

THE 2018/2019 BUDGET STATEMENT

MOTION

1. Mr. Speaker, Sir, I beg to move that the estimates on the Recurrent and Development Accounts for the 2018-19 Budget be referred to the Committee of the Whole House, to be considered vote by vote, and that thereafter they be adopted.

Introduction

2. Mr. Speaker, Sir, the 2018/19 budget is the fifth and last budget that this house will consider. On behalf of His Excellency the President and the Government, I wish to thank all Honourable Members for their diligence and helpful inputs in the past budgets. My staff in the Treasury and I have learnt a lot from the budget debates during the past four years. Over the years, a number of budgetary changes have been made in response to Honourable Members' interventions. The 2018/19 budget meeting of Parliament is yet another occasion for us to deliberate on matters that are crucial to the welfare of our people.

3. The Government has welcomed intensified honourable members' oversight over the implementation of projects which has been quite useful. Where the interaction with the Executive has aimed at sharpening the outcomes of public expenditures, oversight results have been very positive. Unfortunately, in some cases oversights have been confrontational and the Executive has been defensive.

4. Before I submit the 2018/19 budget, the house will no doubt expect me to take stock of our stewardship during the four years that have just passed in the financial domain.

5. His Excellency the President of the Republic of Malawi, Professor Arthur Peter Mutharika in his State of the Nation Address (SONA) which was delivered on May 4th 2018, gave an elaborate picture of what this Parliament and Government have

achieved during this period and what is planned to be done in the medium to long term. Therefore in this budget statement, I will merely outline the Government's budgetary proposals for the financial year of 2018/19.

6. The statement is anchored by copious budgetary data and I invite Honourable Members to devote their time.

7. The data is contained in the documents which will be given to Honourable Members immediately after this statement has been read. My colleague Ministers, our officials and myself are available to Honourable Members to discuss the submissions where some clarifications are needed. The data will give Honourable Members estimated costs of the activities we propose to pursue in the 2018/19 financial year. Here in my speech, I will refer to some of these data for emphasis.

8. My statement therefore, will not be an all embracing plan of what is planned to be done and policies for the entirety of the economy. An annual budget is an account of what the Government intends to do in a given year and does not pretend to cover all elements of what should be done in the country.

9. Honourable Members who desire to know and debate the Government's medium term economic plans and its strategy should consult the MGDS III document which contains a detailed account of what the Government economic goals are and the strategy of how to achieve them in the medium term.

10. Mr. Speaker, Sir, I am compelled to point out the confines of an annual Government budget because, in the past there have been Honourable Members who have indulged in free ranging criticisms on what should have been included in the budget, and we took a long time debating issues that are not particularly relevant to an annual budget.

11. And now Mr. Speaker, Sir, let me remind the house the state of the economy when this Government and this Parliament took over the leadership of this country in May 2014.

My purpose is to invite Honourable Members to appreciate the enormity of the task that has been accomplished this far.

12. The economy, as Members will recall, was at its worst ever. Such a state of the economy was triggered by a financial hemorrhage of the Government that left its coffers empty and led the donors to boycott this country. Therefore, in order to maintain the level of its deliverance of services to the people, the Government went into a huge domestic borrowing and abandoned sizeable payments to its creditors in the private sector.

13. We now know that these financial malfeasances in the form of a wholesale plunder and pilferage of public funds were led by top personnel in the Government. In consequence, donors withdrew a critical element of their aid to Malawi. The withdrawal of budgetary support, on which the country relied ever since its origins as an independent country had dire consequences on the economy. In 2013/14 the amount of budgetary support that was withdrawn was more than 10 percentage points of the budget. This decline in budgetary support is a substantial loss to a budget of any country.

14. We therefore took over the country at a point when a huge domestic debt emerged which is still lingering on and together with a sizeable amount of arrears of almost 25 percent of GDP. All this was left behind by our predecessors for us to tackle.

15. Mr. Speaker, Sir, I can recall an extremely disturbed President as I reported the real financial situation we were inheriting. As a symbol of his desperation and his emphatic disgust, he volunteered to cut half of his salary until macroeconomic stability had rebounded. His Vice President and Ministers did the same. The President and his Vice President have continued with this stance.

