INTERNATIONAL MONETARY FUND

IMF Country Report No. 25/226

MALAWI

August 2025

2025 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR MALAWI

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2025 Article IV consultation with Malawi, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its July 21, 2025 consideration of the staff report that concluded the Article IV consultation with Malawi.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on July 21, 2025, following in-country discussions that ended on June 3, 2025, with the officials of Malawi on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on July 3, 2025.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **Statement by the Executive Director** for Malawi.

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

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PRESS RELEASE

PR 25/261

IMF Executive Board Concludes 2025 Article IV Consultation with Malawi

FOR IMMEDIATE RELEASE

Washington, DC – **July 21, 2025:** The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Malawi.[2]

Malawi continues to face significant macroeconomic challenges, including external shocks, structurally low growth, persistent inflation, unsustainable fiscal and debt dynamics, and declining Official Development Assistance (ODA). Economic activity in 2024 was hindered by lower-than-expected agricultural output and critical foreign exchange shortages, resulting in a decline of real GDP growth to 1.8 percent from 1.9 percent in 2023. Inflation continues at an elevated level and the overall fiscal deficit stood at 10.1 percent of GDP in FY2024/25 due to lower-than-projected revenues, election-related spending, and an increasing interest bill. The 2023 Extended Credit Facility (ECF) automatically terminated on May 14, 2025 after eighteen months since the approval without completing a review.

The official exchange rate against the US dollar has been fixed since April last year, largely erasing the benefits of the November 2023 devaluation. Inflation – driven by high food prices, elevated money growth, and a wide official-parallel exchange rate spread – peaked at 30.7 percent year-over-year in February 2024, before easing to 27.7 percent in May 2025 in the context of the harvest season. The current account deficit worsened significantly on elevated import demand. Public debt dynamics remain unsustainable, with total public debt reaching 88 percent of GDP by the end of 2024. The interest bill on public debt is estimated to be approaching 7 percent of GDP.

Over the medium-term, growth is projected to increase moderately from 2.4 percent in 2025 to 3.4 percent by 2029. Inflation is expected to remain high, stabilizing at around 15 percent over the medium term due to continued pressures from money growth and the

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. Staff hold separate annual discussions with the regional institutions responsible for common policies in four currency unions—the Euro Area, the Eastern Caribbean Currency Union, the Central African Economic and Monetary Union, and the West African Economic and Monetary Union. For each of the currency unions, staff teams visit the regional institutions responsible for common policies in the currency union, collects economic and financial information, and discusses with officials the currency union's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis of discussion by the Executive Board. Both staff's discussions with the regional institutions and the Board discussion of the annual staff report will be considered an integral part of the Article IV consultation with each member.

[2] Option 1: Under the IMF's Articles of Agreement, publication of documents that pertain to member countries is voluntary and requires the member consent. The staff report will be shortly published on the www.imf.org/en/Countries/MWI page.

700 19th Street NW
Washington, DC 20431
USA

exchange rate. Primary deficits are expected to persist, contributing to the inflationary trends. The outlook faces several downside risks, including the potential continuation of loose macroeconomic policies, a greater-than-expected reduction in donor support, persistent trade tensions, social unrest surrounding the elections, and lower food production. Mining investment and change in policy direction with a strong reform agenda to stabilize the macroeconomy constitute an upside risk.

Executive Board Assessment[3]

Executive Directors agreed with the thrust of the staff appraisal. They stressed that Malawi is at a critical juncture facing high inflation, an unsustainable fiscal and debt outlook, foreign exchange (FX) shortages, and fuel scarcity. Amid significant downside risks, Directors emphasized the need for decisive and urgent policy action. Stabilizing the economy and implementing reforms to foster sustained and inclusive growth are critical to improving living conditions for Malawians. Building domestic support for reforms will be crucial, and active engagement with the Fund and donor partners is important to support reform efforts, learning lessons from past experience.

Directors stressed that fiscal consolidation, focused on domestic revenue generation, is essential to reduce inflationary pressures and improve debt sustainability. They urged tax policy and revenue administration reforms to broaden the tax base. On the expenditure side, it will be essential to contain the interest and wage bills while rebalancing expenditures toward infrastructure and human capital investment and social protection. Directors encouraged improving public financial management to enhance expenditure control and budget execution, as well as strengthening state owned enterprises. A credible medium term fiscal framework would help anchor fiscal sustainability.

Directors urged the authorities to take decisive steps to restore public debt sustainability in the context of a medium-term adjustment program. Completing external debt restructuring and addressing the high cost of domestic borrowing are both critical. Strengthening debt management and securing concessional financing will also be key.

Directors urged the authorities to tighten the monetary policy stance to re anchor inflation expectations, supported by fiscal adjustment to eliminate deficit monetization. Fully implementing the Safeguards Assessment recommendations would support central bank independence and monetary policy implementation. Directors called for vigilance and proactive management of financial sector risks, including those stemming from FX exposure and the sovereign bank nexus. Prudent fiscal policy would support financial sector stability and reduce crowding out of the private sector.

Directors concurred that a unified market clearing exchange rate is integral to achieving macroeconomic stability and providing the basic conditions for accelerating economic growth in the context of a broader adjustment program. A more flexible, market determined rate would help support macroeconomic stability and help the Malawi economy absorb shocks while rebuilding foreign reserves. Carefully sequencing and

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[3] *At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summing ups can be found here:* *http://www.IMF.org/external/np/sec/misc/qualifiers.htm*.

communicating the reforms and proactively addressing their potential social and financial impacts would contribute to a successful transition.

Directors underscored the importance of advancing governance and structural reforms to improve the investment climate and promote economic diversification. They highlighted the need to reduce economic distortions and regulatory burdens and advance the fight against corruption. They also emphasized the importance of enhancing transparency and encouraged the authorities to publish the 2024 Governance Diagnostic Assessment. Strengthening the AML/CFT framework and addressing data gaps will also be important.

It is expected that the next Article IV consultation with Malawi will be held on the standard 12 month cycle.

Malawi: Selected Economic Indicators, 2023-25

	2023	2024	2025
	Actual	Est.	Proj.
National accounts and prices (percent change, unless otherwise indicated)			
GDP at constant market prices	1.9	1.8	2.4
Nominal GDP (billions of Kwacha)	15,475	20,322	25,956
GDP deflator	27.7	29.9	25.3
Consumer prices (end of period)	34.5	28.1	25.4
Consumer prices (annual average)	28.8	32.2	27.7
Investment and savings (percent of GDP)			
National savings	-5.5	-9.2	-5.7
Government	-5.6	-7.8	-6.9
Private	0.1	-1.4	1.2
Gross investment	11.8	12.7	11.8
Government	9.0	10.1	9.4
Private	2.8	2.6	2.4
Saving-investment balance	-17.3	-21.9	-17.5
Central government (percent of GDP on a fiscal year basis)			
Revenue	17.2	18.5	19.1
Tax and nontax revenue	13.3	14.2	15.1
Grants	3.9	4.3	4.0
Expenditure and net lending	27.5	29.1	29.2
Overall balance (excluding grants)	-14.2	-14.9	-14.1
Overall balance (including grants)	-10.3	-10.6	-10.1
Foreign financing	3.3	1.3	1.1
Total domestic financing	7.0	7.2	9.1
Primary balance	-5.4	-5.4	-3.5
Domestic primary balance[1]	-2.4	-5.5	-2.4
Money and credit (change in percent of broad money at the end of the period, unless otherwise indicated)			
Broad money	32.2	45.1	36.7
Net foreign assets	-19.8	-11.2	-2.3
Net domestic assets	52.0	56.3	39.0
o/w Net claims on the government	46.6	50.1	32.7
Credit to the private sector (percent change)	17.6	29.3	19.9
External sector (US$ millions, unless otherwise indicated)			
Exports (goods and services)	1,521	1,433	1,531
Imports (goods and services)	3,984	4,204	4,249
Gross official reserves	201	149	118
(months of imports)	0.6	0.4	0.3
Net international reserves[2]	-1,016	-1,216	-2,027
Current account (percent of GDP)	-17.3	-21.9	-17.3
Overall balance (percent of GDP)	0.7	-0.1	-5.9
Financing gap (percent of GDP)	0.0	0.0	6.0
Terms of trade (percent change)	18.3	9.8	4.4
Debt stock and service (percent of GDP, unless otherwise indicated)			
External debt (public sector)	43.2	37.4	31.6
NPV of public external debt (percent of exports)	205.1	229.8	223.3
Domestic public debt[3]	40.4	50.2	48.6
Total public debt[3]	83.6	87.6	80.2
External debt service (percent of exports)	11.6	11.7	64.0
External debt service (percent of revenue excl. grants)	9.8	9.9	45.7

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

[1] Domestic primary balance is calculated by subtracting current expenditures (except interest payment) and domestically-financed development expenditures from tax and nontax revenues.
[2] The net international reserves is calculated by (i) subtracting foreign currency drains (FCD) and (ii) all outstanding foreign currency debt service to external creditors to which the RBM (including as an agent of the government) is in arrears and or servicing via other means in line with debt restructuring strategy, from gross official reserves.
[3] Domestic debt is at face value and future borrowings is at cost value.

INTERNATIONAL MONETARY FUND

MALAWI

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION

July 3, 2025

KEY ISSUES

Context: Malawi is reeling from several shocks, including a drought last year which contributed to elevated inflation, and is now faced with falling grant inflows as ODA pulls back. Loose fiscal policy, from slippages as well as responses to shocks, together with loose monetary policies and exchange rate inflexibility subsequent to the November 2023 depreciation, have hampered macro stabilization. Food insecurity remains entrenched, macroeconomic instability has deepened, real growth is weak, and fiscal and debt dynamics continue to erode. The scope for reform appears limited ahead of general elections, which are scheduled for September 2025. The 2023 Extended Credit Facility (ECF) automatically terminated on May 14, 2025, eighteen months after approval without completing a review.

Outlook and risks: Staff's baseline is characterized by policy continuity through the tobacco harvest (April-August) and elections. Limited fiscal, monetary, and exchange rate adjustment are assumed to start in late 2025, partially prompted by limits on domestic financing and continued foreign exchange shortages as domestic food production is projected to again not meet domestic needs and the official exchange rate remains over-valued. Impediments to macroeconomic stability and underlying fiscal dominance are not expected to be addressed. Under an illustrative reform scenario, these impediments to growth are gradually addressed and policy adjustment critical to regaining macroeconomic stability is implemented, resulting in higher growth and lower inflation. Risks to the outlook include continuity of loose macroeconomic policy after the elections, worse than expected donor retrenchment, ongoing trade tensions, social unrest around the elections, and a poor harvest in late 2025.

Key Policy Advice:

- A revenue-focused fiscal adjustment to begin to establish credibility, bolster equity and self-sufficiency, reduce public debt vulnerabilities, and support investment and disinflation.
- Tighter monetary policy to re-anchor inflation expectations and ensure inflation returns to target.
- Completion of external debt restructuring in line with public debt sustainability and steps to bring down an elevated domestic interest bill.

- Fiscal and monetary policy credibility are prerequisites for exchange rate unification, that removes distortions, provides certainty to households and businesses and supports FX availability and external competitiveness.

- Structural reforms to support real growth and attract foreign investment. This includes fully operationalizing Integrated Financial Management and Information System (IFMIS) across government agencies, reducing distortions in the economy, adopting a rigorous fiscal regime for mining to ensure new resources are allocated efficiently, eliminating regulatory burdens, implementing safeguard recommendations at the Reserve Bank of Malawi (RBM) and continuing governance and transparency reforms.

Approved By
Costas Christou (African Department) and Björn Rother (Strategy, Policy, and Review Department)

An IMF team comprising Messrs. Tyson (head), Kohler, and Koumtingue (Resident Representative), Ms. Lee, Mr. Banda (local economist) (all AFR), and Mr. Hart (SPR) visited Lilongwe May 22-June 3, 2025. Discussions were held with the Minister of Finance and the Governor of the Reserve Bank of Malawi, and representatives from the Malawi Revenue Authority, the National Statistics Office, the Malawi Energy Regulatory Authority, the Ministry of Energy, the Ministry of Mining, and the Attorney General. The mission team also met with representatives from Parliament and the President's advisors, as well as representatives from commercial banks, the private sector, academia, civil society organizations, and the donor community. Ms. Chikonda (OED) joined the discussions. Messrs. Zeledon and Qi assisted in the preparation of this report.

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TABLES

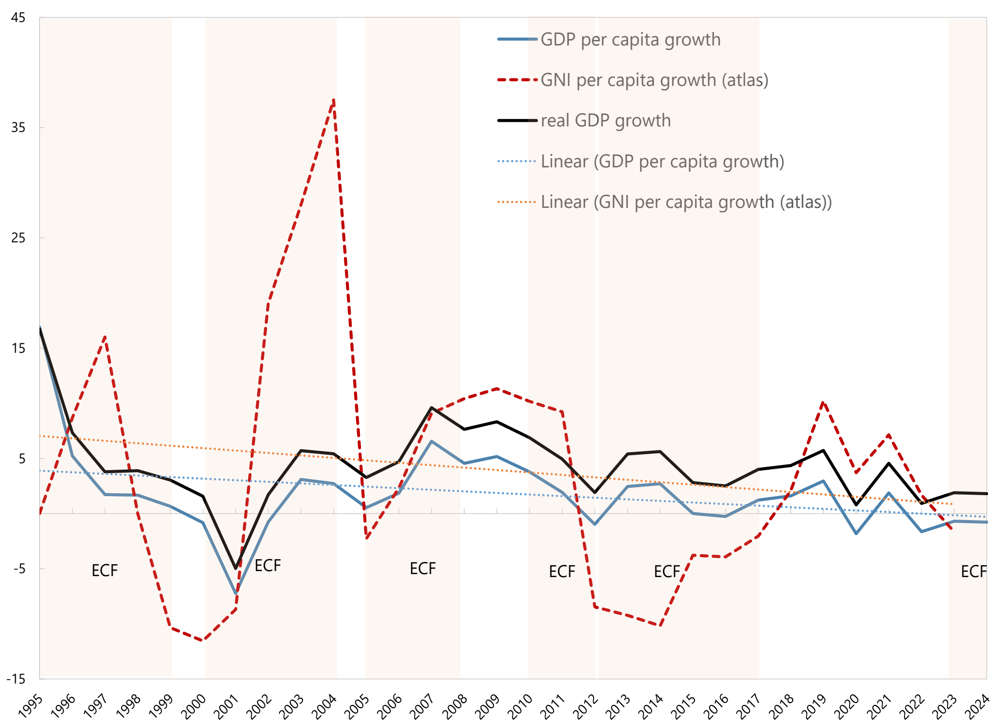
ANNEXES

BACKGROUND AND CONTEXT

1. A sustainable macroeconomic path remains elusive even after decades of donor assistance and IMF support. Despite sequential ECFs and donor inflows averaging nearly 7 percent of GDP per year (see Annex I), Malawi has experienced macroeconomic malaise over the past decades, illustrated by slowing per capita GDP growth, which turned negative in the past few years (see Text Figure 1). The fiscal deficit has increased steadily from a small surplus in 2010 to almost 11 percent of GDP in FY2023/24. Malawi is also susceptible to external shocks, particularly climatic shocks, and lacks the policy instruments and buffers to cushion these shocks.

2. Upcoming elections are framed by increased fragility and macroeconomic instability. The fiscal deficit expanded in FY2024/25, partially in response to external shocks, inflation accelerated and real growth slowed. In 2024, over 20 percent of the population faced high level of food insecurity (IPC Phase 3 or above), up 5 percentage points compared to 2023. General elections, scheduled for September, appear to have reduced policy traction under the ECF, while up-take of the 2021 Article IV recommendations has also been limited (Annex V). The 2023 ECF automatically terminated on May 14, 2025, eighteen months after approval without completing a review.

Text Figure 1. Per Capita and Real GDP Growth in Malawi, 1995-2024



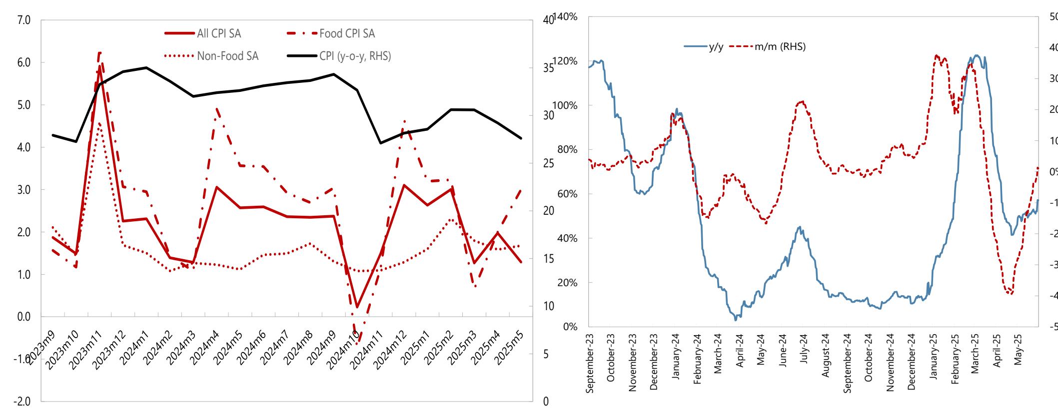
Note: GNI is measured in current US dollars; GDP measures are in constant 2015 US dollars.

Source: World Bank, World Development Indicators

3. Economic activity in 2024 declined due to worse-than-expected agricultural output and critical FX shortages. Real GDP growth declined to 1.8 percent from 1.9 percent the previous year as a drought impacted agricultural production. Foreign exchange and fuel shortages dampened economic activity, particularly given Malawi's import dependence (over 30 percent of GDP). Increasing fiscal financing needs further crowded out the private sector.

Text Figure 2. Recent Monthly and Yearly Inflation Dynamics

Month-on-month CPI, seasonally adjusted | **Daily maize prices, eop**



Source: Malawian authorities; IFPRI; and IMF staff calculations

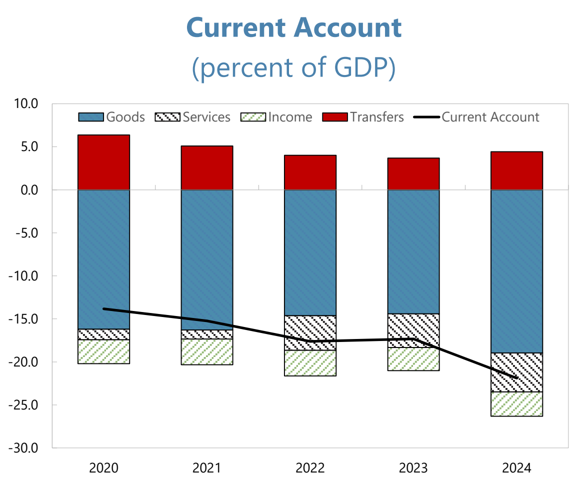
4. The FY2024/25 (April-March) fiscal balance fell short of the mid-year budget target. Domestic revenue, excluding RBM dividends, fell short by 1.2 percentage points of GDP compared to the mid-year projections, largely stemming from the delayed implementation of tax policy and administrative measures envisaged in the fiscal year, including the VAT bill amendment and opening of a voluntary tax compliance window for motorcycle operators. Domestic primary expenditure, excluding RBM recapitalization costs, was 2.2 percentage points of GDP higher compared to the mid-year budget estimate, driven by overruns in development spending, statutory obligations, and election-related expenditures. The estimated domestic primary balance, excluding RBM recapitalization costs and dividends, is -2.9 percent of GDP, versus 0.5 percent in the mid-year budget and -1.9 percent in FY2023/24 (Text Table 1).

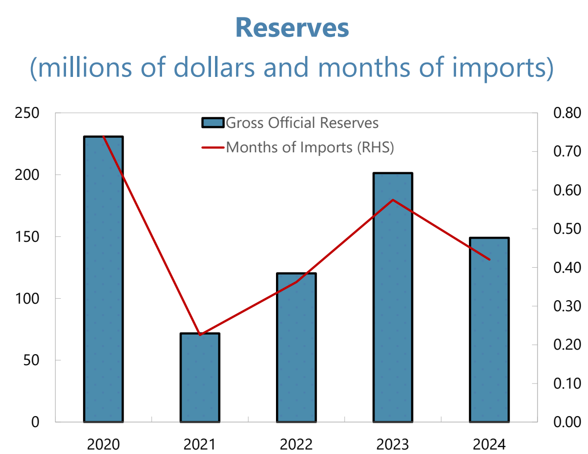
5. After easing as the effects of the November 2023 depreciation waned, inflation accelerated early this year before easing more recently as food prices fell on seasonal dynamics. Headline inflation began easing in late 2024 as the base effect of the November 2023 depreciation fell away. However, record maize price levels late in the year and a wide official-parallel exchange rate spread (currently around 100 percent), coupled with elevated money growth (45 percent as of end-2024), led to a reacceleration of inflation, peaking at 30.7 percent, y-o-y in February 2024. This dynamic, supported by anecdotal evidence, suggests increasing recourse to the parallel market for necessary imports resulting in pass-through inflation. Since then, CPI-based inflation eased to 27.7 percent in May based on declining food prices in the harvest season, but non-food inflation continues to accelerate. Month-on-month food inflation suggests that the seasonal food dynamic has reached its trough at relatively high year-on-year percent increases. Despite this, policy rates have remained unchanged at 26 percent since the last increase in February 2024 and real rates are negative.

6. **The current account balance worsened substantially in 2024 in the context of an overvalued exchange rate and critically low external buffers**. Malawi's current account deficit expanded to almost 22 percent of GDP in 2024, from 17 percent the year before, with higher goods imports offsetting a strong rebound in tobacco exports. Gross reserves dropped to an estimated 0.4 months of imports at end-2024, well below the target range of at least 2.5-3 months assessed as adequate (see also Figure 1, panel 5). Malawi's external position is assessed to be substantially weaker than the level implied by fundamentals and desirable policies, including an overvalued REER (Annex VII).

7. **Malawi's external and overall debt are in distress and public debt dynamics are unsustainable** (DSA supplement)**.** Despite making some progress in reprofiling official bilateral debt, Malawi is in arrears to its external commercial creditors (US$669 million at end-2024) and there are large and protracted breaches of external debt burden thresholds. There has been little progress on debt restructuring negotiations with the country's external commercial creditors. With limited recourse to external financing, persistent fiscal deficits have caused domestic public debt to rise sharply, bringing total public debt to 88 percent of GDP as of end-2024.

Text Figure 3. Current Account Balance and Gross Reserves, 2020-2024





Source: Malawian authorities, IMF staff calculations

OUTLOOK AND RISKS

8. **The macroeconomic outlook is dependent on policy implementation and sensitive to foreign grant support.** The baseline assumes a continuation of current policies through the elections, with some adjustment, largely forced by financing constraints in 2025 and thereafter. Under the baseline, real GDP growth accelerates only marginally from 1.8 percent in 2024 to 3.4 percent by 2029. Inflation remains high and settles at about 15 percent over the medium term, on account of higher money growth and continued exchange rate pressures, as the primary deficits persist. The current account deficit halves to about 10 percent of GDP based on import compression due to lower external financing and foreign exchange shortages, along with higher inflation pushing up nominal GDP. A reform scenario, underpinned by prudent fiscal, monetary, and exchange rate policies along with the implementation of structural reforms would support macroeconomic stability and provide higher potential growth (4.2 percent) and lower inflation (8 percent), with durable improvements in external balances and reserves (see Box 2). Public sector debt dynamics improve in the outer years of the reform scenario.

9. **The direct short-term trade impacts of increasing geopolitical uncertainty are relatively muted, but indirect effects are potentially significant.** Malawi has limited direct exposure to the United States (about 5 percent of exports), so recent tariff increases are not expected to have much impact. The demand for Malawi's main export (tobacco) is also less vulnerable to global economic conditions. However, indirect effects could be significant, primarily from a decline in grant inflows as donor countries retrench their aid programs (Box 3).

10. **Risks are on the downside.** These include lower-than-expected grants and food production, additional trade tensions, and delayed reforms deepening macroeconomic instability (Annex VI). Additional cancellation of USAID programs and difficulties in securing sufficient external financing to cover the needs and hence to prevent the decumulation of reserves and/or compression of imports represent serious downside risks that could put further pressure on fiscal and external sustainability. These risks would have to be mitigated through improved policy credibility (see Box 4 for sensitivity analysis of global dynamics). Lower food production, which is projected to be about 15 percent short of domestic needs, would put additional pressure on inflation, the BoP and on FX availability. The potential for social tensions in the run-up to the elections represents an additional downside risk. Greater than expected mining investment and a change in policy direction constitute an upside risk.

Authorities' Views

11. **The authorities are more optimistic about the economic outlook.** They expect real GDP to expand by 3 percent this year from 1.8 percent last year. They acknowledged the lower than anticipated rebound in the agricultural sector but believe that public investments in the sector should offset the disappointing rains. They agreed that inflation is likely to remain elevated this year but decelerate more rapidly to 17 percent in 2026. The authorities agree that the elevated current account deficit will decrease gradually, though they are more optimistic than staff regarding future

export growth stemming from agriculture, tourism, and mining. They are developing a medium-term reform program to be finalized after the September election.

12. The authorities concur with risks to the macroeconomic framework. They emphasized adverse weather, further declines in official foreign assistance, and higher inflation as the main risks, and the role of fiscal policy in supporting the economy should shocks materialize. At the same time, they pointed to upside risks to the outlook from ongoing investments in the agricultural and mining sectors, highlighting supporting initiatives by public micro-finance and development agencies. They further noted their efforts to clamp down on the parallel foreign exchange market and other administrative measures to help control pass-through inflation.

POLICY DISCUSSIONS

Policy discussions focused on urgently stabilizing the economy to support transitioning from an aid-dependent to a private-sector led economy. Firstly, this requires macroeconomic stability through coordinated policy across fiscal and monetary sectors to regain credibility, improve debt dynamics, fiscal and external buffers, and reduce inflation. Fiscal dominance is a critical obstacle to macroeconomic stability, also undermining RBM independence and monetary policy transmission. Long-standing structural impediments to growth and political economy considerations need to be addressed (see Box I for summary recommendations).

A. The Missing Puzzle Piece: Sustainable Fiscal Adjustment Path

13. In the context of upcoming elections, the FY2025/26 budget largely continues current policies, delaying the necessary adjustment. There has been limited progress in revenue mobilization, while delayed implementation of revenue administration measures (under 0.5 percent of GDP) are expected to take effect in FY2025/26. Under the baseline, the total expenditure envelope is projected to remain large, with slightly higher recurrent expenditure as a share of GDP than last year, primarily due to interest. The overall deficit remains around 11 percent over the medium-term while the primary balance gradually improves as the interest bill crowds out primary spending. Public debt would grow further and remain on an unsustainable path. The potential decline in grant inflows is expected to further constrain fiscal space and lower public investment.

14. The rising interest bill is squeezing domestically financed investment and pro-poor spending. The interest bill, primarily owed to domestic residents, is projected to rise to 8 percent of GDP in FY2025/26. By 2026, the interest bill is anticipated to exceed 40 percent of total government revenue (including grants), and this elevated level is expected to persist over the medium term, aggravating the sovereign-banking sector nexus (see also ¶19 & 32).

Text Table 1. Key Revenue and Expenditure Categories, percent of GDP 2022/23 – 2025/26[1]

	2022/23	2023/24	2024/25		2025/26
	Est.	Est.	Mid-year Budget	Prel.	Proj.
REVENUE	17.2	18.5	21.3	19.1	18.5
Taxes	12.6	13.2	15.0	14.1	14.3
Grants	3.9	4.3	5.7	4.0	2.7
EXPENDITURE	27.5	29.1	27.8	29.2	29.2
EXPENSE	18.8	23.3	20.5	22.0	22.6
Compensation of employees	6.1	6.1	6.0	6.1	5.8
Interest	4.9	5.2	6.7	6.6	8.2
Acquisition of Non-Financial Assets (Development Expenditure)	8.7	5.7	7.3	7.2	6.7
Foreign (Part I)	6.9	4.2	6.0	5.2	4.6
Domestic (Part II)	1.8	1.5	1.3	2.0	2.1
Overall Balance (incl. grants)	-10.3	-10.6	-6.5	-10.1	-10.7
Domestic Primary Balance, excluding RBM[2]	-2.4	-1.9	0.5	-2.9	-1.5

Sources: Malawi Ministry of Finance; and IMF staff projections.

[1] Please note that government fiscal statistics are reported following the Government Finance Statistics Manual (2014) starting 2020 projections and going forward. The fiscal year starting from FY2022/23 is from April - March.

[2] Domestic primary balance is calculated by subtracting current expenditures (except interest payment) and domestically-financed development expenditures from tax and non-tax revenues, and excluding RBM dividends and recapitalization costs.

15. Urgent fiscal consolidation – with a focus on domestic revenue mobilization – is required for macroeconomic stability. The DSA suggests that a primary deficit of about 1 percent of GDP [1] is required to stabilize public debt. Over the medium-term, the primary balance should reach a surplus of about 2 percent of GDP to build fiscal buffers, support more development spending, reduce inflation, and fill the gap in donor financing for health and education. The illustrative reform scenario approaches this level of adjustment and public debt starts declining from 2028. Fiscal policy would benefit from a Medium-term Fiscal Framework that guides the annual budget process:

- **Domestic revenue should be mobilized through a combination of tax policy and administrative instruments.** Short-term revenue objectives, including increasing tax revenue from the informal economy, can be achieved through indirect taxation, particularly by broadening the VAT base, for which there are eighteen zero-rated and twenty-one exemptions, equivalent to 14 percent and 40 percent of the VAT base, respectively. This will require overcoming political-economy constraints. The authorities should identify and cost existing tax expenditures with a view of eliminating legacy, regressive and inefficient measures. Over the longer-term, tax policy should support formalization, equitable burden sharing and sustainable revenue, using both direct and indirect tax instruments (see Annex II).

- **The authorities are making good progress on strengthening tax administration which could be expanded and accelerated.** These efforts have brought additional taxpayers into the formal sector and led to revenue growth above nominal GDP in FY2023/24, without tax policy

[1] This figure should not be taken at face value. Please see DSA supplement. The accumulation of external debt as a share of GDPis distorted by the US dollar GDP denominator, which is over-estimated given the over-valued, official exchange rate.

reforms. The integrated tax administration system (ITAS, "Msonkho") is broadly in place, and the legacy system should be decommissioned by the end of the year. Going forward, the Malawi Revenue Authority (MRA) should focus on continued progress on building data marts to support registration, enforcement and audit functions, identifying tax expenditures with support of IMF CD, and reviewing the MRA's institutional structure.

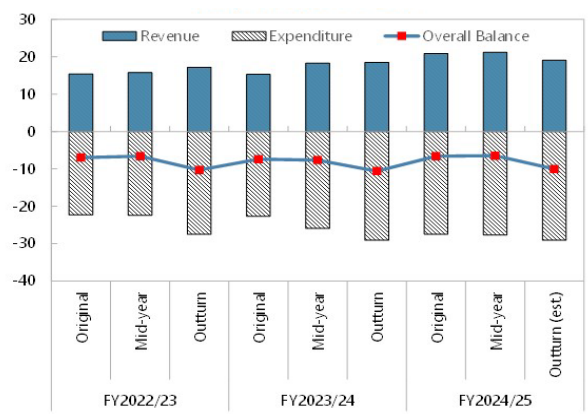
- **There is less fiscal space on the spending side, so improving efficiency and reducing the interest bill are key for supporting development objectives.** The rising interest bill has largely eroded room for allocating resources toward priority spending, including human capital and social protection through measures like in-kind transfers and expanding the social registry. The withdrawal of USAID programs places additional pressure on the public budget (see Box 3), particularly for education and health services. These functions, and additional development investment, can only be realistically accommodated with a comprehensive, medium-term revenue generation strategy, and reduction in the interest bill. The authorities should activate the Human Resources module in IFMIS in order to help manage the wage bill and improve efficiency, as well as addressing expenditure enforcement and procurement gaps.

16. Public financial management improvements are progressing and remain critical for fiscal governance and building credibility. Reforms have progressed, with increased IFMIS coverage and continued bank reconciliation efforts, but gaps remain, as evidenced by the FY2024/25 spending overruns. Priority measures include:

- **Continue increasing the efficiency of public investment:** Progress has been made to improve project appraisals. All public projects are mandated to enter the Public Sector Investment Program (PSIP) under the updated Public Finance Management Act. To enhance transparency, the authorities should further strengthen the oversight and monitoring of investment projects, including multi-year projects, through expanding the information covered in the budget document and improving the PSIP platform.

Text Figure 4. Fiscal Dynamics Under Original and Mid-Year Budgets, and Final Outturns

(in percent of GDP, FY 2022/23 – 2024/25)



Source: Malawian authorities; IMF staff estimate

- **Enhance budget credibility and reporting:** While several advances have been made to reduce the magnitude of the IFMIS data gaps, there is a need to ramp up implementation of the new IFMIS, cash management and fiscal reporting. Spending envelopes in the budget are not adhered to, largely due to statutory commitments and unexpected spending needs not accounted for during the initial budget process, resulting in mid-year adjustments and rising fiscal deficits during the year (see Text Figure 4). The credibility of annual budgets could be improved by holding to hard spending constraints at the MDAs, including a contingency buffer, and basing the spending envelope on more realistic revenue assumptions. To help establish credibility, the authorities should publicly report budget execution from IFMIS [2] on a monthly basis, following Government Financial Statistics Manual 2014 standards, continue efforts on automated bank reconciliation, and avoid the incurrence of new arrears.

- **Improving the procurement system:** The public procurement system is complex and faces challenges in terms of compliance, integration into IFMIS and budget processes, competition, and availability of procurement expertise. The planned government-to-government (G2G) fuel purchase regime could present new risks. To enhance procurement transparency and efficiency, the authorities should accelerate the implementation of electronic government procurement, improve public access to procurement data, in line with MAPS (2023) recommendations, and complete guidance on the G2G governance framework.

- **Strengthening SOE oversight:** Rising contingent liabilities and arrears from poorly performing state-owned enterprises (SOEs) pose a fiscal risk, compounded by limited reporting and data gaps that hinder effective monitoring. In conjunction with IMF TA, the authorities should expand coverage of SOE risk assessment and publish these risks in the budget process, by including a "Fiscal Risk and Management Strategy" annex to the FY2025/26 mid-year budget.

Authorities' Views

17. The authorities acknowledged the need for fiscal adjustment. The MoF stated that the objective is to reduce the overall deficit to 6 percent of GDP over the medium-term (a 4 percent of GDP adjustment). They concurred on the need for domestic revenue increases, while also noting that the interest rate bill dynamic poses a significant obstacle to fiscal retrenchment and more development spending. They will develop a more detailed fiscal program later this year, with some front loading of revenue measures, and emphasized the need to account for constraints imposed by the political economy. The authorities maintained that the revenue buoyancy experienced in FY2024/25 would continue based on on-going tax administration measures (e.g., digitalization, tax stamps, tax debt collections, audits), suggesting about 10 percentage point higher nominal tax revenue growth than under IMF staff projections.

B. Restoring Debt Sustainability

18. Malawi needs to take decisive steps to restore external debt sustainability (DSA supplement). Recent debt reprofiling agreements with some of Malawi's official bilateral creditors is welcome and negotiations with the others continue, but this represents a small share of external debt. [3] The authorities have continued to engage with their external commercial creditors to achieve

[2] For this, the authorities still need to fill gaps in IFMIS use across MDAs, for example, Part I foreign financed development spending, domestic debt transactions, and revenues from MRA.

[3] Malawi has agreements in force with China EXIM and the Kuwait Fund for Arab Economic Development. Discussions are continuing with India EXIM and the Saudi Fund for Development.

a restructuring that would ensure that the risk of debt distress returns to a moderate level in the medium term, but limited progress has been made.[4] Delays reflect in part creditors' concerns over the medium-term implications of the restructuring (including as a precedent for others in the region). Nevertheless, tangible progress would help pave the way for new concessional inflows from multilateral partners in the context of declining aid flows.

19. The recent increase in domestic debt poses broader risks to debt and macroeconomic sustainability. The stock of domestic public debt has risen sharply in recent years and is projected to continue rising under the baseline. Elevated debt levels represent a source of fragility in the context of a shifting geopolitical landscape and Malawi's vulnerability to shocks. Even with an external debt restructuring, reducing risks to public debt sustainability will require a sustained medium-term macroeconomic adjustment and steps to substantially reduce the domestic interest bill, including through a sustained fiscal adjustment and new external concessional financing.

20. The authorities are making efforts to strengthen public debt management and statistics. Staff welcome the authorities' steps to implement recommendations from the Fund's recent report on strengthening public debt statistics, including publishing quarterly debt data on a timely basis.[5]

Authorities' Views

21. The authorities agreed on the need to restore debt sustainability and see this as a component of fiscal retrenchment. They underscored the challenges to reaching a successful agreement with their external commercial creditors on a debt restructuring but remain committed to their restructuring strategy.

C. Achieving Price Stability

22. Accelerating inflation is a function of shocks to food supply and an expanding parallel market spread, in the context of loose fiscal and monetary conditions. Persistent and elevated domestic fiscal financing has led to accelerated money growth and inflation (see Figure 1, panels 1 & 2). Staff analysis suggests that money growth contributes to overall—and non-food—inflation, illustrating the deleterious effects of fiscal dominance (see Annex III). With limits on direct monetary financing,[6] the RBM injects liquidity by purchasing government securities from banks in the secondary market via its rediscounting facility. The resulting excess liquidity, in turn, exerts pressure on the exchange rate.

[4] Afreximbank and the Trade and Development Bank (TDB) were expected to provide debt relief as part of the authorities' debt restructuring strategy.

[5] The most recent debt report, covering data through end-September 2024, was published in November 2024.

[6] Since 2015 under ECF reforms, these advances from the RBM have been limited to 10 percent of last year's revenue and must be zero at the end of the fiscal year (RBM Amendment Act, 2015).

23. Over the longer-term, seasonally adjusted food and non-food inflation reflect production impediments and possibly entrenched inflation expectations. As noted in Annex III, monthly, seasonally adjusted, month-on-month food inflation has been trending up, averaging 2 percent since 2020 (27 percent annualized), due to structural constraints such as under-investment in irrigation and transportation, inefficient land use, fertilizer shortages, and climatic shocks (see Annex IV). Entrenched inflation expectations also play a role: farmers' price demands at harvest time reflect the anticipated price of inputs at the start of the next rainy season in about six months.

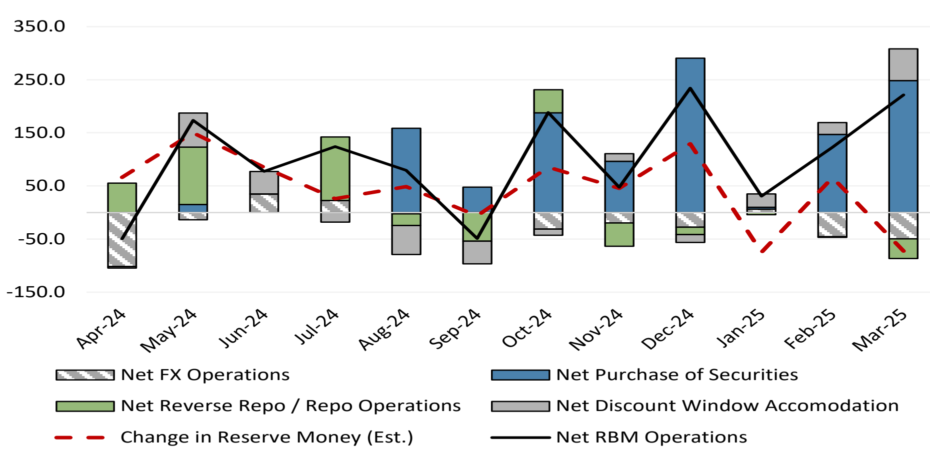
24. The RBM should re-anchor inflation expectations in line with its price stabilizing mandate. [7] With elevated inflation expected to continue through 2025, the policy rate should be raised to a real positive level until inflation credibly eases, with the raising of the liquidity reserve requirement, which is unremunerated, as a second-best option. The RBM should prioritize open market operations (OMO) at fixed rate with full allotment to mop-up excess liquidity and sterilize purchases of government securities in the secondary market (see Text Figure 6). The interest rate on 91-day T-bills has deviated from other short-term interest rates, suggesting potential issues in policy transmission (see Text Figure 7).

