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MALAWI

JOINT WORLD BANK-IMF DEBT SUSTAINABILITY ANALYSIS

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MALAWI: JOINT BANK-FUND DEBT SUSTAINABILITY ANALYSIS[2]	
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) in November 2022, given the deteriorating macroeconomic outlook and lack of progress on debt restructuring. This DSA presents an analysis of Malawi's debt outlook prior to the implementation of the authorities' planned external debt restructuring.

Under the baseline scenario, the Present Value (PV) of PPG external debt-to-GDP ratio remains below the threshold throughout the horizon. However, breaches are observed in the PV of debt-to-exports, debt service-to-exports, and debt service-to-revenue ratios over the medium term—with significant external debt servicing needs (around 60 percent of exports in 2023) falling due in the near term. The debt service-to-exports ratio remains in breach beyond the medium-term horizon. The PV of Malawi's overall public debt-to-GDP was around 67 percent in 2022 and remains significantly above the threshold through the medium term. Malawi's debt is currently unsustainable. Timely and complete implementation of the authorities' debt restructuring strategy would be required for the external debt burden to be considered sustainable on a forward-looking basis.

[1] The current DSA follows the revised Debt Sustainability Framework (DSF) for LICs and Guidance Note (2017) in effect as of July 1, 2018.

[2] Malawi's Composite Indicator (CI) is based on the latest published vintage (2021 Country Policy and Institutional Assessment, CPIA) and the IMF's April 2023 World Economic Outlook. The CI remains 'weak' with a CI score of 2.42.

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). Public debt used for this DSA is public and publicly guaranteed (PPG) external (as defined on a residency basis) and public 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 (such as the social security fund and extra budgetary funds), or nonguaranteed state-owned enterprise (SOE) debt. [3,4]

Text Table 1. Malawi: Coverage of Public Sector Debt, 2022

	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, government-guaranteed debt			
		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	4.0	Limited coverage, 0.6 percent for contingent liabilities due to swaps, 1.3 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)			11.0	

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%.

BACKGROUND AND RECENT DEVELOPMENTS

2. **This DSA is being conducted in the context of the first review of the Staff-Monitored Program with Executive Board Involvement (PMB).** The last Low-Income Country (LIC) DSA using the LIC-Debt Sustainability Framework (DSF) was considered by the Executive Board in November 2022 as part of the request for disbursement under the Rapid Credit Facility and request for a PMB.[5] Malawi is

[3] The contingent liabilities shock from 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 public-private partnerships reported that subject the authorities to contingent liabilities.

[4] The government has recognized the importance of increasing debt coverage and requested the World Bank to support in creating a contingent liability framework under the FY24 SDFP.

[5] The last joint DSA can be found in IMF Country Report No. 22/352, November 2022.

subject to International Development Association (IDA)'s Sustainable Development Finance Policy (SDFP) and the IMF's Debt Limit Policy (DLP), which both impose a zero non-concessional debt ceiling.

3. Malawi has been affected by a series of shocks since the approval of the PMB, including an outbreak of cholera and Cyclone Freddy. Real GDP growth in 2022 decelerated sharply to 0.8 percent, as projected in the PMB, from the revised official rate of 4.6 percent in 2021. This reflected two tropical storms that hit Malawi in the first quarter of 2022, interruptions to electricity supplies due to damaged turbines, shortened 2021/22 agricultural season rains, and spillover effects from Russia's invasion of Ukraine through higher fuel, fertilizer, and food prices. From late 2022 to early 2023, Malawi experienced its worst outbreak of cholera in decades, forcing the closure of schools and businesses. Then, in the first quarter of 2023, southern Malawi was hit by Cyclone Freddy, resulting in a significant death toll, the destruction of critical infrastructure, and agriculture production losses.

4. In this context, inflation has been roughly the same as expected for end-2022. Average inflation was 20.8 percent in 2022, up from 9.3 percent in 2021. However, inflation (y-o-y) continues to rise and reached 29.3 percent in May 2023. Inflation was driven by both food and nonfood items, reflecting passthrough from a 25-percent currency devaluation in May 2022, high global prices for fuel, fertilizer, and food, and prolonged supply disruptions. In April 2023, the RBM raised the policy rate to 22 percent, from 18 percent, to signal its policy stance. Money growth, which has also been fueling inflation, has begun to decelerate, but achieving price stability will also require reducing the fiscal deficit and related government borrowing, which has been driving money creation and crowds out private sector access to financing.

5. The fiscal deficit in FY22/23 (April/March) was larger than expected at the time of the PMB. Revenue came in higher than expected, reflecting larger project grants to help Malawi cope with the series of shocks, but expenditure overruns were even larger, reflecting higher spending needs associated with higher food, fuel, and fertilizer prices, the cholera outbreak, and Cyclone Freddy. The previously budgeted expenditures took longer to slow than anticipated due to weaknesses in public financial management (PFM). In addition, the May 2022 currency devaluation gave rise to losses at the RBM, due to its net-negative foreign asset position. By law, the government was required to recapitalize the RBM at the end of the calendar year, which increased government capital transfers by 1.4 percentage points of GDP. As a result, the overall deficit reached 11.8 percent of GDP, compared with 9.0 percent projected at the time of the PMB. The domestic primary deficit was 3.8 percent of GDP compared with the PMB's 0.6 percent.

6. Meanwhile, external strains—including shortages of foreign exchange, difficulties in securing trade credit, and a widening spread between official and bureau exchange rates—have heightened. A sharp contraction in reported imports reduced the current account deficit to 3.2 percent of GDP in 2022, much narrower than the 14.8 percent of GDP projected at the time of the PMB and the 14.1 percent of GDP outturn in 2021. This is consistent with the depreciation of the exchange rate and reported difficulties in acquiring foreign exchange. But it is also likely to reflect an increase in informal imports (corroborated, for example, by the large discrepancy between fuel imports data from the customs authority and other sources), in the context of stigma associated with transacting away from the official exchange rate. Notwithstanding this uncertainty in relation to the accuracy of the official data (which are still subject to revision), anecdotal accounts provided by the authorities and others do support the notion that the cost and difficulty of securing foreign currency have weighed on private sector consumption and investment in some sectors of the economy.

7. **Despite the sharp reduction in the current account deficit, FX reserve accumulation has been slower than expected.** As of end-2022, gross official reserves stood at 1% of GDP. This is consistent with foreign currency leaving the country via informal imports, as described above, or other outflows of capital. The RBM has struggled to accumulate reserves, despite the imposition of surrender requirements on exporters, in part reflecting pressure to provide foreign exchange to meet demand from importers following a withdrawal of international banks confirming letters of credit (LCs), particularly for fuel and other strategic imports. In addition, rollover risks of the RBM's foreign currency swaps materialized near the end of 2022, and the stock of foreign exchange reserves thus remained low. In June 2023, the RBM restarted FX auctions to facilitate price discovery for the exchange rate.

8. **The authorities continue to pursue the external debt restructuring strategy announced last year, which staff assesses to represent a challenging but credible path to external debt sustainability.** Nevertheless, risks have increased since the time of the PMB request. Malawi remains in negotiations with its commercial and official bilateral creditors. If completed in a timely manner, the proposed strategy would lower Malawi's risk of external debt distress to moderate in the medium term through a substantial reduction in the net present value (NPV) of the debt and of the short and medium-term debt servicing needs (Box 1).