16. The consequences of these malfeasances included high rates of inflation that peaked at more than 30 percent; a high policy interest rate of 27 percent that dampened economic

activities; and a persistent depreciation of the currency which almost doubled the Kwacha equivalent of the dollar.

17. Furthermore, because of the failure by the Government of the day to control this debilitating fiscal system, the International Monetary Fund suspended its ECF program in Malawi. The World Bank also joined other development partners to suspend its own budgetary support. Malawi therefore became almost a financial pariah because of these financial malfeasances that just about brought the economy to a halt.

18. A critical diagnosis of how these ailments could occur revealed a severely dysfunctional fiscal system in which these malfeasances could be committed with ease. In consequence, Malawians and donors alike demanded that the Government should embark on serious fiscal reforms so as to re-establish a conducive financial system. The donors made this a condition for their return with budgetary support. The majority of the donors however withdrew this aid to Malawi permanently. In turn with their aid policy and we seem to have given them a chance to commence to apply it to Malawi. Effectively therefore, Malawi became a hostage nation by the time we came into power.

19. In the event, irrespective of the policy manifestos and financial innovations that political parties planned; macroeconomic stability and public finance management reforms had to be the priority of the Government.

20. In particular, the reduction of rate of inflation and bank reconciliation were of general concern to the country and the donors. In this House, the reduction of inflation to a single digit was touted a basic target of economic management.

21. Mr. Speaker, Sir, now that the needed stability has been achieved, when inflation has reached a single digit, interest rates are falling, the exchange rate has stabilised and foreign reserves have soared to a historical level, it means that the target has been achieved and economic management can now focus on robust economic growth as the main target.

22. Another indicator that economic management has attained the desired goal is the return of the International Monetary Fund to complete its ECF program and its approval of a new program a month ago. Moreover, the World Bank returned with budget support during the current financial year and it is due to disburse another one in the early part of the next financial year. It is also expected that the EU could approve budget support for Malawi in the course of 2018/19. It is safe to conclude that but for their policy to cancel budget support universally, all bilateral donors would have resumed budgetary support.

23. The return of these two institutions also shows that our public finance management reforms have reached an acceptable stage and that the Government is on course to re-create a conducive macroeconomic framework in which robust growth can occur.

24. The arguments against these achievements Mr. Speaker Sir can only be based on a goal shifting stance or to oppose for the sake of opposing. I am therefore certain that were the Leader of Opposition not charged with the responsibility of criticising the President on everything that he says or does, he too would have joined the ranks of those who have congratulated the President for accomplishing the task that was set for us.

The 2017/18 Budget Outturn

25. As a background to the 2018/19 budget which I am about to present, I would like to round off a review of the 2017/18 budget.

26. Mr. Speaker Sir, as I have said before, the 2017/18 budget was formulated with the objective of achieving a fiscal position that is consistent with sustaining and entrenching macroeconomic stability. Our focus on macro stability was based on a clear understanding that it is a necessary ingredient for the attainment of inclusive, sustainable and resilient growth. After implementing the budget for six months and in order to achieve this set objective, it became necessary at midyear to make some revisions to the budget.

27. In February 2018, we met to discuss the midterm review of the 2017/18 budget. It was emphasised that there were three setbacks to counter, the net effect of which would be to prevent the budget from attaining its goals as was originally designed. These setbacks were the Government bailout of ADMARC amounting to K45 billion, and an unbudgeted increase of wages and salaries of K5.7 billion for the Malawi Police Service and the Malawi Defence Force. The third was the deterioration of tax receipts and the withdrawal of a sizeable program grant which was to be received from the European Union but would not be forthcoming.

28. The budget therefore had to be revised and certain increases and reductions to the various votes in both the Recurrent and Development Accounts were made. The net effect of this process was a reduction of the deficit from K195.6 billion down to K186.6 billion. Mr. Speaker Sir, the revised figures include the contentious so called K4 billion that became available after certain planned expenditures were reduced.