Authorities' Views

25. Authorities noted that monetary policy would respond to inflation dynamics. Given continued elevated inflation this year, policy could be tightened later this year but would likely not be through the RBM's policy rate since the liquidity reserve requirement is the preferred instrument. The authorities maintained that inflation is mostly driven by supply factors including food prices and pass-through from depreciating parallel exchange rate. Hence, the RBM will continue measures to force foreign exchange transactions into the official market as a way to achieve price stability.

Text Figure 6. RBM Market Operations, FY2024/25

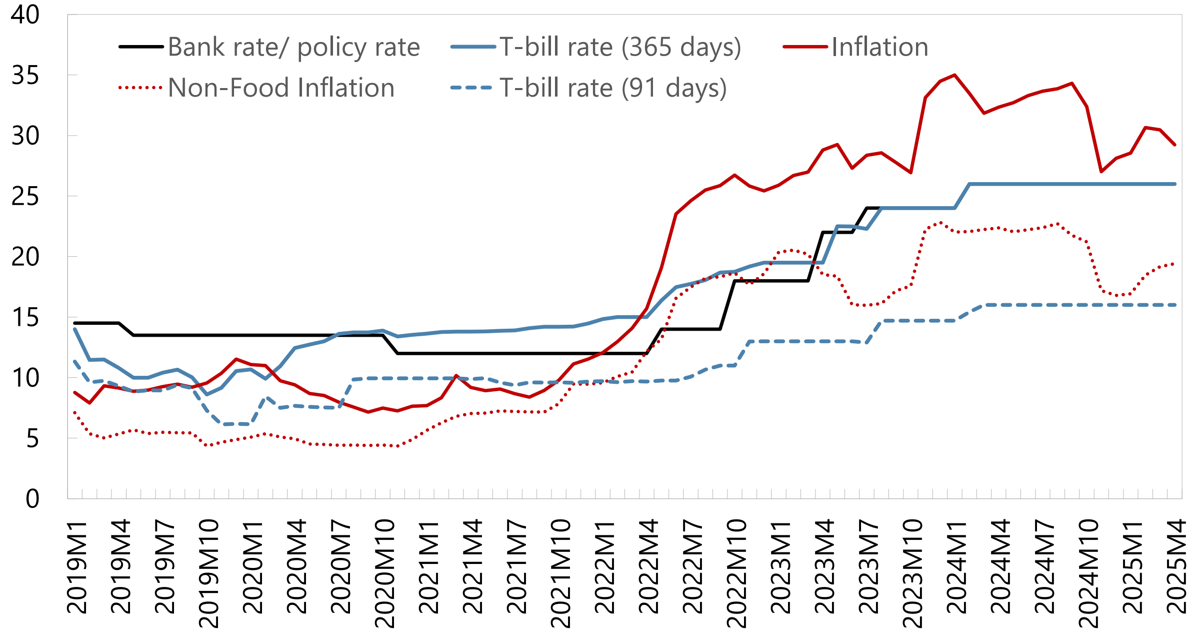
(MWK billions, (+) is injection)



Source: Reserve Bank of Malawi; and IMF staff calculations.

[7] The RBM has a double mandate, price and financial stability, but the former is primary. See 2018 Reserve Bank of Malawi Act.

Text Figure 7. RBM Policy Rate, ST Interest Rates, and Inflation Measures, 2019-April 2025
(percent)



Source: Reserve Bank of Malawi; and IMF staff calculations.

D. Restoring External Buffers and Viability

26. An overvalued official exchange rate is creating distortions across the real economy (Annex VII). Malawi's *de jure* exchange rate regime is floating supported by inflation targeting, but the RBM *de facto* operates a "stabilized" exchange rate regime.[8] Given the large inflation differentials, staff estimate real appreciation of over 26 percent since November 2023, substantially erasing the benefits of the 44 percent devaluation (see Figure 1, panel 3). This dynamic, coupled with elevated money growth and FX scarcity, has led to increased activity in the parallel FX market and a growing spread to the official rate, peaking at over 150 percent earlier this year (Text Figure 8). An overvalued official exchange rate acts as a tax on exporters and subsidizes imports, burdening the BoP, creating additional informality, incentivizing foreign exchange to leave the system,[9] and results in numerous other distortions, that together substantially sap domestic economic activity and create uncertainty for households and businesses (Text Figure 9).[10]

[8] While the RBM guidelines provide for a market determined exchange rate, they also restrict banks from making intraday rate revisions by prohibiting "off-market" selling rates and imposing a volume floor for such revisions.

[9] Anecdotally, cross-border smuggling and informal remittance flows have increased, and Malawian banks' and households' net-FX assets at BIS banks amounted to US$74 and US$200 million at the end of 2024 (BIS, Locational Banking Statistics).

[10] Gray, Simon. *Official and Parallel Exchange Rates—Recognizing Reality.* IMF Working Paper (February 2021).

27. Exchange rate unification is a short-term reform priority to avoid a high inflation, low growth trap, and needs to be considered as part of a broader macro stabilization package. An exchange rate re-alignment in the current context of macroeconomic instability and lack of policy credibility, especially fiscal, is likely to perpetuate the depreciation-inflation cycle feared by the authorities. The authorities should start planning for adjustment, including through the introduction of a mid-year budget that is consistent with stabilization, while monetary policy should be tightened. Exchange rate unification will be necessary to buttress the efforts to establish strong macroeconomic policy credibility. The package should be carefully designed and include social safety nets to offset the potential short-run impacts on households. In addition, the backlog of FX accounts payable at commercial banks represent a large, standing source of FX demand and complicates exchange rate unification. Administrative measures – including import/export bans, price caps, annual renewal of licensing of banks and other institutions for FX trading, and restrictions on accessing the parallel FX market – cannot replace more formal policy responses and exacerbate existing distortions.

28. Going forward, given domestic and external dynamics, the exchange rate regime needs to respond to economic fundamentals and help manage shocks. The RBM should clarify its preferred exchange rate regime and develop an appropriate operational framework and a transparent communication framework (the options can be regarded as a sequence, rather than just alternatives). In any case, building Malawi's SDR holdings could help avoid incurring high net charges and reduce the risk of arrears to the Fund.

- A "**managed float**" [11] can help mitigate pass-through inflation but needs an adequate level of reserves to stabilize the exchange rate in response to temporary pressures. It also requires a credible willingness to adjust the exchange rate when faced with misaligned fundamentals or a permanent shock. To implement a managed float, the RBM should clarify policy objectives in terms of price and exchange rate stability and develop an operational framework in terms of an intervention mechanism, a nominal exchange rate target or bands, and how these are determined. Over the shorter-term, a managed float provides a simpler policy framework and supports the inflation anchor, fiscal policy credibility, and financial stability, but can lead to costlier adjustments to external shocks, which Malawi suffers frequently.

- A "**free floating**" exchange rate regime would provide an effective shock-absorber once policy credibility is re-established and structural impediments in the productive sectors are addressed. As Malawi's inflation differentials are likely to be difficult to manage given structurally high food costs, a managed rate will likely require frequent adjustments and begin to approximate a floating rate. This regime is better absorber of external shocks that Malawi often experiences and is also more supportive of reserve accumulation. [12]

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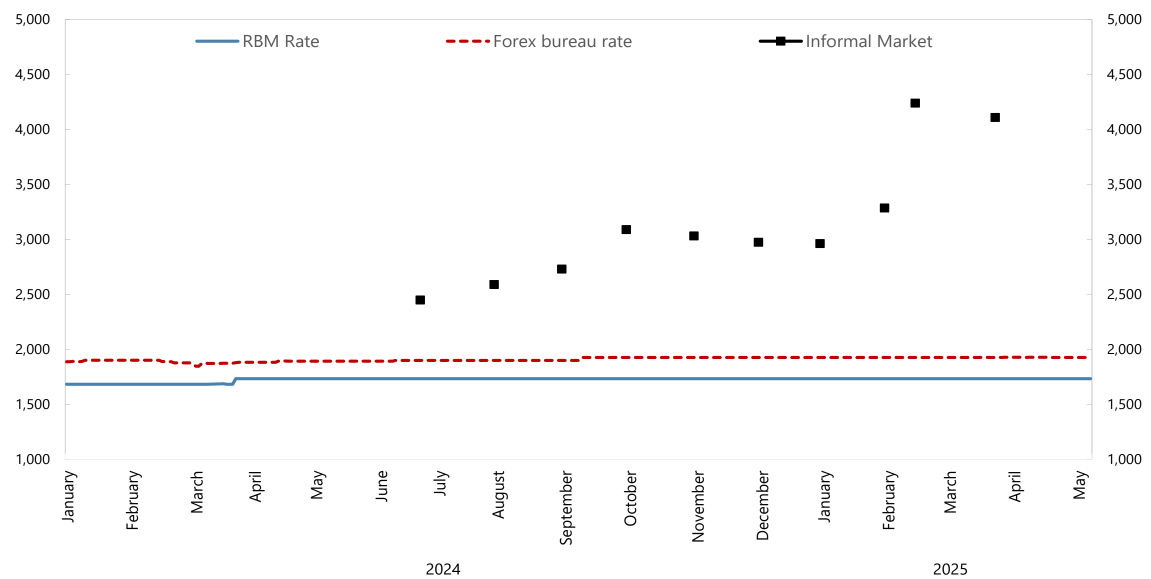
[11] Under IMF exchange rate arrangement classification framework, the regime would be classified as *"floating."*

[12] Additional information the IMF's adequate reserve assessment can be found here: imf.org/external/datamapper/datasets/ARA

Text Figure 8. Exchange Rates: Official, FX Bureau and Parallel, 2024-March 2025



Source: Reserve Bank of Malawi; and IMF staff calculations.

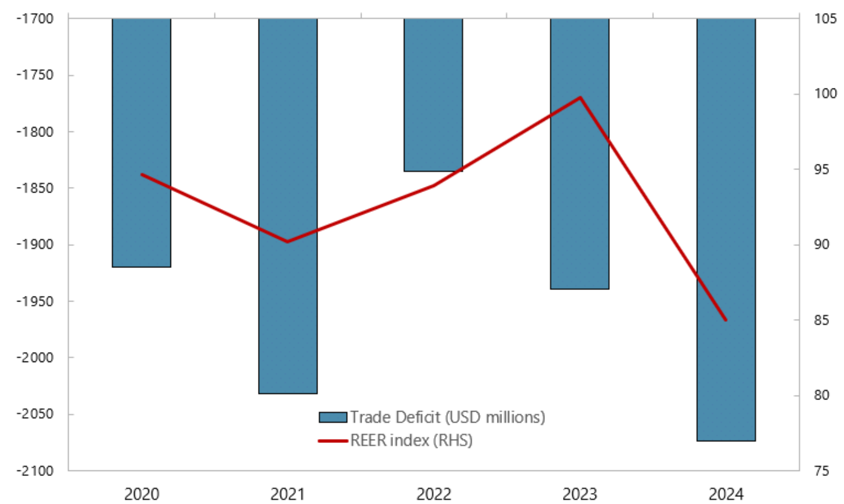
Note: In the absence of official data, parallel market data is informally collected.

29. The authorities maintain four multiple currency practices (MCPs) subject to Fund approval under Article VIII, section III. The first MCP arose on February 1, 2024 from rates which are managed by the RBM and applied to the FX transactions by Authorized Dealer Bank (ADBs) and the RBM's FX spot transactions (i.e., transactions with the government, exporters and ADBs under a surrender requirement, purchases from international brokers, and sales to ADBs). The second MCP arose on March 18, 2024 from the FX auction, which employs the same fixed, RBM rate. The third MCP arose on February 8, 2024 from the rate used by the RBM in its spot leg of the FX swaps. The fourth MCP arose on February 8, 2024 from the forward rate used by the RBM in its FX swaps. Updated data suggests that all MCPs continue to arise (i.e., impermissible spreads continue to materialize since these dates). [13]

30. All measures giving rise to the MCPs derive from efforts to maintain the de facto stabilized nominal exchange rate. An impact of these measures is to contribute to the distortions mentioned in Paragraph 26, and are intended to address FX shortages and support inflation objectives – staff advised that these would be resolved with an ER alignment and continued ER flexibility.

[13] These four MCPs were assessed under the Fund's new MCP policy, effective February 1, 2024, and replace the other MCPs earlier identified under the Fund's previous MCP policy. See Review of the Fund's Policy on Multiple Currency Practices–Proposals for Reform. Malawi continues to maintain three previously identified exchange restrictions subject to Fund approval under Article VIII, Section 2(a) and referred to in the information annex.

Text Figure 9. Trade Deficit and REER Developments, 2020-2024



Source: Malawian authorities; IMF staff estimates

Authorities' Views

31. The authorities prefer an exchange rate regime that provides a nominal anchor to help stabilize inflation. They are concerned that exchange rate flexibility will lead to unchecked depreciation and pass-through inflation, which would require a higher level of reserves to prevent destabilization. They acknowledge the need for fiscal adjustment to support the exchange rate and inflation objectives, which would be a component of their post-election program. However, they also highlighted the importance of a very large foreign reserve buffer to support the exchange rate. They emphasize behavioral dynamics in the context of low gross international reserves and anecdotally report that importers source goods at the official exchange rate but price them at the parallel rate. In this context, they emphasize the role of administrative and enforcement measures.

E. A Stable Financial Sector to Help Drive Growth

32. Banks continue to be well-capitalized, liquid and highly profitable due to their holdings of government securities with high rates. Capital ratios remained adequate with a stable system-wide, aggregate capital adequacy ratio at 22.1 percent as of end-April 2025. The liquid assets to deposits and short-term liabilities ratio was 54.5 percent at end-April, well above the regulatory minimum of 25 percent. Banks' profitability continued to grow throughout 2024 in an environment of high government borrowing, although bank-level data indicates that performance was uneven. Return-on-Assets ratios ranged from 1.3 to 10.5 percent at the end of April, with an aggregate level of 7.5 percent, relative to a Sub-Saharan African average of 3.3 percent in 2023. [14]

[14] IMF, Financial Soundness Indicators Data.

The average profit growth of banks, weighted by market share of assets, was 79.2 percent between 2023 and 2024.

33. Bank-level data indicates some pockets of vulnerabilities within the financial sector. While the trading-book based net open position in foreign currency of banks remains relatively small and positive (4 percent of core capital as of end-March), the total net FX liabilities position (trading and banking books) within the banking sector implies some risk exposure in the event of currency depreciation. The non-performing loans ratio at the aggregate level declined from a peak of 9.8 percent in November 2024 to 7.7 percent in April 2025, but this is above the regulatory threshold of 5 percent. Both bank and non-bank financial institutions' significant exposure to government borrowing, with banks holding of government securities reaching 45 percent of total assets in April, raises concerns about the expanding banking-sovereign nexus. In this vein, foreign exchange risk and credit risk from macroeconomic outlook warrant continued close monitoring by the RBM and enhanced systemic risk analysis. Stress testing tools developed with previous IMF TA would support the assessment of these growing risks.

34. Lowering government financing needs will crowd in the private sector and support export-oriented investment. Increased domestic financing needs and the resulting high interest rate, combined with poor macroeconomic conditions heightening credit risk, have limited private sector credit growth in recent months. ODC holdings of government securities grew by 78 percent y-o-y in 2024, while the growth in private sector credit was much more subdued at 30 percent, negative in real terms, and only 22 percent year-on-year through end April (Figure 2).

Authorities' Views

35. Despite a rising sovereign-bank nexus, the authorities considered the financial system to be stable. They broadly concurred with IMF staff views on adequate sectoral capitalization in the context of high profits. They also agreed on rising financial risks stemming from the concentration of financial sector assets in government securities. The RBM's current supervision of exchange rate risk is based on net open position, calculated using the banks' trading book FX positions. The authorities agreed to potential risks from mismatch in banking book FX positions and the need of further monitoring. They also downplayed crowding out, focusing on the public sector's role in filling access to financing gaps, particularly in the micro/SME — and agricultural — sectors.

F. Structural Reforms to Support Growth and Transparency

36. Improving the investment climate would help attract investment, diversify the economy and move up the value chain (see Annex IV). The current exchange rate environment, as well as FX surrender requirements, [15] is a disincentive to foreign and domestic investment in export-oriented enterprises, with Malawi trailing peers in attracting FDI. In addition, the regulatory burden

[15] A new FX surrender requirement applicable to funds received by public bodies and non-governmental organizations was introduced in December 2024 and subsequently revised in April 2025. The requirement is being assessed as capital flow management by the IMF interdepartmental group on capital flows.

in Malawi is relatively high and the large role of the government in numerous SOEs can restrict investment and private growth. Human and physical capital, especially transportation, require consistent investment, supported by international partners. The FY2025/26 budget statement appropriately focuses on raising productive capacities and improving self-sustainability, under the Agriculture, Tourism, Manufacturing, and Mining (ATMM) policy umbrella. However, the authorities' proposals lean towards greater government involvement in the economy (additional tax exemptions, directed lending via the budget, new public developmental and sectoral SOEs and agencies).

37. Market-based fuel prices would reduce inefficiencies and increase FX availability and fiscal revenues (see Box 6). Despite having an automatic fuel price mechanism (AFPM) and an independent fuel regulator in place, maximum pump prices have not changed since November 2023 and are under cost recovery.[16] This has led to an accumulation of arrears between the regulator, fuel importers, and government, estimated at over 950 billion Kwacha (US$540 million) by the Price Stabilization Fund (i.e., by the regulator) to importers to cover losses and over 450 billion Kwacha (US$250 million) by importers to the Treasury for unpaid fuel levies. Malawian fuel prices are lower than regional peers, which is incentivizing excessive imports and (anecdotally) smuggling, while burdening FX availability and public balances. The shift from open tendering to G2G agreements is expected to marginally reduce import margins over the Arab Gulf (Platts) price but could also raise governance risks, as these agreements will be exempted from the Public Procurement and Disposal of Assets Act.

38. The 2024 Governance Diagnostic for Malawi provides a prioritized set of reforms across numerous sectors to improve public administration and transparency. These include key PFM reforms noted above, as well as rule of law, central bank, AML-CFT, and anti-corruption reforms:

- **Continued anticorruption efforts would support confidence in public service provision.** A series of corruption cases over the past ten years have undermined public confidence and highlight the persistence of the issue. Despite government reform efforts, including the two National Anti-Corruption Strategies and the recent removal of the requirement for the Anti-Corruption Bureau (ACB) to obtain the Director of Public Prosecution's consent to effect arrests in suspected corruption cases, gaps remain. The public procurement process and State-Owned Enterprise operations continue to be exposed to risks due to discretionary decisions and limited transparency. The authorities should continue regulatory reform efforts to update the Corrupt Practices Act to strengthen transparency and independence of ACB, enhance the effectiveness of the Financial Crimes Court, and pass the Judicial Service Administration Bill to help strengthen the rule of law. Enhanced collaboration and information sharing among law enforcement agencies with overlapping mandates would be crucial.

- **On AML-CFT, Malawi has made progress in resolving some of the technical compliance deficiencies identified in its Mutual Evaluation Report (MER).** The latest MER was

[16] May data suggests that the petroleum and diesel pump prices were about 34 and 19 percent under cost, respectively, which are expected narrow once legacy contracts reset and G2G comes on stream.

concluded in April 2024. Since then, progress has been made on the legal definition of terrorism finance offense, amending financial crimes regulation to cover the non-profit sector, and legal amendments to cover data and information on Beneficial Ownership. The assessment of risks associated with new technology and business practices is underway. The systematic collection and management of data on case, prosecutions, convictions and assets recovered is still outstanding.

- **Central bank independence should be strengthened, in line with IMF advice**. The RBM Act (2018) states the primary objectives of the Bank as achieving price and financial stability, while also including the support of general economic development as one of its primary functions. The RBM Act amendment is currently underway following the previous 2021 Safeguards Assessment, and it advised strengthening collegiality at the executive management level, clarifying decision-making modalities for monetary policy formulation, and introducing a proper double veto procedure for the appointment of non-executive Directors. To further strengthen the autonomy and adherence to primary objectives, it is recommended that the RBM refrain from using outright purchases of government securities through the rediscounting facility as a liquidity management or government financing tool.

39. Progress in implementing the recommendations from the 2024 Safeguards Assessment of the RBM has been slow. In addition to comprehensive governance and legal reforms, the RBM also needs to strengthen controls over open market operations and lending to banks, and address risks of non-compliance with legal provisions on advances to the government. Other outstanding recommendations include divestiture from the Export Development Fund (EDF) and improvements in internal audit capacity and methodology. Concerted efforts are needed to complete these reforms and restore institutional safeguards at the RBM.

40. Improvements in data quality and availability are required in several areas to help support policy development and surveillance. Currently, shortcomings in some data collection and reporting somewhat hamper surveillance (Annex IX). Timelier publication of annual national accounts data and the construction of quarterly national accounts series remain key priorities, as the National Statistics Office (NSO) of Malawi continues to face resource constraints. Several planned surveys, including the Integrated Household survey, are underway to close data gaps, but adequate funding and continued capacity building are needed for successful implementation. Closer collaboration among government institutions is also warranted, including the exchange of more granular data between the RBM and NSO to support timely monetary policy decisions, and between the RBM and the Ministry of Finance on debt data.

Authorities' Views

41. The authorities' economic approach puts a strong emphasis on public support for productive sectors. While they concur with staff on the need to improve the business enabling environment, they place more focus on industrial policy, e.g., publicly directed investment in key sectors to address bottlenecks and/or incentives for key sectors. The core of this approach is to prioritize ATMM. They note that this economic strategy will support fiscal adjustment (through revenue generation); price stability (by increasing food supply and import substitution) and exchange rate dynamics (by increasing exports and foreign exchange earnings). They recognized that the benefits would take time to materialize. The authorities disagreed with staff that price distortions, especially the exchange rate, stifle real activity. They will consider publishing the 2024 Governance Diagnostic later in 2025 and might devolve the EDF from the RBM balance sheet but will not close the public development fund.

42. **The new G2G fuel contract is expected to reduce costs and support growth**. The authorities note that they are developing operational and governance regulations to govern National Oil Company of Malawi (NOCMA) direct importation of fuels and plan to reserve a private sector role of at least 30 percent.

STAFF APPRAISAL

43. **The macroeconomic outlook is subdued and risks are tilted to the downside**. Under current policies, staff expects real GDP growth to be 2.4 percent in 2025 and gradually increase to 3.4 percent over the medium term. Inflation is projected to average 28 percent in 2025 and settle at around 15 percent over the medium term. Lower-than-anticipated grant inflows and food production, additional global trade tensions, and delayed reforms could deepen macroeconomic instability. The inability to secure sufficient external financing may result in additional domestic adjustments, which could have adverse effects on growth and development spending. Greater-than-expected mining investment and production constitute an upside risk.

44. **Fiscal adjustment, based on domestic revenue mobilization, should be a key component of macroeconomic stabilization.** Domestic revenue growth could be achieved through tax policy reforms that also increase the tax base (e.g., reducing exemptions, and personal and corporate income tax reform). Improving wage bill efficiency and rebalancing expenditures towards human capital and social protection could support these efforts. Tackling the rising interest bill would create space for domestically financed investment and pro-poor spending, while also ameliorating the sovereign-bank nexus.

45. **Staff welcomes public financial management improvements and urges remaining gaps to be addressed to strengthen fiscal governance and building public trust**. The authorities have made progress in expanding the coverage of the IFMIS, bank reconciliations, and increasing the efficiency of public investment. Reform efforts should continue to, inter alia, enhance budget development, execution, and reporting, improve the procurement system, and strengthen State-Owned Enterprise (SOE) oversight. Monthly, public budget execution reporting from IFMIS would support rapidly building policy credibility.

46. **Decisive steps are needed to restore debt sustainability.** Reducing elevated debt levels and debt service costs will help reduce Malawi’s vulnerability to shocks and create fiscal space for critical investments to support growth and development. This requires a sustained medium-term macroeconomic adjustment and addressing the high cost of domestic borrowing, anchored around

a fiscal consolidation and tangible progress on external debt restructuring to pave the way for new concessional inflows.

47. Tighter fiscal and monetary policies would support disinflationary efforts and ease pressure on the exchange rate. High inflation hurts the economy in general, but especially the poorest and most vulnerable. A combination of more restrictive monetary policy and an urgent fiscal adjustment could reduce broad money growth, support policy credibility and re-anchor inflation expectations. The reform package should be carefully designed and include support for the most vulnerable to help weather potential short-run costs. The Reserve Bank should refrain from outright purchases of government securities.

48. A unified and market clearing exchange rate, as part of a stabilization package, is critical to reducing imbalances and supporting the authorities' growth objectives. The current exchange rate regime with a large and volatile spread between the parallel and official rate creates distortions, impedes exports, subsidizes some imports, and encourages informality and tax avoidance. Foreign direct investments and official aid flows are discouraged, and domestic revenues reduced. Eliminating these imbalances requires unifying the official and parallel exchange rates, at a level reflecting fundamentals and discounting speculative factors, and stabilizing the foreign exchange market. Consistency between the de facto exchange rate regime, the monetary policy framework and fiscal policy is needed to ensure sustainable growth. While a managed float could help provide a nominal anchor in the shorter-term, a floating exchange rate would suit Malawi best given its low level of reserves and vulnerability to external shocks.

49. The banking sector's credit to the sovereign and foreign exchange risks should be monitored to preserve financial stability. While the sector is well-capitalized, liquid, and profitable, its significant exposure to government borrowing and the net foreign liabilities position within the banking sector require continued careful monitoring.

50. Increased banking sector credit to the private sector would support economic growth. Fiscal adjustment would reduce crowding out of private sector due to public borrowing and support export-oriented investment. In addition, a lower inflation and interest rate environment would further support credit to businesses.

51. Improving the investment climate would help attract investment, diversify the economy, and move up the value chain. Sustained multi-year prudent fiscal policies and removing price distortions (e.g., re-activating the automatic fuel price mechanism) would bolster policy credibility and strengthen external competitiveness. Addressing key structural impediments to growth would durably support efforts to raise productive capacity, reduce inflation and improve self-sustainability, as envisaged under the authorities' Agriculture, Tourism, Mining and Manufacturing (ATMM) policy umbrella.

52. Further strengthening governance measures will support confidence in public service provision. Despite governance reform efforts, including the two National Anti-Corruption

Strategies, gaps persist. For example, the public procurement process and SOE operations would benefit from greater transparency and less discretionary decision-making.

53. Staff recommend that the next Article IV consultation take place on a standard 12-month cycle. Staff does not recommend approval of the MCPs and exchange restrictions referred to in paragraph 29 and the informational annex, as details on the authorities' strategy to remove the measures giving rise to these MCPs and exchange restrictions have not yet been issued**.**

Box 1. Malawi: 2025 Article IV Consultation — Key Recommendations

Fiscal

- Prioritize fiscal policy in support of macroeconomic stability and debt reduction; implement a revenue-based fiscal adjustment by expanding the tax base and closing exemptions; and improve expenditure efficiency, including public investment, to drive sustainable growth;
- Implement effective commitment and expenditure controls, while enhancing budget credibility. Strengthen public procurement processes, fiscal risk analysis and disclosure, and SOE oversight. Build policy credibility through an MTFF and regular reporting and publication of IFMIS-based budget execution outturns;

Monetary and financial

- Re-anchor inflation expectations and tighten effective monetary policy by mopping up excess liquidity to restrain money growth, sterilize government borrowing and increase key interest rates to positive real levels;
- Improve fiscal and monetary policy coordination to strengthen policy transmission and ease inflationary pressure from domestic financing, including by discontinuing the rediscounting facility;
- Maintain strong oversight of the financial sector, including in monitoring rising risks from the sovereign-bank nexus;

Exchange rate:

- Adopt a unified and market clearing exchange rate, implement consistent macroeconomic policies, and develop an appropriate policy and operational framework;
- Accumulate reserves and maintain necessary level of SDR holdings to prevent arrears to the IMF;

Structural and governance

- Improve the investor climate by inter alia reducing regulations, removing distortions, and improving FX availability;
- Continue priority reforms from the 2024 Governance Diagnostic in rule of law, AML-CFT, anti-corruption, and at the central bank;
- Continue Safeguard Assessment reforms to support RBM independence and operations in line with the Bank's primary mandates; and, strengthen macroeconomic and financial data collection and reporting to support policy development.

Box 2. Malawi: Macroeconomic Projections Under a Reform Scenario

Summary: Under the reform scenario, the authorities tighten fiscal and monetary policy in the third quarter of 2025 and implement income and VAT tax reforms equivalent to about 1 percent of GDP in each of FY 2026/27 and 2027/28. Public sector wage growth is kept in line with inflation for three years starting in FY2025/26. After the re-establishment of policy credibility and an exchange rate unification (estimated based on inflation differentials), additional exchange rate flexibility over the baseline is permitted, with some limits to prevent excessive volatility (e.g., capped at 2.5 percent daily movement). Administrative measures are gradually eased, and key structural reforms to improve the investor climate are undertaken, including of SOEs.

Illustrative outturns:

- Real GDP growth increases to about 4.2 percent compared to 3.4 percent by 2030. Economic activity is restrained by policy tightening early in the period. Growth could be higher with deeper structural reforms.

- Inflation drops rapidly, initially due to monetary policy tightening, then supported by fiscal improvements in 2027 and 2028, which leads to lower money growth. Credit to the private sector improves.

- The primary balance, excluding the RBM recapitalization and dividend payments, improves from -2.9 to 1.6 percent of GDP in 2029-2030. The fiscal adjustment is based on feasible tax policy changes with only limited expenditure restraint. The primary and overall balances under the reform scenario worsen temporarily relative to the baseline due to RBM recapitalization costs resulting from the one-off depreciation.

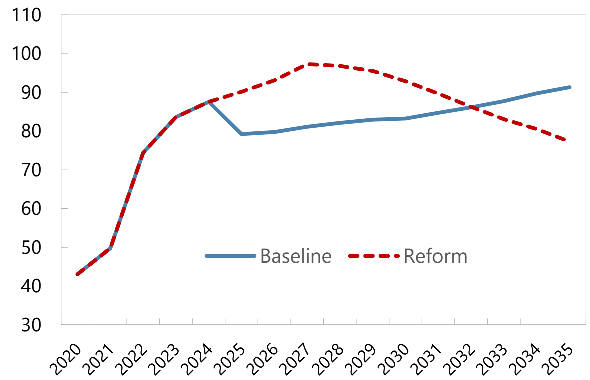
- Exchange rate flexibility reduces the current account deficit and allows for faster reserves accumulation due to an improved trade balance and the formalization of a share of the transactions taking place in the parallel market. The improvement in the current account as a percent of GDP is less pronounced because reduced inflation means that nominal GDP growth (the denominator) is lower.

- An external commercial debt restructuring is assumed to take place broadly in line with the authorities' October 2022 strategy, resulting in a significant reduction in the net present value of external debt.

Box 2. Malawi: Macroeconomic Projections Under a Reform Scenario (concluded)

- Debt dynamics improve gradually under the reform scenario as lower debt creating flows overcome to the effects of: (1) the exchange rate depreciation (which raises the USD value of external debt); and (2) lower inflation (which reduces nominal GDP growth). The reform scenario, with external debt restructuring only, avoids a disorderly adjustment and starts improving debt dynamics but is not sufficient to meet the authorities' objective of achieving a moderate risk of debt distress over the medium term. Doing so would require a further reduction in debt service costs (e.g., through a deeper haircut on external commercial debt) or an upside shock to exports. Overall public debt dynamics improve after 2027 but would remain vulnerable to shocks and reform fatigue and illustrates sub-optimal distributional factors.

Public Debt
(percent of GDP)



Source: Malawian authorities; IMF staff estimates

Box 2. Table 1. Malawi: Macroeconomic Projections under Baseline and Reform Scenarios

	2025		2026		2027		2028		2029		2030	
	Reform	*Baseline*	Reform	*Baseline*	Reform	*Baseline*	Reform	*Baseline*	Reform	*Baseline*	Reform	*Baseline*
	Proj.											
Real Sector (percent change)												
Real GDP Growth	2.4	*2.4*	2.9	*2.7*	3.4	*3.1*	3.7	*3.3*	4.0	*3.4*	4.2	*3.4*
Inflation - Annual Average	25.8	*27.7*	13.4	*21.7*	8.2	*18.8*	7.8	*15.3*	7.9	*15.3*	8.0	*15.4*
Central Government (percent of GDP on a fiscal year basis)												
Revenue	19.2	*19.1*	19.3	*18.6*	20.3	*17.8*	22.3	*19.0*	22.0	*19.0*	21.4	*18.4*
Domestic revenue excl. RBM dividend	14.4	*14.4*	14.9	*14.6*	15.9	*14.6*	16.9	*14.6*	16.9	*14.6*	16.9	*14.6*
Expenditure and net lending	29.2	*29.2*	31.8	*29.2*	32.3	*30.9*	31.6	*30.9*	28.8	*29.7*	27.2	*29.1*
Interest	6.6	*6.6*	8.1	*8.2*	10.2	*10.6*	9.7	*11.3*	8.1	*11.1*	7.8	*11.4*
Overall balance	-10.0	*-10.1*	-12.5	*-10.7*	-12.0	*-13.1*	-9.3	*-11.9*	-6.8	*-10.7*	-5.8	*-10.7*
Primary balance	-3.4	*-3.5*	-4.4	*-2.4*	-1.8	*-2.5*	0.5	*-0.6*	1.4	*0.4*	1.9	*0.7*
Domestic Primary Balance, excluding RBM 1/	-2.9	*-2.9*	-1.7	*-1.5*	0.2	*-0.9*	1.3	*-0.7*	1.6	*-0.5*	1.6	*-0.5*
Domestic financing (net)												
o/w Banking system borrowing	5.2	*5.3*	8.8	*6.8*	8.6	*10.1*	6.7	*9.5*	4.9	*8.7*	4.3	*8.9*
Money and Credit (Percent change)												
Broad money	45.0	*36.7*	47.0	*50.1*	32.4	*42.8*	18.8	*32.5*	15.6	*29.6*	12.2	*26.2*
Credit to the private sector	19.9	*19.9*	23.9	*23.9*	18.1	*17.0*	14.8	*8.2*	12.6	*8.2*	11.2	*8.2*
Balance of Payments (Percent of GDP, unless otherwise indicated)												
Current account	-18.0	*-17.3*	-17.3	*-15.1*	-17.0	*-13.9*	-15.7	*-12.5*	-14.2	*-11.1*	-13.4	*-10.2*
Gross official reserves	178	*118*	362	*164*	544	*272*	725	*370*	851	*440*	924	*558*
(months of imports)	0.5	*0.3*	1.0	*0.4*	1.5	*0.7*	2.0	*0.9*	2.3	*1.0*	2.5	*1.3*
Net international reserves	-1,967	*-2,027*	-1,818	*-2,016*	-1,626	*-1,898*	-1,389	*-1,744*	-1,174	*-1,585*	-906	*-1,272*
Debt Stock and Service (percent of GDP)												
External debt	40.2	*31.6*	38.7	*29.1*	38.1	*25.8*	36.1	*22.7*	33.7	*19.6*	31.2	*16.9*
Total public debt	90.4	*80.2*	93.4	*80.6*	97.6	*81.4*	97.4	*82.2*	96.3	*82.8*	93.8	*83.0*

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

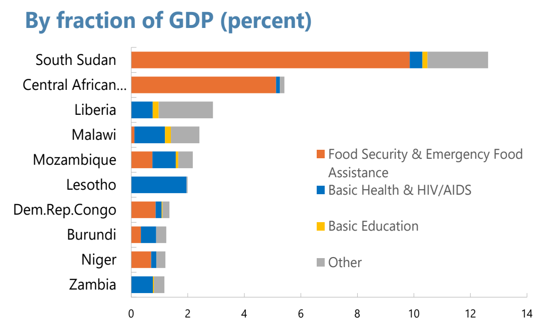
[1] Excludes RBM dividends and recapitalization costs.

Box 3. Malawi: Withdrawal of ODA Flows

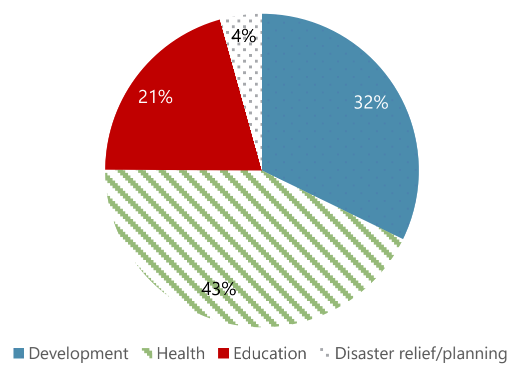
In January 2025, USAID announced a massive reduction of its global projects, as some other donors also retrenched. This is particularly detrimental for Malawi, who received over 2 percent of GDP worth of USAID assistance in 2024. This is one of the highest levels in the SSA region, compared to a 0.5 percent average. Preliminary estimates suggest that Malawi will see 32 of its 39 active or planned projects cancelled, worth almost US$94 million. This is equivalent to about 0.6 percent of GDP (of the current active programs worth about 1.1 percent of GDP) or 3 percent of imports. Per Center for Global Development estimates, this is the 6th largest global cut as a share of national income. Health sector-related activities were affected most by the cut, followed by the education and development sectors.

The government currently has no fiscal space with which to take up the slack, but hopes to support the most vital of these projects over time by delaying new domestic investment projects. All but one of the saved projects, worth about US$66.8 million, are in the health sector. Separately, in 2024, the U.S. Millenium Challenge Corporation signed a US$350 million, 5-year agreement under the Malawi Transport and Land Compact, but the agency has since been shut down. This puts further fiscal pressure on the Malawian government to meet critical infrastructure needs through additional borrowing.

Sub-Saharan Africa. Top 10 Most Exposed Countries to USAID Flows, CY 2024



Share of Cancelled USAID Projects by Sector



Source: USAID, CGD, and IMF staff calculations

Box 4. Malawi: Illustrative Impact of Global Developments

Background. Malawi is relatively insulated from most global developments. The majority of capital account inflows are official grants, which have historically been relatively stable. The main export is tobacco (~44 percent) whose export value price is determined by leaf quality and whose export volume is relatively inelastic to price changes from tariffs, for example. Malawi is a food importer when local maize production is insufficient to meet domestic demands, and fuel constitutes over 16 percent of total imports on average. Hence, Malawi's BoP is primarily affected by global developments from energy prices and changes in official assistance.

Illustrative sensitivity analysis. We look at standard deviations of fuel, commodity, and maize prices over the past 10 years. We assume that only fuel price developments are positive. Assuming a price shock hits Malawi in June for six months, we apply one half of this standard deviation in 2025 and assume that 2026 returns to the previous growth path from the lower level. For grants, we assume an additional 10 percent reduction over the baseline and assume the total two-year Millennium Challenge Account (MCA) contract of US$350 million will be canceled. Based on these assumptions, this illustrative shock could deteriorate Malawi's BoP by under 5 percent of GDP over two years.

Malawi BoP Sensitivities to Global Price Change

		change to baseline proj.	
	2024 (base)	2025 (stress)	2026 (recovery)
Fuel imports			
US$, mn	491	-94.3	-93.1
% of GDP	4.2	-0.8	-0.6
Tobacco exports			
US$, mn	545	-70.2	-71.5
% of GDP	4.6	-0.6	-0.5
Maize imports			
US$, mn	95	14.4	16.4
% of GDP	0.8	0.1	0.1
Grant inflows			
US$, mn	894	-281	-267
% of GDP	7.6	-2.4	-1.7
Combined			
US$, mn		-319	-305
% of GDP		-2.7	-2.0

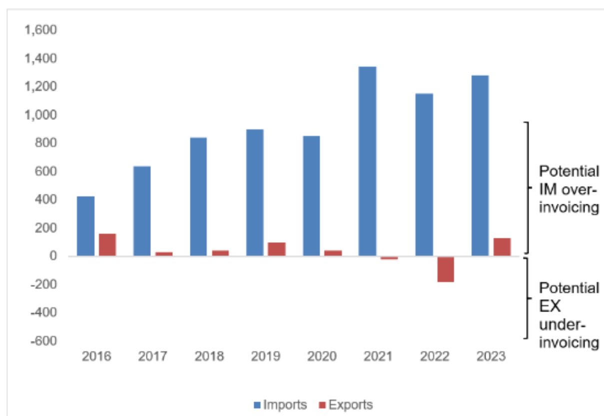
Box 5. Malawi: BoP Statistical Issues

Data discrepancies pose a challenge for assessing Malawi's external sector developments. From 2021-2023, errors and omissions in Malawi's balance of payments data were large (4-6 percent of GDP) and positive, indicating that the overall balance was higher (or less negative) than would have been expected based on reported data.