Box 1. Malawi: October 2022 Debt Restructuring Strategy

The authorities have announced a debt restructuring strategy which will serve as the cornerstone for restoring debt sustainability. This follows a decade in which Malawi's external debt (as a share of GDP) has increased by over 80 percent, leading to an unsustainable debt burden and servicing costs. In May 2022, 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:

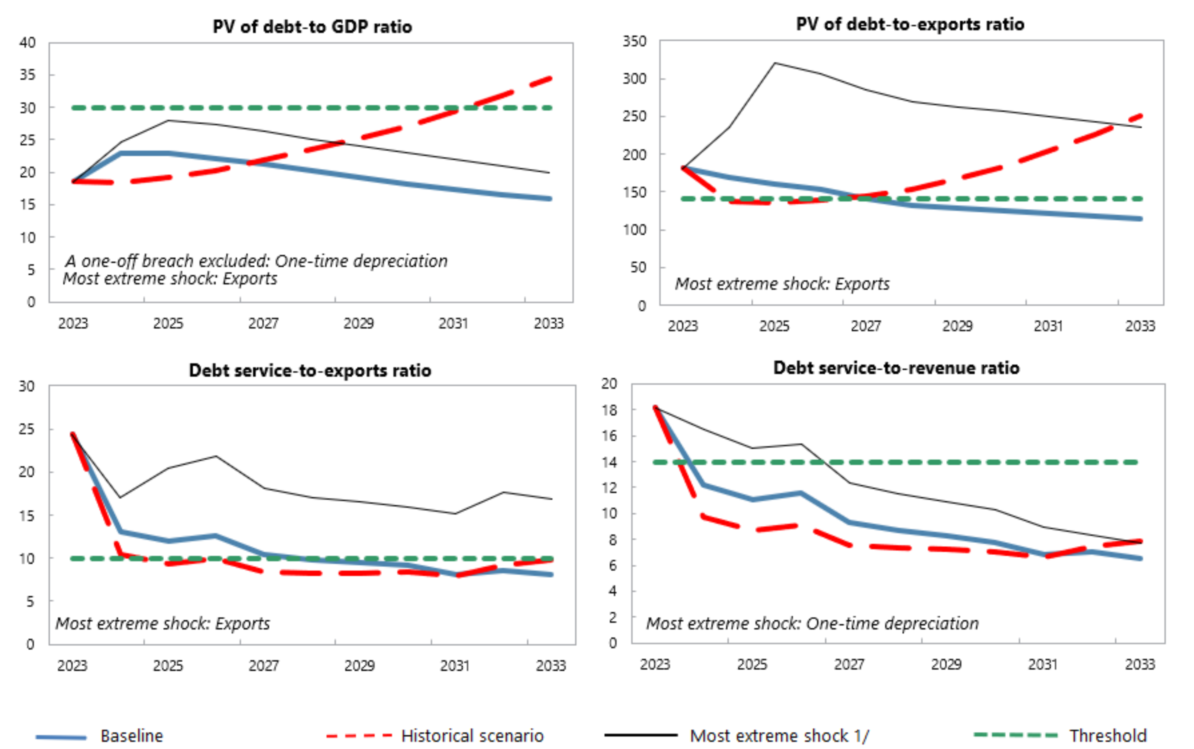
- Bringing external public debt back to a moderate risk of debt distress in the medium term through a combination of policy adjustment and the necessary debt treatment. The debt strategy is designed to ensure all external DSA solvency and liquidity ratios move below their respective thresholds under the baseline over the medium term. As such, the present value of debt-to-GDP ratio falls below 30 percent, the present value of debt-to-exports ratio falls below 140 percent, the debt service-to-exports ratio falls below 10 percent, and the debt-to-revenue ratio falls below 14 percent in the medium term (see chart panel below).
- Mobilization of non-debt-creating flows to ensure that external and fiscal financing gaps are closed over the program period, including through the debt treatment and the mobilization of external grant support from development partners.

Box 1. Malawi: October 2022 Debt Restructuring Strategy (Concluded)

- The corresponding NPV debt reduction sought at the time of the PMB was US$579 million. This would be achieved via significant maturity extension and reprofiling of scheduled payments so as to provide important near-term liquidity relief and to bring Malawi's external debt servicing costs in the medium term to a sustainable level.

The authorities remain in negotiations with commercial and official bilateral creditors, but progress has been slow to date. Malawi continues to run arrears vis-à-vis Trade and Development Bank (TDB), as agreed by both parties to facilitate negotiations, while it remains current on its obligations towards AFREXIM Bank and its official creditors (Text Table 2).[1] In conjunction with their debt advisors, Malawi is in the process of obtaining financing assurances in line with the restructuring strategy and the parameters of the PMB. The timeline to complete this process remains uncertain, but the authorities are hopeful of progress in the coming months

Indicators of Public and Publicly Guaranteed External Debt Under Post-Debt Restructuring Scenario, 2023–33



[1] TDB and Afrexim Bank are classified as commercial creditors as per the guidelines set out in the IMF's 'Reviews of the Fund's Sovereign Arrears Policies and Perimeter' (May 2022).

Text Table 2. Malawi: Decomposition of Public Debt and Debt Service by Creditor,2022-20241

	Debt Stock (end of period)			Debt Service			
	2022			2023	2024	2023	2024
	(In Million US$)	*(Percent total debt)*	*(Percent GDP)*	*(In Million US$)*		*(Percent GDP)*	
Total	8,642	100	75	2,347	1,892	20	19
External	3,949	46	34	791	366	7	4
Multilateral creditors[2]	2,559	30	22	100	119	1	1
IMF	438	5	4	39	41	0	0
World Bank	1,318	15	11	33	44	0	0
AfDB	432	5	4	8	11	0	0
Other Multilaterals	372	4	3				
o/w: IFAD	106	1	1	4	4	0	0
OFID	76	1	1	10	10	0	0
Bilateral Creditors	418	5	4	44	40	0	0
Paris Club	4	0	0	3	0	0	0
o/w: Spain	3	0	0				
Belgium	1	0	0				
Non-Paris Club	414	5	4	41	40	0	0
o/w: EXIM China	222	3	2	21	21	0	0
EXIM India	114	1	1	14	13	0	0
Saudi Arabia	29	0	0	1	2	0	0
Local debt with non-residents	87	1	1	11	19	0	0
Commercial creditors	832	10	7	608	166	5	2
o/w: AFREXIM	495	6	4	237	166	2	2
TDB	337	4	3	371	0	3	0
FX Swaps with non-residents	53	1	0	27	22	0	0
Domestic	4,693	54	41	1,556	1,526	19	15
Held by residents, total	4,555	53	40	1,545	1,515	19	15
FX Swaps with resident	139	2	1	11	11	0	0
Memo items:							
Collateralized debt[3]	508	6	4				
o/w: Related							
o/w: Unrelated		0	0				
Contingent liabilities	53	1	0				
o/w: Public guarantees		0	0				
o/w: Other explicit contingent liabilities[4]							
Nominal GDP	12,534						

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/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
4/Includes other-one off guarantees not included in publicly guaranteed debt (e.g. credit lines) and other explicit contingent liabilities not elsewhere classified (e.g. potential legal claims, payments resulting from PPP arrangements).

