy to keep inflation on a declining trajectory.** Recent efforts to further tighten our monetary policy stance, and the supportive fiscal measures adopted during the first half of this fiscal year, have helped to reduce inflation pressure despite the rise in food prices following climate-related shocks. Our monetary policy will aim at attaining an end-of-period inflation rate of 16 percent by December 2016, and to maintain a minimum of 3 months import cover in foreign exchange reserves. Tight monetary policy will be kept in place by ensuring that the central bank rate remains well above the rate of inflation and by using liquidity operations in the interbank and Treasury bill markets to maintain positive real interest rates in our financial system. The recently introduced deposit facility will help contain overnight money market deviations from the policy rate to +/- 200 basis points.

21. **We will continue to strengthen our monetary policy framework.** We will improve communication with stakeholders and the general public, which will raise policy credibility, increase the efficiency of policy transmission, and better anchor inflation expectations. Policy credibility will be further enhanced by full adherence to the amended RBM Act. The September 2015 amendments limit the possibility for fiscal dominance by establishing an upper bound of 10 percent of the previous year's revenue on total government advances. Supported by greater fiscal discipline and improvements in our PFM systems, we anticipate that our policy framework and policy execution will be sufficient to lower inflationary expectations over time. Maintenance of positive real interest rates

will also increase demand for holding kwacha, and eventually help to mitigate the seasonal depreciation pressure that typically appears in the lean season when foreign currency inflows are low. Underpinning these policies will be a continued adherence to the flexible exchange rate regime, which we see as a fundamental precondition for the success of our economic adjustment policies.

22. **We are committed to developing an interest rate-based monetary policy framework.** Our current monetary targeting framework, with an operational target on the level of reserve money and a floor on NIR stocks, will be maintained for the remainder of our ECF arrangement. However, within this framework, we intend to allow interest rates to play a significantly expanded role. Our recent establishment of an interest rate corridor in the interbank market—facilitated by the deployment of an overnight deposit facility—should yield significantly greater RBM control over the interbank rate. We expect this, when applied consistently, to yield increasing control over longer term rates and gain us influence over the entire interest rate structure of the market. This will add significantly more relevance to the policy rate, reduce interest rate volatility, and improve the monetary policy transmission mechanism. We intend to continue expanding our capacity in this regard, with one aim being the eventual adoption of a full-fledged inflation targeting regime in the medium-term. Developing such a framework will require continued upgrading of skills in liquidity forecasting and control, a deeper understanding of monetary transmission mechanisms, and greater inflation forecasting capacity, including through economic modeling. We look to the IMF as a source of technical assistance in these areas.

23. **We will combine tight monetary conditions with efforts to safeguard financial sector stability by strengthening our supervision and resolution capacity.** Vulnerabilities in the banking sector were substantially reduced by the June 2015 sale of government's stake in two weak banks to other players in the banking system. A restructuring and integration of the two banks is proceeding under close monitoring from the central bank and is expected to be completed by December 2016. With Fund technical assistance, we adopted in May 2014 a prompt corrective action (PCA) framework to strengthen and clarify existing triggers for early remedial action against distressed banks. The PCA framework has been complemented with a model resolution framework that outlines the various options that could be taken to intervene and resolve any problem bank that fails to submit or comply with an acceptable recapitalization plan. We have also improved prudential norms in the areas of asset classification and provisioning. Our new asset classification directive, enacted in May 2014 and based on the estimated recoverable amount method (ERAM), imposes higher and graduated provisioning rates, and is expected to strengthen banking sector resilience and improve the ability to deal with adverse developments.

24. **Implementation of our new ERAM-based provisioning regulations has shifted the capital adequacy positions of two additional banks below the required standard.** We are working closely with these banks and have agreed remediation measures to correct this situation. One of the two banks is expected to be recapitalized by shareholders by end-June 2016. Discussions with a potential external buyer for the second bank are underway. The RBM is closely monitoring the recapitalization process.

25. **We are taking additional steps to strengthen banking supervision aimed at ensuring the continued stability of the financial system.** To this end, we are enhancing both on-site and off-site supervision, closely monitoring and enforcing compliance with all prudential norms and enhancing the supervisory skills of the staff of RBM. Loan concentration remains one of the major risk factors in our banking system. This risk has continued to rise due to the extension of large credits to a limited numbers of borrowers or to specific economic sectors and activities. As this could lead to challenges in liquidity and capital positions of banks, the RBM will continue to closely monitor loan concentrations in the banking sector.

Fiscal Policy

26. **Our fiscal policy stance will support the monetary policy objective of reducing inflation.** This will require that spending is kept within available resources, and that government's recourse to domestic borrowing, particularly from the RBM, is strictly limited, so that demand-pull inflation and second-round effects of recent food price increases are contained. Continued implementation of a tight fiscal policy is necessary over the medium term to keep public debt as a ratio to GDP on a downward trajectory, prevent government borrowing from crowding out the private sector, and avoid debt service costs replacing other, more productive, growth enhancing forms of government expenditure.

27. **To these ends, we used the mid-term budget review to fine tune our fiscal position for the remainder of FY 2015/16 to ensure conformity with program targets.** Excessive domestic borrowing during the second half of FY 2014/15 likely contributed to inflation exceeding the projection made at the time of the fifth and sixth reviews. As a result, nominal GDP in FY2015/16 is now somewhat larger than initially projected. However, our revised FY2015/16 budget, was based on keeping NDF at MK25 billion (0.7 percent of GDP) but will be revised upwards by 0.4 percent of GDP to accommodated additional maize purchases for humanitarian relief.

28. **We continue to prioritize revenue mobilization.** We recognize that budget support is becoming less likely, as donors are increasingly gravitating towards other forms of assistance.

We will therefore develop more reliable forms of resource mobilization, specifically by improving the efficiency of tax administration and through tax policy changes aimed at generating additional revenue. We are also developing a Dividend and Surplus Policy to enhance financial management in statutory bodies and ensure the transfer of these resources to the treasury.

29. **We are committed to implement broad based tax reforms starting from FY2016/17 with the aim of creating a simple, efficient, transparent and fair tax system.** To this effect, we are streamlining tax incentives, eliminating unproductive tax measures and broadening the tax base. Our tax policy initiatives will be guided by a shift in reliance on revenue from taxation of labor and investment (factors of production) to consumption. This shift of the relative tax burden from income to consumption should therefore help to spur economic development.