29. There has been a lot of discussion over the K4 billion but I hope that it can now be seen where this money will come from and the fact that it could not have been paid out as the press continuously alleged. It only emerged out of the process of revising the budget. That is why Mr. Speaker, Sir, when asked where the K4 billion would come from, my answer could not be understood by the press. In exasperation, I ended by telling one of many journalists who interviewed me, that the K4 billion came about by magic because they could not understand what I was talking about. To my surprise, even some Honourable Members believed that this was a serious answer and a political capital of it.

30. Mr. Speaker, Sir, Honourable Members will note from Annex I of the financial statement (Document IV) that the revised figures that were approved are not very different from the “Likely Outturn figures”. As we have always taken the “Likely Outturn” figures as good as an actual outturns, I would suggest that we

do the same now. These have been given as part of the data we have supplied to Honourable Members. They represent a good explanation of how the 2017/18 budget resources were used or will be used including the K4 billion which has been transferred to the District Commissioners with instructions of how to use the money and account for it.

Background to the 2018/19 Budget

31. With all this in mind, Mr. Speaker, Sir, I am mandated by the President of the Republic, His Excellency, Professor Arthur Peter Mutharika, as Minister of Finance, Economic Planning and Development to submit to the House, Government proposals on how the resources can be mobilized and utilized, for the consideration and approval of the House on behalf of the people of Malawi. It gives me pleasure and honour that, the President has yet again entrusted this noble task to me.

32. Mr. Speaker Sir, this budget has been designed in the context of international, regional and domestic economic developments. At this juncture therefore, allow me to share with you and this Honourable House, their relevance to Malawi in general and the budget in particular.

World and Regional Economic Outlook

33. Mr. Speaker, Sir, according to the latest World Economic Outlook Report of the International Monetary Fund, the global economy was estimated to grow by 3.8 percent in 2017. This was labelled as the strongest growth since 2011 and was mainly driven by investment recovery in advanced economies and the continued strong growth in emerging Asia, an upswing in emerging Europe, and signs of recovery in several commodity exporters. In 2018 and 2019, growth is expected to pick up to 3.9 percent mainly due to expected faster growth in the euro area, Japan, China, and the expansionary fiscal policy in the United States of America.

34. Let me stress that Malawi could benefit from this external buoyancy of the global economy. However, the benefits can only accrue to Malawi if we position the country strategically and boost its production of tradable commodities.

35. Mr. Speaker Sir, in Emerging Markets and Developing Economies, growth is expected to increase further from 4.8 percent in 2017 to 4.9 and 5.1 percent in 2018 and 2019, respectively. This in part reflects improved prospects for commodity exporters after three years of very weak economic activity. These growth rates could have closely mirrored the pattern of growth rates in Malawi were it not for the adverse weather conditions in 2018 to which I will refer later.

Southern African Region Economic Outlook

36. Mr. Speaker, Sir, according to the 2018 African Economic Outlook publication by the African Development Bank, real GDP growth for SADC is estimated to have recovered to an average of 1.6 percent in 2017 from 0.6 percent in 2016, mainly due to better weather conditions and increased agricultural output and hydroelectric power generation; the two sectors with very strong spillover effects to other productive sectors.

37. This contrasts with the 5.1 percent growth rate of Malawi in 2017 and which was therefore one of the highest growth rates in the region. However, we expect growth in Malawi to decline in 2018 to 4.1 percent. This growth rate Mr. Speaker, Sir, will still be one of the highest in the region as growth in this region is expected to rise to an average of only 2.0 percent in 2018 and further up to 2.4 percent in 2019.

38. The average inflation for the region is forecasted to decelerate to an annual average of 9.4 percent in 2017, which is comparable to 9.9 percent for Malawi. Inflation in the region is forecasted to decline further in 2018 and stabilise at around 7.0 percent, same as in Malawi. This decline is on account of continued stable macroeconomic conditions in the region, improved economic management and governance.

39. Mr. Speaker, Sir, Honourable Members will have noted that although we Malawians have taken Malawi as the Cinderella of SADC, this is no longer so. The country can be seen to have been one of the better performing countries of the region.

40. The figures also show, as a number of economists have said, that Malawi can be as successful economically as Malawians want it to be. Their success depends on how individually they decide to shape their economic lives. People have commended Malawi on their concern for politics – in particular “human rights” to the neglect of self-economic enhancement for which they expect to be supported by relations etc.