UNDERLYING ASSUMPTIONS

9. Financing assumptions rest on the implementation of a strict reform program by the authorities while debt restructuring negotiations are ongoing. Under the PMB, the authorities committed to a macroeconomic adjustment and reform program to restore macroeconomic stability and promote durable and inclusive growth, and to establish a track record to support a request for an ECF arrangement. Moreover, decisive actions to secure financing and debt sustainability assurances are envisaged in the authorities' debt restructuring strategy (Box 1), which includes the replacement of non-concessional external financing by non-debt-creating flows (including grants and debt relief).[6]

10. The key macroeconomic assumptions have been updated from the DSA that accompanied the PMB request (the November 2022 DSA hereafter). The baseline scenario presented here is in line with the macroeconomic adjustment path envisaged under the PMB and is intended to represent a pre-debt restructuring scenario (Text Table 3). Changes to the underlying assumptions relative to the November 2022 DSA are as follows:

- **Growth** is weaker in the near term, reflecting the hit to activity associated with Cyclone Freddy, particularly on the agricultural sector, and the impact of foreign exchange shortages and other external shocks. Real GDP growth is now projected to be 1.7 percent in 2023, down from 2.4 percent projected at the time of the PMB, before recovering to 4.6 percent in the medium term in line with the PMB. This is underpinned by gradual macroeconomic stabilization and a recovery across all sectors, including the resumption of electricity generation at the Kapichira hydropower plant, which will support the manufacturing sector. The long-term growth assumptions incorporate the expected impact of future weather-related shocks, given Malawi's vulnerability to climate change.

- The outlook for **inflation** has similarly worsened, despite some easing in global price pressures. CPI inflation is projected to reach 24.8 percent in 2023, up from 22.7 percent as expected at the time of the PMB. In the medium term, inflation returns to around 6.5 percent as external shocks fade and money growth is brought under control. Monetary policy is assumed to remain tight, with **broad money growth** in line with nominal GDP.

- The baseline scenario includes a challenging **fiscal adjustment**. It aims to, at a minimum, stabilize public debt by the end of medium term—i.e. to reduce the primary deficit, preliminarily estimated at 4.6 percent of GDP in 2022, to sustainably reach the debt-stabilizing primary deficit by 2028 at the latest. Accordingly, the size of fiscal adjustment in terms of **domestic primary balance** is set at about 1½ percentage point of GDP per year—which is within the norm of fiscal adjustments for fragile states and is consistent with policy adjustments identified in recent Technical Assistance on domestic revenue mobilization. The adjustment on expenditure will focus on scaling back the Affordable Input Programme (fertilizer subsidies) by improving targeting and efficiency, and reallocation of spending towards building a foundation for growth and boosting

[6] Consistent with the LIC DSF Guidance Note, grants are only included in the DSA if they are firmly committed or, if they don't change the risk of debt distress rating, where they are considered highly likely.

human and physical capital, including improvements in the social safety net. This is supported by the introduction of new revenue measures as well as improvements in tax administration.

- The baseline scenario assumes that the RBM takes decisive steps to rebuild **gross official reserves,** which increase to a level better able to withstand external shocks (assessed to be at least four months of imports cover) as soon as possible but no later than by the end of the medium term. This will require the central bank to reduce sales of foreign exchange to the market and move quickly to being a consistent net buyer.

Text Table 3. Malawi: Underlying DSA Assumptions, 2019–28

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Avg. 2028-43
					(year-on-year percent change)						
Real GDP Growth											
Current	5.4	0.9	4.6	0.8	1.7	3.3	3.8	4.3	4.5	4.6	4.6
Previous	5.4	0.9	2.2	0.8	2.4	3.2	3.8	4.3	4.5	4.6	...
					(Percent of GDP)						
Primary Balance[1/]											
Current	-1.9	-2.7	-3.6	-5.0	-6.8	-4.9	-1.6	1.2	1.5	2.1	2.2
Previous	-1.9	-2.7	-3.7	-5.4	-3.3	-1.7	-0.2	0.7	0.8	1.4	...
Total Public Debt[1/]											
Current	45.3	54.8	61.5	75.2	80.2	80.2	80.9	79.6	78.1	75.1	54.1
Previous	45.3	54.8	64.0	76.6	74.6	74.5	73.8	72.6	71.0	68.9	...
Current Account Deficit											
Current	12.6	13.8	14.1	3.2	7.9	9.0	8.6	7.6	6.3	5.9	3.8
Previous	12.6	13.6	14.6	14.8	13.6	14.3	13.1	11.2	9.6	9.0	...
FDI											
Current	1.0	0.8	0.8	0.3	0.4	0.5	0.8	0.9	0.9	1.0	1.3
Previous	1.0	0.8	0.7	0.8	0.9	1.2	1.3	1.4	1.5	1.6	...

Sources: Malawian authorities and IMF staff calculations and projections.

[1/] Fiscal Data refers to fiscal year; e.g. 2021 = FY2020/21

- The **current account deficit** is projected to widen in the coming years as imports rebound (and informal imports reduce), before improving gradually over the medium term. The current account balance reaches around 6 percent of GDP in 2028, relative to 9.5 percent of GDP at the time of the PMB, reflecting the fact that not all the squeeze experienced in 2022 unwinds over this horizon. Within this, **exports of goods and services** increases from 9 percent of GDP in 2022 to 15.3 percent of GDP in 2028, roughly in line with the PMB over the medium term. The external sector adjustment will be supported by efforts to boost exports, including government measures to promote agriculture commercialization through supporting small farmers and attracting large anchor firms, as well as expanding mining activity.

- The total **external financing gap** (from 2023 to 2028) is projected to amount to around $1.5 billion (roughly 12 percent of 2022 GDP). The assumed financing mix and terms for the government are in line with Malawi's

Medium-Term Debt Management Strategy (MTDS), as in the November 2022 DSA.[7] The cost of domestic financing is assumed to decrease gradually over the medium term, as monetary policy normalizes and the outlooks stabilizes, with issuance across the curve but predominantly at maturities between two and five years. No debt treatment is assumed in the baseline scenario; instead, net domestic financing is assumed to fill the residual gap on market terms in the baseline scenario. Non-concessional external financing is wound down over time, with prospective concessional budget support grants and loans assumed to come in CY2023 Q4. In the medium term the external debt stock is smaller as a share of GDP and largely composed of financing from multilateral creditors.

REALISM OF THE BASELINE ASSUMPTIONS

11. The realism tools suggest that the baseline scenario is not significantly out of line with Malawi's historical experience and cross-country experiences (Figures 3 and 4). The projected trajectory of nominal external and overall public debt as a share of GDP is broadly similar to that in the November 2022 DSA. Absent restructuring, the growth of external debt is slightly lower over the next five years than in the preceding five years, partly reflecting the improvement in the current account balance. Overall public debt is projected to grow by notably less, given the assumed fiscal adjustment.

12. The pace of adjustment in the primary balance in the next three years is ambitious and falls within the top quartile of historical data on LIC adjustment programs (Figure 4). 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 Cyclone Freddy and other supply shocks, as well as the positive catalytic effects of the assumed reform path. These results highlight the challenging nature of the adjustment path and support the assessment in the Staff Report that the balance of risks is tilted to the downside.

COUNTRY CLASSIFICATION AND MODEL SIGNAL

13. Malawi's debt-carrying capacity based on the Composite Indicator (CI) is assessed as weak (Text Table 4). The CI is determined by the World Bank's 2021 Country Policy and Institutional Assessment (CPIA), the IMF's April 2023 World Economic Outlook, and other variables informed by the macroeconomic framework, including real GDP growth, import coverage of reserves, remittances as a 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 5).

[7] Updated IDA disbursement projections (June 26, 2023) with additionality of $38mn, $13mn, $49mn, $30mn and -$39mn in 2023 through 2027, respectively, are not reflected in this. These data include maturing of operations committed during previous IDA cycles and a proactive strategy by the World Bank to fast-track implementation of projects and will not materially alter the impact on the DSA solvency and liquidity indicators, given the concessional nature of this financing.