30. **We are also committed to implement efficient tax administration measures.** To support the tax policy initiatives enumerated above the Malawi Revenue Authority is undertaking a number of tax administration initiatives that will reduce tax compliance costs for both the tax-payer and the tax administrator, and thus enhance revenue collection in the 2016/17 Fiscal year. In this context, we are determined to implement the recommendations of the 2015 TADAT assessment.

31. **Our budget for FY 2016/17 will continue the process of fiscal and debt consolidation.** The NDF agreed under the program (one percent of GDP) will be revised upwards by 0.4 percent of GDP to permit additional maize purchases for the humanitarian relief. In terms of wage policy the budget will provide for annual wage creep as well as recruitment of frontline staff mainly in the Ministries of Education, Health and Natural Resources. A general increase of the wage bill at a rate lower than inflation will be implemented. The wage bill will be contained. With regard to FISP, the reforms implemented in the 2015/16 growing season are currently under review in light of the lessons learnt during the pilot phase. It is expected that findings from the pilot phase will inform program implementation in the 2016/17 financial year. Furthermore, the Government will ensure that austerity measures on the expenditure side and domestic revenue enhancing measures highlighted in paragraph 30 keep end of the 2016/17 FY domestic borrowing target consistent with monetary policies to reduce inflation. The ceiling on nonconcessional debt would be modified to accommodated two loans. US$55 million from the AfDB for a water project and US$22.5 million from China for an e-government project.

32. **The risks to the program have risen as the drought has continued for a second consecutive year.** On April 12, 2016 we announced a national disaster given the sharp decline in maize production which has already affected 2.8 million persons. The number of affected persons is likely to rise in the months ahead. Preliminary estimates of the maize deficit are about 1.1 million

metric tons. Of this amount about 790,000 metric tons will be allocated to provide relief to the affected population and the remainder to replenish the strategic grain reserves and to stabilize prices. We have appealed to our development partners to assist with financing the humanitarian relief but the Malawian government will be expected to contribute to these efforts.

Public Financial Management Reform

33. Our recent success in achieving bank reconciliation establishes a strong foundation on which to expand public financial management reforms. We have now started focusing on strengthening other areas such as the creation of a more reliable system for budget control and reporting. Since January 2016, monthly funding to ministries, departments and agencies (MDAs) has become contingent upon the submission of five reports, namely expenditure returns, revenue returns, commitment returns, bank reconciliation reports and payroll returns. This is assisting in recording and tracking commitments and arrears as they arise, among other uses. Compliance to this measure by MDAs has now reached almost 87 percent. Further, the success in bank reconciliations enables us to improve upon our financial reporting deadlines. We are now able to produce unaudited quarterly financial statements within six weeks after the end of the quarter, and are optimistic that the 2015/16 financial statements will be submitted to the Auditor General by 31st October 2016 as required under the Public Finance Management Act. The timely reporting will mean that Parliament will, from next year going forward start to discuss reports that are not only reliable but also relevant. The clearance of the backlog will also provide a good base for the implementation of the new IFMIS project that will be more robust, comprehensive and assist to address control weaknesses such as payroll management, project management, arrears and commitments, among others. Operations of the Cash Management Committee have been strengthened and we are initiating further cash management reforms.

34. **We are developing a medium term strategy that aims at solidifying the present gains.** In this regard, after full piloting over the past two fiscal years, we are introducing programme budgeting (PBB) across all MDAs. This is a significant reform that will improve resource allocation and overall public financial management in the country. We will also embark on building human capacity to ensure that the reforms being implemented are sustained. Institutionalization of induction training will also be a key component of the reforms. A review of the PFM Act has also commenced to ensure that laws and regulations are brought in line with the reforms that are taking place, with emphasis on a rewards and sanctions regime. Strengthening of oversight institutions such as the National Audit Office, Central Internal Audit Unit and the Public Accounts Committee will continue under the medium term strategy that is being developed.

Pension Reform

35. **We are committed to the reform of our public pension scheme to ensure its long-term fiscal viability.** Under the Pension Act of 2010, the Government was supposed to transform its defined benefit civil servant pension system into a defined contribution scheme.
However, investigation—including with the help of IMF technical assistance—has determined that the size of the pension liability renders this fiscally untenable. Furnishing the scheme with the necessary reserves for it to operate as a defined contribution scheme would require issuance of assets exceeding 60 percent of GDP. Such asset transfers are beyond the means of the government and, in any event, could not be accommodated by nascent capital markets without severe disruption. Moreover, we have determined that even the existing defined benefit public pension scheme is not sustainable—in the absence of reserves commensurate to the scheme's liabilities, servicing accrued benefits would require disproportionately high budget subsidies.

36. We will therefore revisit the proposed pension reforms by concentrating on parameter adjustment to reduce the liabilities of the current system. These changes, which would bring the benefits and costs more in line with schemes in other countries, may include: (i) raising the service retirement age; (ii) lowering the generosity of benefit indexation; (iii) reducing accrual rates; and (iv) introducing a phased in approach of contribution to implementing public service public scheme contributions.

37. We believe that some migration to a defined contribution scheme for more recent hires and employees that are 30 years old and below might be fiscally feasible, but only if implemented gradually and with due consideration for fiscal and financial sector constraints.

Debt Management

38. **We take note of the IMF's new debt limits policy.** In conformity with this policy, we will limit our unified external borrowing to projects which are in line with program objectives and ensure that total contracted volumes are consistent with debt sustainability. As Malawi is at medium risk of debt distress with low debt management capacity, we will adhere to the limits on the nominal value of non-concessional (PC) and concessional borrowing (memo item) as indicated in our borrowing plan, which is outlined in Debt Sustainability Analysis.. This borrowing plan is consistent with our objective of social development and poverty reduction and with overall medium- to long-term debt sustainability.

39. **Given that Malawi still has low debt management capacity, we will strengthen our Debt Management framework.** We had intended to begin this process immediately following IMF

Board approval of the fifth and sixth reviews. However, we have only recently managed to fully operationalize our Debt Management Committee. Going forward, now that the Debt Management Committee is operational, it will look at each borrowing and ascertain its concessionality and ensure debt sustainability with the entire borrowing plan.