Malawi's misaligned official exchange rate, combined with foreign exchange surrender requirements, acts as a tax on the conversion of foreign exchange at the official rate. Theoretically, this incentivizes the under-reporting of sources of foreign exchange (e.g., from exports), and incentivizes remittances to seek informal channels. It also creates an incentive to over-report the value of imports (i.e., over-invoice) to justify the purchase of scarce foreign exchange at the official rate, any excess of which can be sold to earn a spread at the higher, parallel market rate.

There is some evidence to suggest that imports to Malawi are over-invoiced. Analysis of international goods trade data indicates that the value of goods exported to Malawi—as reported by Malawi's trading partners—is consistently lower than the reported value of goods imported into Malawi. The discrepancies are large (20-40 percent). If this reflects systematic over-invoicing, the current account deficit could be over-stated (which would imply lower errors and omissions). Mitigating against this risk is the need to pay taxes on declared imports, requiring the gains from over invoicing to outweigh the costs.

Discrepancies in Reported Goods Trade
(millions of USD)



Source: Malawian authorities, IMTS

By contrast, there is limited evidence of the under-invoicing of exports. This asymmetry may reflect the fact that tobacco, which accounts for about half of the value of Malawi's exports, is sold at the official exchange rate. Though there are reports of informal exports (i.e., smuggling), this would not be reported in the data and the net effect of informal trade is uncertain.

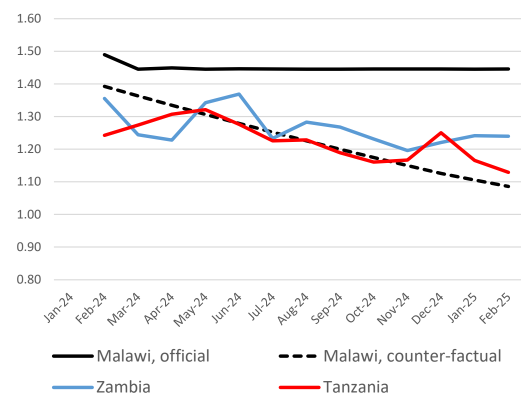
Another possible explanation of data gaps is informal inflows, such as remittances. Though data is not available, the authorities' recently announced crackdown on informal remittance networks suggests they are a potential source of financing for imports and may help explain some of Malawi's large and persistent positive errors and omissions in the BOP data.

Box 6. Malawi: Malawi's Fuel Price Mechanism in the Regional Context

Background. As a landlocked country, fuel is imported mainly by road through the ports of Dar es Salaam, Tanga in Tanzania, and Beira and Nacala in Mozambique. Under the *Liquid Fuels and Gas (Production and Supply) Act*, maximum pump prices for petrol and diesel are regulated and uniform throughout the country. Fuel pricing is based on the automatic fuel pricing mechanism (AFPM), introduced in May 2012 as part of ECF-supported program reforms, to ensure that pump prices reflect international oil price and exchange rate movements. The Malawi Energy Regulatory Authority (MERA) sets fuel pump prices monthly, adjusted upwards or downwards if the change in the import price (IBLC) exceeds ±5 percent. If changes in the IBLC fall below ±5 percent, MERA compensates fuel importers through the Price Stabilization Fund (PSF). This ensures relatively stable prices and cost recovery. However, the authorities suspended operation of the APM in November 2024, and more recently, also suspended the open tender system, opting for a new Government-to-Government (G2G) fuel procurement system, citing Kenyan and Ugandan models.

Recent fuel price developments and arrears accumulation. Due to the non-operation of the AFPM, MERA estimates that Malawian petroleum and diesel pump prices are now about 32 percent and 19 percent under cost recovery, respectively. This has led to an accumulation of arrears: MERA owes over MK950 billion in import losses to Petroleum Importers Limited (PIL) and the state-owned National Oil Company of Malawi (Nocma) via the PSF, which is empty of balances. In addition, K450 billion worth of fuel related levies remain unpaid to the Government, crippling programs to maintain and expand roads and rural electrification. The government plans an eventual fuel price increase (likely after the September election) sufficient to off-set costs and to replenish the price stabilization fund, although it could take it several years to clear the backlog to fuel importers.

Regional Petrol Prices (US$/liter)



Source: Haver; IMF staff calculations

Note: Malawi fuel prices at the official EX and counterfactual EX reflecting inflation differentials, which is less depreciated than parallel market rates.

Malawi prices in the regional context. Given Malawi's relatively higher mark-up formula (100 percent versus 60-40 percent in Tanzania and Zambia), ceteris paribus prices in Malawi should be regionally higher. However, taking account the over-valued Kwacha (see Figure), prices are well below regional prices, prompting extensive smuggling and further burdening Malawi's BoP.[1] Anecdotally, Zambians cross the border, convert to Kwacha in the parallel markets, purchase fuel, and "re-export" informally back to Zambia.

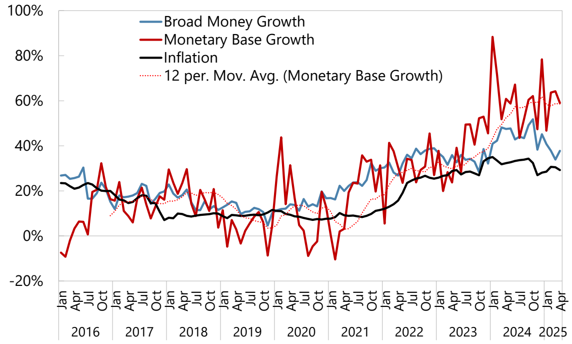
[1] Please also see Annex II of IMF Country Report No. 2023/375

Figure 1. Malawi: Inflation, Money, and Exchange Rate Developments, 2016–25

Inflation showed signs of slowing down in late 2024, but reaccelerated based on high money growth and food prices.

Inflation and Money Supply

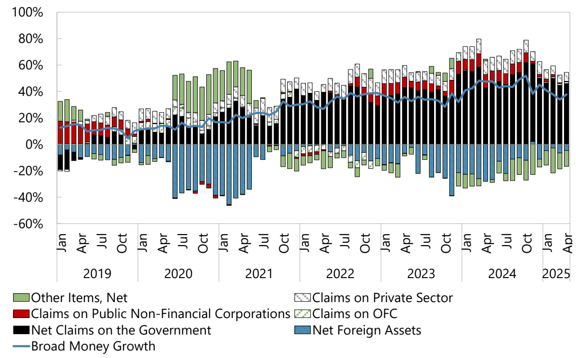
(Year-on-year percent change)



Continued increases in net domestic financing has been a major contributor to rapid broad money growth.

Contribution to Broad Money Growth

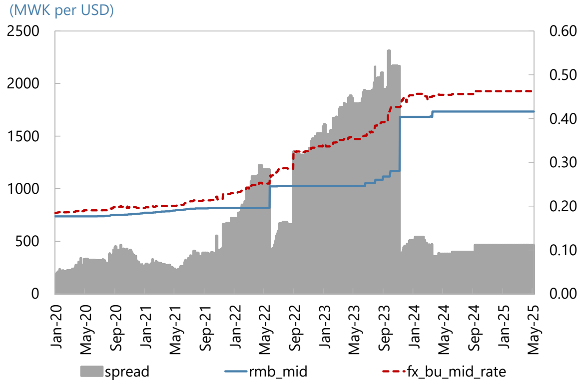
(Year-on-year percent change)



The spread between the official and FX bureau exchange rates has not widened since the Nov 23 depreciation and both are now fixed.

Daily Exchange Rates, January 2020-May 9, 2025

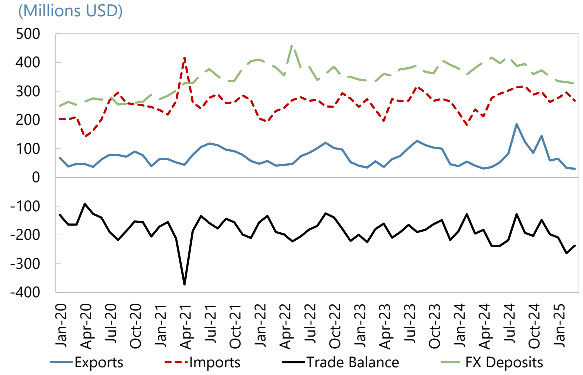
(MWK per USD)



Following the depreciation, preliminary trade data for the first quarter of 2024 point to a temporary contraction in imports.

Trade and FX Deposits, Jan 2020 - Mar 2025

(Millions USD)

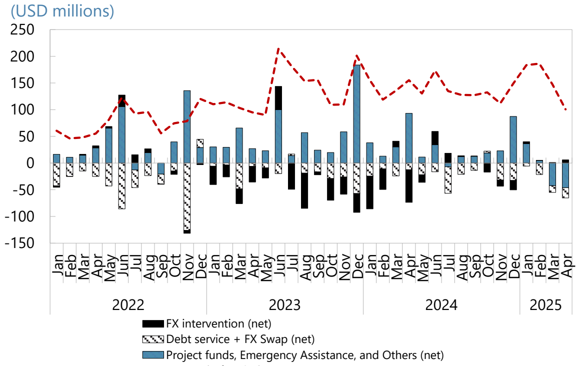


Reserves accumulation has remained limited, only showing temporary increases with project funds and emergency assistance inflows.

Meanwhile, foreign currency deposits in authorized dealer banks are declining coinciding with the lean season.

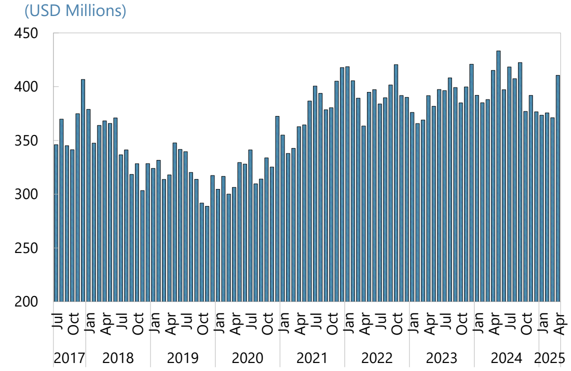
FX Cashflow, 2022-25

(USD millions)



ADB FCD, Jun 2017-Apr 2025

(USD Millions)

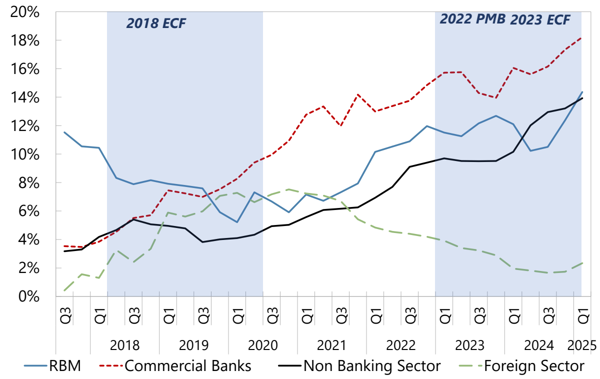


Sources: Malawian authorities and IMF staff estimates

Figure 2. Malawi: Banking Sector Developments, 2017–25

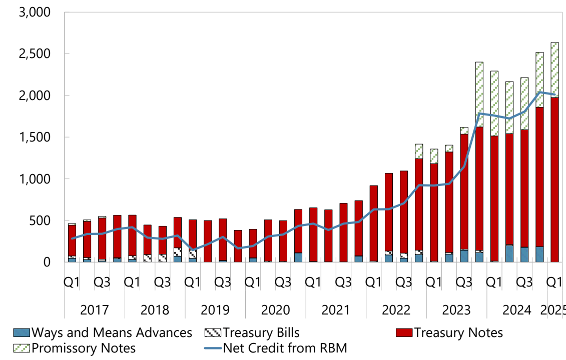
The exposure of the banking sector to the government continues to rise, and…

Government Securities (T-Bills and T-Notes), 2017-25
(percent of GDP)



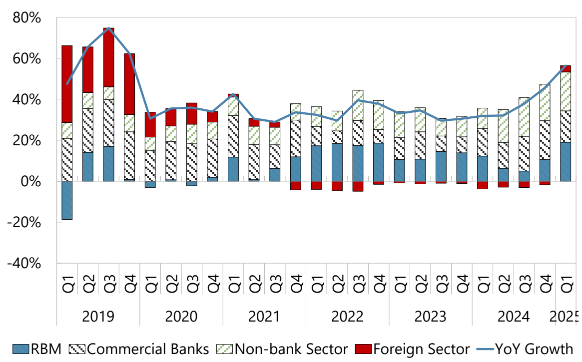
…government domestic borrowing from the RBM started to increase again in the middle of 2024.

RBM: Government Borrowing and Deposits, 2017-25
(Billions MWK)



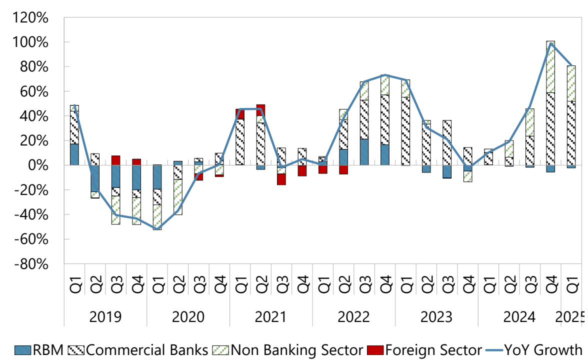
The share of RBM T-Note holdings has also ticked up, and…

Treasury Notes, 2019-25
(contribution to growth, by sector)



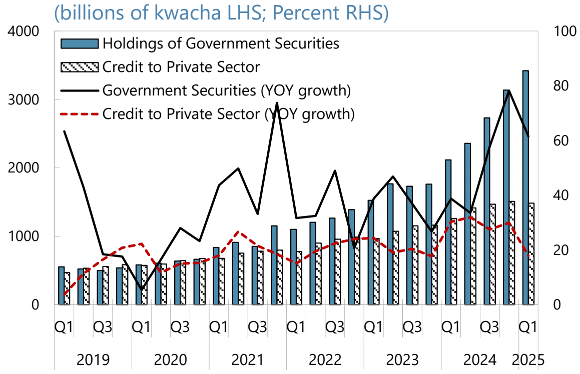
…the growth of outstanding T-bills accelerated in 2024, with an increased share absorbed by the non-banking sector.

Treasury Bills, 2019-25
(contribution to growth, by sector)



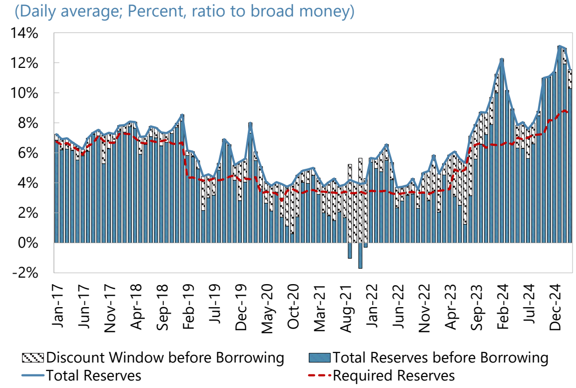
High government borrowing is crowding out private credit.

Other Depository Corporations
(billions of kwacha LHS; Percent RHS)



Liquidity conditions have loosened, in part reflecting tighter credit conditions and FX shortage issues.

Bank Reserves Developments, 2017-25
(Daily average; Percent, ratio to broad money)



Sources: Malawian authorities and IMF staff estimates.

Table 1. Malawi: Selected Economic Indicators, 2023–30

	2023	2024	2025	2026	2027	2028	2029	2030
	Actual	Est.	Proj.					
National accounts and prices (percent change, unless otherwise indicated)								
GDP at constant market prices	1.9	1.8	2.4	2.7	3.1	3.3	3.4	3.4
Nominal GDP (billions of Kwacha)	15,475	20,322	25,956	31,755	38,106	44,570	52,160	61,101
GDP deflator	27.7	29.9	25.3	19.7	16.8	13.7	13.6	13.8
Consumer prices (end of period)	34.5	28.1	25.4	20.7	16.5	15.2	15.4	15.5
Consumer prices (annual average)	28.8	32.2	27.7	21.7	18.8	15.3	15.3	15.4
Investment and savings (percent of GDP)								
National savings	-5.5	-9.2	-5.7	-4.0	-2.8	-2.4	-2.3	-2.0
Government	-5.6	-7.8	-6.9	-9.2	-10.1	-9.5	-9.9	-9.7
Private	0.1	-1.4	1.2	5.1	7.3	7.1	7.5	7.8
Gross investment	11.8	12.7	11.8	11.0	11.1	10.1	8.8	8.2
Government	9.0	10.1	9.4	8.7	8.8	7.8	6.5	6.0
Private	2.8	2.6	2.4	2.4	2.3	2.3	2.2	2.2
Saving-investment balance	-17.3	-21.9	-17.5	-15.1	-13.9	-12.5	-11.1	-10.2
Central government (percent of GDP on a fiscal year basis)								
Revenue	17.2	18.5	19.1	18.6	17.8	19.0	19.0	18.4
Tax and nontax revenue	13.3	14.2	15.1	15.8	15.0	15.8	16.1	16.0
Grants	3.9	4.3	4.0	2.7	2.8	3.2	2.9	2.4
Expenditure and net lending	27.5	29.1	29.2	29.2	30.9	30.9	29.7	29.1
Overall balance (excluding grants)	-14.2	-14.9	-14.1	-13.4	-15.9	-15.1	-13.6	-13.1
Overall balance (including grants)	-10.3	-10.6	-10.1	-10.7	-13.1	-11.9	-10.7	-10.7
Foreign financing	3.3	1.3	1.1	0.1	0.8	0.2	-0.2	-0.4
Total domestic financing	7.0	7.2	9.1	9.0	12.3	11.7	10.9	11.1
Primary balance	-5.4	-5.4	-3.5	-2.4	-2.5	-0.6	0.4	0.7
Domestic primary balance[1]	-2.4	-5.5	-2.4	-0.6	-1.0	0.2	0.8	0.8
Money and credit (change in percent of broad money at the end of the period, unless otherwise indicated)								
Broad money	32.2	45.1	36.7	50.1	42.8	32.5	29.6	26.2
Net foreign assets	-19.8	-11.2	-2.3	1.8	3.0	1.5	1.0	1.1
Net domestic assets	52.0	56.3	39.0	48.4	39.8	31.0	28.6	25.1
o/w Net claims on the government	46.6	50.1	32.7	41.5	34.6	28.6	26.4	23.3
Credit to the private sector (percent change)	17.6	29.3	19.9	23.9	17.0	8.2	8.2	8.2
External sector (US$ millions, unless otherwise indicated)								
Exports (goods and services)	1,521	1,433	1,531	1,710	1,805	1,912	2,007	2,105
Imports (goods and services)	3,984	4,204	4,249	4,371	4,578	4,716	4,832	5,028
Gross official reserves	201	149	118	164	272	370	440	558
(months of imports)	0.6	0.4	0.3	0.4	0.7	0.9	1.0	1.3
Net international reserves[2]	-1,016	-1,216	-2,027	-2,016	-1,898	-1,744	-1,585	-1,272
Current account (percent of GDP)	-17.3	-21.9	-17.3	-15.1	-13.9	-12.5	-11.1	-10.2
Overall balance (percent of GDP)	0.7	-0.1	-5.9	-1.7	-0.9	-0.5	-0.1	0.7
Financing gap (percent of GDP)	0.0	0.0	6.0	2.4	1.8	1.3	0.7	0.0
Terms of trade (percent change)	18.3	9.8	4.4	1.4	-1.0	-0.9	-1.0	0.0
Debt stock and service (percent of GDP, unless otherwise indicated)								
External debt (public sector)	43.2	37.4	31.6	29.1	25.8	22.7	19.6	16.9
NPV of public external debt (percent of exports)	205.1	229.8	223.3	202.8	192.9	179.3	166.3	154.1
Domestic public debt[3]	40.4	50.2	48.6	51.5	55.6	59.5	63.2	66.1
Total public debt[3]	83.6	87.6	80.2	80.6	81.4	82.2	82.8	83.0
External debt service (percent of exports)	11.6	11.7	64.0	21.2	17.1	14.9	14.6	13.0
External debt service (percent of revenue excl. grants)	9.8	9.9	45.7	14.7	11.3	9.3	8.5	7.2

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

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

[2] The net international reserves is calculated by (i) subtracting foreign currency drains (FCD) and (ii) all outstanding foreign currency debt service to external creditors to which the RBM (including as an agent of the government) is in arrears and or servicing via other means in line with debt restructuring strategy, from gross official reserves.

[3] Domestic debt is at face value and future borrowings is at cost value.

Table 2a. Malawi: Central Government Operations, FY2023/24–29/30

(Billions of Kwacha)

	2023/24	2024/25		2025/26	2026/27	2027/28	2028/29	2029/30
	Est.	Mid-year budget	Prelim.			Proj.		
REVENUE	3,087.7	4,626.2	4,161.7	5,115.8	6,013.7	7,650.4	8,991.2	10,237.5
Taxes	2,198.0	3,257.3	3,067.2	3,941.9	4,818.5	5,762.9	6,767.8	7,954.6
Taxes on income profits and capital gains	1,080.6	1,586.0	1,572.2	2,021.2	2,470.6	2,954.9	3,470.2	4,078.6
Taxes on goods and services	895.3	1,289.2	1,221.2	1,567.6	1,916.2	2,291.8	2,691.4	3,163.4
Taxes on international trade and transaction	220.5	379.2	272.4	351.2	429.4	513.5	603.1	708.8
Other taxes	1.6	3.0	1.5	1.9	2.3	2.7	3.2	3.8
Grants	724.9	1,240.4	875.7	749.3	958.4	1,276.3	1,391.8	1,309.1
Current	137.0	268.0	158.6	17.2	0.0	0.0	0.0	0.0
Capital	587.9	972.4	717.1	732.2	958.4	1,276.3	1,391.8	1,309.1
Other Revenue	164.8	128.6	218.8	424.6	236.9	611.2	831.5	973.9
o/w Dividend from RBM	93.6		154.5	344.1	137.6	491.8	688.9	806.4
EXPENDITURE	4,855.1	6,040.4	6,365.2	8,058.4	10,425.9	12,449.6	14,042.4	16,213.2
EXPENSE	3,896.2	4,456.0	4,788.0	6,220.9	8,262.7	9,972.1	11,491.6	13,643.3
Compensation of employees	1,021.1	1,314.8	1,326.8	1,588.8	1,941.2	2,247.8	2,634.0	3,089.4
Purchase of goods and services	615.0	931.4	1,050.5	1,361.9	1,465.5	1,752.8	1,955.4	2,298.3
Interest	872.1	1,455.7	1,433.8	2,270.6	3,577.4	4,542.0	5,264.3	6,351.1
To non-residents	45.4	79.8	76.8	110.7	163.0	169.5	169.8	175.1
To residents other than general government	826.7	1,375.9	1,357.0	2,159.9	3,414.4	4,372.6	5,094.5	6,175.9
Grants	315.1	402.7	528.6	535.5	648.5	775.6	910.9	1,070.6
Current	295.1	…	504.6	491.5	594.7	711.3	835.3	981.8
Capital	20.0	…	24.0	44.0	53.8	64.3	75.5	88.8
Social Benefits	293.6	317.1	377.8	286.3	349.9	418.5	491.5	577.7
Other Expenses	779.3	34.4	70.6	177.8	280.0	235.3	235.5	256.2
o/w RBM recapitalization	697.1		36.2	88.1	171.8	110.0	88.3	83.2
Acquisition of Non-Financial Assets (Development Expenditure)	958.9	1,584.4	1,577.2	1,837.5	2,163.2	2,477.5	2,550.8	2,569.9
Foreign (Part I)	704.0	1,310.2	1,131.5	1,259.0	1,456.1	1,631.7	1,557.6	1,402.5
Domestic (Part II)	254.9	274.1	445.7	578.5	707.2	845.8	993.3	1,167.4
Overall Balance (incl. grants)	-1,767.4	-1,414.1	-2,203.5	-2,942.6	-4,412.2	-4,799.2	-5,051.3	-5,975.7
Primary Balance	-895.4	41.6	-769.7	-672.0	-834.8	-257.2	213.0	375.4
Domestic Primary Balance [1]	-916.3	111.4	-513.9	-162.4	-337.1	98.2	378.8	468.8
Domestic Primary Balance (excluding RBM) [2]	-312.8	111.4	-632.3	-418.4	-302.9	-283.6	-221.8	-254.4
NET FINANCING (Repayment if negative)	1,767.4	1,414.1	2,203.5	2,942.6	4,412.2	4,799.2	5,051.3	5,975.7
Net Incurrence of Liabilities	1,767.4	1,414.1	2,203.5	2,942.6	4,412.2	4,799.2	5,051.3	5,975.7
Total Financing	1,420.7	1,414.1	2,203.5	2,515.8	4,412.2	4,799.2	5,051.3	5,975.7
Foreign financing (net)	218.0	196.5	233.3	20.2	282.0	86.5	-103.8	-196.2
Loans	218.0	196.5	233.3	20.2	282.0	86.5	-103.8	-196.2
Programme Borrowing	34.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project Loans	479.5	337.8	414.4	526.8	497.7	355.4	165.7	93.4
Amortisation	-296.0	-141.3	-186.2	-506.7	-215.7	-268.9	-269.6	-289.6
Domestic financing (net)	1,202.7	1,217.6	1,970.2	2,495.6	4,130.2	4,712.7	5,155.1	6,171.9
Debt Instruments	1,120.5	…	1,979.7	2,495.6	4,130.2	4,712.7	5,155.1	6,171.9
Banking system borrowing	980.0	…	1,154.1	1,889.0	3,388.6	3,825.7	4,113.5	4,947.6
RBM [3]	738.3	…	252.7	958.0	2,292.9	2,624.1	2,876.4	3,483.3
Commercial banks	241.7	…	901.4	930.9	1,095.8	1,201.6	1,237.1	1,464.3
Nonbank sector borrowing	160.6	…	895.3	606.7	741.6	886.9	1,041.6	1,224.3
Amortisation	-20.1	…	-69.7					
Change in accounts payable (+ increase / - decrease in arrears)	82.2	…	-9.5	0.0	0.0	0.0	0.0	0.0
Statistical adjustment (underfinancing if positive)	346.8		0.0	0.0	0.0	0.0	0.0	0.0
Statistical adjustment (per cent of revenue)	0.0		0.0	0.0	0.0	0.0	0.0	0.0
Statistical adjustment (per cent of GDP)	0.0		0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:								
Nominal GDP (fiscal year)	16,686.6	21,761.5	21,761.5	27,576.2	33,708.6	40,315.4	47,346.0	55,648.0

Sources: Malawi Ministry of Finance; and IMF staff projections.

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

[2] Excluding RBM dividends and recapitalization costs.

[3] RBM financing reported here include those flows related to recapitalization of the RBM.

Table 2b. Malawi: Central Government Operations, FY2023/24–29/30[1]

(Percent of GDP)

	2023/24	2024/25		2025/26	2026/27	2027/28	2028/29	2029/30
	Est.	Mid-year budget	Prel.			Proj.		
REVENUE	18.5	21.3	19.1	18.6	17.8	19.0	19.0	18.4
Taxes	13.2	15.0	14.1	14.3	14.3	14.3	14.3	14.3
Taxes on income profits and capital gains	6.5	7.3	7.2	7.3	7.3	7.3	7.3	7.3
Taxes on goods and services	5.4	5.9	5.6	5.7	5.7	5.7	5.7	5.7
Taxes on international trade and transaction	1.3	1.7	1.3	1.3	1.3	1.3	1.3	1.3
Other taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	4.3	5.7	4.0	2.7	2.8	3.2	2.9	2.4
Current	0.8	1.2	0.7	0.1	0.0	0.0	0.0	0.0
Capital	3.5	4.5	3.3	2.7	2.8	3.2	2.9	2.4
Other Revenue	1.0	0.6	1.0	1.5	0.7	1.5	1.8	1.8
o/w Dividend from RBM	0.6	0.0	0.7	1.2	0.4	1.2	1.5	1.4
EXPENDITURE	29.1	27.8	29.2	29.2	30.9	30.9	29.7	29.1
EXPENSE	23.3	20.5	22.0	22.6	24.5	24.7	24.3	24.5
Compensation of employees	6.1	6.0	6.1	5.8	5.8	5.6	5.6	5.6
Purchase of goods and services	3.7	4.3	4.8	4.9	4.3	4.3	4.1	4.1
Interest	5.2	6.7	6.6	8.2	10.6	11.3	11.1	11.4
To non-residents	0.3	0.4	0.4	0.4	0.5	0.4	0.4	0.3
To residents other than general government	5.0	6.3	6.2	7.8	10.1	10.8	10.8	11.1
Grants	1.9	1.9	2.4	1.9	1.9	1.9	1.9	1.9
Current	1.8	…	2.3	1.8	1.8	1.8	1.8	1.8
Capital	0.1	…	0.1	0.2	0.2	0.2	0.2	0.2
Social Benefits	1.8	1.5	1.7	1.0	1.0	1.0	1.0	1.0
Other Expenses	4.7	0.2	0.3	0.6	0.8	0.6	0.5	0.5
o/w RBM recapitalization	4.2	0.0	0.2	0.3	0.5	0.3	0.2	0.1
Acquisition of Non-Financial Assets (Development Expenditure)	5.7	7.3	7.2	6.7	6.4	6.1	5.4	4.6
Foreign (Part I)	4.2	6.0	5.2	4.6	4.3	4.0	3.3	2.5
Domestic (Part II)	1.5	1.3	2.0	2.1	2.1	2.1	2.1	2.1
Overall Balance (incl. grants)	-10.6	-6.5	-10.1	-10.7	-13.1	-11.9	-10.7	-10.7
Primary Balance	-5.4	0.2	-3.5	-2.4	-2.5	-0.6	0.4	0.7
Domestic Primary Balance [1]	-5.5	0.5	-2.4	-0.6	-1.0	0.2	0.8	0.8
Domestic Primary Balance (excluding RBM)[2]	-1.9	0.5	-2.9	-1.5	-0.9	-0.7	-0.5	-0.5
NET FINANCING (Repayment if negative)	10.6	6.5	10.1	10.7	13.1	11.9	10.7	10.7
Net Incurrence of Liabilities	10.6	6.5	10.1	10.7	13.1	11.9	10.7	10.7
Total Financing	8.5	6.5	10.1	9.1	13.1	11.9	10.7	10.7
Foreign financing (net)	1.3	0.9	1.1	0.1	0.8	0.2	-0.2	-0.4
Loans	1.3	0.9	1.1	0.1	0.8	0.2	-0.2	-0.4
Programme Borrowing	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project Loans	2.9	1.6	1.9	1.9	1.5	0.9	0.4	0.2
Amortisation	-1.8	-0.6	-0.9	-1.8	-0.6	-0.7	-0.6	-0.5
Domestic financing (net)	7.2	5.6	9.1	9.0	12.3	11.7	10.9	11.1
Debt Instruments	6.7	…	9.1	9.0	12.3	11.7	10.9	11.1
Banking system borrowing	5.9	…	5.3	6.8	10.1	9.5	8.7	8.9
RBM[3]	4.4	…	1.2	3.5	6.8	6.5	6.1	6.3
Commercial banks	1.4	…	4.1	3.4	3.3	3.0	2.6	2.6
Nonbank sector borrowing	1.0	…	4.1	2.2	2.2	2.2	2.2	2.2
Amortization	-0.1	…	-0.3					
Change in accounts payable (+ increase / - decrease in arrears)	0.5	…	0.0	0.0	0.0	0.0	0.0	0.0
Statistical adjustment (underfinancing if positive)	2.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Sources: Malawi Ministry of Finance; and IMF staff projections.

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

2 Excluding RBM dividends and recapitalization costs.

3 RBM financing reported here include those flows related to recapitalization of the RBM.

Table 3a. Malawi: Monetary Authorities' Balance Sheet, 2023–30

(Billions of Kwacha, unless otherwise indicated)

	2023	2024				2025	2026	2027	2028	2029	2030
	Dec.	Mar.	Jun.	Sept.	Dec.						
	Actual	Actual	Actual	Actual	Actual	Proj.					
Net foreign assets (NFA) [1]	-1,569	-1,772	-1,733	-1,881	-1,817	-1,906	-1,786	-1,457	-1,206	-989	-671
Claims on nonresidents	421	279	327	248	287	214	327	576	822	1,027	1,369
Official reserve assets	332	234	298	219	256	…	…	…	…	…	…
Other foreign assets	89	45	30	29	31	…	…	…	…	…	…
Liabiliites to nonresidents	-1,990	-2,051	-2,060	-2,129	-2,104	-2,120	-2,114	-2,033	-2,028	-2,016	-2,040
Reserve-related liabilities	-546	-539	-512	-525	-483	…	…	…	…	…	…
Other liabilites to nonresidents	-1,444	-1,512	-1,548	-1,604	-1,621	…	…	…	…	…	…
Net domestic assets	2,400	2,624	2,887	3,103	3,300	3,731	4,527	5,371	6,393	7,710	9,154
Net claims on central government	2,027	2,079	2,002	2,120	2,424	3,051	4,839	7,434	10,687	14,712	19,259
Claims on central government	4,062	4,610	5,528	5,871	7,293	…	…	…	…	…	…
Liabilities to central government	2,034	2,531	3,526	3,751	4,869	…	…	…	…	…	…
Claims on public nonfinancial corportions	582	613	626	639	650	…	…	…	…	…	…
Claims on private sector	39	42	43	43	43	…	…	…	…	…	…
Claims on other depository corporations	73	96	388	307	257	268	69	93	117	142	167
Claims on other financial corporations	27	31	32	41	37	…	…	…	…	…	…
Other items (net)	-349	-237	-203	-48	-112	…	…	…	…	…	…
Monetary base	831	853	1,154	1,222	1,482	1,819	2,720	3,942	5,136	6,496	8,091
Currency in circulation	560	534	802	785	851	…	…	…	…	…	…
Liabilities to other depository corporations	268	315	349	434	627	…	…	…	…	…	…
Liabilities to other sectors	0	0	0	0	0	…	…	…	…	…	…
Memorandum items:											
Money multiplier	4.4	4.7	4.0	4.0	3.6	4.0	4.0	4.0	4.0	4.0	4.0
Annual growth of reserve money (percent)	45.5	51.8	67.2	60.4	78.4	22.7	49.5	44.9	30.3	26.5	24.6
91-day treasury bill rate	14.7	16.0	16.0	16.0	16.0	…	…	…	…	…	…

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

[1] Including SDR allocation and the entire assets and liabilities of the RBM.

Table 3b. Malawi: Depository Corporations Survey, 2023–30
(Billions of Kwacha, unless otherwise indicated)

	2023	2024				2025	2026	2027	2028	2029	2030
	Dec.	Mar.	Jun.	Sept.	Dec.						
	Actual	Actual	Actual	Actual	Actual	Proj.					
Net foreign assets	-1,234	-1,492	-1,426	-1,506	-1,645	-1,766	-1,635	-1,307	-1,065	-861	-563
Claims to non residents	885	752	812	787	691	…	…	…	…	…	…
Gross reserves	332	234	298	219	256	…	…	…	…	…	…
Other claims on nonresidents	553	518	514	568	435	…	…	…	…	…	…
Liabilities to nonresidents	2,119	2,244	2,238	2,293	2,336	…	…	…	…	…	…
Net domestic assets (NDA)	4,913	5,524	6,033	6,419	6,984	9,066	12,597	16,961	21,814	27,747	34,495
Net claims on central government	3,686	4,114	4,313	4,776	5,531	7,274	10,306	14,102	18,587	24,065	30,330
Claims on central government	5,869	6,818	7,990	8,734	10,584	…	…	…	…	…	…
Liabilities to central government	2,182	2,704	3,677	3,958	5,054	…	…	…	…	…	…
Claims on public nonfinancial corporations	635	671	684	693	711	727	796	841	881	923	967
Claims on private sector	1,202	1,303	1,459	1,513	1,555	1,879	2,328	2,724	2,948	3,191	3,454
Credit to the private sector	1,201	1,300	1,454	1,509	1,552	1,861	2,305	2,696	2,919	3,159	3,420
Claims on other financial corporations	61	71	68	77	90	147	191	240	288	343	404
Other items (net)	-671	-635	-490	-640	-903	-962	-1,024	-946	-891	-775	-661
Broad money liabilities	3,679	4,032	4,607	4,914	5,339	7,300	10,961	15,655	20,749	26,885	33,932
Currency outside depository corporations	470	455	728	623	653	…	…	…	…	…	…
Transferable deposits	1,906	2,079	2,350	2,422	2,687	…	…	…	…	…	…
Other deposits	1,303	1,498	1,530	1,869	1,999	…	…	…	…	…	…
Memorandum items:											
Velocity of money (annualized GDP divided by broad money)	4.2	4.1	3.9	3.9	3.8	3.6	2.9	2.5	2.2	2.0	1.8
Annual growth of broad money (percent)	32.2	48.2	42.8	49.1	45.1	36.7	50.1	42.8	32.5	29.6	26.2
Annual growth of credit to the private sector (percent)	17.9	30.1	31.6	27.3	29.3	19.9	23.9	17.0	8.2	8.2	8.2
Nominal GDP (billions of Kwacha)	15,475	20,322	20,322	20,322	20,322	25,956	31,755	38,106	44,570	52,160	61,101

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

Table 4a. Malawi: Balance of Payments, 2023–30
(US$ millions, unless otherwise indicated)

	2023	2024	2025	2026	2027	2028	2029	2030
	Actual	Est.			Proj.			
Current account balance	-2,329.6	-2,583.4	-2,579.2	-2,555.0	-2,615.6	-2,614.8	-2,602.6	-2,685.7
Merchandise trade balance	-1,938.8	-2,237.8	-2,196.6	-2,142.3	-2,238.4	-2,253.6	-2,261.4	-2,336.4
Exports	1,046.5	950.1	1,035.9	1,202.1	1,281.2	1,370.5	1,447.2	1,526.2
o/w Tobacco	403.6	544.9	597.6	608.4	619.3	631.7	638.0	644.4
Imports	-2,985.2	-3,188.0	-3,232.5	-3,344.4	-3,519.6	-3,624.1	-3,708.5	-3,862.7
o/w Petroleum products	-556.8	-491.4	-540.1	-533.5	-563.3	-599.5	-637.0	-674.8
o/w Fertilizers	-337.3	-249.7	-263.9	-282.8	-312.8	-332.9	-353.7	-374.7
o/w Project related	-597.8	-441.1	-448.0	-460.5	-521.0	-477.0	-400.1	-387.7
Services balance	-886.8	-867.6	-879.7	-914.6	-938.6	-965.0	-989.8	-1,023.9
o/w Interest public sector	-44.2	-50.5	-66.7	-95.6	-94.1	-93.5	-93.1	-92.4
o/w Other factor payments (net)	-318.8	-284.2	-291.6	-300.2	-310.2	-321.1	-332.7	-344.7
Unrequited transfers (net)	496.0	522.0	497.0	501.9	561.4	603.9	648.5	674.7
Private (net)	402.5	451.9	465.8	501.9	561.4	603.9	648.5	674.7
Official (net)	93.5	70.1	31.3	0.0	0.0	0.0	0.0	0.0
Capital account balance	972.8	938.9	868.0	896.0	1,093.3	1,190.4	1,159.3	1,229.8
Project and dedicated grants[1]	460.0	412.6	422.8	431.8	600.8	650.2	566.7	579.7
Off-budget project support[2]	512.8	526.2	445.2	464.2	492.5	540.2	592.6	650.1
Financial account balance	748.6	1,633.0	832.6	1,377.5	1,357.3	1,326.5	1,416.8	1,635.4
Foreign direct investment (net)	134.1	147.7	187.0	212.3	235.6	262.7	293.7	328.7
Portfolio investment (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Medium- and long-term loans (net)	260.2	173.5	-601.1	93.2	36.5	-42.4	-82.8	-115.2
Disbursements	459.6	266.0	266.4	276.6	200.8	83.6	48.9	16.7
Budget support and other program loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project support loans	459.6	266.0	266.4	276.6	200.8	83.6	48.9	16.7
Other medium-term loans (official)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	-199.4	-92.5	-867.5	-183.3	-164.2	-126.0	-131.7	-131.9
Other inflows	354.3	1,311.8	1,246.7	1,071.9	1,085.2	1,106.3	1,206.0	1,421.9
Errors and omissions	702.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	93.9	-11.4	-878.5	-281.5	-165.0	-97.9	-26.5	179.5
Financing	-93.9	11.4	878.5	281.5	165.0	97.9	26.5	-179.5
Gross reserves (- increase)	-81.1	52.3	30.6	-45.9	-108.1	-97.4	-69.8	-118.0
IMF (net)	-12.8	-40.9	-52.5	-71.4	-61.7	-76.4	-79.1	-61.5
Purchases/drawings	34.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repurchases/repayments	47.7	40.9	52.5	71.4	61.7	76.4	79.1	61.5
Exceptional financing (CCRT)								
Financing gap[3]	0.0	0.0	900.4	398.9	334.8	271.6	175.4	0.0
Concessional budget support grants (prospective)	0.0	0.0	31.3	0.0	0.0	0.0	0.0	0.0
Exceptional financing (prospective)	0.0	0.0	869.1	398.9	334.8	271.6	175.4	0.0
Memorandum items:								
Gross official reserves	201.3	149.0	118.4	164.3	272.4	369.8	439.6	557.6
Months of imports[4]	0.6	0.4	0.3	0.4	0.7	0.9	1.0	1.3
Net international reserves[5]	-1,016	-1,216	-2,027	-2,016	-1,898	-1,744	-1,585	-1,272
Import price index (2005 = 100)	167.7	163.9	155.3	152.4	153.2	154.7	156.2	157.6
Import volume (percent change)	18.2	9.3	7.0	5.5	4.6	2.0	1.3	3.2
Terms of trade (percent change)	18.3	9.8	4.4	1.4	-1.0	-0.9	-1.0	-0.9
Nominal GDP (millions of U.S. dollars)	13,439	11,797	…	…	…	…	…	…

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

[1] IDA disbursement forecasts for 2025-30 are preliminary and have not yet been cleared by World Bank senior management

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

[3] The remaining financing gap would be filled by prospective concessional support and exceptional financing.