Text Table 4. Malawi: Composite Index

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 2.42	Weak 2.27	Weak 2.34

Calculation of the CI Index:

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	3.147	1.21	50%
Real growth rate (in percent)	2.719	3.432	0.09	4%
Import coverage of reserves (in percent)	4.052	21.568	0.87	36%
Import coverage of reserves^2 (in percent)	-3.990	4.652	-0.19	-8%
Remittances (in percent)	2.022	2.223	0.04	2%
World economic growth (in percent)	13.520	2.856	0.39	16%
CI Score			2.42	100%
CI rating			Weak	

Text Table 5. Malawi: Debt Carrying Capacity and Thresholds

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

EXTERNAL debt burden thresholds	
PV of debt in % of	
Exports	140
GDP	30
Debt service in % of	
Exports	10
Revenue	14

TOTAL public debt benchmark	
PV of total public debt in percent of GDP	35

SCENARIO STRESS TESTS

14. Standard scenarios stress test and a contingent liability stress test are conducted (Text Table 1, and Tables 3 and 4). The latter features a one-off increase of 11 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 relating to foreign exchange swaps, contingent liabilities associated with SOEs, and potential future bank recapitalization needs.

15. A second tailored scenario featuring a commodity price shock is also conducted (Tables 3 and 4). Given that 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 external public debt is assessed to be in debt distress, reflecting the country's ongoing debt restructuring negotiations. Under the baseline scenario, the PV of PPG external debt-to-GDP ratio remains below the threshold. But there are significant and sustained breaches of the other solvency and liquidity indicators (Figure 1). The PV of debt-to-exports, debt service-to-exports, and debt service-to-revenue ratios are currently above their respective thresholds and remain so for a prolonged period—through 2029 in the case of debt-service-to-exports. The debt service burden is exceptionally high in the near-term, reaching 60 percent of exports and 45 percent of revenue in 2023.

17. Malawi's external debt is currently unsustainable. If the debt restructuring strategy were to be executed successfully, alongside implementation of the envisioned macroeconomic adjustment, it would be considered sustainable on a forward-looking basis. A successful debt treatment of commercial and official bilateral debt in line with the authorities' strategy (as set out in Box 1) would significantly reduce near-term debt service and bring the relevant solvency and liquidity indicators below their respective thresholds by 2028 or sooner. This would bring Malawi back to moderate risk of external debt distress over the medium term.

18. The stress scenarios highlight that Malawi's capacity to service its debt is particularly sensitive to the outlook for 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. 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 indicators).

PUBLIC DSA

19. Malawi's overall public debt is assessed to be in distress, given the ongoing external debt restructuring negotiations, and fiscal slippages have added to the increasing risks stemming from

domestic debt. Under the baseline scenario, the PV of overall public debt reaches 68.8 percent of GDP in 2023, significantly above the threshold of 35 percent. This indicator declines somewhat over the medium term but remains in breach. Overall public debt service peaks in 2025 at 147 percent of revenues and remains high in the medium term. Successful implementation of the government's external debt restructuring strategy would significantly reduce the PV and servicing costs of overall public debt, although both would remain elevated, albeit decreasing, in the medium term. The overall risk of public debt distress would remain high in this scenario.

RISK RATING AND VULNERABILITIES

20. Malawi is currently in debt distress, but conditional on the successful completion of the government's debt restructuring strategy, its external debt would be considered sustainable on a forward-looking basis. Absent restructuring the debt burden is assessed to be unsustainable, given the vulnerabilities associated with the significant and sustained breaches of the DSA's solvency and liquidity indicators.

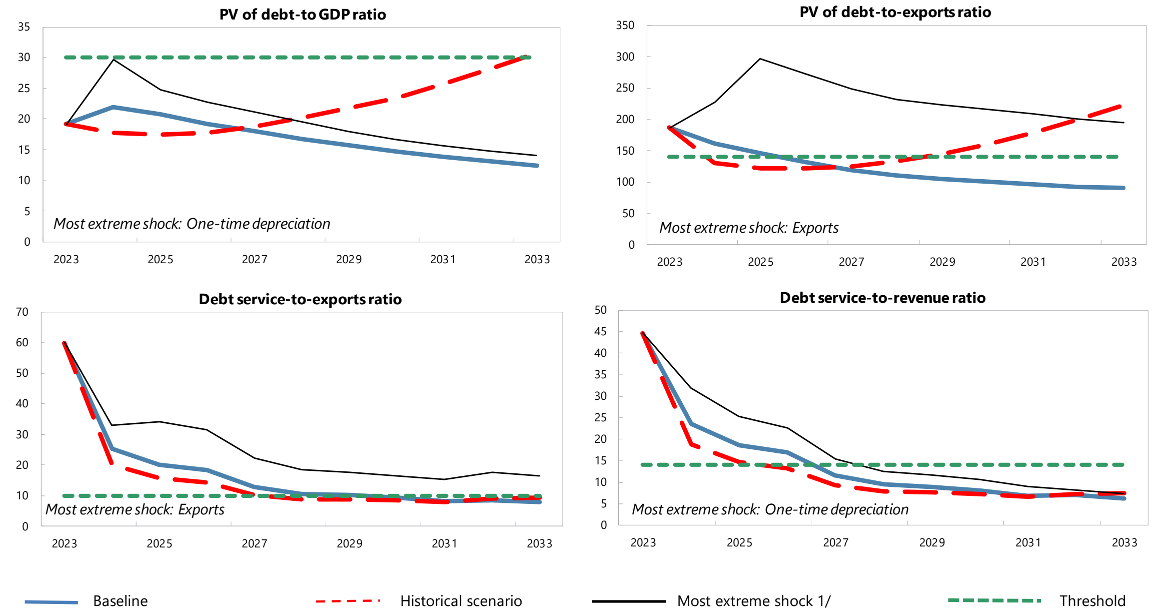
21. This assessment is subject to significant risk and uncertainty. Most notably, slow progress on the completion of Malawi's debt restructuring strategy will make it increasingly difficult to close the government's financing gaps the longer negotiations continue. Likewise, there is limited room for any further slippage on the ambitious fiscal adjustment, and associated implementation of public financial management measures, envisioned as part of the PMB. Malawi is also vulnerable to a range of external shocks and will remain even more so if the authorities fail to rebuild external buffers. The level of foreign exchange reserves is now historically low.

22. Mitigating factors include the authorities' strong commitment to macroeconomic adjustment, including corrective actions to complete the first review of the PMB. Expedited and comprehensive implementation of necessary policy actions has the potential to catalyze a positive feedback loop: as the outlook improves, resilience is strengthened, and confidence is boosted. Further upside risks include successful efforts to pursue export diversification, including sooner-than-expected development of mining projects, which would enhance Malawi's capacity to meet future debt servicing needs.

AUTHORITIES' VIEWS

23. The authorities are in broad agreement with the WB's and IMF's staff assessments. They remain determined to take bold policy action and to build a track record to support a future application for a UCT-quality Fund program. This will include strong corrective actions as necessary to ensure the PMB remains on track. Restoring macroeconomic stability will require political commitment to strong fiscal and external adjustment, as well as meaningful debt relief as set out in the authorities' external debt restructuring strategy.