Fuel Import Regime

40. **We are taking necessary steps to improve our fuel security situation.** In the past, our fuel storage capacity has been limited to 14 days of supply held in idle tanker trucks. The low level of reserves, combined with our landlocked geographical status, clearly places us in a vulnerable position that we are highly desirous of mitigating. To this end, we have now completed construction of three fuel storage depots capable of holding about 25 percent of annual consumption.

41. **The new fuel storage reservoirs offer the possibility of greater assurance of fuel supply, but the management issues need to be carefully considered.** Our current fuel import regime—based on private sector importation with cost recovery guaranteed by the automatic fuel pricing mechanism—has worked well in the past, with supply on demand available since 2012. However, with the completion of the new fuel storage tanks, an additional dimension has been introduced, as a method is required to finance the accumulation of the needed fuel reserves. The challenge will be to amend the fuel import regime in a manner that utilizes the new fuel tanks without introducing new sources of risks.

42. **Over the next fiscal year, the fuel import regime will remain unchanged, while we carefully evaluate possible amendments aimed at enhancing security and efficiency.** To this end, we will examine ways and means of filling the new fuel tanks in a cost effective and transparent manner, taking full advantage of the technical assistance on offer from various donors, including the World Bank, for this operation. In this process, we will examine both private sector and public sector-led solutions, including the option of a government-run bulk procurement system. The discussion will be held in an open and transparent manner, with full participation of the private sector. In light of the possible macro-critical ramifications of changes in this key sector, we will produce, publish, and discuss with all interested parties a fully costed and well thought out proposal prior to implementation.

Program Issues and Monitoring

43. In order to allow completion of the seventh and eighth reviews, we are requesting waivers for non-attainment of two performance criteria. For the reasons noted above ., we are requesting a

waiver for the breach of the end-June 2015 program ceiling on NDF and end-December 2015 floor on NIR.

44. Going forward, we request that the Executive Board extend our ECF arrangement until end-December 2016, establish a ninth review with test date of end-June 2016, and establish performance criteria for end-June 2016. This extension will allow the entire FY 2015/16 budget year to be included in the program, which will assist us with execution, and also allow additional time under the program for the completion of additional and vital structural measures. We also request that the performance criteria formerly governing external debt accumulation be replaced with the formulation in Table 2, which incorporates the Fund's new debt limits policy. The ninth program review is expected to be completed on or after October 15, 2016.

Technical Memorandum of Understanding
June 2016

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

COVERAGE

2. **The central government includes all units of government that exercise authority over the entire economic territory.** Unless otherwise indicated, the central government does not include local governments, the Reserve Bank of Malawi (RBM), or any other public entity with autonomous legal personality. The accounts of the monetary authorities include those of the Reserve Bank of Malawi (RBM). Monetary aggregates under the program are based on the twelve-bank monetary survey.

QUANTITATIVE PERFORMANCE CRITERIA: DEFINITIONS of PCs AND MEMORANDUM ITEMS

A. Budget Support

3. **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; loan financing from the IMF; and donor inflows from the U.S. dollar–denominated donor pool accounts for the health SWAp, education SWAp, and National AIDS Commission (NAC) held in the Malawi banking system. Budget support is measured as a cumulative flow from the beginning of the 2015/16 fiscal year (on July 1, 2015) running to the end of the program period. It will be recorded in the original currency of disbursement and then converted into U.S. dollars using the program cross exchange rates listed in Table 5.

B. Floor on Net International Reserves of the RBM

4. **Definition of net international reserves (NIR) of the RBM:** The NIR of the RBM is defined as gross reserve assets minus gross reserve liabilities. For evaluation purposes, 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. The program exchange rate of the Malawi Kwacha to the U.S. dollar is set at MK 700 = US$1.

5. **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).

6. **Gross reserve assets of the RBM** include the following: (i) monetary gold holdings of the RBM; (ii) holdings of SDRs; (iii) the reserve position in the IMF; (iv) foreign convertible currency holdings; (v) foreign currency denominated deposits held in foreign central banks, the Bank for International Settlements, and other banks; (vi) loans to foreign banks redeemable upon demand; (vii) foreign securities; and (viii) other unpledged convertible liquid claims on nonresidents. It excludes the following: (i) any foreign currency claims on residents; (ii) capital subscriptions in international institutions; (iii) foreign assets in nonconvertible currencies; (iv) 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; (v) assets obtained through currency swaps of less than three months duration; (vi) gross reserves that are in any way encumbered or pledged, including, but not limited to: (a) assets blocked when used as collateral for third party loans and third-party payments, or pledged to investors as a condition for investing in domestic securities; (b) assets lent by RBM to third parties that are not available before maturity, and are not marketable; and (c) foreign reserves blocked for letters of credit.

7. **Gross reserve liabilities of the RBM** are defined as the sum of the following: (i) outstanding medium and short-term liabilities of the RBM to the IMF; (ii) all short-term foreign currency liabilities of the RBM to nonresidents with an original maturity of up to, and including, one year; and (iii) all foreign currency denominated liabilities to residents (including, for instance, foreign currency denominated deposits of domestic banks and other residents with the RBM). SDR allocations are excluded from gross reserve liabilities of the RBM.

Adjusters Applied to NIR Program Ceiling

8. The program floor on NIR will be adjusted as follows if budget support, inflows from donor accounts for the social sectors, and external debt service to the World Bank and the African Development Bank (ADB) deviate from their programmed levels:

Table A. Program Baseline: Projected Budget Support, March–June, 2016

(Millions of USD, cumulative from the beginning of the 2015/16 fiscal year[1])

	Mar-16	Jun-16
Budget Support	26.6	26.6

[1]Fiscal year runs from July 1 to June 30 of the following year.

- **Donor pool accounts for the social sectors,** including health and education SWAps, and the National AIDS Commission (NAC). Donor pool account inflows for the social sector will be measured cumulatively from the beginning of the 2015/16 fiscal year running to the end of the program period. The floor on the NIR of the RBM will be adjusted downward by the amount by which the donor inflows from the U.S. dollar–denominated donor accounts for SWAps and NAC held in the RBM are smaller than the program baseline (as defined in Table B). This downward adjustment of the NIR floor will be subject to the limitations outlined in paragraph 9.
These donor inflows are measured as the cumulative receipts by the budget from the beginning of the fiscal year. They will be recorded in the original currency of disbursement and then converted to U.S. dollars using the above defined program cross exchange rates.