[4] In months of goods and nonfactor services in the following year.

[5] The net international reserves is calculated by (i) subtracting foreign currency drains (FCD) and (ii) all outstanding foreign currency debt service to external creditors to which the RBM (including as an agent of the government) is in arrears and or servicing via other means in line with debt restructuring strategy, from gross official reserves.

Table 4b. Malawi: Balance of Payments, 2023–30
(Percent of GDP)

	2023	2024	2025	2026	2027	2028	2029	2030
	Actual	Est.			Proj.			
Current account balance	-17.3	-21.9	-17.3	-15.1	-13.9	-12.5	-11.1	-10.2
Merchandise trade balance	-14.4	-19.0	-14.7	-12.6	-11.9	-10.7	-9.6	-8.9
Exports	7.8	8.1	6.9	7.1	6.8	6.5	6.2	5.8
o/w Tobacco	3.0	4.6	4.0	3.6	3.3	3.0	2.7	2.5
Imports	-22.2	-27.0	-21.6	-19.7	-18.7	-17.3	-15.8	-14.7
o/w Petroleum products	-4.1	-4.2	-3.6	-3.1	-3.0	-2.9	-2.7	-2.6
o/w Fertilizers	-2.5	-2.1	-1.8	-1.7	-1.7	-1.6	-1.5	-1.4
o/w Project related	-4.4	-3.7	-3.0	-2.7	-2.8	-2.3	-1.7	-1.5
Services balance	-6.6	-7.4	-5.9	-5.4	-5.0	-4.6	-4.2	-3.9
o/w Interest public sector	-0.3	-0.4	-0.4	-0.6	-0.5	-0.4	-0.4	-0.4
o/w Other factor payments (net)	-2.4	-2.4	-2.0	-1.8	-1.6	-1.5	-1.4	-1.3
Unrequited transfers (net)	3.7	4.4	3.3	3.0	3.0	2.9	2.8	2.6
Private (net)	3.0	3.8	3.1	3.0	3.0	2.9	2.8	2.6
Official (net)	0.7	0.6	0.2	0.0	0.0	0.0	0.0	0.0
Capital account balance	7.2	8.0	5.8	5.3	5.8	5.7	4.9	4.7
Project and dedicated grants[1]	3.4	3.5	2.8	2.5	3.2	3.1	2.4	2.2
Off-budget project support[2]	3.8	4.5	3.0	2.7	2.6	2.6	2.5	2.5
Financial account balance	5.6	13.8	5.6	8.1	7.2	6.3	6.0	6.2
Foreign direct investment (net)	1.0	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Portfolio investment (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment (net)	1.9	1.5	-4.0	0.5	0.2	-0.2	-0.4	-0.4
Disbursements	3.4	2.3	1.8	1.6	1.1	0.4	0.2	0.1
Budget support and other program loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project support	3.4	2.3	1.8	1.6	1.1	0.4	0.2	0.1
Other medium-term loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	-1.5	-0.8	-5.8	-1.1	-0.9	-0.6	-0.6	-0.5
Other inflows	2.6	11.1	8.3	6.3	5.8	5.3	5.1	5.4
Errors and omissions	5.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	0.7	-0.1	-5.9	-1.7	-0.9	-0.5	-0.1	0.7
Financing	-0.7	0.1	5.9	1.7	0.9	0.5	0.1	-0.7
Gross reserves (- increase)	-0.6	0.4	0.2	-0.3	-0.6	-0.5	-0.3	-0.4
IMF (net)	-0.1	-0.3	-0.4	-0.4	-0.3	-0.4	-0.3	-0.2
Purchases/drawings	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repurchases/repayments	0.4	0.3	0.4	0.4	0.3	0.4	0.3	0.2
Financing gap[3]	0.0	0.0	6.0	2.4	1.8	1.3	0.7	0.0
Concessional budget support grants (prospective)	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0
Exceptional financing (prospective)	0.0	0.0	5.8	2.4	1.8	1.3	0.7	0.0
Memorandum items:								
Gross official reserves	1.5	1.3	0.8	1.0	1.4	1.8	1.9	2.1
Months of imports[4]	0.6	0.4	0.3	0.4	0.7	0.9	1.0	1.3
Net international reserves[5]	-7.6	-10.3	-13.6	-11.9	-10.1	-8.3	-6.8	-4.8
Import price index (2005 = 100)	167.7	163.9	155.3	152.4	153.2	154.7	156.2	157.6
Import volume (percent change)	18.2	9.3	7.0	5.5	4.6	2.0	1.3	3.2
Terms of trade (percent change)	18.3	9.8	4.4	1.4	-1.0	-0.9	-1.0	-0.9
Nominal GDP (millions of U.S. dollars)	13,439	11,797	…	…	…	…	…	…

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

[1] IDA disbursement forecasts for 2025-30 are preliminary and have not yet been cleared by World Bank senior management.

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

[3] The remaining financing gap would be filled by prospective concessional support and exceptional financing.

[4] In months of goods and nonfactor services in the following year.

[5] The net international reserves is calculated by (i) subtracting foreign currency drains (FCD) and (ii) all outstanding foreign currency debt service to external creditors to which the RBM (including as an agent of the government) is in arrears and or servicing via other means in line with debt

Table 5. Malawi: Selected Banking Soundness Indicators, 2020–25
(Percent)

Key ratios	Dec-20	Dec-21	Dec-22	Dec-23	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25
Capital Adequacy											
1. Regulatory Tier 1 capital to risk weighted assets	17.4	17.2	17.7	17.1	17.8	17.5	17.9	21.7	22.0	22.1	22.1
2. Total regulatory capital to risk weighted assets	20.8	20.7	20.9	20.1	20.0	20.1	21.4	23.2	23.5	24.0	23.9
3. Total capital to total assets[1]	13.1	14.3	11.6	11.0	10.6	10.6	11.1	12.3	12.5	12.7	12.2
Asset Composition and Quality											
1. Non-performing loans to gross loans and advances	6.3	4.5	6.3	6.1	9.0	9.8	9.4	9.4	9.5	8.7	7.7
2. Provisions to non-performing loans	32.9	32.5	29.9	33.4	29.8	31.6	32.6	32.7	33.8	33.2	36.3
3. Total loans and advances to total assets	31.2	29.2	29	26.3	23.7	23.3	22.8	23.1	22.6	22.8	22.3
4. Foreign currency loans to total loans and advances	14.7	11.3	11.1	12.7	19.3	15.5	14.8	10.2	9.4	8.9	8.5
Earnings and Profitability											
1. Return on assets (ROA)	3.0	3.4	4.1	5.1	5.9	5.7	5.6	7.9	7.8	7.7	7.5
2. Return on equity (ROE)	22.8	26.0	33.3	39.5	52.1	49.7	49.2	63.1	61.1	58.2	58.2
3. Non-interest expenses to gross income	49.0	43.7	40.3	34.2	30.1	29.9	29.5	32.9	25.9	27.3	27.1
4. Interest margin to gross income	65.6	49.7	52.2	50.5	53.4	54.0	55.0	68.0	56.2	56.5	55.1
5. Non-interest income to revenue	34.4	31.6	30.5	32.1	26.9	26.0	25.4	25.5	24.8	24.2	25.7
6. Net interest income to assets	8.0	7.9	9.0	9.8	9.8	10.8	11.7	1.2	2.5	3.9	4.9
7. Personnel expenses to non-interest expenses	42.5	43.4	43.7	43.9	38.7	38.9	38.7	39.3	38.8	39.1	39.5
Liquidity											
1. Liquid assets to deposits and short-term liabilities	57.5	52.5	53.5	54.7	53.1	55.0	53.4	54.8	55.7	54.7	54.5
2. Total loans to total deposits	50.0	47.9	42.9	38.5	35.6	35.3	34.5	34.9	34.8	35.1	33.5
3. Liquid Assets to total assets	39.6	37.3	39.4	40.5	39.8	40.6	39.8	40.4	40.3	40.6	40.1
4. Foreign exchange liabilities to total liabilities	16.1	14.2	13.8	15.3	14.1	15.5	10.1	9.9	12.4	11.5	12.8

Source: Reserve Bank of Malawi.
[1]In the total capital to total assets series, total capital refers to regulatory capital.

Table 6. Malawi: External Financing Requirement and Source, 2024–30
(Millions of US$, unless otherwise indicated)

	2024	2025	2026	2027	2028	2029	2030
Total requirement	-2,694	-3,447	-2,784	-2,888	-2,838	-2,804	-2,936
Current account, excluding official transfers	-2,653	-2,610	-2,555	-2,616	-2,615	-2,603	-2,686
Debt amortization	-92	-868	-183	-164	-126	-132	-132
Gross reserves accumulation (- increase)	52	31	-46	-108	-97	-70	-118
Total sources	2,694	2,547	2,385	2,553	2,567	2,629	2,936
Expected disbursements (official)	1,275	1,166	1,173	1,294	1,274	1,208	1,247
Grants	1,009	899	896	1,093	1,190	1,159	1,230
Medium- and long-term loans	266	266	277	201	84	49	17
Private sector (net)	1,460	1,434	1,284	1,321	1,369	1,500	1,751
IMF (net)	-41	-52	-71	-62	-76	-79	-61
Drawings	0	0	0	0	0	0	0
Repayments	41	52	71	62	76	79	61
Financing gap	0	900	399	335	272	175	0
Gross official reserves	149	118	164	272	370	440	558
Months of imports	0.4	0.3	0.4	0.7	0.9	1.0	1.3

Source: IMF staff estimates.

Table 7. Malawi: Debt Decomposition, 2024-27[1]

(Millions of US$, unless otherwise indicated)

	Actual	Projections		
	2024	2025	2026	2027
Creditor Profile				
Total debt	**10,264**	**11,595**	**12,972**	**14,874**
External debt	**4,385**	**4,574**	**4,688**	**4,716**
Multilateral creditors [2]	3,068	3,283	3,419	3,479
IMF	412	367	306	252
World Bank	1,718	1,842	1,871	1,845
AfDB	463	475	467	459
Other Multilaterals	475	599	775	922
Bilateral Creditors	362	339	318	297
Paris Club	1	1	1	1
Non-Paris Club	361	338	317	296
Commercial creditors	955	183	82	29
Domestic debt	**5,879**	**7,021**	**8,284**	**10,158**
Memorandum items:				
Collateralized debt[3]	439	100	26	0
Multilateral and collateralized debt[3,4]				
Multilateral debt				
Percent of external debt	70	72	73	74
Percent of GDP	26	23	21	19
o/w: IMF and WB				
Percent of external debt	49	48	46	44
Percent of GDP	18	15	14	11
o/w: African Development Bank				
Percent of external debt	11	10	10	10
Percent of GDP	4	3	3	3
o/w: Other multilateral				
Percent of external debt	11	13	17	20
Percent of GDP	4	4	5	5
Collateralized debt				
Percent of external debt	10	2	1	0
Percent of GDP	4	1	0	0

Sources: Malawian authorities; and IMF staff calculations

1/As reported by country authorities according to their classification of creditors, incl. by official and commercial. Debt coverage is the same as the DSA.

2/Multilateral creditors are defined here as institutions with more than one official shareholder and may not necessarily align with creditor classification under other IMF policies (e.g. Lending Into Arrears).

3/Debt is collateralized when the creditor has rights over an asset or revenue stream that would allow it, if the borrower defaults on its payment obligations, to rely on the asset or revenue stream to secure repayment of the debt. Collateralization entails a borrower granting liens over specific existing assets or future receivables to a lender as security against repayment of the loan. Collateral is "unrelated" when it has no relationship to a project financed by the loan. An example would be borrowing to finance the budget deficit, collateralized by oil revenue receipts. See the joint IMF-World Bank note for the G20 "Collateralized Transactions: Key Considerations for Public Lenders and Borrowers" for a discussion of issues raised by collateral.

4/Debt ratios are constructed by converting external debt to MWK using end-period exchange rate and dividing by GDP in MWK.

Table 8. Malawi: Capacity to Repay, 2024–37

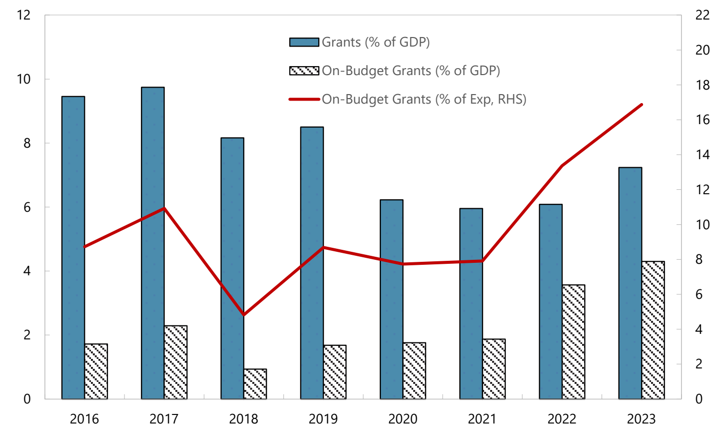
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037
Fund Obligations Based on Existing Drawings:														
(SDR millions)														
Principal	23.1	33.5	47.8	40.5	51.3	53.2	40.3	19.2	19.2	5.3	0.0	0.0	0.0	0.0
Charges and interest	7.8	5.9	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6
US$ Millions	41.0	52.3	71.4	61.7	76.4	79.0	61.6	33.2	33.3	14.6	7.5	7.5	7.5	7.5
Percent of exports of goods and services	2.9	3.4	4.2	3.4	4.0	3.9	2.9	1.5	1.4	0.6	0.3	0.3	0.3	0.2
Percent of debt service	24.5	5.3	19.7	20.0	26.8	27.0	22.4	13.1	12.4	5.7	3.0	3.0	3.1	3.0
Percent of quota	22.2	28.4	38.5	33.2	41.0	42.4	33.1	17.8	17.9	7.8	4.0	4.0	4.1	4.1
Percent of gross official reserves	27.5	44.2	43.5	22.6	20.7	18.0	11.0	5.4	4.9	1.9	0.8	0.7	0.6	0.6
Percent of GDP	0.3	0.4	0.4	0.3	0.4	0.3	0.2	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Projected Level of Credit Outstanding Based on Existing Drawings:														
SDR millions	310.1	276.7	228.8	188.3	137.1	83.8	43.6	24.4	5.3	0.0	0.0	0.0	0.0	0.0
US$ Millions	406.9	369.1	306.0	252.5	184.1	112.6	58.5	32.8	7.1	0.0	0.0	0.0	0.0	0.0
Percent of exports of goods and services	28.4	24.1	17.9	14.0	9.6	5.6	2.8	1.4	0.3	0.0	0.0	0.0	0.0	0.0
Percent of debt service	243.3	37.7	84.3	81.7	64.6	38.5	21.3	13.0	2.6	0.0	0.0	0.0	0.0	0.0
Percent of quota	223.4	199.3	164.9	135.7	98.7	60.4	31.4	17.6	3.8	0.0	0.0	0.0	0.0	0.0
Percent of gross official reserves	273.1	311.9	186.2	92.7	49.8	25.6	10.5	5.4	1.1	0.0	0.0	0.0	0.0	0.0
Percent of GDP	3.4	2.5	1.8	1.3	0.9	0.5	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Net Use of Fund Credit	-23.1	-33.5	-47.8	-40.5	-51.3	-53.2	-40.3	-19.2	-19.2	-5.3	0.0	0.0	0.0	0.0
(SDR milions)														
Disbursement and purchases	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayment and repurchases	23.1	33.5	47.8	40.5	51.3	53.2	40.3	19.2	19.2	5.3	0.0	0.0	0.0	0.0
Memorandum items:														
Exports of goods and services (millions of U.S. dollars)	1,433	1,531	1,710	1,805	1,912	2,007	2,105	2,268	2,430	2,547	2,659	2,776	2,898	3,024
Debt service (millions of U.S. dollars)	167.3	979.8	363.0	308.9	284.8	292.7	274.6	252.9	268.4	254.2	248.2	248.1	247.4	247.9
Quota (SDR millions)	138.8	138.8	138.8	138.8	138.8	138.8	138.8	138.8	138.8	138.8	138.8	138.8	138.8	138.8

Source: IMF staff projections.

Annex I. Reflections on Long Term Engagement and Possible Paths Forward[1]

1. Malawi has a long history of policy and financing engagement with the IMF and other external partners. Since 1995, Malawi has engaged in seven different ECF-supported programs, focusing on a similar set of objectives (fiscal adjustment, PFM, ER flexibility and increasing FX supply, lower inflation, improving debt management and debt dynamics, and structural reforms targeting fiscal governance and limiting fiscal risks (i.e., SOEs)). In addition, Malawi has benefited from high grant-based support from the donor community (see Figure 1). However, progress on IMF-supported programs was mixed; three fully disbursed but the others ended soon after approval, resulting in an average disbursement rate of 60 percent (see Annex I Table).

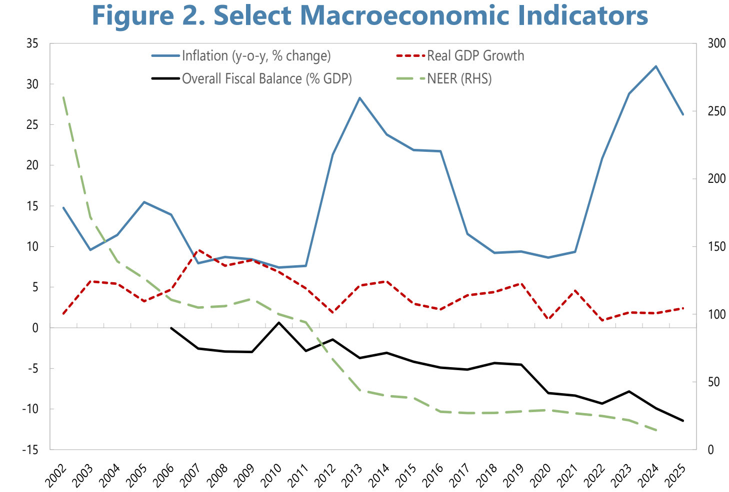
Figure 1. Total Grants and On-Budget Grants, 2016-23 (in percent, per calendar year)



Sources: Malawian authorities, IMF staff estimates

2. Despite prolonged engagement with the IMF, macroeconomic outcomes have been moderate. Malawi's real GDP growth has averaged only 4.4 percent over these thirty years (3.5 percent excluding the post-HIPC boom period). GNI per capita growth peaked in 2004 in the context of HIPC but turned negative in 2012 and 2018 and more recently (Main Text Figure 1), leaving GNI per capita at about USD595 in 2024, only about USD365 higher than in 1995. This is in sharp contrast with SSA's GNI per capita in 2023 of USD1,620, USD890 higher than in 1995. Malawi's economy has been characterized by

Figure 2. Select Macroeconomic Indicators



Sources: Malawian authorities, IMF staff estimates

[1] Prepared by Lukas Kohler and David Zeledon

elevated inflation, deteriorating fiscal balances, and depreciating exchange rates over much of the period (see Text Figure 2).

Table 1. Malawi: IMF-Supported Program Engagement since 1995

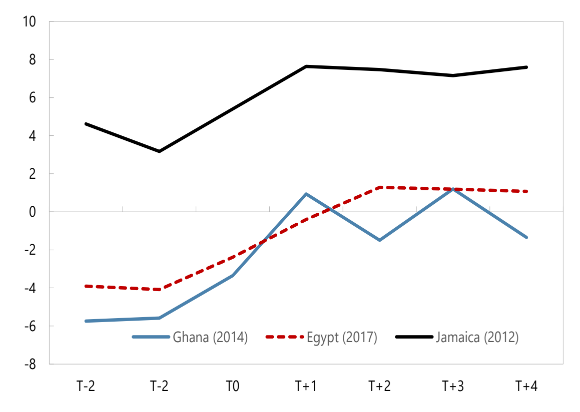
Facility	Date of Arrangement	Percent Drawn	Main policy objectives
Extended Credit Facility	15-Nov-23	20%	Balance expenditure and revenues; improve PFM; anchor money growth; and, rebuild GIR, eliminate shortage of FX and ER flexibility.
Extended Credit Facility	30-Apr-18	51%	Improve PFM, PIM, and monitoring SOEs; reduce inflation, increase exchange rate flexibility
Extended Credit Facility	23-Jul-12	100%	Control inflation and build GIR; stabilize MT fiscal and debt, DRM; PFM for donor re-engagemetn; and, financial sector stability.
Extended Credit Facility	19-Feb-10	27%	Establish macroeconomic stability via fiscal adjustment and tight monetary policy, exchange rate aligment; and structural reforms to support growth and financial stability.
Extended Credit Facility	5-Aug-05	100%	Create fiscal surplus to reduce debt, capping wage bill and increasing social; build GIR; and, structural reforms to suppport growth.
Extended Credit Facility	21-Dec-00	29%	Anchor inflationary expectations; improve budget and expenditure management; and PFM, civil service and prudential reforms
Extended Credit Facility	18-Oct-95	100%	Tighten financial policies to control inflation and progress with structural reforms.
Average		60%	

Note: IMF lending over this period also included non-programatic financing with four emergency facilities (2008, two in 2020, and 2023).

3. **At the same time, similar reform prescriptions have shown success in some peer countries, possibly illustrating models to follow.**

- **Fiscal adjustments coordinated with monetary policy**. Ghana (2014), Egypt (2017), Jamaica (2012), and Ethiopia achieved improvements in primary balances ranging between 4.5 and 6.5 percentage points of GDP through perseverance in fiscal effort (see text figure 3). Jamaica implemented tax policy reforms, coupled with spending discipline and PFM, to maintain a more than 6 percent of GDP primary surplus for seven years and help stabilize public sector debt.[2] The case of Ghana emphasizes a comprehensive fiscal strategy that includes improving tax compliance and public expenditure discipline, supported by effective monetary policy to

Figure 3. Primary Balance
(% of GDP)



Sources: WEO published

[2] IMF Country Report No. 19/338

stabilize inflation. [3] Egypt's fiscal adjustment was based on VAT reform and expenditure restraint to support monetary policy in the context of EX alignment. [4]

- **Pursuing stable debt dynamics** *Angola (2020), Ghana (2022), and Jamaica (2021)*. In 2022, Ghana initiated a comprehensive debt reduction strategy that included domestic debt restructuring and negotiations with external creditors. The government engaged with various stakeholders to secure more sustainable repayment terms, aiming to reduce the debt burden while ensuring continued access to financing and maintaining fiscal stability. [5] In 2021, Jamaica implemented a home-grown debt management strategy which include a fiscal adjustment, and civil service and fiscal rule reforms. These reforms included committing to targets for the primary balance and debt-to-GDP ratios in addition to enhanced reporting and monitoring mechanisms to ensure transparency in fiscal operations and improve accountability. The primary surplus increased from 3.5 percent to over 6 percent in 2021 and was maintained through 2024. [6] In 2020, amid the COVID-19 pandemic and declining oil prices, Angola adopted a conservative supplementary budget focused on increasing non-oil revenue, cutting non-essential expenditures, and prioritizing spending on health and social safety nets. In addition, Angola began discussions with international creditors to restructure existing debts, seeking to extend maturities and reduce interest rates. [7]

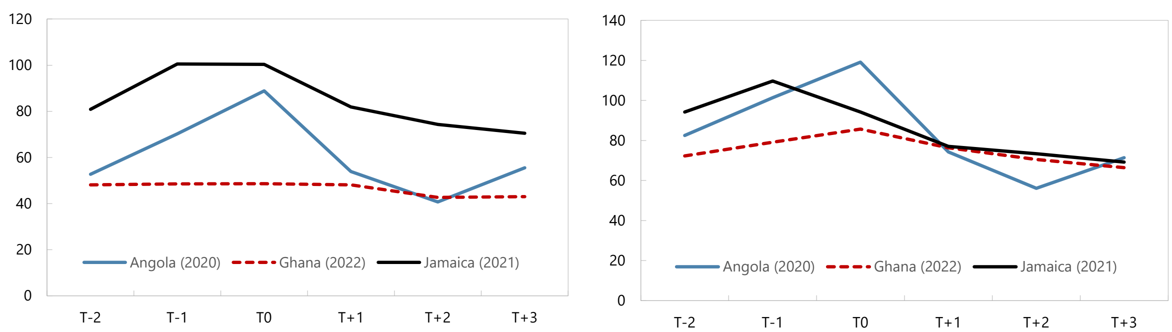
Figure 4. Debt

External Debt

(percent of GDP)

Public Debt

(percent of Fiscal year GDP)



Source: WEO published

Source: WEO published

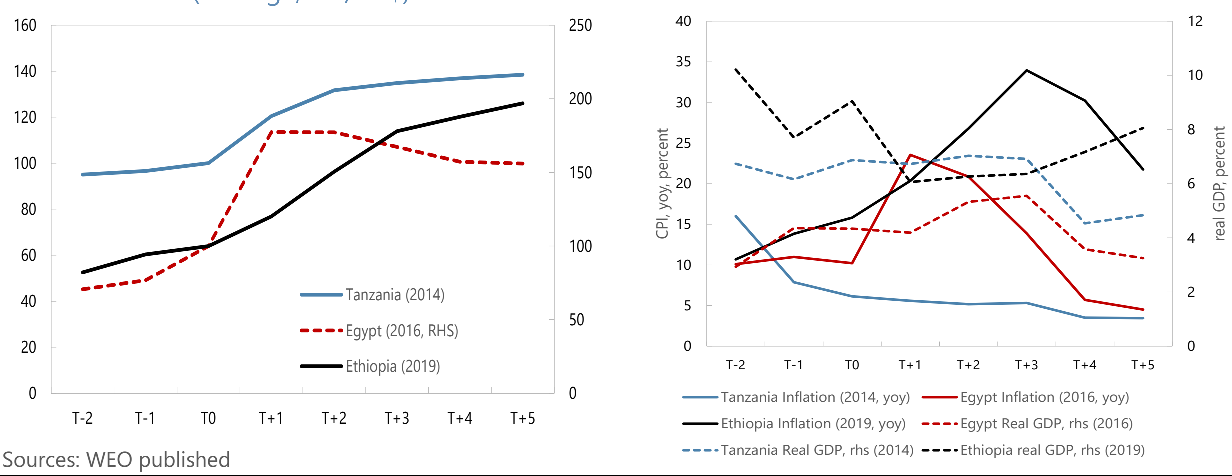
[3] IMF Country Report No. 15/245
[4] IMF Country Report No. 18/14
[5] IMF Country Report No. 23/168
[6] IMF Country Report No. 22/43
[7] IMF Country Report No. 20/281

- **Sustainable exchanges rate unifications** in Tanzania (2014), Egypt (2016), and Ethiopia (2019)**.** In November 2016, Egypt floated the overvalued Egyptian pound to address severe foreign exchange shortages and a burgeoning parallel market. In the subsequent years, after initially increasing, inflation fell rapidly while real growth remained stable, supported by coordinated monetary and fiscal policy. [8] In 2014, Tanzania recommitted to EX flexibility and partially liberalized its capital account, supported by monetary and fiscal tightening. During this period, inflation remained anchored and real GDP growth robust. [9] In 2019, Ethiopia engaged in a macroeconomic stabilization program, headlined by a plan to invigorate growth and remove distortions by liberalizing the exchange rate regime. Key to this stabilization was reducing central bank credit to the government and implementing credible inflation targeting, leading to a notable decline in inflation from 30 percent to 13 percent. The overall strategy has positioned Ethiopia to target an inflation rate of 10 percent for the first time in a decade. [10]

Figure 5. Inflation, GDP, and Exchange Rate

Exchange Rate
(Average, NC/US$)

Inflation and Real GDP



Sources: WEO published

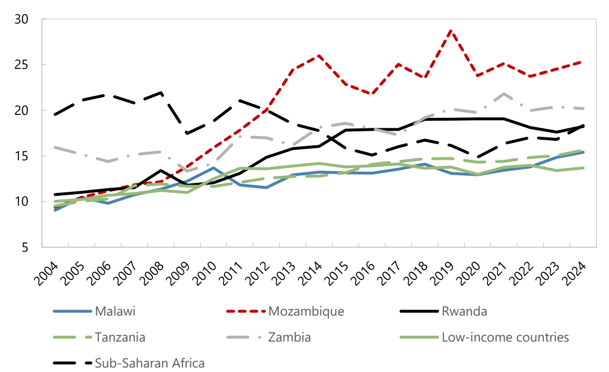
[8] IMF Country Report No. 18/14
[9] IMF Country Report No. 14/228
[10] Governor Talks – Ethiopia: In the Crucible – Implementing Transformative Reform from the Central Bank. IMF Country Report no. 20/29.

Annex II. Domestic Revenue Mobilization[1]

A. Background

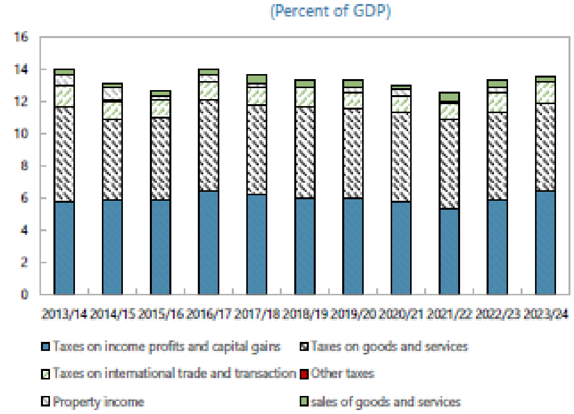
1. **Malawi's domestic revenue to GDP ratio trails that of regional peer countries**. Between 2004 and 2024, Malawi's revenue performance (excluding grants) lagged behind the average levels in Sub-Saharan Africa (Figure 1). Among the two major components of domestic revenue, taxes on income, profits, and capital gains increased slightly from 5.8 percent of GDP in FY2013/14 to 6.5 percent of GDP in FY23/24, while taxes on goods and services have remained at around 5.5 percent of GDP on average (Figure 2).

Figure 1. Revenues (excluding grants) to GDP Ratios for Malawi and Peer Countries
(Percent)



Sources: IMF Government Finance Statistics

Figure 2. Domestic Revenue and Components
(Percent of GDP)



Sources: Malawian authorities and IMF staff estimates

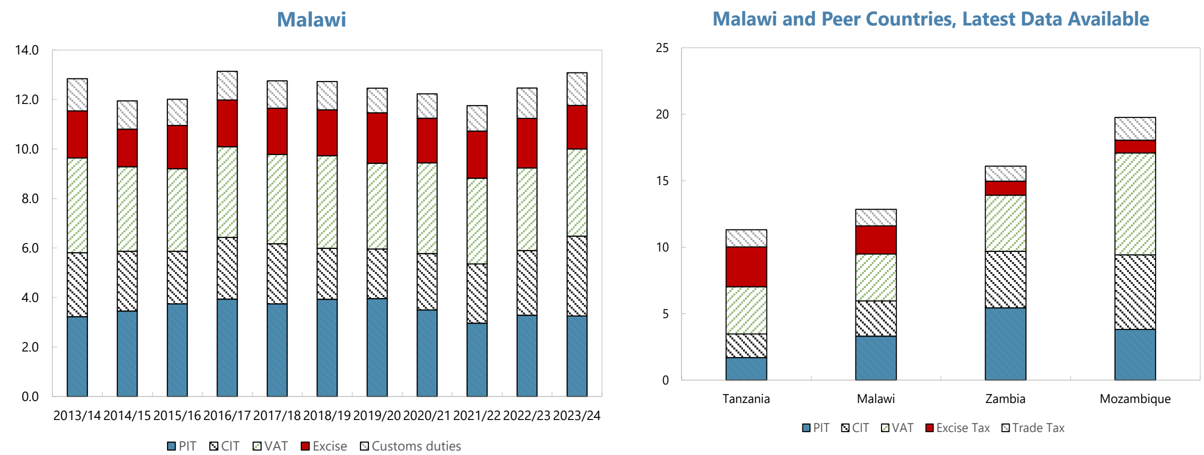
2. **The tax system in Malawi comprises a mix of direct and indirect taxes.** The Malawi Revenue Authority (MRA) administers key national taxes, including Value Added Tax (VAT), Personal Income Tax (PIT), Corporate Income Tax (CIT), excise duties, and customs duties. In FY2023/24, tax revenue amounted to 13.2 percent of GDP, with VAT contributing 26.7 percent, followed by PIT at 24.7 percent, CIT at 24.5 percent, excise duties at 13.4 percent, and customs duties at 10 percent of total tax collections (Figure 3).

3. **VAT is the largest source of government revenue in Malawi and has significant untapped revenue potential.** Over the period 2006-2018, VAT revenue increased from 2.8 percent to 3.8 percent of GDP but has since remained around 3.6 percent of GDP (Figure 3). The VAT system suffers from low performance indicators: Malawi's C-efficiency ratio stood at 0.2 in 2022, 0.12 below the SSA average (Figure 4), and its VAT effort—actual VAT revenue as a share of potential—was just

[1] Prepared by Jiemin Ren.

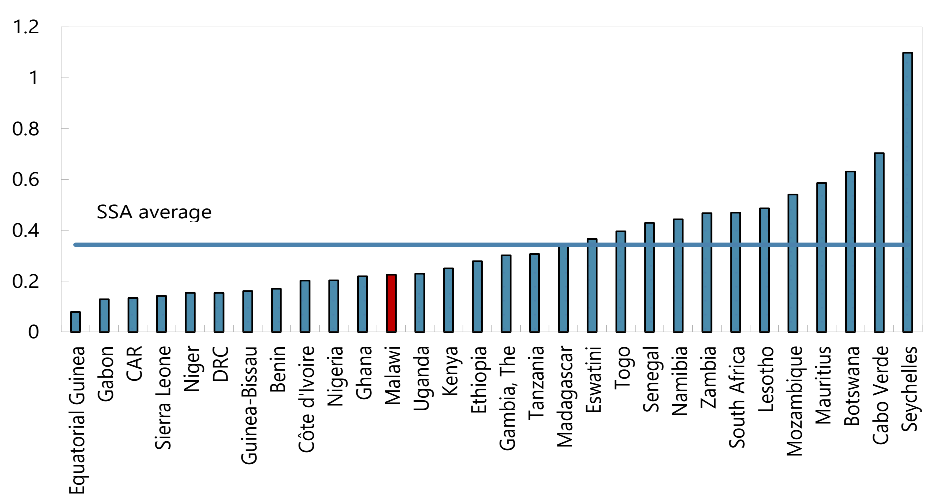
46.5 percent, ranking 61 out of 70 countries.[2] These outcomes are explained by substantial compliance and policy gaps, estimated at 4.8 percent and 5 percent of GDP, respectively, and an effective standard rate of only 7.9 percent, well below the statutory rate of 16.5 percent.[3]

Figure 3. Tax Revenue by Major Types
(Percent of GDP)



Sources: Malawian authorities, IMF staff estimates, and IMF World Revenue Longitudinal Database

Figure 4. VAT C-efficiency Ratio, Latest data available



Source: IMF FAD database and staff calculations.

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[2] C-efficiency is based on FAD database. VAT effort is based on the FAD Technical Report (2020): Developing a Revenue Mobilization Strategy.
[3] IMF Technical Report, May 2020. Developing a Revenue Mobilization Strategy.

4. The overall structure of income tax is effective, with an estimated compliance gap of 3.3 percent of GDP. [4] Malawi's employment income is taxed through a Pay As You Earn (PAYE) with a progressive rate schedule and a flat rate of 30 percent Fringe Benefits Tax. However, distributional fairness can be improved by raising the zero-rate bracket and lowering the income level at which the top marginal rate of 35 percent kicks-in. Additionally, the variation in the tax burden across different types of investment income, that undermines the integrity of the tax system and erodes the tax base, could be reduced by increasing the withholding taxes (WHTs) on payments from a business to residents and taxing foreign investment income at the rates that apply to domestic-source investment income.

5. Malawi adopts a territorial system of corporate taxation in which companies are subject to tax at a standard rate of 30 percent on all income and capital gains. Malawi's CIT revenue has been rising from 2.0 percent of GDP in FY2019/20 to 3.2 percent of GDP in FY2023/24. However, the CIT revenue is suppressed by several factors, including the existence of too generous tax incentives and exemptions that narrow the tax base, and the generous interest deductibility that aids corporate tax base erosion.

6. Excise revenue in Malawi has remained at a low level, averaging at 1.8 percent of GDP, over the past decade. This level potentially reflects smuggling of excisable goods from neighboring countries and their rate structure. Except for cigarettes, all of Malawi's excise taxes are ad valorem (AV) instead of specific. While AV excises help maintain revenue during inflation without requiring legislative updates, they often result in less stable collections, particularly for volatile goods like petroleum, and are more vulnerable to under-invoicing and rent-seeking. Moreover, they can unintentionally discourage consumption of higher-priced, higher-quality goods, which may be less harmful (e.g., filtered cigarettes), making them less effective than specific excises in reducing negative health or environmental impacts.

B. Government Initiatives

7. The government of Malawi committed to strengthening domestic revenue mobilization as a key pillar of its fiscal strategy but implementation has been slow. The six-year Domestic Revenue Mobilization Strategy (DRMS) (2021-2026) was prepared with support from IMF CD and other development partners, to improve revenue performance by broadening the tax base, enhancing efficiency and equity in tax collection, and increasing non-tax revenues.

8. The strategy outlines several targeted reforms: rationalizing tax incentives, reducing widespread VAT exemptions, improving the structure and enforcement of excise taxes (including expanding coverage to passenger vehicles), increasing the productivity and resilience of income taxes (especially the CIT), enhancing taxation and administration of small and medium-sized enterprises (SMEs), and implementing a modern and cost-effective recurrent property taxes. The overall tax reform package seeks to increase the revenue-to-GDP ratio by five percentage points by

[4] Based on data from the Fourth Integrated Household Survey (2016/2017) and IMF CD findings.

2026. The authorities have begun to implement some of the measures identified in the DRMS, such as introducing an import withholding tax in the FY 2021/22 Budget and increasing the tax-free threshold in the PIT.