Figure 1. Malawi: Indicators of Public and Publicly Guaranteed External Debt Under Baseline (Pre-Debt Restructuring) Scenarios, 2023–33



Customization of Default Settings		
	Size	Interactions
Tailored Stress		
Combined CL	Yes	
Natural disaster	n.a.	n.a.
Commodity price 2/	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	0.7%	0.7%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	34	34
Avg. grace period	6	6

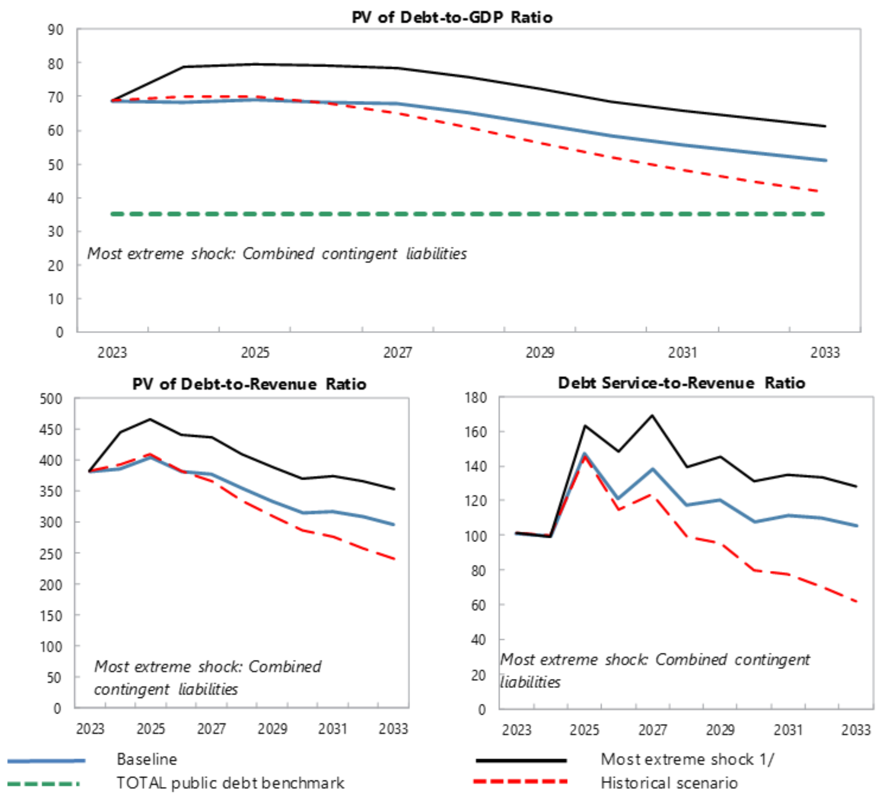
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2033. 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.

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

Figure 2. Malawi: Indicators of Public Debt Under Baseline Scenarios, 2023–33



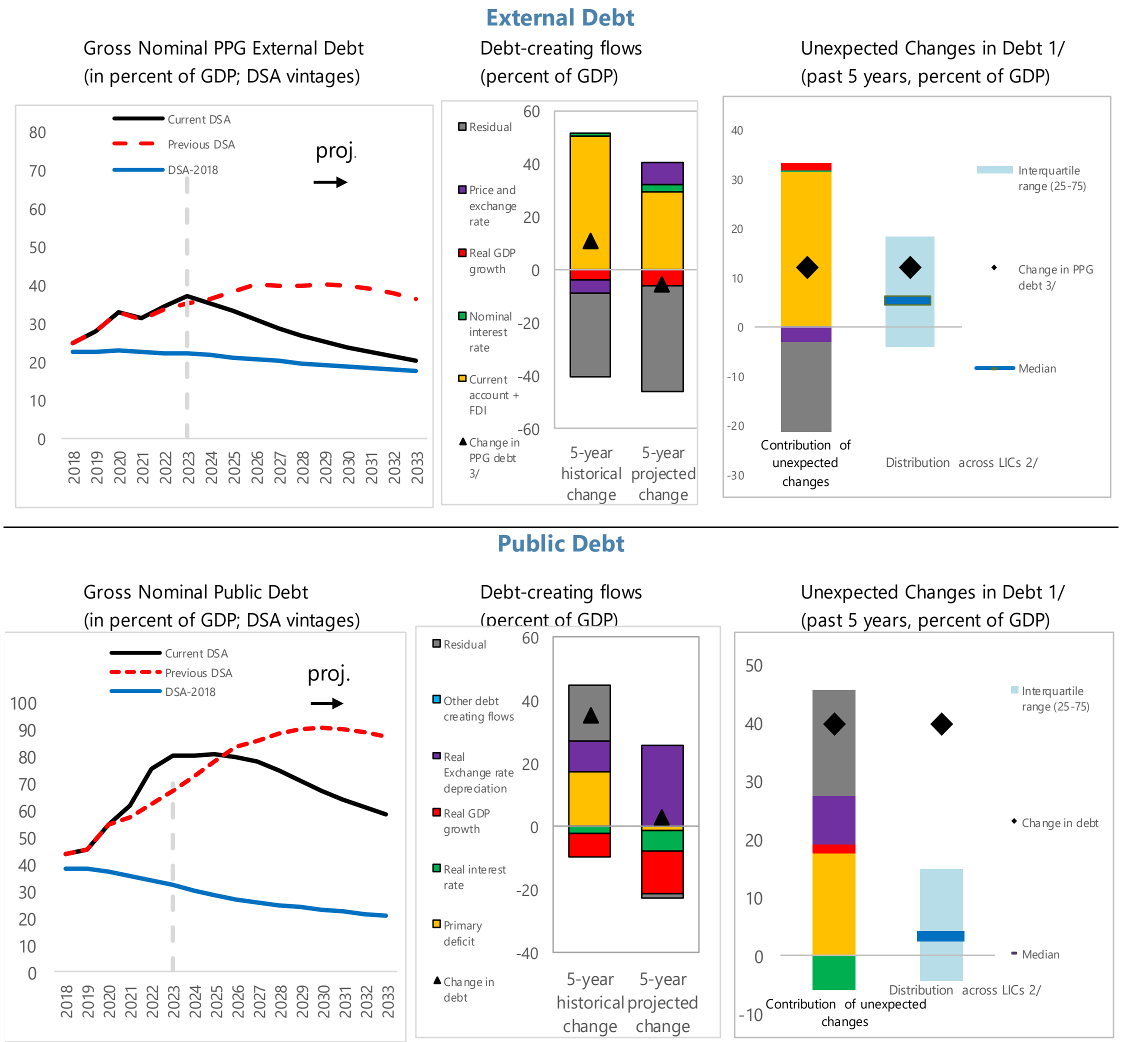
Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	8%	8%
Domestic medium and long-term	78%	78%
Domestic short-term	14%	14%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	0.7%	0.7%
Avg. maturity (incl. grace period)	34	34
Avg. grace period	6	6
Domestic MLT debt		
Avg. real interest rate on new borrowing	5.8%	5.8%
Avg. maturity (incl. grace period)	3	3
Avg. grace period	1	1
Domestic short-term debt		
Avg. real interest rate	2.3%	2.3%

* 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 2033. 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



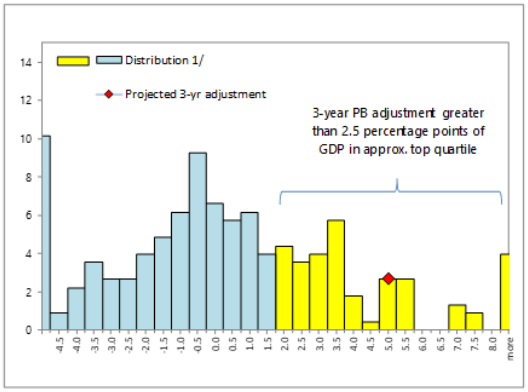
1/ Difference between anticipated and actual contributions on debt ratios.

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.

