AFRODAD
AFRICAN FORUM AND NETWORK ON DEBT AND DEVELOPMENT

Malawi Economic Justice Network

MALAWI AT A FISCAL CROSSROADS FOLLOWING THE SUSPENSION OF IMF ECF

Harare – 15th May 2025

Malawi's four-year Extended Credit Facility (ECF) arrangement with the International Monetary Fund (IMF), approved on November 14, 2023, has officially lapsed as of May 14, 2025. This outcome stems from the government's inability to complete a necessary program review within the stipulated 18-month timeframe. The primary aim of the ECF was to support Malawi's macroeconomic adjustment and reform agenda, with the overarching goals of restoring macroeconomic stability, fostering inclusive and sustainable growth, and strengthening governance frameworks, as articulated by IMF sources.

The suspension of the ECF was mutually agreed upon by Malawian authorities and the IMF in April, a decision announced in separate statements from both parties. This lapse effectively halts the disbursement of the remaining $140 million in financial assistance, part of a total ECF package of $175 million. Of this amount, only $35 million was disbursed in November 2023, with subsequent disbursements contingent upon achieving specified milestones within the ECF framework.

In its official communication, the Malawi Ministry of Finance and Economic Affairs cited a series of exogenous shocks that impeded the continuation of the program. It expressed optimism that the suspension would lead to a new process in the mandate after presidential elections in September 2025, to allow for the negotiation of a more sustainable Extended Credit Facility that aligns with Malawi's macroeconomic stability needs. The IMF corroborated this view with emphasis on weak "fiscal discipline in the context of heightened spending pressures and inadequate revenue mobilization", which have hindered the viability of the ongoing program. Both entities have committed to continued engagement within the broader scope of the IMF's surveillance mandate and Article IV consultations.

Despite consistent international aid, Malawi's economic growth has experienced stagnation over several decades, with ~~particularly~~ acute challenges in recent years. This economic malaise has been exacerbated by unsustainable debt levels and unexpected crises, such as the outbreak of COVID-19 pandemic and international geopolitical tensions affecting international financial flows. The government faces considerable difficulties in managing budgetary deficits, especially considering increasing debt repayment obligations that consume a significant share of the national budget. This fiscal situation has severely constrained investments in critical sectors, including healthcare and education, as well as infrastructure development.

Additionally, government's resources have been strained by catastrophic events such as cholera outbreaks, the impacts of Cyclone Freddy and drought, adversely affecting the livelihoods of Malawian citizens. As outlined in reports by ActionAid on Malawi's debt, and the World Bank's Malawi Economic Monitor, these fiscal challenges necessitated urgent and effective policy responses to facilitate the recovery and long-term development of Malawi's economy. The ECF agreement in November 2023 promised to restore macroeconomic stability, build a foundation for inclusive and sustainable growth, catalyse grant financing and capital inflows - including foreign direct investment and trade credit - strengthen resilience to climate-related shocks and address weaknesses in governance and institutions. But its suspension further casts doubt on the credibility of IMF programs from time immemorial.

Key IMF policy recommendations at the wake of the suspension has included the call to restore macroeconomic stability, efforts to build a foundation for inclusive and sustainable growth, and address weaknesses in governance and institutions. But this entails imposing austerity policies as IMF conditionalities will require a further devaluation of the Malawian Kwacha beyond the 44 percent done late 2023, adjust current fuel prices and electricity tariffs, cut down salaries of public servants and boost external reserves. In the face of these constraints, the Malawian President Lazarus Chakwera and the Minister of Finance and Economic Affairs, Simplex Chithyola Banda speaking in various occasions, said they chose the option of allowing the ECF programme to lapse as a measure to preserve the wellbeing of Malawi citizens.

From AFRODAD and MEJN perspectives, the conditionalities posed by IMF are reminiscent of the failed policies of structural adjustments of the 1980s and 1990s. Their implementation in place of other viable alternatives would aggravate the hardship on Malai citizens. The suspension of the Initiative provides 4 cardinal pointers for a further policy analysis of the situation:

First, Malawi's challenges extend beyond the need for a mere fiscal stabilisation. The nation requires a robust and comprehensive debt restructuring framework. Unfortunately, the G20 Common Framework is not sufficiently equipped to address these needs as in AFRODAD's G20 Common Framework analysis in 2023. This is particularly due to the burdensome austerity measures associated with its implementation. Furthermore, the framework has the potential to push countries towards credit rating downgrades, which hinder timely and effective debt resolution efforts and does not provide the necessary support for countries like Malawi to access credit and restore economic stability.

Second, the failure of the G20 Common Framework is further aggravated by the entrenched creditor interests and creditor hold outs on comprehensive debt restructuring processes and dispute resolution mechanisms that can expedite restructuring and provide quick debt relief to countries like Malawi. This doubles down on challenges such as limited transparency in lending activities, predatory lending practices as well as international finance and investment regimes whose terms remain unfavorable to African countries lacking sufficient legal capacity to seek redress when in need of debt restructuring – another critical pointer to the need for global financial architecture reforms.

Third, the solutions proposed by the International Monetary Fund (IMF) and the broader creditor community tend to focus mainly on liquidity rather than addressing the underlying solvency issues that have historically plagued Malawi and many other African nations. This approach neglects the structural factors that have perpetuated cycles of indebtedness across the continent and the Global South since the 1970s. It shows the inadequacies in the debt management policies of IFIs (AFRODAD, 2024)

Fourth, the current suspension of debt service raises critical questions regarding the credibility of the policy solutions offered by the IMF. This scenario underscores the urgent need for reforming the Global Financial Architecture (GFA) to facilitate a multilateral approach to debt distress in Africa and beyond. Such a reform agenda should include a re-evaluation of credit rating systems that inhibit countries from accessing necessary financing and pursuing timely debt restructuring without conveying adverse market signals to the creditor community.

Finally, while reforming the global financial architecture is essential, the situation in Malawi also highlights the pressing need for enhanced internal debt governance. As emphasized in the principles of the African Borrowing Charter, borrowing practices must adhere to established institutional rules and prioritize capital projects that foster economic growth and improve revenue generation. This includes leveraging the continent's rich mineral resources to enhance value addition and promote resource-based industrialization in African nations.

…end…