9. Various institutional reforms and modernization efforts are underway within the Malawi Revenue Authority (MRA). These include: (i) the rollout of the Msonkho Online tax administration system to enhance digital service delivery; (ii) restructuring of the Domestic Taxes Division (DTD) to align with international best practices; (iii) promoting cultural transformation within the institution to improve performance; (iv) cleaning and updating the taxpayer register to ensure data accuracy; (v) integrating the administration of various taxes into a harmonized legal framework; (vi) upgrading the call center for improved taxpayer engagement; (vii) implementing a block management system nationwide; and (viii) developing a comprehensive risk management framework alongside capacity building in key functional areas. Together, these reforms are expected to contribute to a more efficient, transparent, and robust revenue system capable of financing Malawi's development priorities.

C. Impediments to Domestic Revenue Mobilization

Malawi's revenue performance is negatively affected by several structural and policy-related factors.

High degree of Informality

10. The country's large informal sector, accounting for an estimated 40 percent of GDP, limits the tax base and makes revenue collection a major challenge. In Malawi, only 1.3 percent of businesses are estimated to be formal. According to the 2013 Malawi Labor Force Survey, 88.7 percent of labor force is in the informal sector. Of the informal businesses, 74 percent operate in rural areas, which involve excessive administration and compliance costs. [5]

11. Malawi's current tax structure for the informal sector includes multiple instruments aimed at formalizing micro, small, and medium-sized enterprises (MSMEs) but could have unintended distortionary effects. The presumptive tax regime, which replaces the turnover tax for individuals whose turnover falls between MWK 2 million and MWK 6 million, applies lump-sum rates (from MWK 0 to 225,000) based on deemed turnover determined by tax officials rather than actual financial records using indicators like electricity usage or shop size. While the regime broadly taxes turnover at 2 percent and avoids issues like bunching [6], it remains slightly regressive for lower earners and raises concerns of business splitting to evade higher tax brackets. Moreover, the regime unintentionally favors staying informal, as it becomes more attractive than the regular income tax at higher turnover levels—discouraging firms from formalizing as they grow. VAT on purchases and imports also contributes to taxing the informal sector indirectly. However, with only 44 percent of

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[5] IMF Technical Assistance Report, February 2024. Malawi: Approaches to Taxing Informality.

[6] Bunching refers to business under-declaring sales to avoid being placed at a higher tax bracket. It is less of a concern due to deemed turnover based on the opinion of tax officials.

the VAT base taxed at the standard rate and the rest exempt or zero-rated, its effectiveness is constrained.

12. **Taxing the informal sector in Malawi presents significant challenges due to a number of factors**: (i) small-scale operations with low profit margins limits their tax contribution. For example, the average turnover of informal businesses in rural areas is well below the current threshold of the presumptive tax; (ii) high churning rates of business creation makes it difficult for tax authorities to establish a long-term relationship with taxpayers or ensure consistent tax compliance; (iii) most informal businesses predominantly conduct cash transactions, which significantly reduces transparency, making it harder to track revenue and enforce tax obligations; (iv) informal businesses are often owned and operated by individuals with low levels of literacy, complicating access to tax documentation and differentiating between local government fees and levies and taxes of central government; and (v) beyond administrative difficulties, political dynamics further complicate informal sector taxation. The large number of informal workers and business owners represent significant political influence (which is often highly organized in resisting tax compliance efforts).

Widespread Use of Tax Incentives and Exemptions

13. **Malawi provides various tax holidays, preferential tax rates, and allowances, which are often poorly targeted and inefficient.** These incentives, while aimed at attracting investment, frequently result in substantial revenue losses without significantly boosting economic activity. These measures reduce the tax base and create loopholes for tax evasion and avoidance, allowing importers to exploit provisions to reduce their tax liabilities. In countries where tax legislation grants Ministers discretionary power to provide tax exemptions, the management of these regimes, particularly in strategic partnerships, can lead to opportunities for preferential treatment and lack of transparency. Similarly, businesses under the Investment Code receive tax benefits managed by a commission, but the highly discretionary process—unlike structured mechanisms such as tax credits or accelerated depreciation—introduces uncertainty for investors, distorts market competition, and can encourage rent-seeking behavior. Arbitrary tax policies also undermine the rule of law by fostering inconsistent enforcement, thus weakening taxpayer confidence.

14. **The main tax incentives and exemptions are in the following areas**:

- ***Corporate Income Tax***: (i) the broadly available Export Allowance at 30 percent of taxable income in respect of processed qualifying goods and at 10 percent for unprocessed qualifying goods; [7] (ii) the Investment Allowance that allows most businesses to deduct in the first-year 100 percent of the cost of new and unused industrial buildings, and plant or machinery equipment; (iii) the international transport allowance that applies an additional 25 percent deduction over and above the deduction of actual costs incurred (i.e., 125 percent); (iv) the authority to provide

[7] Non-traditional goods include all goods except goods specifically excluded by the Export Incentives (Exclusion Order) under section 30 of the Export Incentives Act (s36A of the TA). Companies engaged in mining operations are not eligible for the export allowance (para. 14 of the 2nd Schedule to the TA).

zero percent (tax holiday) for a maximum period of 10 years or 15 percent preferential tax rate permanently for a "priority" company; [8] (v) the broad range of capital gains exemptions, for example, related to transfers to a trust, disposal of personal/domestic assets, etc.; (vi) the current generous interest deductibility that applies when debt is more than three times equity aids corporate tax base erosion; and, (vii) the Special Economic Zones Act, approved in late 2023, allows for exemption of CIT for an initial period of five years..

- ***Value-added Tax***: (i) zero-rating occurs when a tax rate of zero is applied to sales, allowing business to claim credits for taxes paid on inputs. In Malawi, there are 18 zero-rated supplies. The current zero-rate applicable to building materials is a large tax expenditure, accounting for 0.17 percent of GDP; (ii) exemptions means no tax is charged on sales, but businesses cannot claim input tax credits. There are 21 exempt supplies in Malawi. Within the exempt supply of "industrial & construction machinery", there are 55 sub-categories of exempt supplies. In sum, only 44 percent of the VAT base is subject to the standard rate under the existing VAT framework, while 40 percent is exempt and 14 percent is zero-rated. [9] The limited VAT base significantly constrains Malawi's ability to generate additional tax revenue, particularly from the informal sector.

- ***Withholding Tax***: While the WHT is an effective measure to reduce tax losses from the informal economy, its revenue potential is curtailed by exemption certificates granted to registered taxpayers, government ministries and departments, and tax-exempt persons. Additionally, certain imports under specific customs procedure codes and transactions with duty-free status are also exempt. For example, the VAT withholding system, by allowing suppliers to claim refunds without collecting actual VAT from buyers, could contribute to excessive VAT credit accumulation and cash flow constraints for suppliers.

Limited Administrative Capacity

15. The last Tax Administration Diagnostic Assessment Tool (TADAT) assessment (2023) shows many improvements in Malawi since the last assessment in 2015, with advancements in 12 indicators, stability in 11, and declines in 3. However, critical challenges that undermine the efficiency and effectiveness of the tax administration still exist regarding the following:

- **Taxpayers' identification**: The MRA lacks a central or whole-of-taxpayer view of the number of active registered taxpayers, leading to challenges in identifying who should be filing returns for all core taxes. The delayed full implementation of the Msonkho Online (MO) system has led to the use of three separate systems—MO (new tax system), SAS2 (legacy system), and manual processes, which compromises the accuracy of the taxpayer register and limits the ability to consolidate taxpayer accounts and automate penalty assessments for late filings. A recent FAD

[8] The Minister of Finance has designated the following sectors as priority industries: agro-processing, electricity generation, transmission and distribution for any type of shareholding with the qualifying conditions attaching thereto.

[9] IMF Technical Assistance Report, September 2024. Malawi: Opportunities for Improving VAT Compliance.

revenue administration analysis estimated that an additional MWK 51.4 billion could have been collected in VAT, if there was full filing compliance by taxpayers who submitted tax declarations over the past two fiscal years. [10]

- **Delays in VAT refunds**: The delays in VAT refunds further tighten the financial constraints of small and medium-sized firms. Although the VAT Act mandates refunds to be paid within 30 days of receiving a taxpayer's application, MRA's analysis revealed an average processing time of 132 days, significantly exceeding the legal requirement. Additionally, refunds are constrained by an inadequate refund budget. As of January 2023, the reported stock of unpaid VAT claims stood at MWK 14.3 billion. [11]

- **Customs enforcement**: The prevalence of excise smuggling has led to the reduction of excise revenues and undermined the domestic consumption of excisable goods. Without stronger border enforcement, excise revenues are likely to worsen, potentially forcing local industries to downsize or close down, resulting in job losses and reduced tax collections from PAYE and CIT.

- **Accountability and transparency framework**: The MRA's external oversight suffers from limited performance scrutiny, delays in audits, and minimal public reporting. Annual reports, business plans and reports on taxpayer perception surveys are not published. The limited capacity is dedicated to the large taxpayer office (LTO) and medium-taxpayer office (MTO), delaying more costly compliance measures for the MSME sector.

D. Policy Recommendations

16. Short-term: DRM objectives include increasing revenue from the informal economy, particularly by broadening the VAT base.

- **Broadening the VAT base by rationalizing exemptions and zero rates and focusing on compliance improvement measures.** For example, repeal all exemptions and zero-rating of business inputs; ensuring that non-resident online vendors and platforms charge and remit VAT on their sales of cross-border services to Malawi consumers and unregistered businesses; repealing the preferential VAT treatment of supplies of motor vehicles provided under the Customs Codes; limit the exemption for food to a narrower list disproportionately consumed by the lowest income quintiles; align the upper turnover tax threshold for the presumptive income tax regime (currently at MWK 12.5 million) with the VAT registration threshold of MWK 25 million.

- **Enhancing excise taxation by refining excises and improving control of Malawi's borders.** For example, retain the excises on gaming, gambling and lotteries, airtime/data, and jewelry;

[10] IMF Technical Assistance Report, September 2024. Malawi: Opportunities for Improving VAT Compliance.

[11] IMF Technical Report, May 2023. Malawi: Tax Administration Diagnostic Assessment Tool.

improve enforcement against smuggling and the sales of illicit goods by introducing pre-paid tax stamps and monitoring continuously the market penetration of illicit goods.

17. Medium- and long-term: Objectives include formalization, improving tax compliance, and sustainably increasing revenue, using both direct and indirect tax instruments. VAT reforms, in particular, must be complemented by well-designed direct tax measures, such as presumptive or turnover taxes, aimed at encouraging compliance and gradual formalization rather than immediate revenue gains, to avoid overburdening informal businesses and driving them further underground. IMF CD on personal income tax planned for summer 2025 will lead to further recommendations, as the authorities consider a broader update and reform of the relevant legislation. Suggested measures include:

Direct tax:

- Treat the presumptive tax as a minimum tax for all active MSMEs and provide credit for the presumptive tax where businesses submit turnover tax or income tax returns in excess of the presumptive tax.
- Broaden the corporate income tax base by eliminating discretionary and overly generous tax incentives, restricting excessive interest deductions (e.g., capping them at 30 percent of EBITDA), and rationalizing existing tax preferences (such as export and investment allowances), and enhance tax competitiveness by gradually reducing the CIT rate to a range of 28 - 25 percent.

Indirect tax:

- Strengthen excise policy by shifting from ad valorem to specific excises on goods with negative externalities (alcohol, tobacco, and vehicles) and aligning rates, especially on beer and spirits, with the regional average to protect the domestic beer industry and reduce smuggling.
- Enhance the efficiency of revenue management, including through automated verification that would allow timely processing of VAT refunds, and improve filing compliance by leveraging registration functionality in the ITAS.

4. Reform requires alignment of the pace and scope of tax policy changes with progress in administrative capacity development. Effective reform requires strong political leadership, clear communication with taxpayers, and a well-sequenced, transparent process led by a committed champion supported by government. Reforms should be packaged holistically to balance trade-offs, minimize uncertainty, and build credibility, rather than relying on piecemeal adjustments. Crucially, adequate time and resources must be allocated for the MRA to develop IT systems, train staff, and prepare legal and procedural tools before implementing major changes. Successful international experiences highlight that building administrative capacity, fostering policy coherence, and maintaining continuity in tax leadership are essential for sustainable tax reform outcomes.

Annex III. External and Domestic Drivers of Inflation[1]

A. Inflation in Malawi

1. **Inflation in Malawi has remained persistently high since 2022.** Year-over-year (y-o-y) inflation has stayed above 20 percent over the past three years, oscillating around 30 percent since end-2023. This sustained high inflation reflects ongoing economic challenges and pressures on prices. The seasonally adjusted month-on-month inflation has also shown a sharp upward trend since 2020, gravitating to about 2 percent average (27 percent annualized) over the past three years, driven by both food and non-food inflation (Figure 1).

2. **Climate shocks and the resulting low crops yields have contributed to elevated food inflation.** Malawi has experienced natural disasters, including episodes of tropical cyclones, drought, and floods over the past three years. These events are severely impacting agricultural output on which the country heavily relies for food supply. Despite modest recovery from the El-Nino induced drought last year, maize production in FY2024/25 remained 20.3 percent lower compared to the five-year average. The normalized difference vegetation index (NDVI)[2] of the country further illustrates the trend, indicating a lower level of vegetation in recent years compared to the long-term average over the last decade (Figure 1). Monthly seasonally adjusted food inflation has been trending up from about 0.85 percent average in 2020 to over 4 percent by end 2024, with the negative harvest time troughs becoming less pronounced over the five seasonal cycles.

3. **Non-food inflation has co-moved with money growth and depreciation, yet the connection has weakened recently.** A significant share of non-food consumption relies on imported goods, with the total value of goods imports as a share of GDP estimated at 27 percent in 2024. Recent episodes of exchange rate devaluation have coincided with large jumps in non-food inflation over the past two years, reflecting an upward pressure on prices of imported items. The non-food inflation had also closely mirrored the trend in money growth, with some divergence in 2019-2020 (see Figure 1).

4. **The official exchange rate has remained almost unchanged over the past year, but evidence from the informal market indicates large exchange rate pressure.** The stability in official exchange rate contrasts with the dynamics observed in the informal market, where the exchange rate has significantly depreciated over the same period, with the informal market rate premium reportedly reaching around 150% in March 2025 before declining to above 100 percent the next month. Large exchange rate pressures, coupled with continued rapid growth in monetary aggregates, drive substantial inflationary pressure in the system, particularly for non-food inflation.

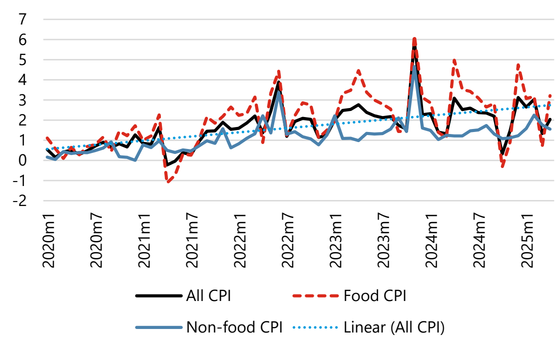
[1] Prepared by Sunwoo Lee.

[2] Normalized Difference Vegetation Index is a measure used to assess the health and density of vegetation on the Earth's surface, calculated using satellite imagery. Food and Agricultural Organization of the United Nations (FAO) - Agricultural Stress Index System (ASIS), https://www.fao.org/giews/earthobservation/, Date accessed: 2025-04-01.

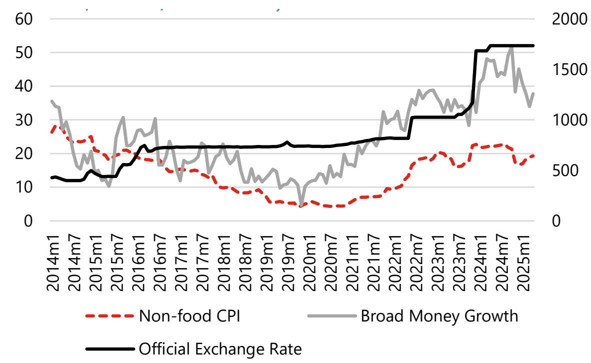
5. Recent monetary policy responses to the stubbornly high inflation have proven to be insufficient. Four Monetary Policy Committee meetings took place in 2024, during which the policy rate remained fixed at 26 percent, with the last policy rate hike of 2 percentage points (ppts) occurring in February 2024. For the most recent policy tightening, the authorities instead relied on the Liquidity Reserve Requirement (LRR) ratio, increasing the LRR for domestic currency deposits by 125 basis points in November 2024 (see Figure 1, panel 4). However, broad money growth remained elevated, with y-o-y net claims on the government and credit to the private sector growth of 83 percent and 20 percent as of end-February 2025, respectively.

Figure 1. Recent Developments in Inflation and Contributors

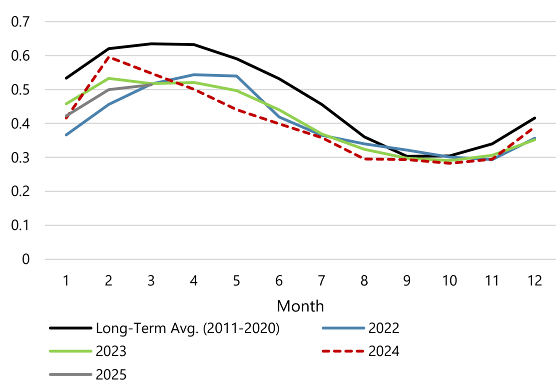
CPI Change, Month-Over-Month Seasonally Adjusted (Percent)



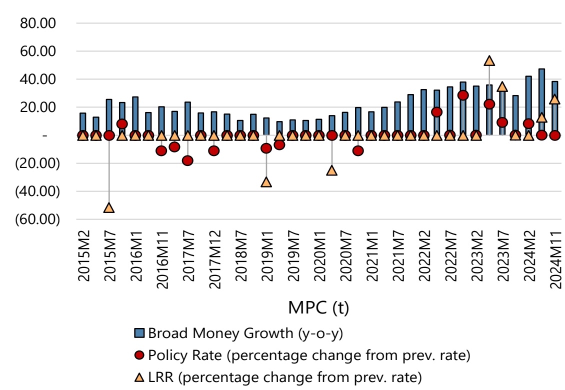
Non-Food CPI, Broad Money, and Exchange Rate (Y-o-Y Growth, Percent, LHS; MWK/USD RHS)



Normalized Vegetation Index (Between 0 and 1; (+) Indicates More Vegetation)

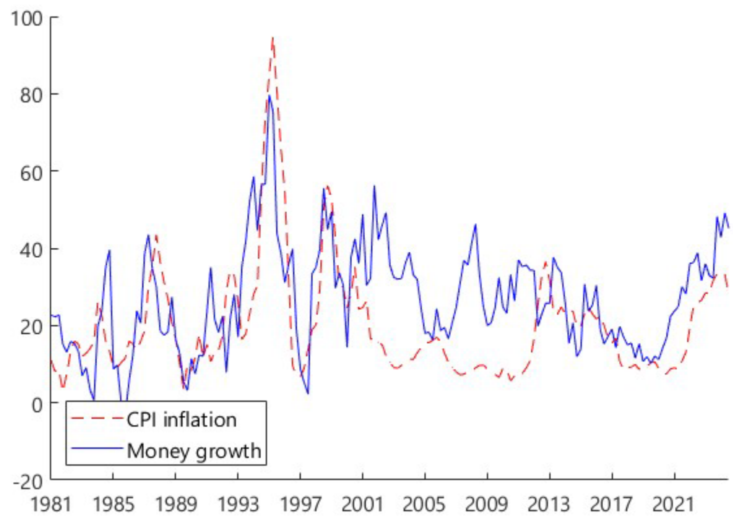


Monetary Policy Response and Broad Money Growth (Y-o-Y Growth at t)



Sources: Reserve Bank of Malawi; National Statistics Office of Malawi; FAO; IMF staff estimates; and IMF staff calculations.

Figure 2. Inflation and Broad Money Growth (y-o-y Growth, Percent)



Sources: Reserve Bank of Malawi; National Statistics Office of Malawi; and IMF staff calculations.

B. Empirical Analysis

6. **In this analysis we explore the link between inflation in Malawi and two major contributing factors: the exchange rate and money growth.** Inflation has closely mirrored broad money growth, despite a brief interruption where monetary growth was higher than inflation during the HIPC and post-HIPC fixed exchange rate period in 2000s (Figure 2). To analyze linkages, three separate approaches are used:

- **a.** First, to better understand the inflation dynamics, we apply the local projection method to quantify the exchange rate pass-through to food and non-food inflation.
- **b.** Second, an additional measure of the exchange rate, based on the theory of Purchasing Power Parity (PPP), is constructed to assess the extent of the exchange rate pass-through already reflected in market prices, despite the official exchange rate staying fixed.
- **c.** Then we use the Bayesian VAR (BVAR) model to assess the link between money growth and inflation over time.

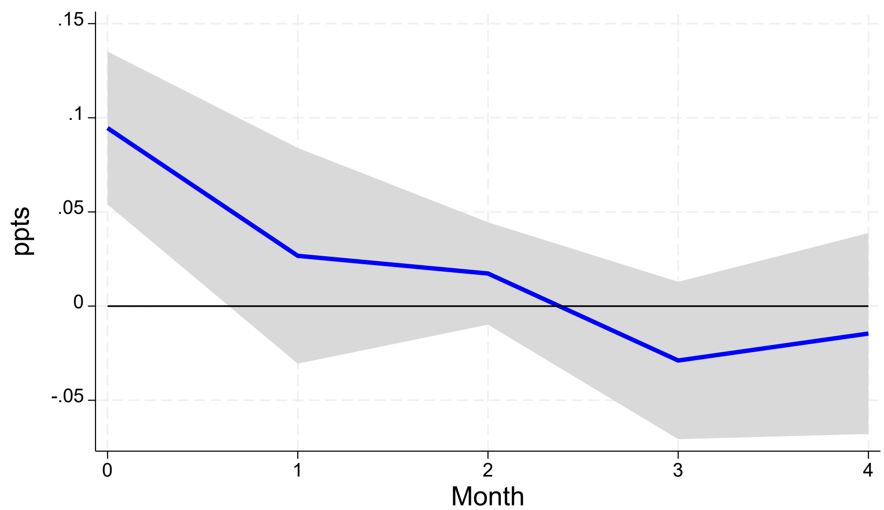
7. **Local projection analysis following Jordà (2005) [3] suggests significant exchange rate pass-through to prices.** We estimate the impulse response of inflation to exchange rate

[3] To estimate the impact of a shock to variable x_t in month t on inflation variable π_{t+h} in month t+h (h in (0, 1, ..., 5), a regression of the following form is estimated: $\pi_{t+h} = \sum_{s=0}^{S} \beta_s^h x_{t-s} + \sum_{s=1}^{S} \gamma_s^h \pi_{t-s} + \sum_{s=0}^{S} \boldsymbol{\delta}_s^{h\prime} \boldsymbol{Z}_{t-s} + e_{t+h}$, where Z_t is a vector of possible control variables, e_{t+h} is the error term, and β_0^h corresponds to the impact of the shock after h months. To ensure stationarity, all variables were seasonally adjusted and log- or level-differenced. See Jordà, Ò., 2005. "Estimation and Inference of Impulse Responses by Local Projections," American Economic Review, 95, 1, pp. 161-182. for more details.

devaluation shocks, controlling for vegetation conditions and external factors, including global oil prices, regional food prices, and the US federal funds rate. Using the m-o-m inflation as the response variable, the result suggests that a 1percentage point (ppt) exchange rate depreciation shock was associated with an approximately 0.1 ppt immediate increase in monthly inflation, relative to the 2.1 percent average m-o-m inflation during 2024. The estimated impact is almost immediate, with most of the impact realized within the same month, and dissipates over the following two months.

Figure 3. Impulse Responses of Inflation to a 1 Ppt Exchange Rate Shock

(ppts)



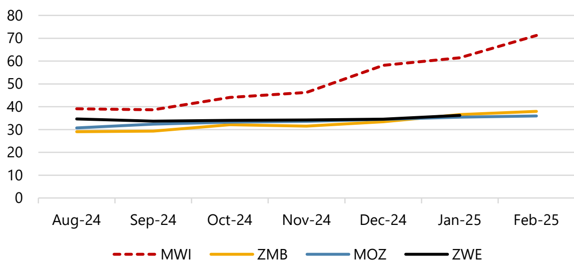
Sources: Reserve Bank of Malawi; National Statistics Office of Malawi; and IMF staff calculations.
Note: Solid line shows impulse responses estimated on monthly data for the period January 2013 to December 2024 using local projections, with three devaluation episodes during the period treated as exchange rate shocks. The exchange rate is defined as the value of 1 USD in MWK. Shaded area represents 90 percent confidence interval.

8. **The comparison of market food prices with those in neighboring countries indicates that the fixed official exchange rate does not insulate the market from the price pass-through.** The PPP theory suggests that the long-run equilibrium exchange rate between currencies should bring the purchasing power of different currencies to the parity. Food prices across markets in Malawi and neighboring countries, including Mozambique, Zambia, and Zimbabwe, were collected to construct local price estimates of a comparable food basket. The prices of food items were aggregated using the World Food Program's Malawi minimum expenditure basket weights. The PPP-based exchange rate measure was then calculated as the rate at which the local price of Malawi's food basket equals the USD price of food baskets in the neighboring countries when expressed in the same currency. While transportation costs and country-specific factors would have also affected the level of the exchange rate measures, the trend in the movement of the exchange rate measure clearly illustrates the pass-through to prices from the exchange rate depreciation in

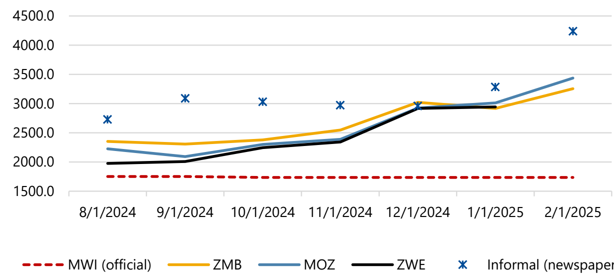
the informal market. A comparison of the trend with the observed informal market rate also suggests the potential influence of speculation and the lack of market confidence affecting the parallel market spread (Figure 4).

Figure 4. Purchasing Power Parity-based Exchange Rate Measure

USD Price of Food Basket Consisting of Maize, Cooking Oil, and Sugar



PPP-Implied Exchange Rate Estimates vs. Official and Parallel Exchange Rate



Sources: World Food Programme (WFP); IMF staff estimates; and IMF staff calculations.
Note: The food basket is constructed using the weights of the WFP's minimum expenditure basket, which includes 12.6 kilograms (kg) of maize, 0.75 Lt of cooking oil, and 0.6 kg of sugar. The WFP minimum expenditure basket also includes beans, cassava, salt, vegetables, eggs, and fish, which were excluded due to data availability and comparability issues.
Due to difficulties in collecting data, the informal market rates were collected from multiple sources including newspaper reports.

9. Additional analysis using a BVAR model shows that the link between money growth and inflation remains significant, pointing at the need to reign in the fiscal deficit.

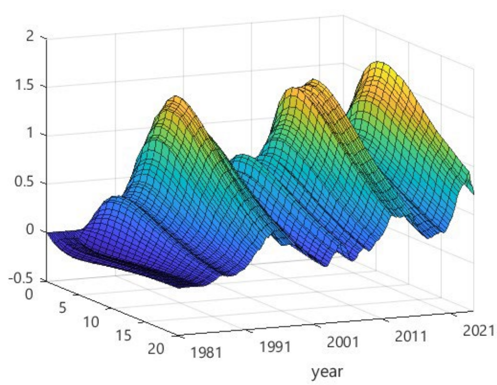
- The analysis applies the framework of Chan and Eisenstat (2018) [4] and Berger et al. (2023) [5] to test the changing relationship between money growth and inflation, by estimating the BVAR models with potentially time-varying parameters. The result indicates that time-varying parameters in both the impact of money growth on inflation and that of inflation on money growth is preferred, and that the relationship between the two variables remains significant despite weakening of the link during 2000s. Impulse responses of inflation to a lagged reserve money growth shock, calculated using local projections method, also indicate a persistent and positive association between reserve money growth and overall inflation.
- With government financing contributing to a large share of broad money growth, the result implies a significant inflationary pressure from fiscal deficits and declining external, official financing. Fiscal dominance raises concerns. The central bank appears to have internalized the implications of policy hikes on the government's financing cost. Furthermore, the result suggests

[4] Chan, J.C.C. and Eisenstat, E. (2018). Comparing Hybrid Time-Varying Parameter VARs, Economics Letters, 171, 1-5.
[5] For more details, see: Berger, Karlsson, Österholm, (2023). A Note of Caution on the Relation between Money Growth and Inflation, Scottish Journal of Political Economy.

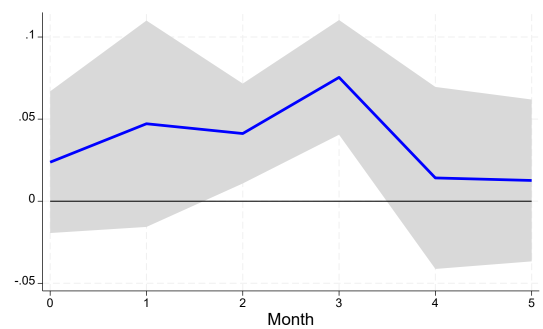
a broken link in monetary policy transmission, with the size of fiscal deficit serving as a strong driver of monetary growth. This highlights the importance of containing fiscal deficit to dampen the inflationary pressure.

Figure 5. Inflation and Money Growth

Impulse Response of Inflation (ppts) **to 1 std Shock in Broad Money Growth Over Time, BVAR Results**



Impulse Response of Inflation to 1 ppt Shock in Reserve Money Growth (3-Month Lagged) (ppts)



Sources: Reserve Bank of Malawi; National Statistics Office of Malawi; IMF staff estimates; and IMF staff calculations.

Note: The left panel shows impulse responses estimated on quarterly data for the period 1981 Q1 to 2024 Q4 using Bayesian VAR following Berger, Karlsson, Österholm, (2023), assuming time-varying parameters. The right panel shows impulse responses and 90 percent confidence interval estimated on monthly data for the period January 2013 to December 2024 using local projections.

C. Conclusion

10. The interlinkage between the exchange rate, fiscal financing, and inflation, in the context of ongoing inflationary pressures, points to the need for monetary tightening and a careful policy design. Continued government borrowing leading to monetary growth, supported by widening spreads between the policy and short-term borrowing rates, as well as limited private sector borrowing and saving hinder the effectiveness of monetary policy. Additionally, the significant gap between the informal and official exchange rate distorts market dynamics and limits potential transmission and shock-absorbing effect through the exchange rate channel.

11. The analysis presents several key policy implications:

- The presence of fiscal dominance results in substantial monetary expansions due to fiscal deficits and contributes to inflationary pressure. This highlights the importance of sound fiscal management practices, including realistic budget planning and effective cash management, to dampen inflationary pressure.
- Achieving monetary stability is crucial to stabilize consumer prices. Fixing the official exchange rate does not shield the economy from the effect of monetary fluctuations on prices. Current market prices of key items in households' consumption basket already reflect the depreciation in the parallel market.

Annex IV. Real GDP Growth Potential

1. Real GDP growth has stagnated since 2000 due to a multitude of exogenous and domestic factors. On the external side, Malawi has been buffeted by a series of external shocks: a terms of trade shock in 2021 as a result of Russia's invasion of Ukraine, destructive cyclones in 2023, and a drought in 2024 that led to wide-spread acute food insecurity. Domestically, Malawi has limited resources to support public investment in human and physical capital, most of which comes from external partners via grants. In addition, policy slippages have contributed to deepening macroeconomic instability and distortions of input pricing and allocation. This climate restrains domestic and foreign investment.

2. Human and physical capital formation are key drivers of long-term economic growth. Electrification is a historic driver of real GDP growth as an efficient and flexible vehicle of power supply, extending work hours and increasing efficiency. [1] Equally, research has demonstrated the importance of broadband internet access to accelerating economic growth and improving poverty and social outturns. [2] On human capital formation, research has demonstrated the important bi-directional correlation between real GDP growth and per capita GDP and primary and secondary school enrollment. [3] In the absence of data on fixed capital formation and labor force participation, data from the World Bank's *World Development Indicators* are used as proxies for the analysis.

3. Malawi performs relatively well on human capital — but trails in infrastructure — investment. Malawi illustrates high levels of school enrollment, especially for primary schools (see Figure 1, panels 1 & 2). However, outcomes fall off substantially for secondary school enrollment, which is burdened by high repetition and drop-out rates, with the latter being twice as high for girls. [4] The dismantling of USAID reflects an additional shock that places strains on domestic financing and will adversely affect future health and education spending. Malawi trails regional peers

[1] Saha, S.K. *Assessing the impact of rural electrification on economic growth: a comprehensive analysis considering informal economy and income inequality in Bangladesh*. Asia-Pac J Reg Sci 8, 551–583 (2024); Stern, David. *The Impact of Electricity on Economic Development: A Macroeconomic Perspective.* Int'l Review of Environmental and Resource Economics (2018).

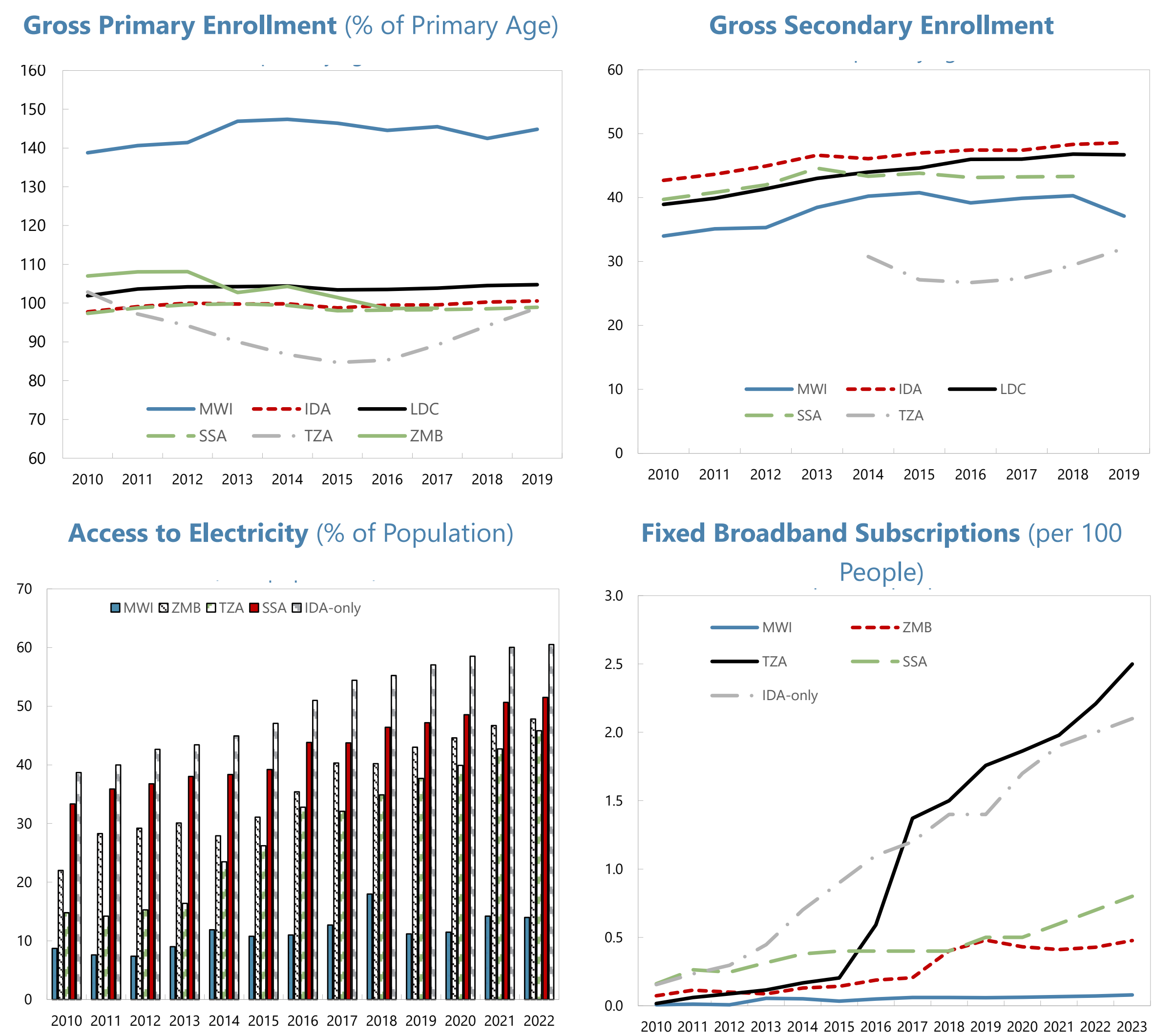
[2] Kathryn R. Johnson and Claudia Persico. *Broadband Internet Access, Economic Growth, and Wellbeing,* NBER Working Paper No. 32517 (May 2024). Deloitte. *Broadband for all: charting a path to economic growth* (April 2021).

[3] Gumus, Kayha. *The Relationship between Economic Growth and School Enrollment Rates: Time Series Evidence from Turkey*. Educational Policy *Analysis and Strategic Research, V 7,N 1, (2012)*. Weatherly et al. *The Impact of Education on GDP per Capita. Appiah. The Effect of Education Expenditure on Per Capita GDP in Developing Countries.* International Journal of Economics and Finance; Vol. 9, No. 10 (2017).

[4] See Annex VI. *Raising Educational Attainment in Malawi*, 2021 Article VI Consultation (Country Report No. 2021/269).

on two relevant infrastructure indicators, access to electricity and subscriptions to broadband internet, by some distance (see Figure 1, panels 3 & 4).

Figure 1. Indicators of Capital Accumulation



Source: World Bank Development Indicators, World Development Indicators | DataBank; IMF staff calculations.

4. Recent macroeconomic policies impeded an enabling environment for private-sector-led growth. As illustrated in the Staff Report, fiscal dominance has contributed to crowding out of private sector investment, high inflation, an over-valued official exchange rate, shortage of foreign exchange, and non-market priced fuel. These policies result in higher credit risk for potential borrowers and lower availability of potential financing from the financial sector, resulting in low credit to the private sector. Chronically low availability of foreign exchange raises the costs of key imported inputs and disincentivize domestic and foreign investment in potentially viable activities in the private and agricultural sectors. This dynamic also results in rent-seeking behavior by elites with access to FX, resulting in hoarding, further amplifying the problem and incentives to perpetuate the system, and represents a tax on exporters, further disincentivizing investment in export-oriented activities. [5] These dynamics also encourage informalization to avoid administrative regulations and maximize foreign exchange earnings for legitimate economic activities.

5. Malawi embodies well documented and long-standing structural impediments to private sector led growth, particularly in the agricultural sector. In addition to macroeconomic instability, Malawian producers face a myriad of regulatory and administrative burdens, high transportation costs, an over-sized role of public agents, poor enforcement of property rights, and incomplete markets. [6] For example:

- Underinvestment in infrastructure raises transportation costs and limits predictable access to markets, increasing risks and costs for farmers, especially small-holders, perpetuating subsistence farming;
- Government administrative measures, particularly on existing traders, limit market entrants, further reducing access to markets;
- Government SOEs and subsidy schemes, such as Agricultural Development and Marketing Corporation (ADMARC) and Agricultural Inputs Program (AIP) lead to inefficient allocation of resources and disincentivize private investment and commercialization; and,
- Land tenure insecurity results in increased fragmentation and disincentivizes investment and commercialization.