Table B. Program Baseline: Projected Inflows from Donor Accounts for the Social Sector, March–June, 2016[1]

(Millions of USD, cumulative from the beginning of the 2015/16 fiscal year[2])

	Mar-16	Jun-16
Donor inflows	15.3	16.0

[1] includes both loans and grants

[2]Fiscal year runs from July 1 to June 30 of the following year.

- **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 fall short of (exceed) the program baseline (as defined in Table C).
Debt service payments will be measured as the cumulative payments from the beginning of the 2015/16 fiscal year running to the end of the program period. They will be recorded in the original currency of payment and then converted to U.S. dollars using the above defined program cross exchange rates. This downward adjustment of the NIR floor will be subject to the limitations outlined in paragraph 9.

Table C. Projected Debt Service Payments to World Bank and AfDB, March–June, 2016

(Millions of USD, cumulative from the beginning of the 2015/16 fiscal year[1])

	Mar-16	Jun-16
Debt service	7.3	10.5

[1]Fiscal year runs from July 1 to June 30 of the following year.

9. **Cumulative adjustment to the NIR program target:** Notwithstanding the adjustments stipulated in paragraph 8, the total downward adjustment to the NIR program target from the combined impact of a (i) a shortfall of budget support relative to the program projections; (ii) a shortfall of inflows to the donor accounts for the social sector relative to the program projections; and (iii) any excess of debt service payments to the World Bank and the African Development Bank (ADB) relative to the program projections, will be subject to a cumulative limit of US$15 million.

10. **After applying the adjusters outlined in paragraphs 8 and 9, the program target on NIR will be subject to a further adjustment for the level of humanitarian spending.** The target on NIR will be adjusted downward by the amount of government spending above US$9 million used to purchase maize and other food items specifically to alleviate the current humanitarian crisis. For the purposes of this adjuster, eligible government spending will be defined as (i) the cost to government of maize and other foodstuffs purchased and transferred to the World Food Program (WFP) in Malawi for use in the WFP-administered food relief operations; and (ii) financial assets transferred to the WFP in Malawi for use in WFP-administered food relief operations, including cash transfers to relief recipients. This downward adjustment will be subject to an overall limit of US$48.5 million.

C. Net Foreign Assets of the RBM

11. **Definition of Net Foreign Assets (NFA) of the RBM:** The NFA of the RBM are defined as its gross foreign assets (GFA) minus its gross foreign liabilities. Gross foreign liabilities are equal to gross reserve liabilities as defined in paragraph 7, plus any other foreign liabilities not listed in that paragraph.

12. **Gross foreign assets (GFA) of the RBM** are defined as gross reserves assets as defined in paragraph 6, plus (i) any foreign currency claims on residents; (ii) capital subscriptions in international institutions; (iii) foreign assets in nonconvertible currencies; (iv) 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; (v) assets obtained through currency swaps of less than three months duration; (vi) gross reserves that are in any way encumbered or pledged, including, but not limited to: (a) assets blocked when used as collateral for third party loans and third-party payments, or pledged to investors as a condition for investing in domestic securities; (b) assets lent by RBM to third parties that are not available before maturity, and are not marketable; and (c) foreign reserves blocked for letters of credit.

D. Reserve Money of the RBM

13. **Definition of reserve money of the RBM (RM):** Reserve money is defined as the sum of currency issued by the RBM, including currency outside banks, the vault cash of commercial banks, and balances of commercial banks' accounts with the RBM. Commercial banks' accounts with the RBM include required reserves held for local currency and foreign currency deposits, other domestic currency liabilities, and other demand and time deposits held with the RBM.

E. Ceiling on Net Domestic Assets of the RBM

14. For program proposes, net domestic assets (NDA) of the RBM are defined in kwacha terms as reserve money less NFA of the RBM at the program exchange rate.

15. The program ceiling on NDA will be adjusted as follows if budget support, inflows from donor accounts for the social sector, and external debt service to the World Bank and the African Development Bank (ADB) deviate from their programmed levels.

16. **Budget support:** For the purposes of this adjustor, cumulative receipts from budget support will be measured in the foreign currency of disbursement and converted to Kwacha using the program exchange rates. The resulting kwacha-denominated value for budget support will be measured as a cumulative flow from the beginning of the 2015/16 fiscal year running to the end of the program period. The ceiling on NDA of the RBM will be adjusted downward by the amount that cumulative receipts from budget support exceed the sum of the program baseline (as defined in Table D) and the kwacha equivalent of US$10 million. The kwacha equivalent of US$10 million will be calculated as US$10 million multiplied by the program exchange rate. The ceiling on NDA of the RBM will be adjusted upward by the amount that cumulative receipts from budget support (in Kwacha) fall short of the program baseline, with this upward adjustment to the NDA ceiling subject to the limitations described in paragraph 17. The Kwacha equivalent of the upward adjustment will be calculated as the US dollar value of the adjustment multiplied by the program exchange rate.

Table D. Program Baseline: Projected Budget Support, March–June, 2016
(Billions of Kwacha, cumulative from the beginning of the 2015/16 fiscal year[1])

	Mar-16	Jun-16
Budget support, at the program exchange rate	18.6	18.6
Budget support plus kwacha equivalent of US$ 10 mil, at the program exchange rate	25.6	25.6

[1]Fiscal year runs from July 1 to June 30 of the following year.

- **Donor pool accounts for the social sectors** (including health and education SWAPs, and NAC): For the purposes of this adjustor, cumulative receipts from donor pool accounts for the social sector will be measured in the foreign currency of disbursement and converted to kwacha using the program exchange rates. They will be measured as a cumulative flow from the beginning of the 2015/16 fiscal year running to the end of the program period. The ceiling on NDA of the RBM will be adjusted upward by the amount by which the donor inflows to the budget (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 to those accounts in the program baseline (as defined in Table E). This upward adjustment to the NDA ceiling will be subject to the limitations described in paragraph 17. The Kwacha equivalent of the upward adjustment will be calculated as the US dollar value of the adjustment multiplied by the program exchange rate.

Table E. Program Baseline: Projected Inflows from Donor Accounts, March–June, 2016
(Billions of Kwacha, cumulative from the beginning of the 2015/16 fiscal year[1])

	Mar-16	Jun-16
Donor inflows, at the program exchange rate	10.7	11.2

[1]Fiscal year runs from July 1 to June 30 of the following year.