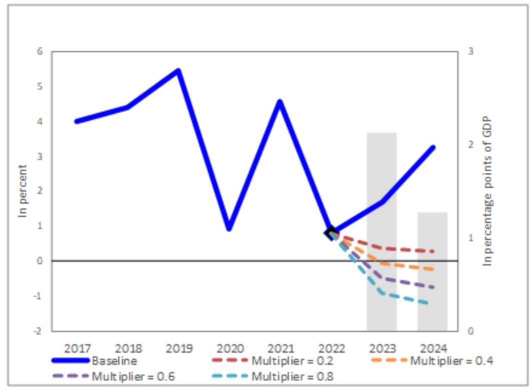
Figure 4. Malawi: Realism Tools

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



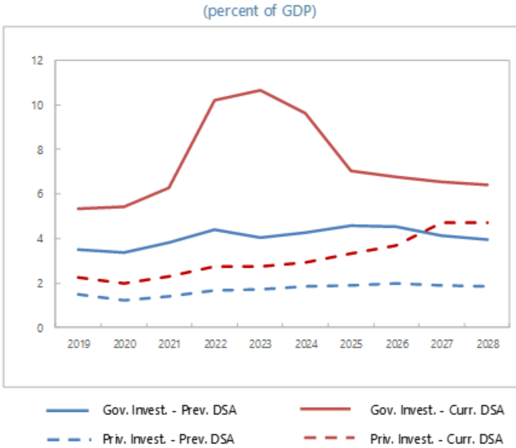
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

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)

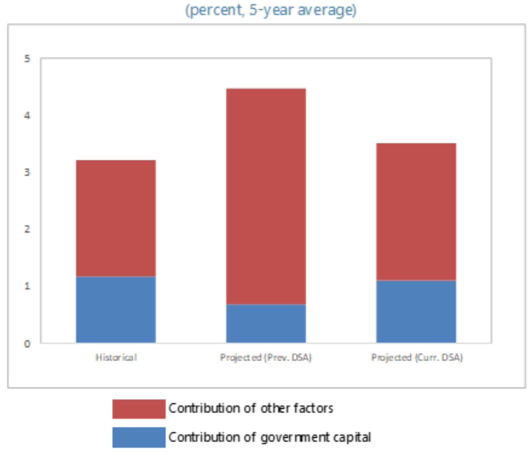
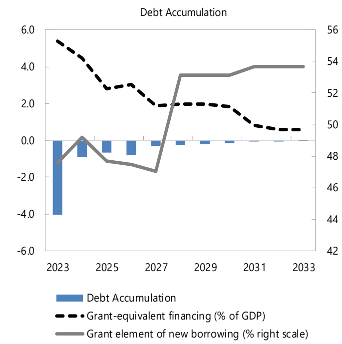
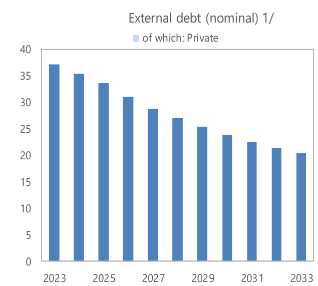


Table 1. Malawi: External Debt Sustainability Framework, Baseline Scenario, 2020–43
(Percent of GDP, Unless Otherwise Indicated)

	Actual			Projections												Average 8/	
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2043	Historical	Projections
External debt (nominal) 1/	32.9	31.5	34.4	37.1	35.3	33.5	30.9	28.8	27.0	25.3	23.8	22.5	21.3	20.3	12.9	26.3	27.8
of which: public and publicly guaranteed (PPG)	32.9	31.5	34.4	37.1	35.3	33.5	30.9	28.8	27.0	25.3	23.8	22.5	21.3	20.3	12.9	26.3	27.8
Change in external debt	5.1	-1.4	2.8	2.7	-1.8	-1.8	-2.6	-2.1	-1.8	-1.7	-1.5	-1.3	-1.2	-1.0	-1.4		
Identified net debt-creating flows	11.1	11.2	2.8	5.0	6.2	6.3	4.5	4.1	3.7	3.7	3.5	2.6	2.2	2.1	-0.5	8.6	4.0
Non-interest current account deficit	13.6	13.8	2.9	4.9	7.5	7.8	6.5	6.2	5.7	5.8	5.6	4.6	4.3	4.2	1.4	10.8	5.7
Deficit in balance of goods and services	17.6	17.2	5.7	9.0	10.7	10.3	9.5	8.3	7.8	7.9	7.8	6.9	6.7	6.6	4.2	14.0	8.3
Exports	8.2	9.5	9.0	10.2	13.5	14.2	14.5	15.1	15.3	15.0	14.7	14.4	14.1	13.8	10.6		
Imports	25.8	26.7	14.6	19.3	24.2	24.5	24.0	23.4	23.1	22.8	22.4	21.3	20.8	20.4	14.9		
Net current transfers (negative = inflow)	-5.6	-4.9	-4.4	-5.7	-5.1	-4.4	-5.0	-4.2	-4.1	-4.1	-4.1	-4.2	-4.2	-4.3	-4.6	-4.8	-4.5
of which: official	-0.4	0.0	-0.6	-1.9	-0.7	-0.2	-0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other current account flows (negative = net inflow)	1.5	1.6	1.6	1.5	1.9	2.0	2.0	2.0	2.0	2.0	1.9	1.9	1.9	1.9	1.8	1.5	1.9
Net FDI (negative = inflow)	-0.8	-0.8	-0.3	-0.4	-0.5	-0.8	-0.9	-0.9	-1.0	-1.1	-1.2	-1.2	-1.3	-1.4	-1.4	-1.4	-1.0
Endogenous debt dynamics 2/	-1.7	-1.8	0.2	0.6	-0.8	-0.7	-1.1	-1.2	-1.0	-1.0	-0.9	-0.9	-0.8	-0.8	-0.5		
Contribution from nominal interest rate	0.2	0.3	0.3	1.2	0.7	0.6	0.3	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.1		
Contribution from real GDP growth	-0.2	-1.4	-0.3	-0.6	-1.4	-1.3	-1.4	-1.3	-1.3	-1.2	-1.1	-1.0	-1.0	-0.9	-0.6		
Contribution from price and exchange rate changes	-1.7	-0.7	0.1	...	...	...	...	...	...	...	...	...	...	...	...		
Residual 3/	-6.0	-12.6	0.1	-2.3	-8.0	-8.0	-7.1	-6.2	-5.5	-5.4	-5.0	-3.8	-3.4	-3.1	-0.8	-7.1	-5.3
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	...	...	23.8	19.2	21.9	20.8	19.2	18.0	16.8	15.7	14.7	13.9	13.1	12.4	7.8		
PV of PPG external debt-to-exports ratio	...	...	264.7	187.1	162.3	145.9	132.3	119.3	110.1	104.8	100.1	96.5	92.9	90.2	73.1		
PPG debt service-to-exports ratio	7.2	6.8	12.0	59.8	25.2	20.1	18.3	12.9	10.59	10.2	9.5	8.2	8.5	7.9	5.6		
PPG debt service-to-revenue ratio	4.6	4.9	7.8	44.7	23.6	18.7	17.0	11.6	9.4	8.8	8.1	6.9	7.0	6.3	19.8		
Gross external financing need (Billion of U.S. dollars)	1.6	1.8	0.5	1.4	1.1	1.1	0.9	0.9	0.8	0.8	0.8	0.7	0.7	0.7	0.2		
Key macroeconomic assumptions																	
Real GDP growth (in percent)	0.9	4.6	0.8	1.7	3.3	3.8	4.3	4.5	4.6	4.6	4.6	4.6	4.6	4.6	4.6	3.6	4.1
GDP deflator in US dollar terms (change in percent)	6.4	0.7	-0.3	1.3	-19.2	-1.4	-0.5	0.8	1.0	1.1	1.1	0.9	1.1	1.1	4.3	0.8	-1.2
Effective interest rate (percent) 4/	0.7	1.0	1.1	3.5	1.5	1.7	0.9	0.5	0.8	0.8	0.8	0.8	0.8	0.8	0.7	0.9	1.2
Growth of exports of G&S (US dollar terms, in percent)	-19.2	23.3	-5.5	17.5	10.0	7.9	6.0	9.2	6.9	3.6	3.7	3.6	3.4	3.4	3.9	-1.1	6.8
Growth of imports of G&S (US dollar terms, in percent)	0.3	9.2	-44.9	35.5	4.9	3.5	1.6	2.7	4.2	4.6	3.8	0.3	3.1	4.0	3.4	-0.5	6.2
Grant element of new public sector borrowing (in percent)	...	...	...	47.6	49.2	47.7	47.5	47.0	53.1	53.1	53.1	53.7	53.7	53.7	53.7	...	50.8
Government revenues (excluding grants, in percent of GDP)	12.8	13.2	13.8	13.7	14.4	15.3	15.7	16.7	17.1	17.2	17.3	17.3	17.2	17.2	3.0	13.3	16.3
Aid flows (in Billion of US dollars) 5/	0.4	0.4	0.7	0.7	0.5	0.3	0.4	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	5.4	4.5	2.8	3.0	1.9	2.0	1.9	1.8	0.8	0.6	0.6	0.4	...	2.3
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	81.4	78.7	71.5	77.9	71.4	78.4	79.1	78.4	64.0	53.7	53.7	53.7	...	71.6
Nominal GDP (Billion of US dollars)	12	12	13	13	11	11	11	12	13	13	14	15	16	17	30		
Nominal dollar GDP growth	7.4	5.3	0.5	3.0	-16.6	2.3	3.8	5.3	5.6	5.8	5.8	5.5	5.8	5.8	9.1	4.5	2.9
Memorandum items:																	
PV of external debt 7/	...	...	23.8	19.2	21.9	20.8	19.2	18.0	16.8	15.7	14.7	13.9	13.1	12.4	7.8		
In percent of exports	...	...	264.7	187.1	162.3	145.9	132.3	119.3	110.1	104.8	100.1	96.5	92.9	90.2	73.1		
Total external debt service-to-exports ratio	7.2	15.2	12.0	59.8	25.2	20.1	18.3	12.9	10.6	10.2	9.5	8.2	8.5	7.9	5.6		
PV of PPG external debt (in Billion of US dollars)			3.0	2.5	2.4	2.3	2.2	2.2	2.1	2.1	2.1	2.1	2.1	2.1	2.4		
(PVt-PVt-1)/GDPt-1 (in percent)				-4.0	-0.9	-0.7	-0.8	-0.3	-0.2	-0.2	-0.1	0.0	-0.1	0.0	0.1		
Non-interest current account deficit that stabilizes debt ratio	8.5	15.2	0.0	2.1	9.3	9.6	9.1	8.3	7.5	7.5	7.1	5.9	5.5	5.2	2.8		