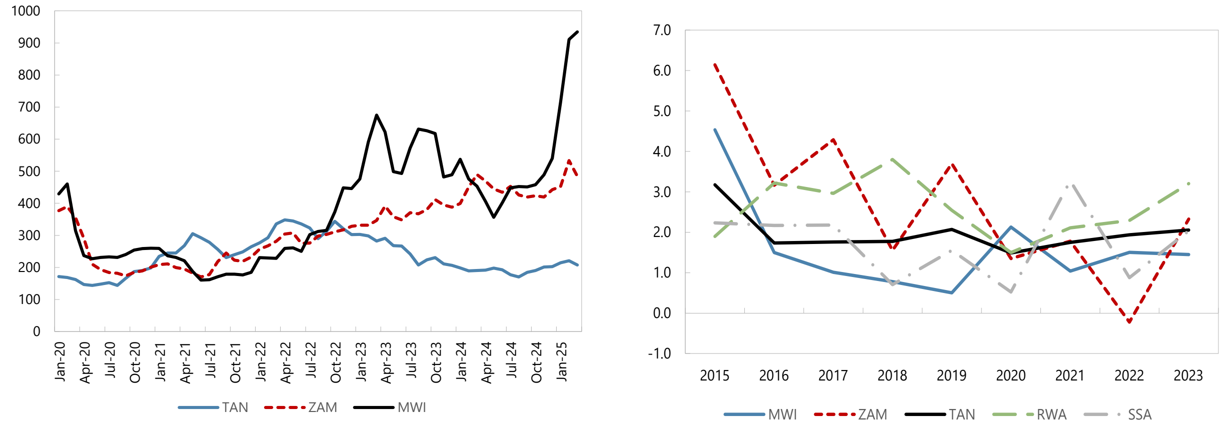
6. Together, these macroeconomic and structural constraints have resulted in regionally high, variable food prices and low FDI (see Figure 2). For food, recent climatic shocks have also played a role. At the same time, Malawi's maize prices are more volatile (double the standard deviation of Zambia, for example) and higher, especially recently. Since these countries experience broadly similar weather events and transportation costs, especially Tanzania, deviations suggest the existence of production constraints in Malawi. Relative to regional peers, Malawi's FDI inflows are also low. Since 2016, Malawi's average annual inflows are about a percentage point lower than Zambia, Tanzania, and Rwanda. The differences reflect differences in endowments but also the investment climate.

[5] Gray. *Official and Parallel Exchange Rates—Recognizing Reality.* IMF Working Paper (February 2021).

[6] World Bank. Country Economic Memorandum: A Narrow Path to Prosperity, (December 2023).

Figure 2. Potential Real GDP Growth

Regional Maize Prices (US$/MT) | **Regional Net FDI Liabilities (% of GDP)**

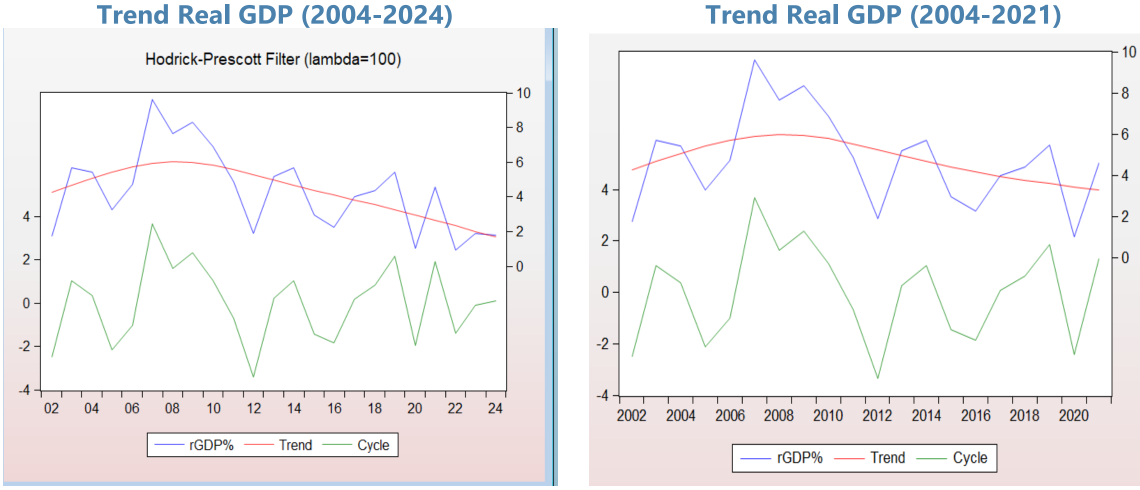


Sources: IFPRI-Malawi and WEO published

7. Macroeconomic instability, structural impediments to growth, and relatively low capital stock in Malawi have resulted in low productivity and declining potential growth. Trend real GDP suggests potential annual growth of around 2 percent (see Figure 3). If recent shock years with drought and cyclone (2022-2024) are excluded, the estimated potential growth increases slightly to just over 3 percent. Both estimates indicate that the trend real GDP has been declining since 2008 from about 6 percent, reflecting the myriads of structural and macroeconomic impediments to growth facing Malawians. With population growth averaging about 2.6 percent, 3 percent growth would be substantially insufficient to raise Malawians out of poverty.

Figure 3. Potential Real GDP Growth

Trend Real GDP (2004-2024) | **Trend Real GDP (2004-2021)**



Sources: NSO and IMF staff estimates

Annex V. Status of Key Recommendations from 2021 Article IV Consultation

Key Recommendations	Implementation
Restore macroeconomic stability	Increasing government debt, FX shortages, insufficient monetary policy responses, and natural disasters have kept the inflation rate stubbornly high and have dragged down growth.
Strengthen fiscal position to preserve debt sustainability	Domestic primary deficit increased to nearly 3.5 percent of GDP in FY2024/25, driven by revenue shortfalls and expenditure overruns. Domestic revenue mobilization efforts showed limited progress. Domestic financing of fiscal deficit and the resulting interest expense as a share of total expenditure has risen significantly, putting further pressure on the fiscal space.
Safeguard financial sector stability	The banking system remained well-capitalized and liquid. However, credit risk is building up due to worsening macroeconomic conditions, and banks' exposure to government securities holdings is rapidly increasing.
Greater exchange rate flexibility	Despite two episodes of exchange rate devaluation in May 2022 and November 2023 aimed at aligning the official and market exchange rates, the official exchange rate has remained broadly unchanged since November 2023. This has resulted in an appreciation in the real effective exchange rate, a depletion of reserves, and a burgeoning parallel market spread.
Rebuild external buffers	Chronic shortage in FX supply, limited exchange rate flexibility, and the continued sale of FX from the RBM to authorized dealer banks have resulted in the depletion of reserves, which are at critically low level. The FX interbank market remains underdeveloped.
Strengthen governance and transparency	NIR audits have been conducted by an external auditor, with the latest report for March 2024. The RBM Act amendment is in progress, following the 2021 and 2024 Safeguards Assessments.

Annex VI. Risk Assessment Matrix

Source of Risks	Relative Likelihood	Impact if Realized	Policy Response
Global Risks			
Trade policy and investment shocks	High	Low Higher trade barriers or sanctions reduce external trade, disrupt FDI and supply chains, and trigger further U.S. dollar appreciation, tighter financial conditions, and higher inflation.	Malawi's main export, tobacco, is not sensitive to trade barriers and FDI is already low.
Sovereign debt distress	High	High Higher interest rates, stronger U.S. dollar, and shrinking development aid amplified by sovereign-bank feedback result in capital outflows, rising risk premia, loss of market access, abrupt expenditure cuts, and lower growth in highly indebted countries.	Mobilize domestic resources, increase expenditure efficiency, make progress in key PFM areas, and align the exchange rate regime with market forces to cushion against lower development assistance and incentivize maximum inflows.
Regional conflicts	Medium	Medium Intensification of conflicts (e.g., in the Middle East, Ukraine, Sahel, and East Africa) or terrorism disrupt trade in energy and food, tourism, supply chains, remittances, FDI and financial flows, payment systems, and increase refugee flows.	This could result in a terms-of-trade shock via food and energy prices. Mobilize domestic resources and maximize donor support, and allow the automatic fuel price mechanism to function.
Commodity price volatility	Medium	Medium Supply and demand volatility (due to conflicts, trade restrictions, OPEC+ decisions, AE energy policies, or green transition) increases commodity price volatility, external and fiscal pressures, social discontent, and economic instability.	Similarly to above, but also increase exchange rate flexibility and strengthen FX reserve buffer to reduce vulnerabilities to external shocks.
Global growth acceleration	Low	Low Easing of conflicts, positive supply-side surprises (e.g., oil production shocks), productivity gains from AI, or structural reforms raise global demand and trade.	Malawi's current and financial accounts flows are not closely aligned with external demand, neither on the up – nor down – side.
Regional and Domestic Risks			
Fiscal dominance resulting in deficient conduct of monetary policy	High	High Inability to keep reserve money growth in line with nominal GDP growth can result in pressure on the exchange rate, the RBM's foreign exchange reserves, and inflation. Conflicting signals on policy intentions can also adversely affect market participants' confidence.	Strengthen RBM independence. Maintain a positive real interest rate. Reinstate a clear and effective monetary operational framework. Stop outright purchasing of government securities in the secondary market.

Source of Risks	Relative Likelihood	Impact if Realized	Policy Response
Governance weaknesses	High	**High** Overly ambitious capital investment beyond the country's absorptive capacity and weak institutions can result in a misuse of public resources, resulting in a rise in debt with little impact on growth. Conflicting signals on policy intentions can also adversely affect market participants' confidence.	Strengthen institutions to address weaknesses in governance, increase the coverage of IFMIS, supported by the authorities' credible reforms. Strengthen public investment management (PIM).
Delayed PFM reforms, lack of expenditure Control, and DRM	High	**High** Uneven progress of PFM reform, deficient expenditure control, and lack of progress in domestic revenue mobilization (DRM) undermine confidence in budgetary execution and efforts to effectively and transparently manage expenditure within available resources. G2G proposal adds to these risks.	Accelerate implementation of PFM reform programs, strengthen commitment control, and communicate regularly and transparently on the budget execution within available resources. Strengthen automatic fuel pricing mechanism and address public procurement concerns regarding the G2G proposal.
Lack of reform traction and political-economy constraints	High	**High** In an election year, political-economic constraints will be more pronounced, and social unrest possible. Delayed reforms to stabilize the economy will result in deeper economic costs and more difficult re-engagement with donors, including the IMF. Delay will also further erode confidence in the government and expand informality.	Focus on communicating the costs of inaction and benefits of reforms. Conduct extensive outreach to non-government sectors. Consider Malawian political-economy factors in the prioritization and sequencing of recommendations.
Natural disasters related to climate change	High	**High** More frequent natural disasters with severe damages to infrastructure can amplify supply chain disruptions, inflationary pressures, and water and food shortages. They would also reduce medium-term growth prospects.	Build economic resilience; address deforestation; conduct appropriate appraisal of climate risk; and develop and implement adaptation and disaster risk management policies.

Annex VII. External Sector Assessment

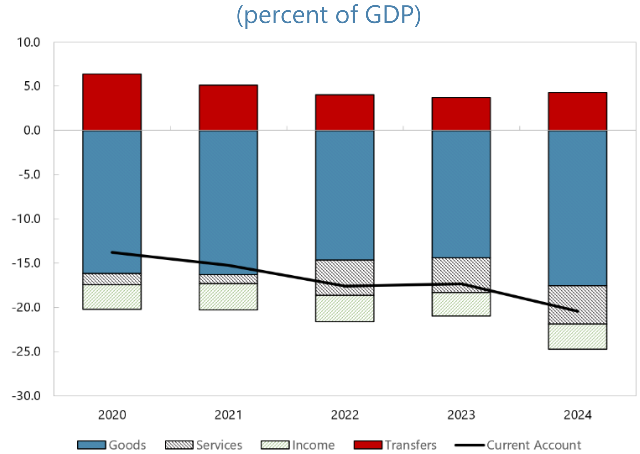
Overall Assessment: *The external position of Malawi in 2024 was substantially weaker than the level implied by fundamentals and desirable policies. The current account (CA) deficit shifted sharply upwards alongside a steadily appreciating real exchange rate. While there continues to be significant uncertainty over the accuracy of the data, this assessment is consistent with Malawi's continued difficulty in accumulating foreign exchange reserves and widening gap between the parallel and official exchange rates. External pressures are expected to persist in 2025, with only a modest projected improvement in the CA balance, a large external debt service burden, and an anticipated reduction in foreign bilateral financing flows.*

Potential Policy Responses: *Addressing Malawi's external imbalances requires a coordinated fiscal, monetary, and exchange rate policy response. A tighter fiscal stance would help contain imports and reduce pressures for monetary financing that fuels inflation. Lower inflation will help mitigate REER appreciation and loss of external competitiveness. ER adjustment and gradual removal of capital controls, combined with structural reforms, would help reduce distortions, attract capital inflows, including to potentially transformative projects with export potential (e.g., in the mining sector). This, in turn, would support the rebuilding of external buffers over the medium term.*

Current Account

Background. The CA deficit grew to 21.9 percent of GDP in 2024, primarily in response to higher goods imports, above the 2020-2023 average of about 16 percent of GDP. These figures are subject to considerable uncertainty: both 2022 and 2023 deficit figures saw subsequent upward revisions. Under the baseline, the CA deficit is projected to settle around 10 percent of GDP over the medium term, with improvements reflecting rapid growth in the nominal GDP and import compression given limited external financing.

Figure 1. Current Account
(percent of GDP)



Source: Malawian authorities, IMF calculations

Assessment. The EBA-lite model suggests that Malawi's external sector position is substantially weaker than the level implied by medium-term fundamentals and desirable policies. Based on the CA model, the cyclically adjusted CA deficit was 22.3 percent of GDP in 2024. This indicates a gap of 16.7 percent of GDP compared to the CA norm, of which 1.9 p.p. can be attributed to deviations from desirable policies, mainly due to a wider-than-recommended fiscal deficit and the decline in reserves in 2024.

Malawi: EBA-lite Model Estimates, 2024 (in percent of GDP)

	CA model 1/ (in percent of GDP)
CA-Actual	**-21.9**
Cyclical contributions (from model) (-)	0.4
Adjusted CA	**-22.3**
CA Norm (from model) 2/	**-5.5**
CA Gap	**-16.7**
o/w Relative policy gap	-1.9
Elasticity	-0.1
REER Gap (in percent)	**126.0**

1/ Based on the EBA-lite 3.0 methodology
2/ Cyclically adjusted, including multilateral consistency adjustments

Real Exchange Rate

Background. The real effective exchange rate (REER) appreciated by 17 percent in 2024, reflecting relatively high domestic inflation and a stable nominal exchange rate since the November 2023 devaluation. However, the spread between the official exchange rate and the parallel market widened over the course of 2024 (to 170 at end-year), before peaking at 150 percent in March 2025, pointing to ongoing difficulties in sourcing foreign exchange and declining purchasing power for transactions in the informal market. The spread has declined to 110 percent as of April 2025.

Assessment. The EBA-lite CA model suggests that the REER was substantially overvalued—by 126 percent—relative to the level implied by medium-term fundamentals and desirable policy settings. This assessment is consistent with the elevated CA deficit, persistent difficulties faced by the central bank in accumulating reserves, and the widening spread between official and parallel rates. Given data constraints, this level may be over-estimated in view of the 44 percent depreciation in November 2023 and estimated real appreciation since of about 26 percent.

Capital and Financial Accounts: Flows and Policy Measures

Background. Malawi's CA deficit is financed primarily by substantial grants, off-budget capital transfers, and project loans. The capital account balance was 6.3 percent of GDP in 2024, down slightly from 2023 but in line with the recent historical average and projected to remain broadly stable (declining to about 5 percent of GDP over the medium term). Financial account flows have historically been more volatile and concentrated in other investment flows, where the data quality is considered poor. Project-related disbursements are projected to gradually decline over the medium term, consistent with available information. Foreign direct investment is small (1.3 percent of GDP in 2024) and projected to remain stable as a share of GDP. The authorities continue to impose a surrender requirement on exports that is considered an outflow Capital Flow Management measure (CFM) under the Fund's Institutional View.

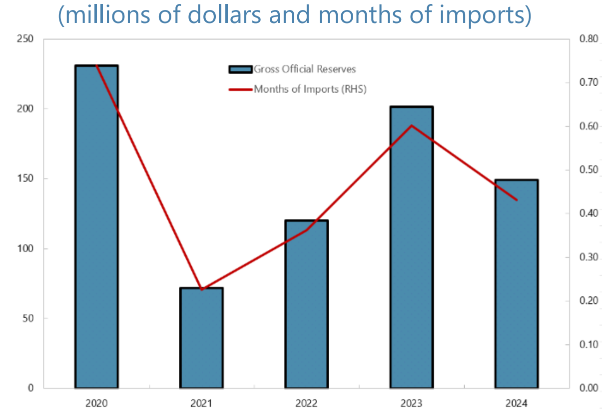
Assessment. Malawi should avoid exposure to further non-concessional external debt. However, Malawi's reliance on relatively limited sources of external financing presents potential financing risks in the event of shocks. The successful conclusion of external commercial debt restructuring and gradual removal of exchange controls as conditions normalize would facilitate higher inflows. The potential for higher project-related loans over the medium-term presents some upside risk. The use of the surrender requirement can be considered justified in the short term given the crisis conditions facing Malawi. But the authorities should aim to normalize these controls as conditions improve. Data quality can also be improved.

FX Intervention and Reserves Level

Background. Unsustainable macroeconomic policies have made the accumulation of foreign currency in Malawi very challenging. After some improvement in 2023 coinciding with enhanced IMF engagement, reserves declined again in 2024 to very low levels (about 0.4 months of imports) as foreign currency purchases by the RBM were insufficient to offset sales to fund strategic imports and other expenses. The RBM maintained a generally stable official exchange rate but has not had the resources to prevent the emergence of significantly weaker parallel rates. The exchange rate regime is 'de jure' floating but is characterized as 'de facto' stabilized.

Figure 2. Gross Reserves

(millions of dollars and months of imports)



Source: Malawian authorities and IMF staff calculations

Assessment. The Fund's reserve adequacy model for credit constrained economies suggests that Malawi should maintain reserves equal to at least 2.6-3.0 months of import cover for precautionary reasons, to provide coverage against external shocks. This is considerably higher than the 0.4 months of import cover estimated for 2024. Rebuilding external buffers will require a coordinated policy effort by the authorities as well as the successful completion of Malawi's external debt restructuring on terms consistent with medium-term debt sustainability. Once conditions stabilize, the gradual elimination of foreign exchange outflow restrictions would also help attract more foreign exchange into the country, as well as reduce distortions.

Foreign Assets and Liabilities: Position and Trajectory

Background. Malawi is a net debtor to the rest of the world, with a net international investment position (NIIP) of about -40 percent of GDP in 2023 (the latest data available). Assets worth 7 percent of GDP consist primarily of debt instruments held by the private sector. Gross liabilities of 47 percent of GDP are composed primarily of government debt and some FDI. Over the past five years, Malawi's NIIP has remained in the -40 to -50 percent of GDP range. The NIIP is expected to decrease in 2024 in line with an expanding CA deficit and declining reserves.

Assessment. Malawi's negative NIIP reflects its status as a low-income developing country with high borrowing needs. Malawi's gross liabilities consist primarily of concessional loans from development

partners and FDI, which limits external stability risks, though a reduction in the country's large CA deficit would support a reduction in the country's net debtor position over the medium term.					
2023 (% GDP)	NIIP: -39.8	Gross Assets: 7.4	Debt Assets: 4.1	Gross Liab.: 47.2	Debt Liab.: 40.1

Annex VIII. Capacity Development Strategy for FY2025/26

1. IMF capacity development activities are aligned with macroeconomic challenges and priorities. TA activities aim to support the authorities' efforts to strengthen revenue administration and public financial management, including the migration to the new IFMIS, tax compliance, and capacity building in key areas of tax policy development. This CD will support needed fiscal discipline. TA activities in other sectors included strengthening financial sector supervision, enhancing the forecasting capacity to support the monetary policy framework (Financial and Monetary), and improving the quality and regular reporting of data on national accounts (Real) and Balance of Payments (External). See Figure 1.

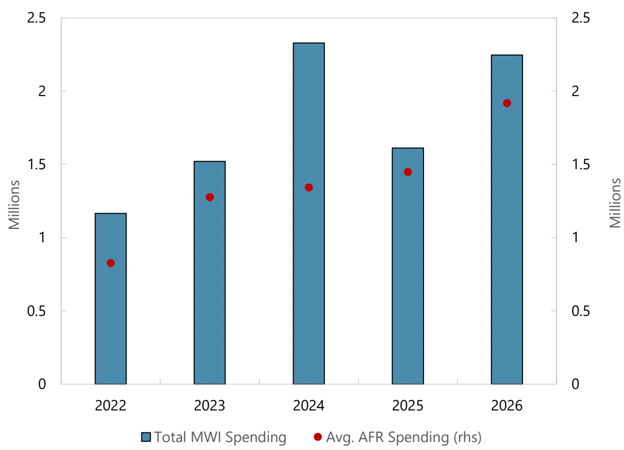
2. Forward looking CD priorities are outlined in the table below.

CD Priorities	**Objectives**
Public Finance Management	Strengthen the development of a more credible, comprehensive and medium-term budget formulation process. Strengthen the management of fiscal risks and the oversight of state-owned enterprises. Improve public investment management systems.
Tax Policy and Revenue Administration	Support the development of tax policies, including on the areas of income tax legislation and mining fiscal regime analysis. Support improvement in customs administration functions. Continued support to the country's domestic revenue mobilization.
Banks supervision and regulation	Support the implementation of a risk-based supervision system and strengthen the stress testing framework of the RBM.
Monetary policy operations	Support the modernization of the monetary policy framework and the forecasting capacity development. Improve RBM's FX market operations, including surveillance and interventions.
Statistics	Continue improving compilation and dissemination of statistics and developing staff capacity, with a focus on the national accounts, fuel imports, BOP, International Investment Position, Government Finance Statistics, public sector debt statistics, and monetary statistics. Support the NSO to rebase the annual GDP series and introduce quarterly series. Strengthen public sector debt statistics.
Governance	Develop and implement an action plan with specific deliverables and deadlines following the Governance Diagnostic TA.

Figure 1. IMF CD Activities in Malawi

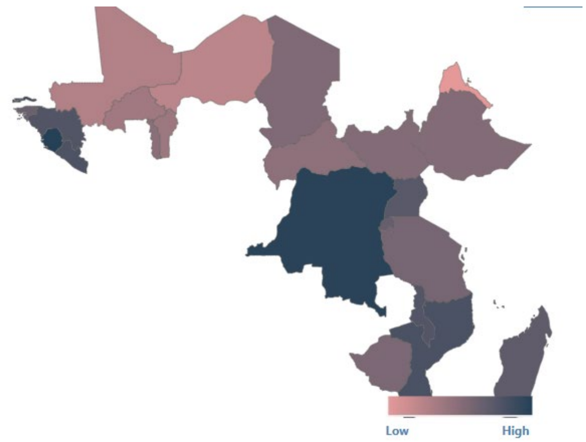
Overall CD spending on Malawi is above the regional average, despite a dip in 2025

CD Spending in Malawi vs regional average



CD spending in Malawi from FY 2022-25 was 6.6 Million USD, which is on the higher end also for LICs.

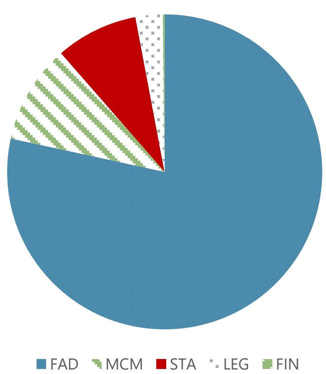
CD Spending LIC Map



Over the last 4 years about ¾ of total CD support came from FAD…

Past CD by Department

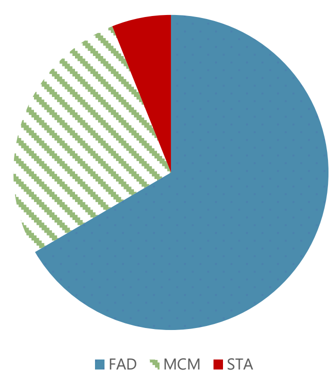
(FY 2022–25, $6.63 million USD)



…although MCM's share in total CD is projected to increase in FY 26.

Current CD by Department

(FY 2026, $2.25 million USD)



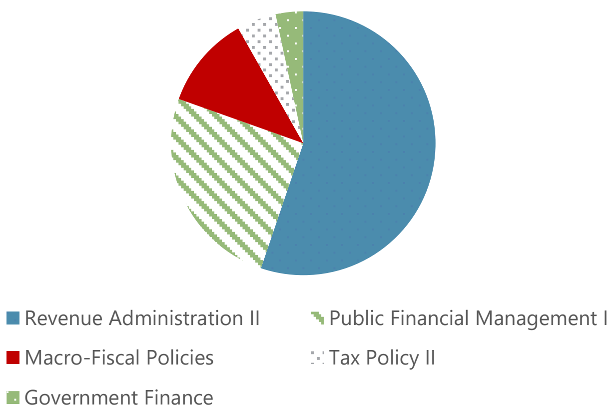
Source: IMF staff estimates

Figure 1. IMF CD Activities in Malawi (concluded)

Most fiscal CD has been focused on revenue mobilization and PFM in line with fiscal policy priorities…

Fiscal Policy and Management Sector

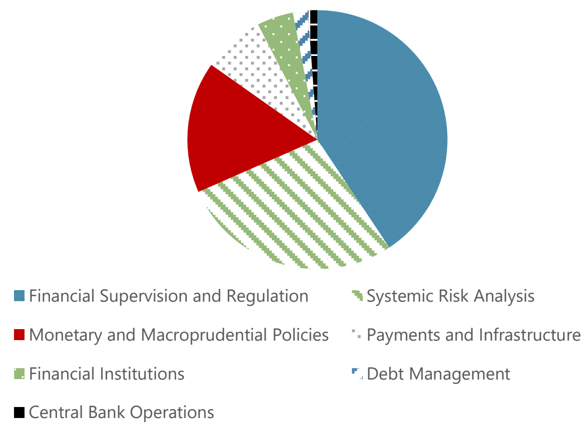
(FY 2022–25, $5.61 million USD)



…while MCM CD has prioritized financial supervision and systemic risk analysis.

Financial and Monetary CD

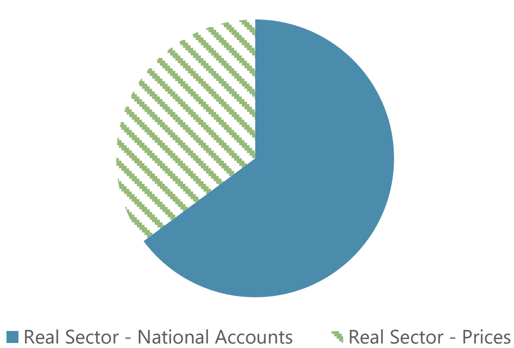
(FY 2022–25, $0.68 million USD)



CD to the real sector comes in the form of statistical support on national accounts and prices…

Real Sector CD

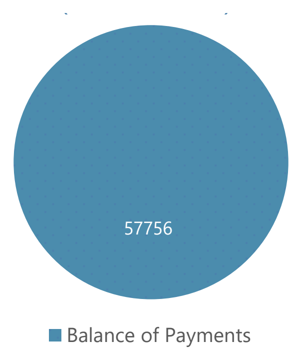
(FY 2022–25, $0.28 million USD)



…alongside support for BOP statistics.

External Sector CD

(FY 2022–25, $0.06 million USD)



Source: IMF staff estimates

Annex IX. Data Issues

Table 1. Malawi: Data Adequacy Assessment for Surveillance

Data Adequacy Assessment Rating 1/							
C							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	C	B	C	C	B	B	C
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	C	B	C	C	B		
Granularity 3/	C		B	C	B		
			C		B		
Consistency			C	D		B	
Frequency and Timeliness	D	A	B	C	A		

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.

1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.

2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF *Review of the Framework for Data Adequacy Assessment for Surveillance* , January 2024, Appendix I).

3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.

A	The data provided to the Fund are adequate for surveillance.
B	The data provided to the Fund have some shortcomings but are broadly adequate for surveillance.
C	The data provided to the Fund have some shortcomings that somewhat hamper surveillance.
D	The data provided to the Fund have serious shortcomings that significantly hamper surveillance.

Rationale for staff assessment. The availability and quality of data remain limited in most sectors. GDP and BOP data are only available at annual frequency, with a significant lag. Moreover, significant discrepancies in Balance of Payments data pose a challenge for assessing the external sector (Box 5). Several national accounts series need to be updated, including the employment data, with the latest figures from 2022. Enhanced consistency of fiscal data provided by different institutions, including the Ministry of Finance and Economic Affairs (MoFEA) and Reserve Bank of Malawi (RBM), would support more effective data integration. Improved coverage of government debt statistics and better visibility of SOE financing would be beneficial for staff to make accurate assessment of fiscal risks (¶16). The exchange rate (daily), inflation, banking sector balance sheets using standardized report forms, FX interventions, and international reserves data (monthly) are regularly reported by the RBM.

Changes since the last Article IV consultation. The authorities continue to make efforts to increase data coverage and improve data provision with the support from Fund and World Bank technical assistance, including on greater transparency in strategic imports and reconciliation of fuel imports data from varying sources (Annex VIII ¶2). Efforts have been made to support the timely publication of quarterly debt data (¶20). Progress has been made on bank reconciliation and enhancing the IFMIS coverage, with the Malawi Defence Force and state residences added to the coverage. The RBM has increased the coverage of standardized report forms to include deposit taking microfinance institutions.

Corrective actions and capacity development priorities. Staff recommends that the authorities continue efforts to construct quarterly national accounts data, enhance fiscal data compilation and dissemination (Page 11, Bullet 1), improve transparency by regularly publishing public sector debt statistics, and implement TA recommendations to ensure regular data updates in the external sector. The efforts to rebase the annual GDP series, facilitate more granular data exchange between the National Statistical Office of Malawi and RBM, strengthen data sharing and management among enforcement agencies (page 25, Box1), and improve capital and financial accounts data should continue. Furthermore, additional funding and capacity building would be needed to ensure successful implementation of planned surveys aimed at addressing data gaps (¶40).

Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff. Staff does not use any data and/or estimates in the staff report in lieu of official statistics.

Other data gaps. The absence of recent labor force participation and fixed capital formation data poses a challenge for the real sector assessments.

Table 2. Malawi: Data Standards Initiatives

Malawi participates in the Enhanced General Data Dissemination System (e-GDDS) and publishes the data on its National Summary Data Page since November 2016.

Table 3. Malawi: Common Indicators Required for Surveillance

As of June 17, 2025

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Expected Frequency[6,7]	Malawi[8]	Expected Timeliness[6,7]	Malawi[8]
Exchange Rates	Current	Current	D	2W	D	D	...	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Apr-25	May-25	M	M	M	M	1M	1W
Reserve/Base Money	Apr-25	May-25	M	M	M	M	2M	2M
Broad Money	Apr-25	May-25	M	M	M	M	1Q	60D
Central Bank Balance Sheet	Apr-25	May-25	M	M	M	M	2M	2M
Consolidated Balance Sheet of the Banking System	Apr-25	May-25	M	M	M	M	1Q	60D
Interest Rates[2]	May-25	Jun-25	M	M	M	M	...	1M
Consumer Price Index	Apr-25	May-25	M	M	M	M	2M	14D
Revenue, Expenditure, Balance and Composition of Financing[3]–General Government[4]	NA	NA	NA	NA	A	A	3Q	12M
Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government	Mar-25	May-25	M	M	Q	M	1Q	1M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Dec-24	Mar-25	Q	Q	Q	Q	2Q	6W
External Current Account Balance	Dec-23	Apr-24	A	A	Q	A	1Q	11M
Exports and Imports of Goods and Services	Mar-25	Apr-25	M	M	M	M	12W	1M
GDP/GNP	2023	May-24	A	A	Q	A	1Q	10M
Gross External Debt	2024	Mar-25	A	I	Q	M	2Q	6W
International Investment Position	2023	Aug-24	A	A	A	A	3Q	12M

[1] Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.
[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual.; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.
[7] Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.
[8] Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (https://dsbb.imf.org/). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "..."

INTERNATIONAL MONETARY FUND

MALAWI

July 3, 2025

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

Approved By
Costas Christou and Björn Rother (both IMF)
Manuela Francisco and Hassan Zaman (both IDA)

Prepared by the International Monetary Fund and the International Development Association.[1]

Malawi: Joint Bank-Fund Debt Sustainability Analysis[2 3]	
Risk of external debt distress	*In Debt Distress*
Overall risk of debt distress	*In Debt Distress*
Granularity in the risk rating	*Unsustainable*
Application of judgment	*No*

Malawi's external and overall public debt is assessed as "in distress," unchanged from the previous Debt Sustainability Analysis (DSA) published in November 2023. This DSA presents an analysis of Malawi's debt outlook prior to the authorities' planned external debt restructuring, the negotiations of which are ongoing, but where progress has been limited to official bilateral creditors only.

Under the baseline scenario, the Present Value (PV) of PPG external debt-to-GDP remains below the risk threshold throughout the forecast horizon. However, breaches are observed in the PV of debt-to-exports, debt service-to-revenue, and debt service-to-exports ratios—with the latter remaining in breach through the medium term. The PV of Malawi's overall public debt-to-GDP was around 79 percent in 2024 and remains significantly above the threshold through and beyond the medium term. Malawi's debt is currently unsustainable. Ensuring overall public debt sustainability will require

[1]The current DSA follows the revised Debt Sustainability Framework (DSF) for LICs and Guidance Note (2017) in effect as of July 1, 2018. The last DSA can be found in IMF Country Report No. 2023/375, November 2023.

[2] With a Composite Indicator (CI) score of 2.33, Malawi's debt carrying capacity is classified as 'weak.' The CI is based on the World Bank's 2023 Country Policy and Institutional Assessment (CPIA) and the IMF's October 2024 World Economic Outlook.

[3] Malawi is subject to the IDA Sustainable Development Finance Policy (SDFP) which includes a zero non-concessional debt ceiling. In addition to this, Malawi has committed to two other Performance and Policy Actions for the current fiscal year: i) the preparation and publication of a credit risk assessment report for high-risk SOEs, and ii) activation of the IFMIS Human Capital Module in at least five government entities.

bringing public debt firmly on a downward trajectory through a medium-term macroeconomic adjustment, growth-supporting reforms, and addressing the high domestic interest bill. The implementation of the authorities' debt restructuring strategy would be necessary for the external debt burden to be considered sustainable on a forward-looking basis.

PUBLIC DEBT COVERAGE

1. **The DSA covers central government debt, central government guaranteed debt, and central bank debt contracted on behalf of the government (Text Table 1).**[4] Public debt includes public and publicly guaranteed (PPG) external and domestic debt, covering debt contracted and guaranteed by the central government and the Reserve Bank of Malawi (RBM). Due to data limitations, it does not include debt held by state and local governments, other elements in the general government (e.g., the social security fund and extra budgetary funds), or nonguaranteed state-owned enterprise (SOE) debt.[5]

Text Table 1. Malawi: Coverage of Public Sector Debt, 2025

	Subsectors of the public sector	Sub-sectors covered
1	Central government	X
2	State and local government	
3	Other elements in the general government	
4	o/w: Social security fund	
5	o/w: Extra budgetary funds (EBFs)	
6	Guarantees (to other entities in the public and private sector, including to SOEs)	X
7	Central bank (borrowed on behalf of the government)	X
8	Non-guaranteed SOE debt	

1	The country's coverage of public debt	The central government, central bank			
		Default		Used for the analysis	Reasons for deviations from the default settings
2	Other elements of the general government not captured in 1.	0	percent of GDP	2.5	2 percent for limited coverage, 0.5 percent for government guaranteed debt.
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2	percent of GDP	2.0	
4	PPP	35	percent of PPP stock	0.0	
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5	percent of GDP	5.0	
	Total (2+3+4+5) (in percent of GDP)			9.5	

1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

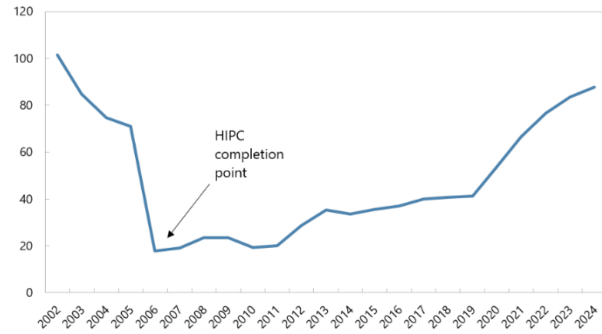
[4] The definition of external and domestic debt uses a residency criterion.

[5] The contingent liabilities shock from the SOE debt is kept at the default value of 2 percent to reflect risks associated with nonguaranteed SOE debt, currently excluded from the analysis due to data availability constraints. There are no current PPPs reported that subject the authorities to contingent liabilities.

BACKGROUND AND RECENT DEVELOPMENTS

2. **Malawi's public debt levels have risen significantly over the past two decades.** Total public debt as a percent of GDP is almost back to where it was prior to the completion of the Highly Indebted Poor Country (HIPC) process in 2006 (Text Figure 1).

Text Figure 1. Malawi: Public Debt
(percent of GDP)



Source: Malawian authorities, IMF staff

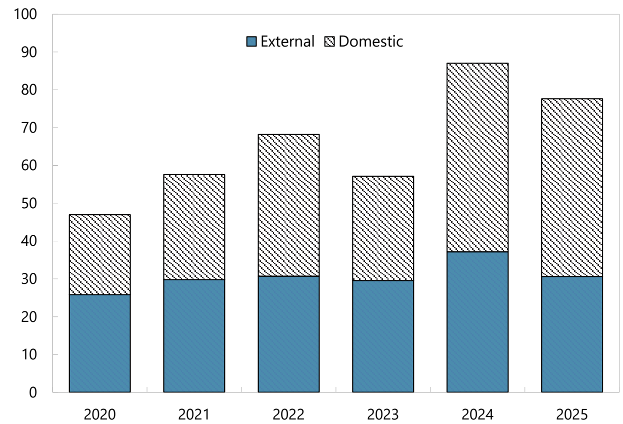
3. **Malawi faces daunting macroeconomic challenges.** Per capita GDP growth turned negative in recent years as the country was hit by a series of shocks. A drought-induced poor harvest in 2024 contributed to relatively low real GDP growth (1.8 percent). High fiscal financing needs crowd out private sector activity. Inflation averaged 32 percent in 2024, driven in large part by food prices, the initial pass through from the November 2023 exchange rate depreciation and, once the base effects from the depreciation faded away, the widening gap between the official and parallel foreign exchange rates. The depreciations have also increased the value of external debt in local currency terms. The country faces chronic shortages of foreign exchange (FX), hindering formal domestic economic activity and creating significant distortions. About a fifth of the country faces high levels of food insecurity.

4. **There is a need for significant external adjustment.** In 2024, higher goods imports more than offset a rebound in exports, contributing to a current account deficit of 22 percent of GDP. Malawi's persistent current account deficits are exacerbated by an overvalued exchange rate. The RBM has also struggled to accumulate foreign exchange reserves, as project-related inflows, remittances, and export proceeds have not been sufficient to offset selling pressure to meet the country's strategic import needs (e.g., fuel and fertilizer). With gross reserves amounting to 0.4 months of imports at end-2024, Malawi has limited external buffers with which to absorb shocks. These challenges will be exacerbated by the expected decline in aid flows from some bilateral partners.

5. **Persistent fiscal deficits are contributing to a sharp increase in public debt and debt service**. The FY24/25 budget made some progress on revenue mobilization but this was offset by high expenditures, resulting in an estimated primary deficit of 3.3 percent of GDP. Total public debt reached about 88 percent of GDP at end-2024. The interest bill, owed mostly to residents, has grown rapidly: it reached nearly 7 percent of GDP in FY2024/25, and is projected to exceed 8 percent in FY2025/26 and remain elevated over the medium term.

6. The composition of Malawi's debt has shifted in recent years. Most of the country's external debt is held by multilateral creditors and is highly concessional in nature. Bilateral official creditors make up a small but meaningful share of external debt (Text Table 2). Malawi is in arrears to its external commercial creditors and does not have access to international capital markets. In this context, and to finance fiscal deficits, Malawi has come to increasingly rely on the more costly domestic debt market (Text Figure 2).