- **Debt service payments:** For the purposes of this adjustor, cumulative debt service payments will be measured in the foreign currency of payment and converted to kwacha using the program exchange rates. They will be measured as a cumulative flow from the beginning of the 2015/16 fiscal year running to the end of the program period. 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 AfDB falls short of (exceeds) the program baseline (as defined in Table F). The upward adjustment to the NDA ceiling will be subject to the limitations described in paragraph 17.

Table F. Program Baseline: Projected Debt Service Payments, March–June, 2016
(Billions of Kwacha, cumulative from the beginning of the 2015/16 fiscal year[1])

	Mar-16	Jun-16
Debt service, at the program exchange rate	5.1	7.4

[1]Fiscal year runs from July 1 to June 30 of the following year.

- **Additional adjustment for changes in the 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 fraction 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). The program baseline required reserve ratio is currently 7.5 percent.

17. **Cumulative adjustment to the NDA program target:** Notwithstanding the adjustments outlined above in paragraph 16, the total upward adjustment to NDA from the impact of (i) a shortfall of budget support relative to the program assumptions; (ii) a shortfall of 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 relative to the program assumptions will be capped at the kwacha equivalent of US$15 million. The kwacha equivalent of US$15 million will be calculated as US$15 million multiplied by the program exchange rate. The adjustment to the NDA ceiling for changes in the liquidity reserve requirement is independent of the other adjustments and is not subject to limitation.

18. **After applying the adjusters outlined in paragraphs 15 and 16, the ceiling on NDA will be subject to a further adjustment for the level of humanitarian spending.** The ceiling on NDA will be adjusted upward by the amount of government spending above MK13 billion used to purchase maize and other food items specifically to alleviate the current humanitarian crisis. For the purposes of this adjuster, eligible government spending will be defined as: (i) the cost of maize and other foodstuffs purchased and transferred to the World Food Program (WFP) in Malawi for the use in WFP-administered food relief operations; and (ii) financial assets transferred to the WFP in Malawi for use in WFP-administered food relief operations, including cash transfers to relief recipients. This additional upward adjustment will be subject to an overall limit equal to the kwacha equivalent of US$48.5 million. The kwacha equivalent of US$48.5 million will be calculated as US$48.5 million multiplied by the program exchange rate. The Kwacha equivalent of the additional spending will be calculated as the sum of (i) the cost of the humanitarian relief items purchased in kwacha converted to US dollars at the RBM mid rate prevalent on the date of the purchase; plus (ii) the cost of the humanitarian relief items purchased in foreign currency and converted if necessary to US dollars at the market rate prevalent on the date of the purchase.

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

19. **Definition of central government net domestic borrowing (CGDB):** CGDB is defined as the sum of (i) net borrowing from the RBM (including ways and means advances, loans, holdings of local registered stocks, government bonds, and holdings of treasury bills and treasury notes minus deposits); plus (ii) net borrowing from commercial banks (including advances, holdings of local registered stocks, and holdings of treasury bills and treasury notes minus deposits); plus (iii) net borrowing from nonbanks (including, but not limited to, holdings of local registered stocks and holdings of treasury bills and treasury notes); plus (iv) holdings of promissory notes. Excluded from the CGDB ceiling are (i) the stock of promissory notes issued to cover exchange rate valuation losses of RBM; (ii) the stock of government securities issued in 2015 and 2016 to clear government domestic arrears up to a maximum exclusion of MK157 billion; and (iii) any government net borrowing undertaken to redeem those securities issued in 2014 and 2015 to clear government domestic arrears. Treasury bills and locally registered stocks will be valued at cost rather than face value. The ceiling is measured as the change in the stock of CGDB cumulative from the beginning of the fiscal year and running to the end of the program period, including promissory notes and securities transferred to the RBM from the treasury since the beginning of the fiscal year. Asset sales or privatization revenues will be accounted for under financing as a separate category, separate from domestic or foreign financing in calculating CGDB.

Adjusters Applied to CGDB Program Ceiling

20. The program ceiling on CGDB will be adjusted as follows if budget support, inflows from donor accounts for the social sector, and external debt service to the World Bank and the African Development Bank deviate from their programmed levels.

- **Budget support:** For the purposes of this adjustor, cumulative receipts from budget support will be measured in the foreign currency of disbursement and converted to kwacha using the program exchange rates. The resulting Kwacha-denominated value for budget support will be measured as a cumulative flow from the beginning of the 2015/16 fiscal year running to the end of the program period. The program ceiling on CGDB will be adjusted upward by the full amount by which cumulative receipts from budget support are less than the program baseline (as defined in Table D). This upward adjustment to CGDB will be subject to the limitations described in paragraph 20. In the event of excess budget support, the ceiling on CGDB will be adjusted downward by the amount that cumulative receipts from budget support exceed the sum of the program baseline (as defined in Table D) and the kwacha equivalent of US$10 million. The kwacha equivalent of US$10 million will be calculated as US$10 million multiplied by the program exchange rate.

- **Donor pool accounts for the social sector,** including health and education SWAps, and NAC: For the purposes of this adjustor, cumulative receipts from donor pool accounts for the social sector will be measured in the foreign currency of disbursement and converted to kwacha using the program exchange rates. They will be measured as a cumulative flow from the beginning of the 2015/16 fiscal year running to the end of the program period. The ceiling on CGDB will be adjusted upward by the amount by which donor inflows to the budget from the U.S. dollar–denominated donor accounts for health and education SWAps, and NAC held in RBM fall short of the program baseline (as defined in Table E). This upward adjustment to CGDB will subject to the limitations described in paragraph 21.

- **Debt service payments:** For the purposes of this adjustor, cumulative debt service payments (from the beginning of the fiscal year) will be measured in the foreign currency of payment and converted to kwacha using the program exchange rates. They will be measured as a cumulative flow from the beginning of the 2015/16 fiscal year running to the end of the program period. 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 AfDB fall short of (exceed) the program baseline (as defined in Table F). This upward adjustment to CGDB will subject to the limitations described in paragraph 21.