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





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g) + Εα (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, Ε=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).

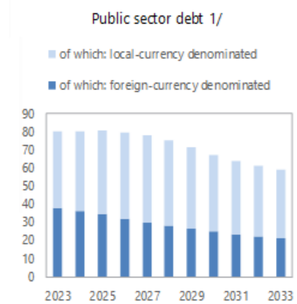
7/ Assumes that PV of private sector debt is equivalent to its face value.

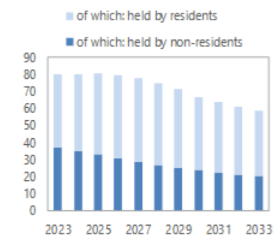
8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Table 2. Malawi: Public Sector Debt Sustainability Framework, Baseline Scenario, 2020–43
(Percent of GDP, Unless Otherwise Indicated)

	Actual			Projections								Average 6/	
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2033	2043	Historical	Projections
Public sector debt 1/	54.8	61.5	75.2	80.2	80.2	80.9	79.6	78.1	75.1	58.8	38.6	46.2	72.4
of which: external debt	32.9	31.5	34.4	37.1	35.3	33.5	30.9	28.8	27.0	20.3	12.9	26.3	27.8
Change in public sector debt	9.5	6.8	13.6	5.1	-0.1	0.7	-1.3	-1.5	-3.0	-2.4	-1.1		
Identified debt-creating flows	7.1	2.7	7.1	-7.8	-4.9	-2.5	-3.1	-3.0	-3.8	-3.2	-0.9	2.2	-4.2
Primary deficit	5.0	4.6	4.6	2.5	1.2	-0.4	-2.4	-2.2	-2.7	-2.0	-0.3	2.5	-1.5
Revenue and grants	14.5	15.0	17.3	18.0	17.7	17.1	18.0	17.9	18.5	17.2	3.0	15.5	17.8
of which: grants	1.8	1.9	3.6	4.3	3.3	1.8	2.2	1.2	1.3	0.0	0.0		
Primary (noninterest) expenditure	19.5	19.6	22.0	20.5	19.0	16.7	15.6	15.7	15.8	15.3	2.7	18.0	16.4
Automatic debt dynamics	2.1	-1.9	2.5	-10.3	-6.2	-2.1	-0.6	-0.8	-1.1	-1.2	-0.7		
Contribution from interest rate/growth differential	1.3	-3.3	-4.8	-10.3	-6.2	-2.1	-0.6	-0.8	-1.1	-1.2	-0.7		
of which: contribution from average real interest rate	1.7	-0.9	-4.3	-9.1	-3.6	0.9	2.7	2.6	2.3	1.4	1.1		
of which: contribution from real GDP growth	-0.4	-2.4	-0.5	-1.3	-2.5	-2.9	-3.3	-3.4	-3.4	-2.7	-1.7		
Contribution from real exchange rate depreciation	0.8	1.3	7.3	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	2.4	4.1	6.5	12.9	4.9	3.2	1.7	1.6	0.8	0.8	-0.2	2.5	2.7
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	66.7	68.8	68.4	69.2	68.5	67.7	65.3	51.1	33.4		
PV of public debt-to-revenue and grants ratio	...	...	385.2	382.6	386.1	403.7	381.1	378.4	353.8	296.5	1112.9		
Debt service-to-revenue and grants ratio 3/	24.9	18.7	35.9	101.1	99.2	147.1	121.1	138.0	117.5	105.5	395.3		
Gross financing need 4/	8.6	7.4	10.9	20.7	18.8	24.8	19.3	22.5	19.0	16.2	11.6		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	0.9	4.6	0.8	1.7	3.3	3.8	4.3	4.5	4.6	4.6	4.6	3.6	4.1
Average nominal interest rate on external debt (in percent)	0.7	0.6	1.1	3.8	2.0	1.8	0.9	0.5	0.8	0.8	0.8	0.9	1.3
Average real interest rate on domestic debt (in percent)	11.5	3.0	0.8	-9.3	2.1	9.0	10.6	9.4	7.9	6.5	7.2	8.3	5.4
Real exchange rate depreciation (in percent, + indicates depreciation)	4.0	5.9	25.7	...	...	...	...	...	...	...	...	12.7	...
Inflation rate (GDP deflator, in percent)	6.3	8.2	17.3	23.1	16.3	11.2	7.5	6.3	5.8	5.7	5.7	14.8	9.0
Growth of real primary spending (deflated by GDP deflator, in percent)	21.2	5.0	12.9	-5.2	-4.4	-8.4	-3.0	5.6	4.9	4.9	-74.6	6.3	0.8
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-4.5	-2.2	-9.0	-2.6	1.3	-1.1	-1.1	-0.7	0.3	0.4	0.9	-5.2	0.0
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





Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central government, central bank, government-guaranteed debt . Definition of external debt is 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, 2023–33 (Percent)

	Projections 1/										
	2023	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**
PV of debt-to GDP ratio											
Baseline	19	22	21	19	18	17	16	15	14	13	12
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	19	18	17	18	19	20	22	23	26	28	**31**
B. Bound Tests											
B1. Real GDP growth	19	23	22	20	19	18	17	16	15	14	13
B2. Primary balance	19	22	21	20	19	17	16	16	15	14	13
B3. Exports	19	24	26	24	23	22	20	19	18	17	16
B4. Other flows 3/	19	23	23	21	20	19	17	16	16	15	14
B5. Depreciation	19	30	25	23	21	20	18	17	16	15	14
B6. Combination of B1-B5	19	23	21	20	19	18	16	15	15	14	13
C. Tailored Tests											
C1. Combined contingent liabilities	19	22	21	20	19	18	17	16	15	15	14
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	19	22	21	19	18	17	16	15	14	13	12
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	**187**	**162**	**146**	132	119	110	105	100	96	93	90
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	**187**	131	122	122	125	133	**145**	**160**	**179**	**200**	**223**
B. Bound Tests											
B1. Real GDP growth	**187**	**162**	**146**	132	119	110	105	100	96	93	90
B2. Primary balance	**187**	**163**	**148**	135	123	114	110	106	103	100	98
B3. Exports	**187**	**228**	**297**	**273**	**249**	**232**	**224**	**216**	**209**	**201**	**194**
B4. Other flows 3/	**187**	**170**	**159**	**145**	132	122	117	112	108	104	101
B5. Depreciation	**187**	**162**	129	116	103	95	89	84	81	78	76
B6. Combination of B1-B5	**187**	**210**	**155**	**200**	**181**	**168**	**160**	**154**	**148**	**142**	138
C. Tailored Tests											
C1. Combined contingent liabilities	**187**	**165**	**150**	137	125	117	113	109	107	104	103
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	**187**	**162**	**146**	132	119	110	105	100	96	93	90
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	**59.8**	**25.2**	**20.1**	**18.3**	**12.9**	**10.6**	**10.2**	9.5	8	9	8
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	**60**	**20**	**16**	**14**	**10**	9	9	9	8	9	9
B. Bound Tests											
B1. Real GDP growth	**60**	**25**	**20**	**18**	**13**	**11**	**10**	9	8	9	8
B2. Primary balance	**60**	**25**	**20**	**18**	**13**	**11**	**10**	10	8	9	8
B3. Exports	**60**	**33**	**34**	**32**	**22**	**18**	**18**	**17**	**15**	**18**	**16**
B4. Other flows 3/	**60**	**25**	**20**	**19**	**13**	**11**	**10**	10	9	9	9
B5. Depreciation	**60**	**25**	**20**	**18**	**13**	**10**	10	9	8	7	7
B6. Combination of B1-B5	**60**	**30**	**29**	**26**	**18**	**15**	**15**	**14**	**13**	**13**	**12**
C. Tailored Tests											
C1. Combined contingent liabilities	**60**	**25**	**20**	**18**	**13**	**11**	**10**	10	8	9	8
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	**60**	**25**	**20**	**18**	**13**	**11**	**10**	9	8	9	8
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	**45**	**24**	**19**	**17**	12	9	9	8	7	7	6
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	**45**	**19**	**15**	13	9	8	8	7	7	7	7
B. Bound Tests											
B1. Real GDP growth	**45**	**24**	**20**	**18**	12	10	9	9	7	7	7
B2. Primary balance	**45**	**24**	**19**	**17**	12	9	9	8	7	7	6
B3. Exports	**45**	**24**	**19**	**18**	12	10	9	9	8	9	8
B4. Other flows 3/	**45**	**24**	**19**	**17**	12	10	9	8	7	8	7
B5. Depreciation	**45**	**32**	**25**	**23**	**15**	13	12	11	9	8	7
B6. Combination of B1-B5	**45**	**23**	**18**	**17**	11	9	9	8	7	7	7
C. Tailored Tests											
C1. Combined contingent liabilities	**45**	**24**	**19**	**17**	12	10	9	8	7	7	6
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	**45**	**24**	**19**	**17**	12	9	9	8	7	7	6
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, 2023–33
(Percent)

	Projections 1/										
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
	PV of Debt-to-GDP Ratio										
Baseline	**69**	**68**	**69**	**68**	**68**	**65**	**62**	**58**	**56**	**53**	**51**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	**69**	**70**	**70**	**68**	**65**	**61**	**56**	**52**	**48**	**45**	**42**
B. Bound Tests											
B1. Real GDP growth	**69**	**71**	**74**	**75**	**75**	**73**	**70**	**68**	**65**	**64**	**63**
B2. Primary balance	**69**	**71**	**76**	**76**	**75**	**73**	**69**	**66**	**63**	**60**	**58**
B3. Exports	**69**	**70**	**74**	**73**	**72**	**70**	**66**	**63**	**60**	**57**	**55**
B4. Other flows 3/	**69**	**70**	**71**	**70**	**70**	**67**	**64**	**60**	**57**	**55**	**53**
B5. Depreciation	**69**	**68**	**68**	**66**	**65**	**62**	**58**	**54**	**51**	**48**	**46**
B6. Combination of B1-B5	**69**	**69**	**71**	**70**	**69**	**67**	**63**	**59**	**56**	**54**	**52**
C. Tailored Tests											
C1. Combined contingent liabilities	**69**	**79**	**80**	**79**	**78**	**76**	**72**	**69**	**66**	**63**	**61**
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	**69**	**69**	**68**	**66**	**65**	**62**	**60**	**57**	**55**	**54**	**52**
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	383	386	404	381	378	354	333	315	316	309	297
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	383	394	410	383	367	334	309	287	276	259	242
B. Bound Tests											
B1. Real GDP growth	383	397	431	412	416	394	377	363	373	370	363
B2. Primary balance	383	402	446	422	420	394	372	354	357	350	338
B3. Exports	383	396	431	406	403	378	356	338	340	331	317
B4. Other flows 3/	383	393	415	392	389	364	343	324	326	318	305
B5. Depreciation	383	391	399	373	366	339	316	295	292	280	266
B6. Combination of B1-B5	383	389	418	392	388	361	339	319	320	313	301
C. Tailored Tests											
C1. Combined contingent liabilities	383	446	466	440	437	410	389	370	374	367	354
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	383	389	399	372	365	341	323	310	315	311	303
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	101	99	147	121	138	118	121	108	112	110	106
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	101	100	145	115	124	99	96	80	77	70	62
B. Bound Tests											
B1. Real GDP growth	101	101	155	129	150	130	135	124	131	131	129
B2. Primary balance	101	99	152	134	158	136	136	124	128	126	122
B3. Exports	101	99	147	121	138	118	121	108	112	111	107
B4. Other flows 3/	101	99	147	121	138	118	121	108	112	110	106
B5. Depreciation	101	96	141	116	130	111	114	102	105	103	99
B6. Combination of B1-B5	101	97	144	124	144	124	123	111	115	114	110
C. Tailored Tests											
C1. Combined contingent liabilities	101	99	163	148	169	139	145	131	135	134	128
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	101	99	143	116	131	113	116	106	111	111	108
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.