Text Figure 2. Malawi: Composition of Public Debt (percent of GDP)



Source: Malawian authorities, IMF staff

Text Table 2. Malawi: Composition of Public Debt by Creditor, 2024[1]

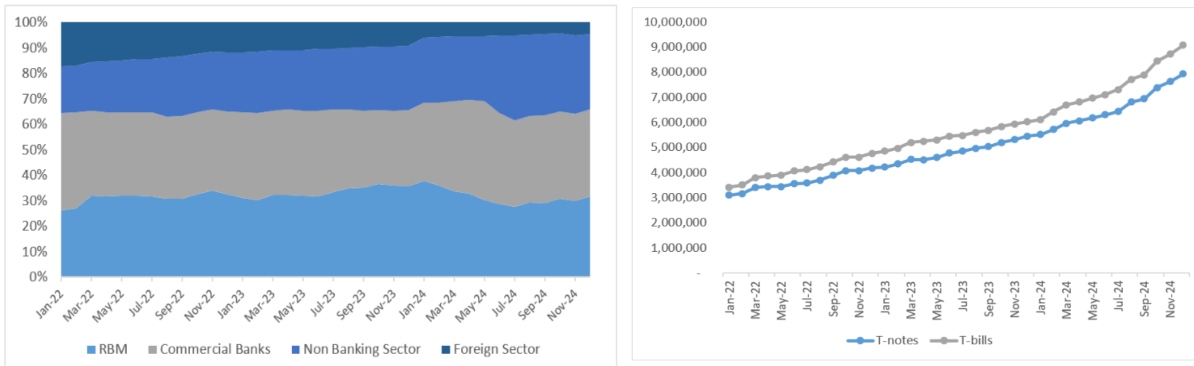
	Debt Stock (end of period) 2024			Debt Service 2025
	(In Million US$)	*(Percent total debt)*	*(Percent GDP)*	*(Percent GDP)*
Total	10,328	100	88	32
External	4,385	42	37	9
Multilateral creditors	3,068	30	26	1
IMF	412	4	4	0
World Bank	1,718	17	15	1
AfDB	463	4	4	0
Other Multilaterals	475	5	4	0
o/w: IFAD	144	1	1	0
OFID	86	1	1	0
Bilateral Creditors	362	4	3	0
Paris Club	1	0	0	0
Non-Paris Club	361	3	3	0
o/w: EXIM China	193	2	2	0
EXIM India	92	1	1	0
Local debt with non-residents	31	0	0	0
Commercial creditors[2]	903	9	8	7
o/w: AFREXIM	439	4	4	3
TDB	464	4	4	4
FX Swaps with non-residents	21	0	0	0
Domestic	5,944	58	51	23
Held by residents, total	5,769	56	49	23
FX Swaps with resident	175	2	1	0
Memo items:				
Collateralized debt	439	4	4	

1/As reported by country authorities according to their classification of creditors, including by official and commercial. Debt coverage is the same as the DSA.
2/ Malawi is currently in default on its commercial debt

Source: Malawian authorities, IMF staff

7. The domestic debt market includes financial and non-financial players. As of end-2024, roughly a third of domestic debt was held by resident banks, the domestic non-bank sector (e.g., pension and insurance funds), and the Reserve Bank of Malawi (RBM), respectively. There is a small and dwindling share of foreign participation, which has been largely replaced by growing exposure from non-bank corporates. Even as debt levels rise, the RBM continues to be able to issue treasury notes across the curve (2 to 10 years), but issuance is concentrated on the short end. T-bill issuance has increased but remains a relatively low share of total domestic debt outstanding (13 percent as of end-2024) (Text Figure 3).[6]

Text Figure 3. Malawi: Domestic Debt: Holdings by Sector and Instrument
(percent, Malawi Kwacha)



Source: RBM, IMF staff calculations

8. The authorities face challenges in implementing their debt restructuring strategy (Box 1). Malawi has received financing assurances from its largest official bilateral creditors, has agreements in force with two of them and is in discussions to finalize the details with the others.[7] The authorities continue to negotiate with their commercial creditors (Afreximbank and the Eastern and Southern African Trade and Development Bank (TDB)), where arrears amounted to $669 million as at end-2024. The timeline to complete this process is uncertain and there are risks of further delays. The delays reflect in part concerns over the medium-term implications of the restructuring (for Malawi, access to future financing; for their creditors, a precedent for others in the region). Notwithstanding the recent expiration of their financing arrangement with the Fund (see below), the authorities remain committed to achieving their debt restructuring strategy. Tangible progress would help pave the way for new concessional inflows from multilateral partners in the context of declining aid flows.

9. The IMF's Extended Credit Facility arrangement with Malawi automatically expired in mid-May 2025. Approved in November 2023, the program terminated in line with Fund policies because no program review was successfully completed within an 18-month period.

[6] The Public Financial Management Act limits T-bill issuance to 25 percent of budgeted revenues.

[7] Malawi has agreements in force with China EXIM and the Kuwait Fund for Arab Economic Development. Discussions are continuing with India EXIM and the Saudi Fund for Development.

Box 1. Background on Malawi's Debt Restructuring Strategy

In 2022, the authorities announced a debt restructuring strategy that would serve as the cornerstone for restoring debt sustainability. This follows a decade in which Malawi's external debt as a share of GDP had roughly doubled, leading to an unsustainable debt burden and servicing costs. They hired legal and financial advisors to support a credible process for restructuring based on adequate creditor engagement to ensure the approach taken delivers the necessary contributions in a sustainable manner. The authorities approached all external creditors early in the process.

The debt restructuring strategy is designed to achieve debt sustainability and to close the financing gaps. The strategy relies on the following pillars to overcome current external debt challenges, including solvency and liquidity concerns:

- Bringing external public debt back to a moderate risk of debt distress in the medium term through a combination of policy adjustment and the necessary debt treatment. The debt strategy is designed to ensure all external DSA solvency and liquidity ratios move below their respective thresholds under the baseline over the medium term. As such, the present value of debt-to-GDP ratio would need to fall below 30 percent, the present value of debt-to-exports ratio below 140 percent, the debt service-to-exports ratio below 10 percent, and the debt-to-revenue ratio below 14 percent in the medium term.
- Mobilization of non-debt-creating flows to ensure that external and fiscal financing gaps are closed over the medium term, including through the debt treatment and the mobilization of external grant support from development partners.
- A substantial NPV debt reduction, to be achieved via significant maturity extension and the reprofiling of scheduled payments to provide important near-term liquidity relief and bring Malawi's external debt service costs in the medium term to a sustainable level.

BASELINE SCENARIO

10. **The key macroeconomic assumptions underlying the projections are consistent with the baseline of the IMF's 2025 Article IV staff report.** Staff's baseline is that the fundamental impediments to growth and fiscal dominance will not be meaningfully addressed, resulting in lower growth and higher inflation over the medium-term relative to the baseline under the recently expired ECF. Some fiscal, monetary, and exchange rate adjustment is assumed starting late 2025 after the elections, forced by limits on domestic financing and continued foreign exchange shortages. However, the external adjustment will fall short of what is needed: the baseline assumes higher imports (and lower exports) over the medium term, with limited accumulation of foreign exchange reserves. No debt restructuring is assumed.

11. **Changes relative to the most recent, November 2023 DSA are as follows (Text Table 3):**

- **Economic growth** remains weaker in the near-term, reflecting persistent macroeconomic imbalances. Increasing fiscal financing needs to service the debt further exacerbate the crowding out of the private sector, and continued exchange rate pressure dampens formal wholesale and retail activity. Near-term growth recovers from a poor 2024 outturn on the back of an improved agricultural harvest. Over the medium term, real GDP is expected to grow around 3.4 percent of

GDP, below previous assumptions and in line with revised estimates of Malawi's growth potential under a no reform scenario. Growth is expected to be driven in part by agricultural commercialization and a gradual improvement in economic conditions in manufacturing and services as forex constraints ease somewhat over time.

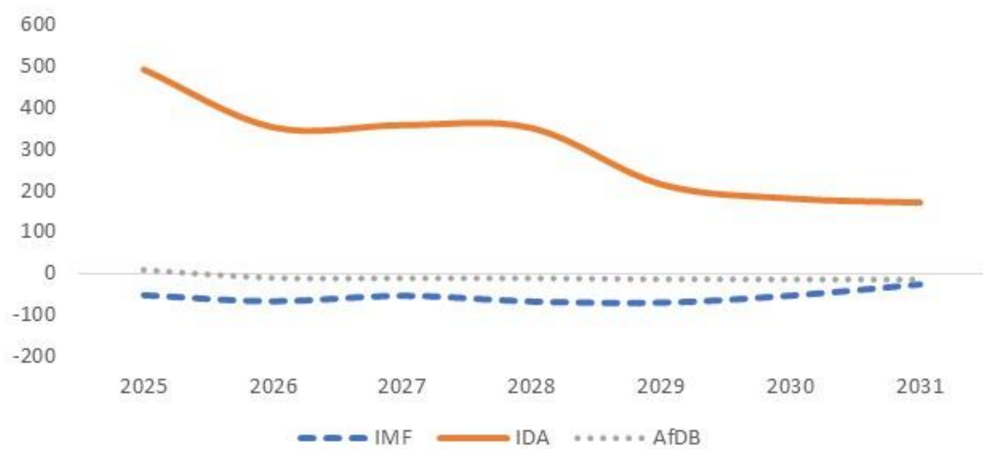
- The outlook for CPI **inflation** is projected to average 28 percent in 2025, coming down only gradually to 15 percent over the medium term. Structurally higher inflation reflects continued exchange rate pressures as well as higher money growth resulting from persistent primary deficits.

- The baseline scenario includes a worse **fiscal outlook** and less ambitious fiscal adjustment path relative to previous assumptions. Staff assume a large primary deficit in 2025 due to election year spending, declining only gradually over the medium term as the rising interest bill crowds out primary spending under a broadly unchanged overall deficit. Only limited progress is projected to be made on revenue raising measures in the context of persistent spending pressures.

- **Gross official reserves** are projected to increase only gradually to an estimated 1.3 months of imports by 2030, below the level sufficient to withstand external shocks (the adequacy level is assessed to be about 2.5-3 months of imports). A limited exchange rate depreciation is assumed in 2026, driven by shortages of FX. The **current account deficit** as a share of GDP is projected to decline following some import compression (reflecting the assumed FX shortages and exchange rate adjustment) and higher inflation pushing up nominal GDP. However, it would remain structurally higher than the previous DSA in the context of a persistently overvalued exchange rate. For similar reasons, **exports of goods and services** are projected to decline slightly as a share of GDP (to about 8 percent).

- The remaining **external financing gap**—cumulative during 2025-30—is 12.3 percent of GDP (about US$2.1 billion). No debt treatment is assumed and arrears on external commercial debt are projected to persist. For the purposes of the DSA, debt service to these creditors is assumed to be financed via exceptional financing that is present value neutral and incurs no debt service over the DSA horizon. Since most of this debt is in arrears, this assumption results in a large, one-off increase in external debt service in 2025. In the medium term the external debt stock is smaller as a share of GDP and largely composed of financing from multilateral creditors (Text Figure 4).

Text Figure 4. Malawi: Net Flows from Multilateral Creditors



Source: IMF and World Bank staff projections.

Note: The IDA disbursement forecasts for 2025-31 are preliminary and have not yet been cleared by World Bank senior management. AfDB disbursement projections only include loans.

Text Table 3. Malawi: Underlying DSA Assumptions, 2025–44

	2025	2026	2027	2028	2029	2030	Avg. 2031-2044
				(year-on-year percent change)			
Real GDP Growth							
Current	2.4	2.7	3.1	3.3	3.4	3.4	3.4
Previous	3.8	4.3	4.5	4.6	4.6	4.6	4.6
Inflation							
Current	27.7	21.7	18.8	15.3	15.3	15.4	16.2
Previous	14.7	8.1	6.8	6.5	6.5	6.5	6.5
				(percent of GDP)			
Primary Balance[1]							
Current	-3.6	-2.6	-1.9	-1.5	-0.9	-0.5	…
Previous	-1.1	0.4	1.7	3.0	…	…	…
Current Account Deficit							
Current	17.3	15.1	13.9	12.5	11.1	10.2	7.4
Previous	9.9	9.0	8.2	7.4	7.1	…	5.4
Exports of Goods and Services							
Current	10.2	10.1	9.6	9.1	8.6	8.0	8.6
Previous	14.6	14.8	15.2	15.2	15.1	14.7	12.4
FDI							
Current	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Previous	0.9	0.9	1.0	1.1	1.2	1.1	1.5

Sources: Malawian authorities and IMF staff calculations and projections

1/ Fiscal data refers to fiscal year: e.g., 2025 = FY2024/25

- **Domestic financing** is assumed to fill the residual financing gap on market terms. Reflecting concerns over rising debt levels, maturities are expected to shorten: T-bill issuance is expected to represent 15 percent of newly-issued domestic, 55 percent in 2- and 3-year T-notes, with the remainder issued across the curve. The average real domestic interest rate on the stock of domestic debt is expected to rise over the medium term as the recent spike in inflation fades away. The average real rate of 5.4 percent on new debt is above the historical average of 4.6 percent to reflect a risk premium from higher debt levels. The RBM is assumed to continue to buy up government debt in the secondary market to support new debt issuance by the government to private banks, but this exacerbates inflation and reduces the incentive for banks to lend to the private sector, hurting growth prospects.

REALISM OF THE BASELINE ASSUMPTIONS

12. The realism tools suggest that the baseline scenario is not significantly out of line with Malawi's recent experience (Figures 3 and 4):

- The projected trajectory of PPG external debt as a share of GDP is broadly similar to that of the November 2023 DSA. External debt creation is primarily driven by the current account deficit, which is more than offset by price and exchange rate movements and other non-debt creating flows (the large residual). The residual partly reflects the significant share of grant inflows into Malawi (around 5 percent of GDP, slightly below the historical average of 6 percent of GDP since 2008 to reflect the impact of USAID's withdrawal). Informal remittances likely also contribute to the large residual. Uncertainty over the projected current account remains high: both 2022 and 2023 deficit figures saw subsequent upward revisions, while errors and omissions are large.

- Unlike the previous DSA, the trajectory for total public debt as a share of GDP is now projected to increase gradually over the forecast horizon. This reflects the assumption of persistent fiscal deficits financed via high-cost domestic debt. This is consistent with recent experience under the ECF, which saw limited traction on efforts to undertake a fiscal adjustment.

- The projected improvement in the primary balance in the next three years (2.5 percent) is in the top quartile of historical data on LIC adjustment programs. However, it is significantly less ambitious that the adjustment assumed in the previous DSA, which was not achieved in practice. It reflects the unwinding of higher one-off spending in 2025, an election year, and the compression of primary spending as the interest bill grows. Consistent with these higher deficits, public investment as a share of GDP is not expected to fall as sharply. The GDP growth projection is also stronger than implied by the estimated fiscal impulse alone, given staff expects some catch-up growth as Malawi recovers from the impact of agricultural supply shocks in 2024.

COUNTRY CLASSIFICATION AND MODEL SIGNAL

13. Malawi's debt-carrying capacity based on the Composite Indicator (CI) is assessed as weak (Text Table 5).[7] The CI is determined by the World Bank's 2023 Country Policy and Institutional Assessment (CPIA), the IMF's October 2024 World Economic Outlook, and other variables informed by the macroeconomic framework, including real GDP growth, import coverage of reserves, remittances as a

[7] A country's debt-carrying capacity would be assessed as weak if its CI value is below 2.69, medium if it lies between 2.69 and 3.05, and strong if it is above 3.05.

percent of GDP, and global growth. The four external debt burden thresholds and the total public debt benchmark are determined by this classification of the debt carrying capacity (Text Table 6).

Text Table 4. Malawi: Composite Index

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	3.064	1.18	51%
Real growth rate (in percent)	2.719	3.265	0.09	4%
Import coverage of reserves (in percent)	4.052	18.604	0.75	32%
Import coverage of reserves^2 (in percent)	-3.990	3.461	-0.14	-6%
Remittances (in percent)	2.022	2.265	0.05	2%
World economic growth (in percent)	13.520	2.967	0.40	17%
CI Score			2.33	100%
CI rating			Weak	

Text Table 5. Malawi: Debt Carrying Capacity and Thresholds

Debt Carrying Capacity	Weak

Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintage
Weak	Weak	Weak	Weak
	2.33	2.41	2.42

EXTERNAL debt burden thresholds	Weak	Medium	Strong
PV of debt in % of			
Exports	140	180	240
GDP	30	40	55
Debt service in % of			
Exports	10	15	21
Revenue	14	18	23

TOTAL public debt benchmark	Weak	Medium	Strong
PV of total public debt in percent of GDP	35	55	70

SCENARIO STRESS TESTS

14. Standard scenarios stress tests and a contingent liability stress test are conducted (Text Table 1, and Tables 3 and 4). The latter features a one-off increase of 9.5 percentage points in the debt-to-GDP ratio in the second year of the projection, designed to capture the combined impact of limited public debt coverage, contingent liabilities from government guaranteed debt, SOEs, and potential future bank recapitalization needs.

15. A second tailored scenario presented is a commodity price shock (Tables 3 and 4). Since tobacco accounts for nearly half of Malawi's total goods exports, the DSA stress tests the debt outlook against a prolonged decline in commodity prices. The shock is calibrated to simulate a decline in prices in the second year of the projection to the lower end of the 68 percent confidence interval in the IMF's commodity price forecasts, which is then assumed to unwind over a period of six years.

EXTERNAL DSA

16. Malawi's overall and external public debt are assessed to be in debt distress. The PV of PPG external debt-to-GDP ratio remains below the threshold under the baseline scenario, but there are significant and sustained breaches of the other solvency and liquidity indicators (Figure 1). The large breach in the first year reflects the assumed clearance of outstanding arrears (¶11). The PV of debt-to-exports, debt service-to-exports, and debt service-to-revenue ratios start the forecast period above their respective thresholds and remain so for several years—until 2033 in the case of debt-service-to-exports. Malawi is in arrears to its external commercial creditors.

17. The stress scenarios highlight that the sustainability of Malawi's debt is particularly sensitive to developments in exports and the exchange rate. Malawi's exports are highly concentrated and vulnerable to weather and climate-related shocks, while the exchange rate could also be buffeted by domestic and external shocks—particularly given very low reserve cover. Mitigating the former risk somewhat is the fact that Malawi has typically received steady and predictable aid flows in foreign currency (not accounted for in the calculation of the DSA's liquidity risk indicators, which looks at debt service as a share of exports). However, risks to these aid flows have grown.

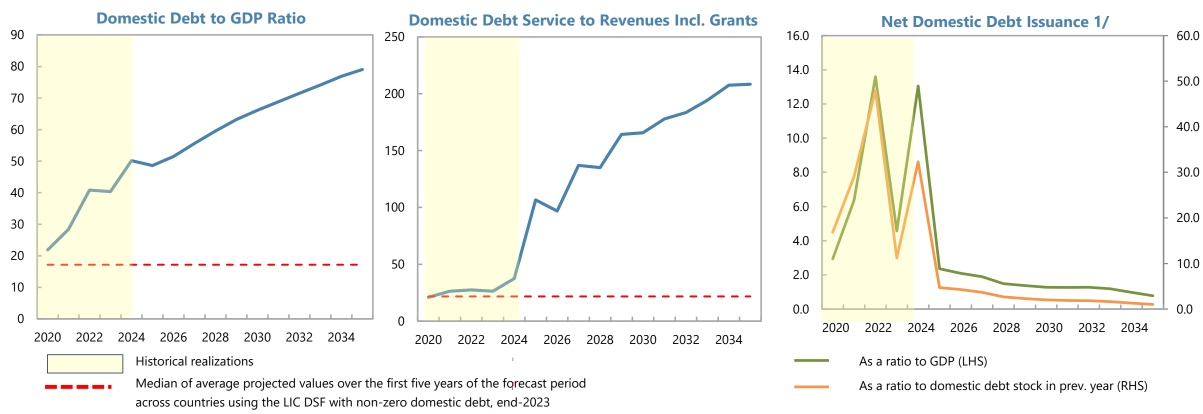
PUBLIC DSA

18. Malawi's overall public debt is assessed to be in distress due to the ongoing negotiations over the external debt restructuring and public debt dynamics are unsustainable (Figure 2). Domestic debt levels have sharply increased in recent years and are expected to continue to rise (Text Table 6). While net domestic issuance is projected to return to relatively low levels, the carrying cost of previously issued debt contributes to a rising debt stock. As a result, under the baseline scenario, the PV of overall public debt is projected to rise gradually over the forecast horizon, reaching 88 percent of GDP in 2035, significantly above the threshold for countries with weak debt-carrying capacity (35 percent). This projection is most vulnerable to a growth shock. To reduce risks from rising public debt, the authorities need to take steps to reduce their interest bill (e.g., a fiscal adjustment that would both reduce the need for new borrowing that needs to be financed and help lower the risk premium on new debt) and attract additional, concessional external financing or grants, where possible.

19. Relatedly, rising debt service costs are a growing concern for public debt sustainability. Overall public debt service is projected to grow steadily over the forecast period, hitting 213 percent of revenues and grants in 2035. Near-term rollover risk is mitigated by ample liquidity in the domestic banking sector and the RBM's continued purchasing of government securities in the secondary market. However, debt service risks are rising and could pose liquidity concerns over the medium term, with potential implications for debt and financial stability. The crowding out of the private sector undermines medium-term potential growth.

Text Table 6. Malawi: Indicators of Public Domestic Debt, 2020-2035

(Percent)



Borrowing Assumptions (average over 10-year projection)	Value
Shares in new domestic debt issuance	
Medium and long-term	85%
Short-term	15%
Borrowing terms	
Domestic MLT debt	
Avg. real interest rate on new borrowing	6.0%
Avg. maturity (incl. grace period)	3
Avg. grace period	1
Domestic short-term debt	
Avg. real interest rate	1.8%

Sources: Country authorities; and staff estimates and projections.

1/ Net domestic debt issuance is an estimate based on the calculated public gross financing need net of gross external financing, drawdown of assets, other adjustments and domestic debt amortization. It excludes short-term debt that was issued and matured within the calendar year.

Note: New domestic debt maturity assumptions: T-bills (15%); 2-3 year T-notes (55%); 5-10 year T-notes (30%)

RISK RATING AND VULNERABILITIES

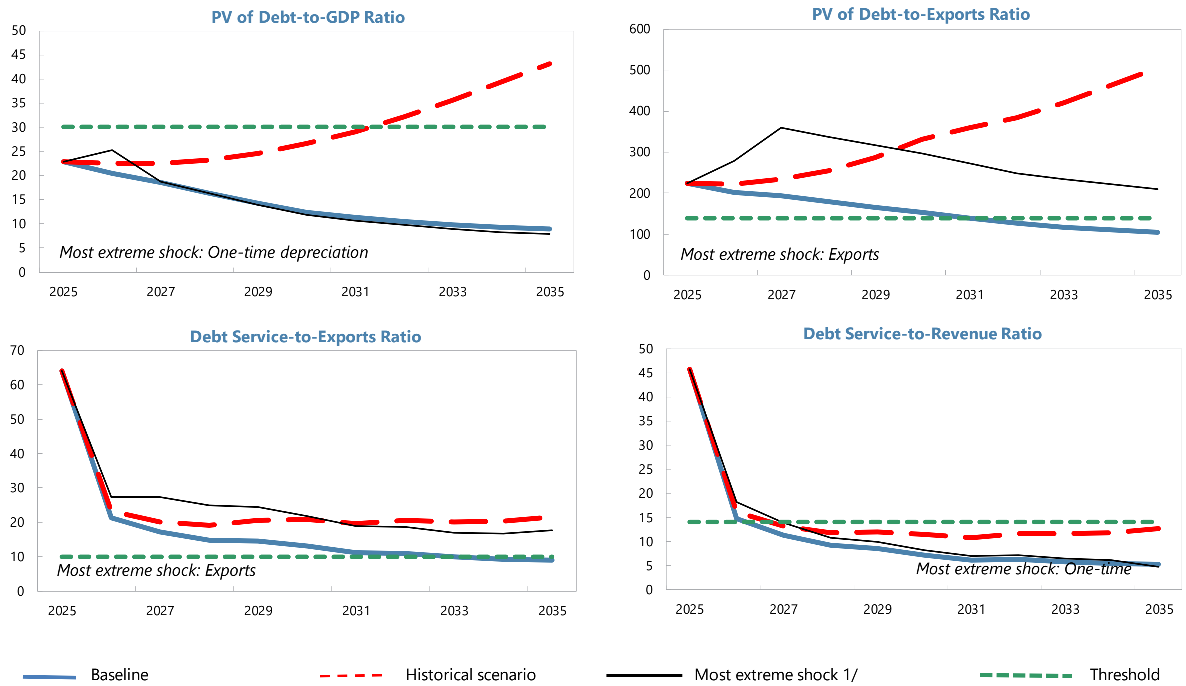
20. **Malawi's is currently in debt distress and, absent a restructuring and sustained reforms to address macroeconomic imbalances, debt is assessed to be unsustainable**. Under a reform scenario, and conditional on the successful completion of the government's debt restructuring strategy, Malawi's external debt could be considered sustainable on a forward-looking basis. Further delays to the completion of Malawi's debt restructuring process will make it increasingly difficult to close the government's financing gaps. Without a meaningful fiscal adjustment, the government's reliance on more expensive domestic debt issuance will crowd out much-needed spending on growth and poverty reduction. This underscores the importance of a medium-term strategy to restore debt sustainability via: (i) a sustained macroeconomic adjustment, (ii) growth-supporting reforms, (iii) finalizing debt relief negotiations with creditors and (iv) securing highly concessional external financing, ideally grants.

21. **This outlook is subject to significant uncertainty, with risks skewed to the downside.** Malawi remains vulnerable to a range of shocks, including from climate change and further reductions in foreign aid flows. Broader geopolitical uncertainty may impact Malawi's growth prospects, primarily through indirect effects (e.g., currency fluctuations and commodity prices). Closer to home, Malawi's implementation of import bans for certain products could exacerbate inflation and hurt productivity, amplified by any retaliatory measures from regional trading partners. The lack of monetary tightening in the context of a stable exchange rate could prolong the period of elevated inflation, exchange rate distortions, and loss of external competitiveness, hurting growth. And while it would support a needed external adjustment, exchange rate depreciation will also increase the cost of servicing external debt. Upside risks include successful efforts to diversify exports, gains from investments in infrastructure to support agricultural productivity, and sooner-than-expected development of major mining projects (not currently reflected in the macro framework).

AUTHORITIES' VIEWS

22. **The authorities agreed on the need to ensure debt sustainability.** The authorities acknowledged the need for a fiscal adjustment, stating that the objective is to reduce the overall deficit to 6 percent of GDP over the medium-term (a 4 percent of GDP adjustment). In this regard, they focused on the need for domestic revenue increases through the reduction of informality, rationalization of tax expenditures and from administrative measures. They also noted that the interest rate bill dynamic poses a significant obstacle to fiscal retrenchment and supporting more development spending. To address this, they indicated they would increase the primary balance to reduce borrowing and debt. They underscored the challenges to reaching a successful agreement with their external commercial creditors on a debt restructuring but remain committed to their restructuring strategy.

Figure 1. Malawi: Indicators of Public and Publicly Guaranteed External Debt Under Baseline Scenarios, 2025–35



Customization of Default Settings		
	Size	**Interactions**
Tailored Stress		
Combined CL	Yes	
Natural disaster	n.a.	n.a.
Commodity price	No	No
Market financing	n.a.	n.a.

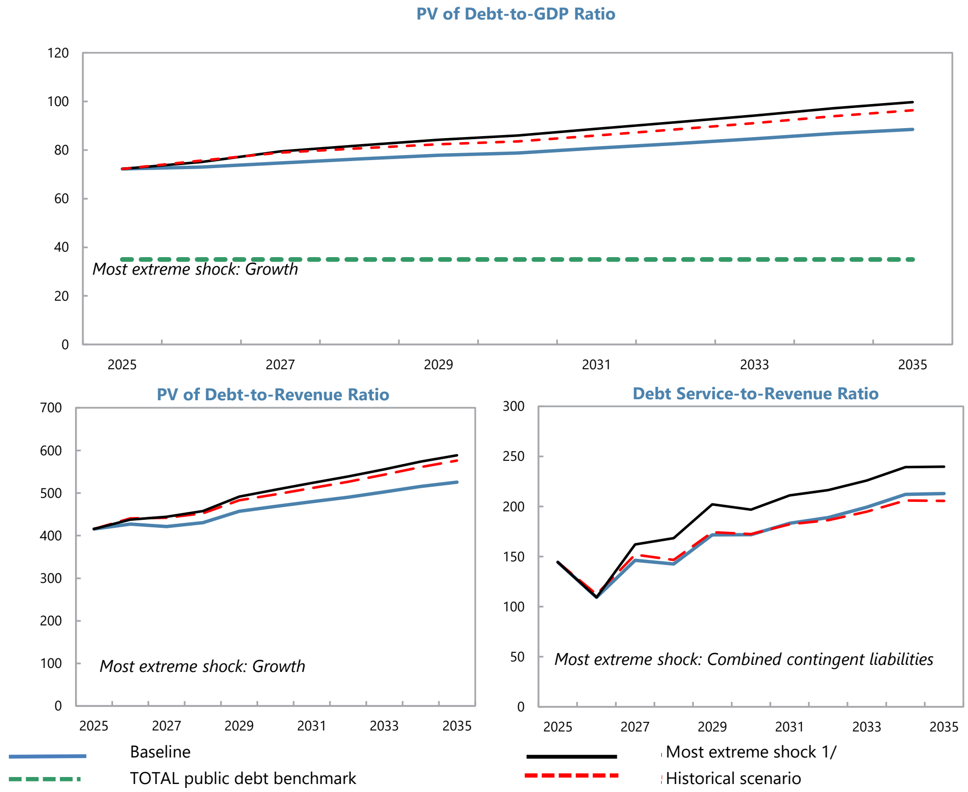
Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing assumptions on additional financing needs resulting from the stress tests*		
	Default	**User defined**
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	1.8%	1.8%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	30	30
Avg. grace period	7	7

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

Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in or before 2035. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 2. Malawi: Indicators of Public Debt Under Baseline Scenarios, 2025–35



Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	4%	4%
Domestic medium and long-term	81%	81%
Domestic short-term	14%	14%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.8%	1.8%
Avg. maturity (incl. grace period)	30	30
Avg. grace period	7	7
Domestic MLT debt		
Avg. real interest rate on new borrowing	6.0%	6.0%
Avg. maturity (incl. grace period)	3	3
Avg. grace period	1	1
Domestic short-term debt		
Avg. real interest rate	1.8%	1.8%

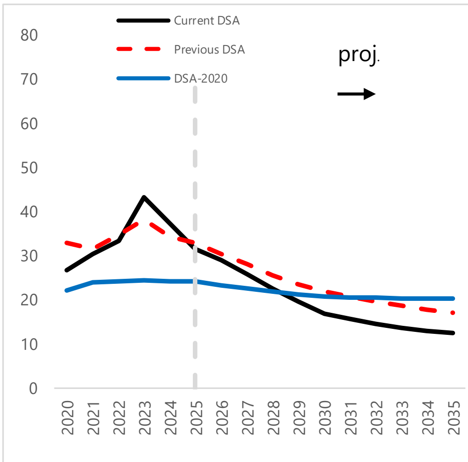
* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2035. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

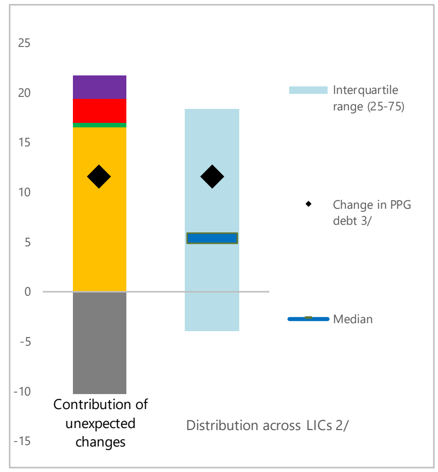
Figure 3. Malawi: Drivers of Debt Dynamics

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



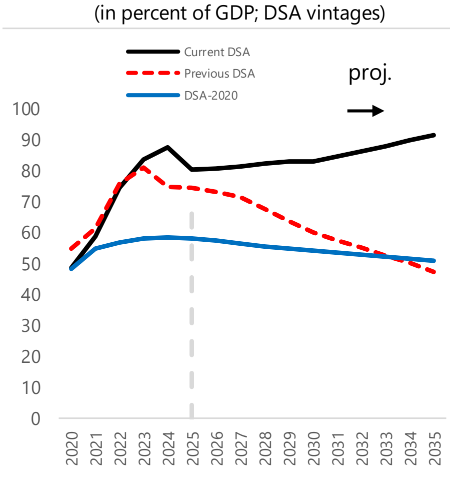
Debt-creating flows
(percent of GDP)

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

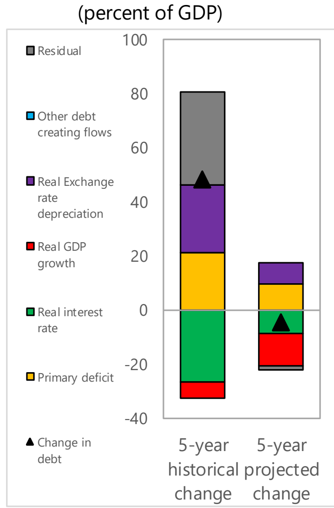


Public Debt

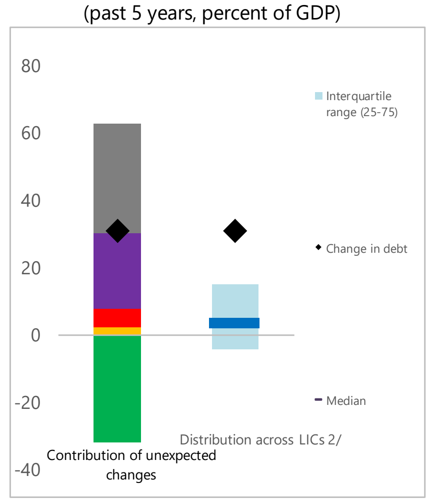
Gross Nominal Public Debt
(in percent of GDP; DSA vintages)



Debt-creating flows
(percent of GDP)



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



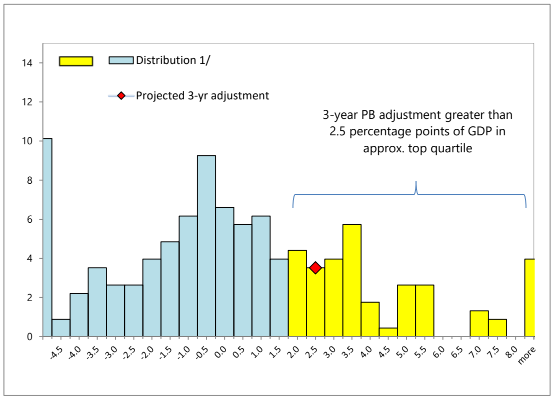
1/ Difference between anticipated and actual contributions on debt ratios.