21. **Cumulative adjustment to the CGDB program target:** The total upward adjustment to CGDB from a shortfall of (i) budget support relative to the program baseline, (ii) donor inflows to the donor accounts for the social sector relative to the program baseline and (iii) an excess of actual debt service payments to the World Bank and the African Development Bank (AfDB) relative to the program baseline will be capped at the kwacha equivalent of US$15 million. The Kwacha equivalent of US$15 million will be calculated as US$15 million multiplied by the program exchange rate.

22. **After applying the adjusters outlined in paragraph 20, the ceiling on CGDB will be subject to a further adjustment for the level of humanitarian spending.** The ceiling on CGDB will be adjusted upward by the amount of government spending above MK9 billion used to purchase maize and other food items specifically to alleviate the current humanitarian crisis. For the purposes of this adjuster, eligible government spending will be defined as: (i) the cost of maize and other foodstuffs purchased and transferred to the World Food Program (WFP) in Malawi for the use in WFP-administered food relief operations. This additional upward adjustment will be subject to an overall limit equal to the kwacha equivalent of US$48.5 million. The Kwacha equivalent of US$48.5 million will be calculated as US$48.5 million multiplied by the program exchange rate. The kwacha equivalent of US$48.5 million will be calculated as US$48.5 million multiplied by the program exchange rate. The Kwacha equivalent of the additional spending will be calculated as the sum of

(i) the cost of the humanitarian relief items purchased in kwacha converted to US dollars at the RBM mid rate prevalent on the date of the purchase; plus (ii) the cost of the humanitarian relief items purchased in foreign currency and converted if necessary to US dollars at the market rate prevalent on the date of the purchase.

G. Ceiling on External Payment Arrears

23. **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.

H. Ceiling on Non-Concessional External Debt

24. **Definition of concessional debt**. A debt is understood to be concessional if it includes a grant element of at least 35 percent. The grant element is the difference between the nominal value of the loan and its present value, expressed as a percentage of its nominal value. The present value of the debt is calculated on the date on which it is contracted by discounting the future stream of payments of debt service due on this debt. The discount rate used for this purpose is five percent.

25. **Definition of non-concessional external debt:** The definition of debt, for program purposes, is set out in point 8 of the Guidelines on Public Debt Conditionality in Fund Arrangements, adopted by Executive Board Decision No. 15688, as published on the IMF website. For program purposes, debt is non-concessional if it includes a grant element of less than 35 percent, as indicated in Decision No. 11248–(96/38), April 15, 1996. The grant element is calculated using a discount rate of 5 percent. The ceiling on non-concessional 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 per paragraph 26. 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 2015/16 fiscal year.

26. **Excluded from the limit on non-concessional external debt is the following:** (i) the use of IMF resources; (ii) any Kwacha-denominated treasury bill and local registered stock holdings by nonresidents purchased from the secondary market; (iii) debts classified as international reserve liabilities of the RBM; (iv) new debt issued to restructure, refinance, or repay existing non concessional external debt as of December 31, 2015, up to the amount actually used for the above-mentioned purposes; (v) normal import financing; and (vi) 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.

27. The ceiling on non-concessional external debt is US$77.5 million, tied to AFDB water project (US$55 million) and a China project on e-government (US$22.5 million).

QUANTITATIVE INDICATIVE TARGETS

28. **Reserve money of the RBM:** Reserve money of the RBM is defined in paragraph 13 above. The program baseline for reserve money is defined in Table G. No adjusters are applicable to reserve money targets for program purposes.

Table G. Projected Stock of Reserve Money, March–June, 2016

(Billions of Kwacha, end-of-period stocks)

	Mar-16	Jun-16
Reserve Money	207	176.4

29. **Social spending:** Using functional classification of expenditure, social spending is defined as the sum of central government spending on health, education, the farm input subsidy program, the cement and iron sheet program, and government social protection (comprising government expenditures by the Ministry of Gender, Children, and Social Welfare, the Ministry of Disability and Elderly Affairs, the local development fund, and the Poverty and Disaster Management Cost Center under the Office of the Vice President. 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 subject to downward adjusters under the program. Quarterly social spending under this definition is presented in Table 6.

STRUCTURAL BENCHMARKS

30. **Structural benchmarks** are contained in Tables 3 and 4.

31. **Domestic arrears:** Domestic arrears are defined as overdue payment obligations of the central government to residents, 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.

Table 1. Malawi: Quantitative Targets, 2015[1]

	Target type [2]	End-June 2015 Prog.	End-June 2015 Adjusted Prog.	End-June 2015 Act.	End-June 2015 Status	End-Sept 2015 (IT) Prog.	End-Sept 2015 (IT) Adjusted Prog.	End-Sept 2015 (IT) Act.	End-Sept 2015 (IT) Status	End-Dec 2015 Prog.	End-Dec 2015 Adjusted Prog.	End-Dec 2015 Act.	End-Dec 2015 Status
I. Monetary targets (millions of kwacha)													
1. Ceiling on net domestic assets of the RBM [3, 4, 5, 6]	PC	87,033	93,063	39,169	Met	73,959	33,594	39,032	Not met	83,792	30,139	-70,410	Met
2. Ceiling on reserve money[3]	IT	243,828	243,828	213,046	Met	248,213	248,213	198,144	Met	260,545	260,545	198,144	Met
II. Fiscal targets (millions of kwacha)													
3. Ceiling on central government's net domestic borrowing [5,6,7]	PC	37,030	43,060	94,297	Not met	40,407	32,850	7,329	Met	58,162	51,489	4,269	Met
4. Floor on social spending (cumulative from beginning of fiscal year)[8]	IT	257,430		281,141	Met	54,725		65,132	Met	146,687		140,876	Not met
III. External sector targets (US$ millions, unless otherwise indicated)													
5. Floor on net international reserves of the RBM[3, 5, 6]	PC	487	472	536	Met	531	549	500	Not met	537	522	489	Not met
6. Ceiling on the accumulation of external payments arrears [7,9]	PC	0		0	Met	0		0	Met	0		0	Met
7. Ceiling on new nonconcessional external debt maturing in more than one year [7,9]	PC	0		0	Met	0		0	Met	0		0	Met
8. Ceiling on new nonconcessional external debt maturing in one year or less [7,9]	PC	0		0	Met	0		0	Met	0		0	Met
9. Prohibition on the imposition or intensification of restrictions on the making of payments and transfers for current transactions [9]	PC				Met				Met				Met
Memorandum items:													
Net foreign assets of the RBM (US$ millions)		390		433		433		396		440		416	
Budget support (US$ millions)		18.07		0		0		26.6		7		26.6	
Budget support (millions of kwacha)		8000		0		0		17,982		3,224		17,982	
Debt service payments to the World Bank andAfDB (US$ millions)		12.12		12		3.90		1.7		7.80		3.0	
Debt service payments to the World Bank and AfDB (millions of kwacha)		4,872		4872		1,568		683		3,136		1206	
Health SWAp receipts (millions of kwacha)		15,668		11,939		2,114		0		14,993		0	
Education SWAp receipts (millions of kwacha)		3,384		2,594		0		0		0		0	
NAC receipts (millions of kwacha)		0		478		164		5,649		332		231	
Program exchange rate (kwacha per US$)		402				402	402	402		402		402	

Source: IMF staff projections.

[1]Targets are defined in the technical memorandum of understanding (TMU). Presentation uses stocks unless otherwise specified.

[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, starting from the beginning of the fiscal year.

[8]Priority social spending as defined in the TMU and quantified in the authorities' budget.

[9]Evaluated on a continuous basis.

Table 2. Malawi: Quantitative Targets, 2016[1]

	Target type [2]	End-June 2016 Prog.	Adjusted Prog.	Act.	Status
I. Monetary targets (millions of kwacha)					
1. Ceiling on net domestic assets of the RBM [3, 4, 5, 6]	PC	-90,331			
2. Ceiling on reserve money[3]	IT	176,413			
II. Fiscal targets (millions of kwacha)					
3. Ceiling on central government's net domestic borrowing [5,6,7]	PC	38,000			
4. Floor on social spending (cumulative from beginning of fiscal year)[8]	IT	292,675			
III. External sector targets (US$ millions, unless otherwise indicated)					
5. Floor on net international reserves of the RBM[3, 5, 6]	PC	473			
6. Ceiling on the accumulation of external payments arrears [7,9]	PC	0			
7. Ceiling on non-concessional external debt [9,10]	PC	77.5			
9. Prohibition on the imposition or intensification of restrictions on the making of payments and transfers for current transactions [9]	PC				
Memorandum items:					
Net foreign assets of the RBM (US$ millions, end of period)		381			
Budget support (US$ millions)[7]		26.60			
Budget support (millions of kwacha)		20,528			
Nominal external concessional borrowing (US$ millions)[11]		150			
Debt service payments to the World Bank and AfDB (US$ millions)[7]		11.45			
Debt service payments to the World Bank and AfDB (millions of kwacha)		8,015			
Health SWAp receipts (millions of kwacha)[7]		14,993			
Education SWAp receipts (millions of kwacha)[7]		0			
NAC receipts (millions of kwacha)[7]		3,850			
Program exchange rate (kwacha per US$)		700			

Source: IMF staff projections.

[1]Targets are defined in the technical memorandum of understanding (TMU). Presentation uses stocks unless otherwise specified.

[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, starting from the beginning of the fiscal year.

[8]Priority social spending as defined in the TMU and quantified in the authorities' budget.

[9]Evaluated on a continuous basis.

[10]The ceiling comprises US$55 million from the AfDB for a water project and US$22.5 million from China for an e-government project.

[11]Concessional borrowing during the first half of fiscal year 2016/17

Table 3. Structural Benchmarks for the 7th and 8th Reviews, 2015

Measures	Target date	Macro Rationale	Status
Public financial management			
Publish detailed monthly budget execution data by vote on the Ministry of Finance's website no later than 6-weeks after execution.	End-March 2015	To foster greater fiscal transparency and monitoring.	Met
Reconcile all government bank accounts MG1 and six operational accounts and ways and means for all FY2014/15 transactions signed by the Accountant General and Secretary of the Treasury.	End-Feb 2016	To strengthen cash planning, reconciliation of accounts, and improving the integrity of the accounting systems.	Not met
Review all bank accounts and close redundant and dormant accounts and provide an updated list from the central bank certified by the Accountant General.	End-Dec 2015	To strengthen cash planning, reconciliation of accounts, and improving the integrity of the accounting systems.	Not met
Prepare a report on the flow and stock of arrears at the end of each quarter starting with with end-September 2014 and within two months of the end of each six months.	End-June 2015	To monitor emergence of arrears.	Not met
Produce and publish monthly summary bank account control reports.	End-September 2015	To improve transparency and control.	Not met
Issue reports by international audit firms on bank reconciliations and summary bank account control reports.	End-September 2015	To improve transparency and restore public confidence.	Not met
Issue a report by an International firm confirming the status of implementation of forensic audit recommendations in the PFM domain.	End-Feb 2016	Foster greater transparency.	Not met
Financial sector			
Prepare a strategy to address banking sector wide issues raised by the third-party diagnostics assessments, including the high loan concentration among banks.	End-March 2015	To safeguard the stability of the financial system.	Met
RBM to obtain from all undercapitalized banks to submit detailed, quarterly monitorable recapitalization and restructuring plans showing how they will reach the minimum capital adequacy level within one year.	End-April 2015	To safeguard the stability of the financial system.	Met
RBM to obtain from all banks with significant deficiencies (e.g.: on loan documentation) reported by the diagnostic assessments to submit plans to address the deficiencies within one year.	End-June 2015	To safeguard the stability of the financial system.	Met
RBM to develop contingency plans to intervene and resolve banks if they do not submit or comply with acceptable recapitalization plans.	End-June 2015	To safeguard the stability of the financial system.	Met
Submit to parliament amendments to the AML/CFT Act, the Penal Code, and the Corrupt Practices Act in line with the FATF standard and the United Nations Convention against Corruption (UNCAC).	End-June 2015	To ensure that: (i) enhanced customer due diligence is required with regard to domestic politically exposed persons ; (ii) suspicious transactions are reported when there is a suspicion that funds are the proceeds of a criminal activity ; (iii) there is adequate transparency of legal persons and arrangements; (iv) acts of corruption are adequately criminalized and constitute predicate crimes to money laundering; (v) self-self-laundering is criminalized, and (vi) there are appropriate administrative sanctions for failure to comply with AML/CFT requirements.	Not Met
RBM issue a detailed report on compliance with regulations on loan classification and provisioning and concentration limits in line with existing directives.	End-September 2015	To safeguard the stability of the financial system.	Met
RBM, in its supervisory capacity, to follow-up on possible breaches of compliance with the AML legal framework by banks revealed by the audit report, by applying supervisory actions mandated by the AML legal framework with regard to any breaches of compliance, including sanctions.	End-December 2015	To ensure compliance with AML standards.	Met

Sources: IMF staff and Malawian authorities.