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

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

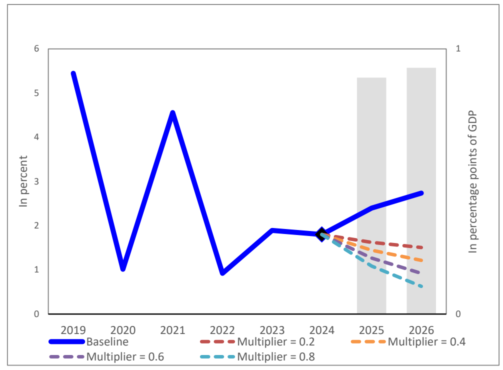
Figure 4. Malawi: Realism Tools

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



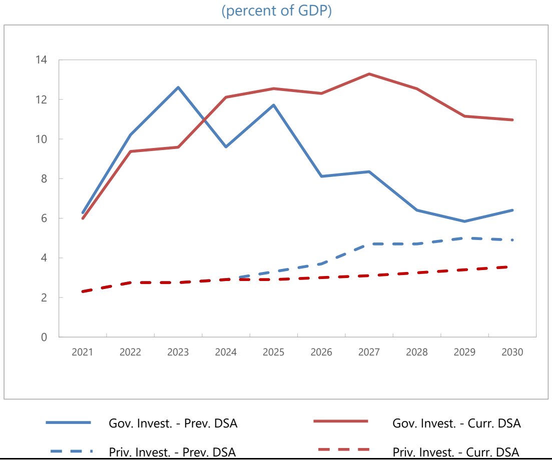
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



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

Public and Private Investment Rates
(percent of GDP)



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

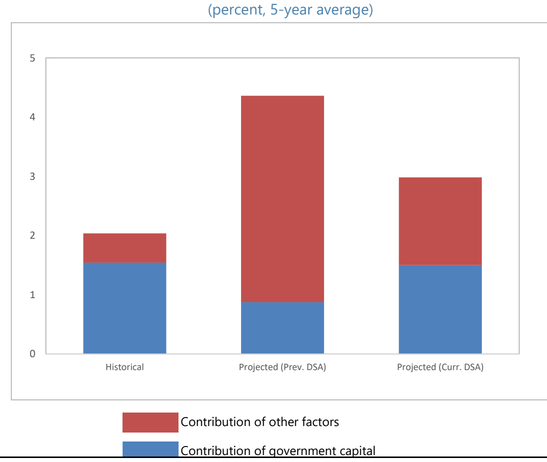


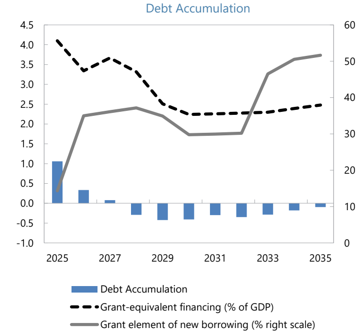
Table 1. Malawi: External Debt Sustainability Framework, Baseline Scenario, 2022–45

(Percent of GDP, Unless Otherwise Indicated)

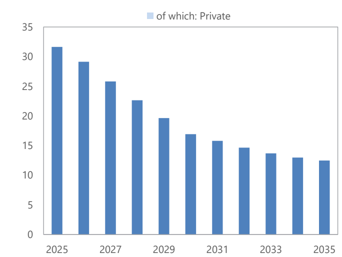
	Actual			Projections												Average 8/	
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2045	Historical	Projections
External debt (nominal) 1/	**33.5**	**43.2**	**37.4**	**31.6**	**29.1**	**25.8**	**22.7**	**19.6**	**16.9**	**15.8**	**14.7**	**13.7**	**13.0**	**12.5**	**10.9**	**27.7**	**19.6**
of which: public and publicly guaranteed (PPG)	**33.5**	**43.2**	**37.4**	**31.6**	**29.1**	**25.8**	**22.7**	**19.6**	**16.9**	**15.8**	**14.7**	**13.7**	**13.0**	**12.5**	**10.9**	**27.7**	**19.6**
Change in external debt	3.1	9.7	-5.8	-5.8	-2.5	-3.3	-3.2	-3.0	-2.7	-1.1	-1.1	-1.0	-0.7	-0.5	-0.1		
Identified net debt-creating flows	**15.4**	**14.1**	**26.4**	**15.3**	**13.0**	**11.8**	**10.5**	**9.2**	**8.4**	**7.6**	**7.0**	**6.5**	**6.1**	**6.1**	**4.4**	**13.1**	**9.2**
Non-interest current account deficit	**17.4**	**17.0**	**21.5**	**16.8**	**14.5**	**13.4**	**12.0**	**10.7**	**9.9**	**9.1**	**8.5**	**8.0**	**7.6**	**7.5**	**5.8**	**14.9**	**10.7**
Deficit in balance of goods and services	18.6	18.3	23.5	18.2	15.7	14.7	13.4	12.0	11.1	10.3	9.7	9.2	8.8	8.7	7.3	**17.8**	**12.0**
Exports	11.8	11.3	12.1	10.2	10.1	9.6	9.1	8.6	8.0	8.1	8.3	8.4	8.5	8.5	9.0		
Imports	30.5	29.6	35.6	28.4	25.8	24.3	22.5	20.6	19.2	18.4	18.0	17.6	17.3	17.3	16.2		
Net current transfers (negative = inflow)	-4.0	-3.7	-4.4	-3.3	-3.0	-3.0	-2.9	-2.8	-2.6	-2.5	-2.5	-2.5	-2.5	-2.5	-3.0	**-4.8**	**-2.7**
of which: official	-0.3	-0.7	-0.6	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other current account flows (negative = net inflow)	2.7	2.4	2.5	1.9	1.8	1.7	1.5	1.4	1.3	1.3	1.3	1.3	1.3	1.3	1.5	**2.0**	**1.5**
Net FDI (negative = inflow)	**-1.1**	**-1.0**	**-1.3**	**-1.3**	**-1.3**	**-1.3**	**-1.3**	**-1.3**	**-1.3**	**-1.3**	**-1.3**	**-1.3**	**-1.3**	**-1.3**	**-1.3**	**-1.6**	**-1.3**
Endogenous debt dynamics 2/	**-0.9**	**-2.0**	**6.2**	**-0.3**	**-0.2**	**-0.3**	**-0.3**	**-0.3**	**-0.3**	**-0.2**	**-0.2**	**-0.2**	**-0.2**	**-0.2**	**-0.2**		
Contribution from nominal interest rate	0.3	0.3	0.4	0.5	0.6	0.5	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.2		
Contribution from real GDP growth	-0.3	-0.6	-0.9	-0.7	-0.8	-0.8	-0.8	-0.7	-0.6	-0.5	-0.5	-0.5	-0.4	-0.4	-0.4		
Contribution from price and exchange rate changes	-0.9	-1.7	6.7	...	...	...	...	...	...	...	...	...	...	...	...		
Residual 3/	**-12.2**	**-4.4**	**-32.2**	**-21.1**	**-15.6**	**-15.1**	**-13.6**	**-12.2**	**-11.1**	**-8.8**	**-8.2**	**-7.5**	**-6.8**	**-6.6**	**-4.5**	**-11.2**	**-11.5**
of which: exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators																	
PV of PPG external debt-to-GDP ratio	**...**	**...**	**27.9**	**22.9**	**20.4**	**18.5**	**16.3**	**14.2**	**12.4**	**11.3**	**10.5**	**9.9**	**9.3**	**8.9**	**6.7**		
PV of PPG external debt-to-exports ratio	**...**	**...**	**229.8**	**223.3**	**202.8**	**192.9**	**179.3**	**166.3**	**154.1**	**139.5**	**126.2**	**117.1**	**110.1**	**104.4**	**74.7**		
PPG debt service-to-exports ratio	**7.2**	**11.6**	**11.7**	**64.0**	**21.2**	**17.1**	**14.9**	**14.6**	**13.0**	**11.2**	**11.0**	**10.0**	**9.3**	**8.9**	**5.6**		
PPG debt service-to-revenue ratio	**6.2**	**9.8**	**9.9**	**45.7**	**14.7**	**11.3**	**9.3**	**8.5**	**7.2**	**6.2**	**6.3**	**5.8**	**5.4**	**5.2**	**4.6**		
Gross external financing need (Billion of U.S. dollars)	2.1	2.4	2.6	3.3	2.6	2.6	2.5	2.5	2.5	2.5	2.4	2.3	2.2	2.3	2.4		
Key macroeconomic assumptions																	
Real GDP growth (in percent)	0.9	1.9	1.8	2.4	2.7	3.1	3.3	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4	**2.9**	**3.2**
GDP deflator in US dollar terms (change in percent)	-0.5	5.3	-13.8	23.7	10.5	7.6	8.0	8.1	8.3	3.4	0.4	0.4	0.4	0.4	0.3	**0.8**	**6.5**
Effective interest rate (percent) 4/	0.9	0.9	0.8	1.5	2.0	1.8	1.9	1.9	1.9	2.0	2.0	2.0	2.0	2.0	1.6	**0.9**	**1.9**
Growth of exports of G&S (US dollar terms, in percent)	-6.4	2.5	-5.8	6.8	11.7	5.6	5.9	5.0	4.9	7.7	7.2	4.8	4.4	4.4	4.3	**-0.7**	**6.2**
Growth of imports of G&S (US dollar terms, in percent)	1.9	4.3	5.5	1.1	2.9	4.7	3.0	2.5	4.1	2.8	1.7	1.5	1.6	3.7	3.0	**5.9**	**2.7**
Grant element of new public sector borrowing (in percent)	...	...	...	14.3	35.0	36.1	37.2	34.9	29.8	29.9	30.2	46.5	50.5	51.7	52.5	**...**	**36.0**
Government revenues (excluding grants, in percent of GDP)	13.8	13.3	14.4	14.3	14.6	14.5	14.6	14.6	14.6	14.6	14.6	14.6	14.6	14.6	10.8	**13.5**	**14.6**
Aid flows (in Billion of US dollars) 5/	0.7	1.0	0.7	0.6	0.5	0.6	0.7	0.6	0.6	0.6	0.7	0.7	0.8	0.9	1.3		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	4.1	3.3	3.7	3.3	2.5	2.2	2.3	2.3	2.3	2.4	2.5	2.5	**...**	**2.8**
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	39.3	69.5	81.4	91.6	93.6	96.8	97.1	97.3	96.7	93.8	91.4	90.2	**...**	**86.2**
Nominal GDP (Billion of US dollars)	13	13	12	15	17	19	21	23	26	28	29	30	31	33	47		
Nominal dollar GDP growth	0.5	7.2	-12.2	26.6	13.5	11.0	11.5	11.8	11.9	6.9	3.8	3.8	3.8	3.8	3.7	**3.7**	**9.9**
Memorandum items:																	
PV of external debt 7/	...	...	27.9	22.9	20.4	18.5	16.3	14.2	12.4	11.3	10.5	9.9	9.3	8.9	6.7		
In percent of exports	...	...	229.8	223.3	202.8	192.9	179.3	166.3	154.1	139.5	126.2	117.1	110.1	104.4	74.7		
Total external debt service-to-exports ratio	7.2	18.2	11.7	64.0	21.2	17.1	14.9	14.6	13.0	11.2	11.0	10.0	9.3	8.9	5.6		
PV of PPG external debt (in Billion of US dollars)			3.3	3.4	3.5	3.5	3.4	3.3	3.2	3.2	3.1	3.0	2.9	2.9	3.2		
(PVt-PVt-1)/GDPt-1 (in percent)				1.1	0.3	0.1	-0.3	-0.4	-0.4	-0.3	-0.3	-0.3	-0.2	-0.1	0.1		
Non-interest current account deficit that stabilizes debt ratio	14.2	7.4	27.3	22.6	17.0	16.7	15.2	13.7	12.6	10.3	9.6	9.0	8.3	8.0	5.9		

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

Debt Accumulation



External Debt (nominal) 1/



Sources: Country authorities; and staff estimates and projections.

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

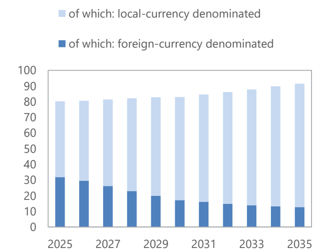
Table 2. Malawi: Public Sector Debt Sustainability Framework, Baseline Scenario, 2022–45

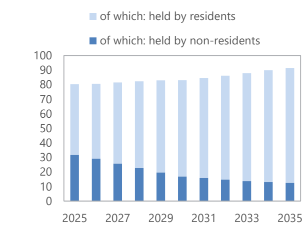
(Percent of GDP, Unless Otherwise Indicated)

	Actual			Projections								Average 6/	
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2035	2045	Historical	Projections
Public sector debt 1/	74.4	83.6	87.6	80.2	80.6	81.4	82.2	82.8	83.0	91.5	106.3	53.9	84.6
of which: external debt	33.5	43.2	37.4	31.6	29.1	25.8	22.7	19.6	16.9	12.5	10.9	27.7	19.6
Change in public sector debt	15.6	9.2	4.0	-7.4	0.4	0.8	0.8	0.7	0.2	1.6	1.2		
Identified debt-creating flows	5.0	7.0	-7.9	-8.3	-2.0	-0.4	-0.1	0.0	-0.5	0.0	-0.2	1.6	-1.0
Primary deficit	4.6	2.9	4.4	3.5	2.6	1.9	1.0	0.7	0.6	0.5	0.3	3.0	1.2
Revenue and grants	17.4	17.6	18.5	17.4	17.1	17.7	17.7	17.0	16.8	16.8	13.0	15.9	17.1
of which: grants	3.6	4.3	4.1	3.0	2.6	3.2	3.1	2.4	2.2	2.2	2.2		
Primary (noninterest) expenditure	22.0	20.6	22.9	20.9	19.7	19.6	18.7	17.7	17.4	17.3	13.3	19.0	18.3
Automatic debt dynamics	0.3	4.0	-12.3	-11.8	-4.6	-2.3	-1.1	-0.8	-1.0	-0.4	-0.5		
Contribution from interest rate/growth differential	-4.9	-13.0	-13.3	-11.8	-4.6	-2.3	-1.1	-0.8	-1.0	-0.4	-0.5		
of which: contribution from average real interest rate	-4.3	-11.6	-11.9	-9.8	-2.5	0.1	1.5	1.9	1.7	2.5	3.0		
of which: contribution from real GDP growth	-0.5	-1.4	-1.5	-2.1	-2.1	-2.4	-2.6	-2.7	-2.7	-2.9	-3.4		
Contribution from real exchange rate depreciation	5.2	17.0	1.0	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	10.6	2.2	11.9	1.0	2.4	1.3	0.8	0.7	0.7	1.6	1.4	3.9	1.4
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	78.3	72.2	73.0	74.7	76.3	77.8	78.8	88.5	102.6		
PV of public debt-to-revenue and grants ratio	...	...	423.4	415.5	426.9	421.4	430.3	457.4	468.8	525.5	786.1		
Debt service-to-revenue and grants ratio 3/	32.3	33.7	45.1	144.4	109.4	146.3	142.6	171.6	172.0	213.0	334.1		
Gross financing need 4/	10.2	8.9	12.7	28.6	21.3	27.8	26.3	29.9	29.5	36.3	43.9		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	0.9	1.9	1.8	2.4	2.7	3.1	3.3	3.4	3.4	3.4	3.4	2.9	3.2
Average nominal interest rate on external debt (in percent)	0.9	0.6	1.1	1.5	2.1	1.9	1.9	1.9	2.0	2.2	1.7	1.0	2.0
Average real interest rate on domestic debt (in percent)	-3.1	-10.7	-6.4	-5.7	4.4	7.6	7.8	7.4	6.0	5.2	4.6	1.2	5.0
Real exchange rate depreciation (in percent, + indicates depreciation)	25.7	64.0	3.0	...	...	...	...	...	...	...	...	15.5	...
Inflation rate (GDP deflator, in percent)	17.2	28.8	29.0	25.3	19.7	16.8	13.7	13.6	13.8	14.3	15.0	15.8	15.8
Growth of real primary spending (deflated by GDP deflator, in percent)	13.0	-4.6	13.3	-6.5	-3.2	2.5	-1.4	-2.0	1.3	3.3	-10.7	7.6	0.7
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-11.0	-6.3	0.4	10.9	2.2	1.0	0.2	0.0	0.4	-1.1	-1.0	-5.6	0.8
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

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

Public Sector Debt 1/





Sources: Country authorities; and staff estimates and projections.

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

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

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

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

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

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

Table 3. Malawi: Sensitivity Analysis for Key Indicators of PPG External Debt, 2025-35

(Percent)

	Projections 1/										
	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
PV of debt-to GDP ratio											
Baseline	23	20	19	16	14	12	11	11	10	9	9
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	23	22	23	23	25	27	29	**32**	**35**	**39**	**43**
B. Bound Tests											
B1. Real GDP growth	23	21	19	17	15	13	12	11	10	10	9
B2. Primary balance	23	20	19	16	14	13	12	11	10	10	9
B3. Exports	23	22	22	20	18	15	14	14	13	12	12
B4. Other flows 3/	23	22	21	18	16	14	13	12	12	11	11
B5. Depreciation	23	25	19	16	14	12	11	10	9	8	8
B6. Combination of B1-B5	23	23	20	18	16	14	13	12	11	10	10
C. Tailored Tests											
C1. Combined contingent liabilities	23	21	19	17	15	13	12	11	11	10	10
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	23	20	19	16	14	12	11	11	10	9	9
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	30	30	30	30	30	30	30	30	30	30	30
PV of debt-to-exports ratio											
Baseline	**223**	**203**	**193**	**179**	**166**	**154**	140	126	117	110	104
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	**223**	**222**	**235**	**255**	**288**	**332**	**360**	**385**	**421**	**463**	**506**
B. Bound Tests											
B1. Real GDP growth	**223**	**203**	**193**	**179**	**166**	**154**	140	126	117	110	104
B2. Primary balance	**223**	**203**	**194**	**181**	**169**	**157**	**143**	130	122	115	110
B3. Exports	**223**	**279**	**360**	**337**	**316**	**297**	**272**	**249**	**235**	**223**	**211**
B4. Other flows 3/	**223**	**215**	**217**	**203**	**190**	**177**	**162**	**148**	139	131	124
B5. Depreciation	**223**	**202**	**158**	**145**	132	120	107	95	86	79	75
B6. Combination of B1-B5	**223**	**264**	**202**	**257**	**239**	**222**	**202**	**183**	**171**	**160**	**152**
C. Tailored Tests											
C1. Combined contingent liabilities	**223**	**205**	**196**	**184**	**172**	**161**	**148**	136	128	122	118
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	**223**	**203**	**193**	**179**	**166**	**154**	140	126	117	110	104
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	140	140	140	140	140	140	140	140	140	140	140
Debt service-to-exports ratio											
Baseline	**64.0**	**21.2**	**17.1**	**14.9**	**14.6**	**13.0**	**11.2**	**11.0**	10	9	9
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	**64**	**23**	**20**	**19**	**21**	**21**	**20**	**21**	**20**	**20**	**22**
B. Bound Tests											
B1. Real GDP growth	**64**	**21**	**17**	**15**	**15**	**13**	**11**	**11**	10	9	9
B2. Primary balance	**64**	**21**	**17**	**15**	**15**	**13**	**11**	**11**	**10**	9	9
B3. Exports	**64**	**27**	**27**	**25**	**24**	**22**	**19**	**19**	**17**	**17**	**18**
B4. Other flows 3/	**64**	**21**	**17**	**16**	**15**	**14**	**12**	**12**	**11**	**10**	**11**
B5. Depreciation	**64**	**21**	**17**	**14**	**14**	**12**	**10**	**10**	9	9	7
B6. Combination of B1-B5	**64**	**26**	**24**	**21**	**20**	**18**	**16**	**15**	**14**	**14**	**13**
C. Tailored Tests											
C1. Combined contingent liabilities	**64**	**21**	**17**	**15**	**15**	**13**	**11**	**11**	**10**	10	9
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	**64**	**21**	**17**	**15**	**15**	**13**	**11**	**11**	10	9	9
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	10	10	10	10	10	10	10	10	10	10	10
Debt service-to-revenue ratio											
Baseline	**46**	**15**	11	9	9	7	6	6	6	5	5
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	**46**	**16**	13	12	12	11	11	12	12	12	13
B. Bound Tests											
B1. Real GDP growth	**46**	**15**	12	10	9	8	6	7	6	6	5
B2. Primary balance	**46**	**15**	11	9	9	7	6	6	6	5	5
B3. Exports	**46**	**15**	12	10	9	8	7	7	6	6	7
B4. Other flows 3/	**46**	**15**	12	10	9	7	6	7	6	6	6
B5. Depreciation	**46**	**18**	14	11	10	8	7	7	7	6	5
B6. Combination of B1-B5	**46**	**15**	12	10	9	8	7	7	6	6	6
C. Tailored Tests											
C1. Combined contingent liabilities	**46**	**15**	11	9	9	7	6	6	6	6	5
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	**46**	**15**	11	9	9	7	6	6	6	5	5
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	14	14	14	14	14	14	14	14	14	14	14

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

Table 4. Malawi: Sensitivity Analysis for Key Indicators of Public Debt, 2025-35

(Percent)

	Projections 1/										
	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
PV of Debt-to-GDP Ratio											
Baseline	**72**	**73**	**75**	**76**	**78**	**79**	**81**	**83**	**85**	**87**	**88**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	**72**	**76**	**79**	**81**	**82**	**84**	**86**	**88**	**91**	**94**	**96**
B. Bound Tests											
B1. Real GDP growth	**72**	**75**	**79**	**82**	**84**	**86**	**89**	**91**	**94**	**97**	**100**
B2. Primary balance	**72**	**75**	**79**	**81**	**82**	**83**	**85**	**87**	**89**	**91**	**93**
B3. Exports	**72**	**75**	**78**	**80**	**81**	**82**	**84**	**86**	**88**	**90**	**91**
B4. Other flows 3/	**72**	**74**	**77**	**79**	**80**	**81**	**83**	**85**	**87**	**89**	**90**
B5. Depreciation	**72**	**73**	**73**	**73**	**73**	**74**	**76**	**76**	**77**	**79**	**80**
B6. Combination of B1-B5	**72**	**72**	**75**	**76**	**78**	**78**	**80**	**81**	**83**	**85**	**87**
C. Tailored Tests											
C1. Combined contingent liabilities	**72**	**82**	**84**	**86**	**87**	**88**	**91**	**92**	**94**	**97**	**98**
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	**72**	**74**	**75**	**76**	**78**	**79**	**82**	**84**	**87**	**90**	**93**
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
TOTAL public debt benchmark	35	35	35	35	35	35	35	35	35	35	35
PV of Debt-to-Revenue Ratio											
Baseline	415	427	421	430	457	469	480	490	503	516	526
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	415	440	442	453	483	497	512	527	543	561	576
B. Bound Tests											
B1. Real GDP growth	415	438	444	458	491	508	524	539	556	574	588
B2. Primary balance	415	437	446	455	484	496	507	518	530	543	553
B3. Exports	415	436	442	449	476	486	497	508	520	533	542
B4. Other flows 3/	415	434	435	443	470	480	491	502	514	527	536
B5. Depreciation	415	431	417	418	436	444	454	457	462	472	479
B6. Combination of B1-B5	415	424	425	432	457	466	475	484	494	506	516
C. Tailored Tests											
C1. Combined contingent liabilities	415	482	475	484	514	526	538	549	561	575	585
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	415	430	423	432	460	473	488	504	522	541	556
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Debt Service-to-Revenue Ratio											
Baseline	144	109	146	143	172	172	183	189	199	212	213
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2025-2035 2/	144	112	152	147	174	173	182	186	195	206	206
B. Bound Tests											
B1. Real GDP growth	144	112	153	150	183	186	199	207	220	235	238
B2. Primary balance	144	109	149	152	185	185	195	202	212	225	225
B3. Exports	144	109	147	143	172	172	184	189	200	213	214
B4. Other flows 3/	144	109	146	143	172	172	184	189	200	213	214
B5. Depreciation	144	105	139	134	158	156	167	176	186	195	195
B6. Combination of B1-B5	144	107	144	143	173	174	182	188	197	209	211
C. Tailored Tests											
C1. Combined contingent liabilities	144	109	162	168	202	197	211	216	226	239	240
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	144	109	145	141	171	173	186	194	207	222	225
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the benchmark.
2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.
3/ Includes official and private transfers and FDI.

INTERNATIONAL MONETARY FUND

MALAWI

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

July 3, 2025

Prepared By

The African Department (In consultation with other departments)

CONTENTS

FUND RELATIONS

As of May 31, 2025

Membership Status

Joined: July 19, 1965; Article VIII

General Resources Account:

	SDR Million	%Quota
Quota	138.80	100.00
Fund holdings of currency (exchange rate)	136.36	98.24
Reserve tranche position	2.44	1.76

SDR Department:

	SDR Million	%Allocation
Net cumulative allocation	199.40	100.00
Holdings	11.27	5.65

Outstanding Purchases and Loans:

	SDR Million	%Quota
RCF Loans	208.15	149.96
ECF Arrangements	98.43	70.92

Latest Financial Commitments:

Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF	Nov 15, 2023	May 14, 2025	131.86	26.37
ECF	Apr 30, 2018	Sep 24, 2020	105.84	53.85
ECF	Jul 23, 2012	Jun 29, 2017	138.80	138.80

Outright Loans :

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
RCF	Nov 21, 2022	Nov 23, 2022	69.40	69.40
RCF	Oct 02, 2020	Oct 06, 2020	72.31	72.31
RCF	May 01, 2020	May 05, 2020	66.44	66.44

Overdue Obligations and Projected Payments to Fund[1]
(SDR Million; based on existing use of resources and present holdings of SDRs):

	2025	2026	2027	2028	2029
Principal	29.93	47.84	40.47	51.29	53.21
Charges/Interest	2.83	5.62	5.62	5.62	5.62
Total	32.76	53.46	46.09	56.91	58.83

1/ When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Implementation of HIPC Initiative:

	Enhanced Framework
Commitment of HIPC assistance	
Decision point date	December 2000
Assistance committed	
by all creditors (US$ Million)[1]	1,057.00
Of which: IMF assistance (US$ million)	45.27
(SDR equivalent in millions)	33.37
Completion point date	Aug 2006
Disbursement of IMF assistance (SDR Million)	
Assistance disbursed to the member	33.37
Interim assistance	11.57
Completion point balance	21.80
Additional disbursement of interest income[2]	3.82
Total disbursements	37.19

1 Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two amounts cannot be added.

2 Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

Implementation of Multilateral Debt Relief Initiative (MDRI):

MDRI-eligible debt (SDR Million)[1]	37.87
Financed by: MDRI Trust	14.53
Remaining HIPC resources	23.34

Debt Relief by Facility (SDR Million)

	Eligible Debt		
Delivery Date	**GRA**	**PRGF**	**Total**
December 2006	N/A	7.91	7.91
September 2006	10.84	19.12	29.96

[1] The MDRI provides 100 percent debt relief to eligible member countries that qualified for the assistance. Grant assistance from the MDRI Trust and HIPC resources provide debt relief to cover the full stock of debt owed to the Fund as of end-2004 that remains outstanding at the time the member qualifies for such debt relief.

Implementation of Catastrophe Containment and Relief (CCR)[1]:

Date of Catastrophe	Board Decision Date	Amount Committed (SDR million)	Amount Disbursed (SDR million)
N/A	04/13/2020	7.20	7.20
N/A	10/02/2020	7.20	7.20
N/A	04/01/2021	7.81	7.81
N/A	10/06/2021	6.72	6.72
N/A	12/15/2021	3.91	3.91

[1] As of February 4, 2015, the Post-Catastrophe Debt Relief Trust has been transformed to the Catastrophe Containment and Relief (CCR) Trust.

https://www.imf.org/external/np/fin/tad/exfin2.aspx?memberkey1=630&date1key=2099-12-31

Exchange Rate Arrangement

The de jure exchange rate arrangement is floating, and the de facto exchange rate arrangement is classified as 'stabilized'. Since the November 2023 devaluation of 44 percent under an Extended Credit Facility that was approved the same month, the official exchange rate remained broadly constant against the US dollar. The official exchange rate is used for official transactions and for the purchase of FX from exporters under FX surrender requirements.

Malawi maintains the following MCPs (under the new MCP policy) subject to Fund approval: (i) an MCP arising from rates which are managed by the RBM, and applied to FX transactions by Authorized Dealer Banks (ADBs) and to the RBM's FX spot transactions (i.e., transactions with the government, exporters and ADBs under a surrender requirement, purchases from international Brokers, and sales to ADBs); (ii) an MCP arising from the FX auction, which employs the same fixed, RBM rate; (iii) an MCP arising from the rate used by the RBM in its spot leg of the FX swaps; and (iv) an MCP arising from the forward rate used by the RBM in its FX swaps.

In addition, Malawi maintains three foreign exchange restrictions: (1) The first restriction arises from unavailability and undue delays in accessing FX for current payments and transfers due to the authorities' rationing and limiting exchange rate adjustment. (2) The second restriction relates to a ban on accessing foreign exchange for unrelated current international transactions by customers who fail to comply with advance payment requirements. (3) The third restriction stems from the requirement to provide a tax clearance certificate prior to permitting transfers for certain current transactions.

Financial Sector Assessment Program (FSAP)

A joint team of the World Bank and the International Monetary Fund visited Malawi under the FSAP program during two missions in July and December 2007. The Financial System Stability Assessment (FSSA) was issued in June 2008 (SM/08/198). An FSAP development module was conducted in mid-2017.

Safeguards Assessment

The 2024 update safeguards assessment of the Reserve Bank of Malawi (RBM) found some progress in addressing the 2021 safeguards recommendations. This included improvements in governance practices and the restoration of the integrity of the financial reporting process. However, the RBM Act had not been amended as recommended, and while the Board had taken steps to strengthen its oversight and involvement in policymaking, some important policy gaps remained, including in the management of foreign reserves and open market operations.

Since then, progress in implementing the 2024 assessment’s recommendations has been slow. The RBM Board adopted a new investment policy for foreign reserves, and internal audit plans have been expanded to include audits of foreign reserves management and open market operations. Nonetheless, several key recommendations remain outstanding. These include comprehensive governance and legal reforms to strengthen the RBM’s internal checks and balances, including the role of the Board in the approval of key institutional policies. The RBM also needs to strengthen controls over open market operations and lending to banks, and address risks of non-compliance with legal limits on advances to the government. Other outstanding recommendations include divestiture from the Export Development Fund (EDF) and improvements in internal audit capacity and methodology.

Article IV Consultation

Malawi is on the standard 12-month cycle. The Executive Board concluded the last Article IV consultation on December 13, 2021.

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

Malawi and the World Bank

https://www.worldbank.org/en/country/malawi

World Bank Group Projects

https://projects.worldbank.org/en/projects-operations/projects-summary?countrycode_exact=MW

Malawi and the African Development Bank

https://www.afdb.org/en/countries/southern-africa/malawi

Statement by Mr. Ubisse, Executive Director for Malawi,
and Ms. Chikonda, Advisor to Executive Director
July 18, 2025

Introduction

1. On behalf of our Malawian authorities, we thank the mission team led by Mr. Tyson, for the constructive and productive policy dialogue held during the recent Article IV Consultation mission. The authorities found the engagement both timely and instrumental in strengthening the collaboration with the Fund and advancing their reform agenda, aimed at restoring macroeconomic stability and achieving socially inclusive growth in the Malawi economy. The authorities broadly share the thrust of staff's appraisals and welcome the recommendations, which are closely aligned with their domestically driven reform agenda and the strategic policy priorities of the Malawi 2063 (MW2063) First 10-Year Implementation Plan (MIP-1).

2. Malawi continues to face the compounded effects of successive external shocks, including climatic events - such as cyclones Anna and Gombe in 2022, cyclone Freddy in 2023, and a severe drought in 2024 - as well as declining official development assistance (ODA). These factors have significantly constrained the country's ability to mount an effective policy response due to limited fiscal and external financing. These challenges have led to persistent shortages of foreign exchange, increased food insecurity, and eroded fiscal space due to the frequency and scale of necessary policy interventions. As a result, the country's ability to import essential intermediate goods - such as fuel and fertilizers – has been substantially constrained, thereby disrupting domestic production, particularly in staple food crops, and weakened performance across key sectors of the economy. Additionally, the strained fiscal environment has limited the government's capacity to maintain essential social services and invest in development initiatives that support long-term economic growth. Consequently, economic growth has remained sluggish, while inflationary pressures have intensified, posing increasing risks to macroeconomic stability and the well-being of the population.

3. Nevertheless, the ongoing reform agenda and policy priorities of the MIP-1 seek to address these challenges by prioritizing climate-resilient agriculture, improved foreign exchange management, and macroeconomic stability. Through targeted public investment

in agriculture, tourism, manufacturing, and mining (ATMM), the authorities seek to boost productivity, stimulate growth, and increase domestic revenue. These initiatives support fiscal consolidation, debt sustainability, and expanded social spending, while also strengthening exports, foreign exchange earnings, and food security. Combined with sound fiscal and monetary policies, these efforts are expected to ease inflationary pressures by addressing structural supply constraints, improving food availability, and stabilizing the exchange rate - laying the foundation for stronger and more stable economic growth from 2026 onward.

Recent Economic Developments and Outlook

4. In 2024, real GDP growth moderated to 1.8 percent, marginally down from 1.9 percent in 2023, reflecting the combined impact of structural constraints and external shocks. Notably, the adverse El Niño-induced weather conditions negatively affected production in agriculture and related sectors. Additionally, persistent shortages of foreign exchange reserves constrained the importation of essential intermediate goods, while elevated interest rates increased the cost of working capital. These challenges, compounded by sustained inflationary pressures, raised production costs and dampened overall economic activity. Nevertheless, real GDP growth is projected to recover to approximately 3.0 percent in 2025, supported by the continued policy efforts through the Affordable Inputs Program (AIP) program and relatively favourable weather conditions experienced during the 2024/25 agricultural season. That said, downside risks, such as unfavourable climatic conditions, shrinking ODA and ongoing trade tensions, could dampen growth and hinder progress toward the much-needed macroeconomic stability and social inclusion.

5. Headline inflation reached a decade-high of 35.0 percent in January 2024 and has remained persistently elevated, with the annual average rate for 2024 estimated at 32.2 percent, compared to 28.8 percent in 2023. This inflationary trend reflects deep-rooted structural and macroeconomic imbalances, including the persistent foreign exchange shortages, which have disrupted the importation of critical intermediate goods and contributed to sustained cost-push inflation. Compounding this challenge is the below-market-demand domestic agricultural food production, which has intensified food price pressures and disproportionately affected lower-income households. The pass-through effects of the depreciation of the parallel market exchange rate have further exacerbated inflation, while domestic financing of the fiscal deficit has increased money supply growth, adding to demand-side pressures.

6. Although inflation has shown signs of moderation - declining to 27.7 percent by the end of May 2025 – the authorities project it to remain above 20 percent for the remainder of the year. A more pronounced deceleration is projected in 2026, largely supported by a tighter monetary policy aimed at slowing money growth and re-anchor inflation expectations. Nevertheless, the inflation outlook remains vulnerable to considerable risks - including geopolitical tensions, volatility in global commodity markets, and potential delays in reform implementation due to financing constraints.

7. Meanwhile, the current account deficit widened to 22 percent of GDP in 2024, from 17 percent of GDP in 2023, largely reflecting a deteriorating trade balance – driven by a simultaneous decline in exports and an increase in imports – as well as a reduction in secondary income inflows. In this context, the authorities made a deliberate policy stance to safeguard the importation of essential goods and maintain social spending. As a result, official reserves assets declined to a level covering less than one months of import requirements.

Fiscal Policy and Debt Management

8. The authorities have reaffirmed their strong commitment to restoring fiscal and debt sustainability through a comprehensive medium-term strategy anchored in structural reforms and strengthened public financial management (PFM). They fully concur with staff assessments that enhancing domestic revenue mobilization remains the most viable path to achieving fiscal consolidation and supporting a sustainable fiscal adjustment and macroeconomic stability under current conditions. In the 2024/25 fiscal year, the authorities accelerated the implementation of revenue-enhancing measures and reinforced existing tax policies, consistent with recommendations from previous technical assistance missions. These efforts yielded a 39.9 percent nominal increase in tax revenue collections compared to the previous fiscal year. Key initiatives included the digitalization of tax administration systems, the introduction of tax stamps, the strengthening of audit and VAT inspection frameworks, and intensified debt recovery efforts. As a result, total revenues increased to an estimated 19.1 percent of GDP, from 18.5 percent in FY2023/24. However, this improvement was insufficient to fully meet public expenditure needs, which reached 29.2 percent of GDP. Consequently, the overall fiscal deficit, while modestly reduced, remained elevated at 10.1 percent of GDP, compared to 10.6 percent in the previous year.

9. The authorities recognize that the current fiscal trajectory is unsustainable and presents significant risks to inclusive growth, macroeconomic stability, and long-term debt sustainability. Persistent high deficits have driven up public debt, increased refinancing risks, and limited fiscal space for priority investments. In response, they are pursuing reforms to strengthen revenue administration, improve spending efficiency and transparency, rationalize tax incentives, and enhance budget planning and execution. Near-term efforts focus on consolidating revenue gains by broadening the VAT base - especially through informal sector integration - and advancing PFM reforms including strengthening expenditure controls, enhancing cash and debt management frameworks, and improving the quality and timeliness of fiscal reporting. Supported by coordinated macroeconomic stabilization measures, these efforts aim to reduce the fiscal deficit to 6 percent of GDP over the medium term, representing a targeted fiscal adjustment of 4 percent of GDP.

10. Restoring debt sustainability remains a paramount objective for the authorities, as it is crucial not only for creating the fiscal space needed to promote inclusive economic growth, but also for strengthening investor confidence. In this regard, securing the full participation of all creditor groups is a fundamental component of the authorities'

comprehensive debt restructuring strategy. This goal is essential for maintaining external sector stability and ensuring the effective implementation of broader fiscal consolidation and development efforts. While substantial progress has been made in negotiations with bilateral creditors, engagement with external commercial creditors remains challenging, with discussions proving complex and protracted due to legal and market-related constraints. Nevertheless, the authorities remain firmly committed to good-faith negotiations with all creditor groups. Support from the Fund and its Executive Board could play a vital role by encouraging coordinated creditor engagement and acknowledging Malawi's proactive approach to debt resolution.

Monetary and Exchange Rate Policies

11. The monetary authorities remain steadfast in their commitment to restoring price stability and supporting economic growth amid ongoing inflationary pressures. They recognize the need for continued monetary tightening to anchor inflation expectations and drive inflation back toward its target. However, the current inflation dynamics – driven largely by supply-side factors - have constrained the effectiveness of conventional monetary policy tools, particularly the policy rate. In January 2024, the policy rate was raised to 26 percent in an effort to contain inflation, but further increases were approached with caution due to concerns over their potential dampening effect on economic activity. This is especially pertinent given the prevailing high borrowing costs, which have reached a maximum of 37 percent, posing risks to private sector investment and household consumption. Nonetheless, in response to a rapid growth in money supply, the authorities introduced a complementary measure by raising the Liquidity Reserve Ratio (LRR) in May 2024 to help absorb excess liquidity and reinforce macroeconomic stability. The authorities consider a balanced and adaptive policy approach - carefully calibrating monetary instruments to manage inflation while preserving the economic recovery momentum – as appropriate under current conditions. They also consider close coordination with fiscal policy and the acceleration of structural reforms to be critical for addressing the underlying supply-side constraints driving inflation.

12. The authorities share staff's view on the importance of exchange rate unification. However, in light of the outcomes of the previous realignment – which saw limited conversion of foreign reserves from the informal to formal sector; partial realization of pledged ODA; and intensified inflationary pressures – they favour a gradual and less disruptive approach. Their strategy emphasizes boosting export performance and foreign exchange earnings, particularly through increased public investments in the real sector.

13. In this context, the authorities recognize that deploying an appropriate mix of policy instruments is essential to addressing prevailing economic challenges, with the choice of exchange rate regime being a critical component. While they express a medium-term preference for transitioning to a managed-float regime to enhance flexibility in responding to external shocks, they consider maintaining a fixed exchange rate in the short term necessary to anchor inflation expectations and support price stability. They caution that premature exchange rate flexibility could trigger excessive depreciation and heightened

inflation through exchange rate pass-through effects, requiring significantly higher foreign exchange reserves to mitigate potential instability.

14. Meanwhile, the authorities have affirmed their commitment to implementing fiscal adjustments as a means to support exchange rate stability and contain inflation. These measures are scheduled to be undertaken following the elections in September 2025. In addition, they are determined to preserve a robust buffer of foreign exchange reserves by allowing the financing of importation of crucial products through the commercial banks, thus enabling the central bank to accumulate foreign exchange reserves to enhance the credibility of the exchange rate regime and safeguard the economy against external shocks.

Financial Sector Policies

15. Financial soundness indicators continue to affirm the resilience of the banking sector, characterized by high liquidity, strong profitability, and robust capitalization. Capital adequacy and funding ratios remain well above regulatory requirements, suggesting that the financial system possesses sufficient buffers to withstand potential economic shocks. However, credit quality has weakened, as reflected in a non-performing loans (NPLs) ratio of 7.7 percent as of end-April 2025, exceeding the statutory threshold of 5.0 percent. This deterioration is largely attributed to the lagged effects of the COVID-19 pandemic and a high concentration of credit exposure. Additionally, prolonged inflationary pressures, elevated interest rates combined with subdued economic activity and persistent fiscal pressures, may have adversely affected corporate cash flows transition to the banking industry. Nonetheless, the April 2025 NPLS ratio represents an improvement from 9.8 percent recorded in November 2024.

16. Despite the sector's underlying strengths, the authorities acknowledge that the high concentration of banking sector claims on the government and the continued accumulation of net foreign liabilities pose significant vulnerabilities - particularly in the context of widening fiscal imbalances and substantial currency depreciation. To mitigate sovereign and foreign exchange risks, the authorities intend to strengthen stress testing and enhance surveillance frameworks to more closely monitor developments in credit exposures and foreign exchange positions. With support from the Fund's technical assistance, stress testing will be expanded to incorporate more rigorous scenario analyses, evaluating the banking sector's resilience to adverse macroeconomic shocks such as sharp exchange rate depreciation, interest rate volatility, and fiscal slippages. Additional planned measures include introduction of a capital surcharge for domestically systemic banks to reinforce their loss-absorbing capacity, as well as the continued application of existing provisioning standards to support prudent lending practices. In addition, targeted policy interventions will be considered to address external imbalances and enhance the financial system's resilience to external shocks. Concurrently, the authorities implemented Basel III on January 1, 2025, to further improve the quality of bank capital and strengthen risk management practices.

Structural Reforms and Governance

17. Creating an enabling environment for private investment and private sector–led economic diversification remains a central priority for policymakers, given its pivotal role in fostering macroeconomic stability and promoting inclusive growth. To advance this objective, the authorities are firmly committed to accelerating the implementation of structural fiscal reforms aimed at enhancing fiscal consolidation and restoring long-term fiscal sustainability – both of which are essential foundations for a stable macroeconomic environment. These efforts are also intended to build reserve buffers, support long-term financial stability, and reinforce the objectives of monetary policy - all of which are critical to creating a conducive climate for private investment. The operationalization of the ATMM initiative represents a significant step in this reform agenda.

18. Importantly, the authorities have reiterated their commitment to advancing the implementation of the remaining PFM reforms, addressing outstanding issues identified in the 2024 Governance Diagnostic, and acting on recommendations from the Safeguards Assessment. These include strengthening the AML/CFT framework and enhancing the independence of the central bank - critical steps toward improving governance, ensuring fiscal transparency, and reinforcing macroeconomic stability.

19. Reforming SOEs is another core component of the government's strategy to reduce fiscal risks and enhance public sector efficiency. The authorities are focused on strengthening SOE oversight through the adoption of improved governance frameworks, more rigorous financial reporting standards, and enhanced performance monitoring systems. In the near term, reform efforts will focus on expanding the coverage of SOE risk assessments and increasing transparency and accountability in their operations. These measures aim to better align SOE activities with national development priorities and reduce their reliance on public resources. Collectively, these reforms are expected to play a critical role in improving the efficiency of public spending and mitigating contingent fiscal liabilities.

20. To support the broader reform agenda, the authorities have developed a home-grown economic program - now in its final design phase - aimed at stimulating the supply side of the economy and boosting potential real GDP growth. Considerable progress has been made in aligning key economic sectors under a unified, forward-looking strategy. The program's core objective is to strengthen macroeconomic stability through supply-side measures, with fiscal consolidation as a cornerstone for sustaining stability across the monetary, real, and external sectors. This will be achieved through a combination of revenue-enhancing and expenditure-management reforms. Designed with a medium-term perspective, the program aligns with the MW2063 and MIP-1, incorporates lessons from past Fund-supported arrangements, and outlines priority areas for further policy interventions. Quantitative performance targets will be set for key indicators - including the monetary base, overall and domestic primary fiscal balances, recurrent expenditure (as a share of domestic revenue), and net international reserves (NIR) - to be monitored on quarterly basis. Beyond these benchmarks, the program emphasizes structural reforms across sectors to address underlying macroeconomic imbalances. Active participation from key Ministries, Departments, and Agencies (MDAs) will be vital for implementation. Technical assistance and capacity development remain essential to successfully implement

this program, and the authorities look to the Fund and other development partners for continued support in this area.

Conclusion

21. Our authorities remain firmly committed to restoring macroeconomic stability, strengthening fiscal governance, and fostering the conditions necessary for inclusive, private sector–led growth. These coordinated efforts are expected to reduce economic vulnerabilities, enhance public sector efficiency, and unlock the country's long-term development potential. They look forward to continuing engagement with the Fund, including the possibility of a successor arrangement post-election.