Table 4. Malawi: Prior Actions for the 7th and 8th Reviews and Structural Benchmarks for 2016

Measures	Target date	Macro Rationale	Status
Prior Actions for completion of the seventh and eight reviews			
Reconcile all government bank accounts in MG1 and five operational accounts and ways and means for all FY2015/16 transactions (until end-December 2015). Have the completed reconciliations signed by the Accountant General and the Secretary of the Treasury		To strengthen cash planning, reconciliation of accounts, and improving the integrity of the accounting systems.	Pending
Prepare a report on the flow and stock of arrears at end-2015.		To monitor emergence of arrears.	Met
Structual Benchmarks			
Public financial management			
Publish detailed monthly budget execution data by vote for the first nine months of FY2015/16 on the Ministry of Finance's website.	End-June 2016	To foster greater fiscal transparency and monitoring.	
Review all bank accounts and close redundant and dormant accounts and provide an updated list from the central bank certified by the Accountant General.	End-June 2016	To strengthen cash planning, reconciliation of accounts, and improving the integrity of the accounting systems.	
Reconcile the wages account for the first six months of FY15/16.	End-June 2016	To strengthen cash planning, reconciliation of accounts, and improving the integrity of the accounting systems.	
Reconcile all government bank accounts in MG1 and six operational accounts and ways and means for all FY2015/16 transactions (July 1, 2015 through June 30 2016). Have the completed reconciliations signed by the Accountant General, the Auditor General, and the Secretary of the Treasury.	End-August 2016	To strengthen cash planning, reconciliation of accounts, and improving the integrity of the accounting systems.	
Auditor General to produce and publish an interim audit report covering July 1, 2015 to December 31, 2015.	End-Sept. 2016	To improve transparency and control.	
Issue a report by an International firm confirming the status of implementation of forensic audit recommendations in the PFM domain including controls over bank reconciliations for MG1 and six operational accounts and ways and means for the first half of FY15/16 transactions.	End-Sept. 2016	Foster greater transparency.	
Financial sector			
Submit to parliament amendments to the AML/CFT Act, the Penal Code, and the Corrupt Practices Act in line with the FATF standard and the United Nations Convention against Corruption (UNCAC).	End-June 2016	To ensure that: (i) enhanced customer due diligence is required with regard to domestic politically exposed persons ; (ii) suspicious transactions are reported when there is a suspicion that funds are the proceeds of a criminal activity ; (iii) there is adequate transparency of legal persons and arrangements; (iv) acts of corruption are adequately criminalized and constitute predicate crimes to money laundering; (v) self-self-laundering is criminalized, and (vi) there are appropriate administrative sanctions for failure to comply with AML/CFT requirements.	

Sources: IMF staff and Malawian authorities.

Table 5. Malawi: Cross Rates for Nominal Exchanges Rates and Gold Price for the 2016 Program [1]

Gold bullion LBM US$/troy ounce [2]	1,237.00
SDR to US$ exchange rate	0.710
Euro to US$ exchange rate	0.878
Yen to US$ exchange rate	112.630
Yuan to US$ exchange rate	6.467
Rand to US$ exchange rate	14.732
UK £ to US$ exchange rate	0.694
Kwacha to US$ exchange rate	684
Kwacha to SDR exchange rate	964

Source: IMF (International Financial Statistics).

[1] Rates and prices as of end-March 2016.

[2] LBM connotes London Bullion Market.

Table 6. Malawi: Social Spending: FY2015/16

(Millions of Kwacha)

Category	Q1 Proj.	Q2 Proj.	Q3 Proj.	Q4 Proj.	Total Proj.
Health Expenditure	**20,887**	**17,880**	**22,105**	**22,384**	**83,256**
Wages	12,233	12,383	11,196	11,267	47,080
Other Recurrent	7,904	4,626	9,419	9,627	31,576
Ministry of Health ORT	6,263	3,030	7,900	8,048	25,241
Local Assemblies ORT	1,468	1,424	1,273	1,275	5,440
Subvented Organisations	172	172	246	304	895
Development expenditure	750	870	1,490	1,490	4,600
Education Expenditure	**40,882**	**39,585**	**38,147**	**36,666**	**155,280**
Wages	22,867	22,924	22,416	22,416	90,623
Other Recurrent	17,505	15,991	14,176	12,695	60,367
Ministry of Education ORT	3,810	3,064	3,768	2,285	12,927
Local Assemblies ORT	3,987	3,219	246	246	7,699
Subvented Organisations	9,708	9,708	10,162	10,164	39,742
Development expenditure	510	670	1,555	1,555	4,290
Farm Input Subsidy Program	**-**	**16,500**	**47,429**	**-**	**63,929**
Cement and Iron Sheets Subsidy	**2000**	**1000**	**2000**	**2000**	**7,000**
Gender, Children, Disability and Social Welfare	**969**	**595**	**765**	**758**	**3,086**
Wages	329	337	362	363	1,391
Other Recurrent	560	222	330	333	1,445
Development expenditure	80	36	73	61	250
Local Development Fund	**300**	**90**	**530**	**402**	**1,321**
Poverty and Disaster Management Cost Centre	**95**	**94**	**67**	**68**	**324**
Wages	11	11	11	11	44
Other Recurrent	84	83	56	56	280
Total Social Expenditure	**65,132**	**75,744**	**111,043**	**62,278**	**314,197**

Source: Malawian authorities.

Table 7. Malawi: 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
NIR and its components	W	RBM	W	7	F	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
Sources of funds for Health and education SWAps accounts 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 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
Data on expenditure for domestically financed 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 nine (9) 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
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

[1] Detailed 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 (ADMARC), Electric Supply Company of Malawi (ESCOM), Blantyre Water Board, Lilongwe Water Board, Southern Region Water Board, Northern Region Water Board, Central Region Water Board, Malawi Housing Corporation, Malawi Communications Regulatory Authority.