41. Further, Mr. Speaker, Sir, it is now appropriate for me to inform the House that according to the second round Agricultural Production Estimate Survey, maize production is estimated to have declined by 19.4 percent from 3.5 million metric tons recorded in 2016/2017 growing season to 2.8 million metric tons in the 2017/18 growing season. The results of the Survey also indicate that we should anticipate significant reductions in yields of most major food crops.

42. Despite this setback, Malawi is projected to grow by 4.1 percent and 6.0 percent in 2018 and 2019, respectively. In fact, Mr. Speaker Sir, Government sees Malawi growing by more than these growth rates due to the many infrastructure development projects lined-up in the energy and agriculture sectors, most of which are growth enablers. Government is committed to continue implementing sound macroeconomic policies aimed at spurring growth and creating jobs by focusing on productive sectors as outlined in the MGDS III with strong multiplier effects.

Reforms Programme

43. Mr. Speaker, Sir, and Honourable Members as stated, fiscal reforms are part of our priority and Government continues

to implement Public Finance Management (PFM) reforms. These reforms aim at improving the use and management of public resources through setting up of financial management systems that promote transparency, accountability, fiscal discipline, efficiency and effectiveness. Ultimately, the reforms contribute to efficient and effective public service delivery and sustainable development.

44. In addition, Mr. Speaker, Sir, the Public Procurement and Disposal of Assets Act (PPDA) was enacted and is now operational. Its implementation will significantly improve regulation of public procurement and enhance value for money. Further, the Government has embarked on the review of the Public Finance Management Act (2003).

45. Furthermore, the Government is committed in ensuring operational efficiency and controls in the Integrated Financial Management and Information System (IFMIS). In this regard, IT equipment and network infrastructure to support IFMIS operations have been installed. Government has further put in place systematic and continuous monitoring mechanisms of transactions that pass through IFMIS to ensure timely detection of suspicious transactions. However, Honourable Members, Government will continue to invest in modern and robust systems that deal with Integrated Financial Management Information System.

46. Mr. Speaker, Sir, as I indicated in my last Budget Statement, public service contributory pension scheme started on 1 July 2017. Newly recruited officers and Civil Servants who were 35 years in 2017 and below were migrated to the new scheme, and K15.6 billion was allocated for the scheme. Mr. Speaker, Sir, this is the largest scheme with 73,000 members in the country. The Government is committed to this scheme, the Ministry of Finance, Economic Planning and Development has allocated K11.4 billion as “employees” and “employers” contribution to the National Pension Scheme in the 2018/19 financial year. Mr. Speaker, Sir, this pension scheme presents

huge opportunities of increased national savings and domestic investments, which are hugely needed by the productive sectors of the economy.

47. Moving forward with the reforms, Mr. Speaker, Sir, the Government will also introduce other reforms in revenue policy and administration, public procurement, accounting and financial oversight to ensure efficiency and transparency in public finances.

48. Mr. Speaker, Sir, it is the expectation of the Government that the stable exchange rate coupled with the low levels of inflation will help the private sector to invest more to boost its productivity for exports, import substitution and job creation. It is in view of this, Mr. Speaker, Sir that the Government through the Ministry of Industry, Trade and Tourism is also developing the Trade Remedies Bill which will address technical barriers to trade and ensure anti-dumping in order to bring sanity in importation of goods and trade practices.

49. In addition, Mr. Speaker, Sir, the Government, through the same Ministry, is in the process of establishing Special Economic Zones (SEZ) in the country, as a tool for attracting both Foreign Direct Investment and Domestic Investment into the industrial sector.

50. Over the years, Mr. Speaker, Sir, Malawi has improved in its performance in Doing Business. According to the World Bank Doing Business Report of 2018, the country improved its ranking to 110 from 133 using 2016 data across 190 economies. This will go a long way in making it easier for local and international businesses to start and operate in the country.

Energy Sector Reforms

51. Mr. Speaker, Sir, notwithstanding the conducive macroeconomic environment and improvements in doing business that have lately prevailed in the country as highlighted above, Government recognises that supply side constraints such

as intermittent power supply, among others, are still impeding private sector economic activities. In order to improve electricity generation, supply and distribution systems, Government through the Ministry of Natural Resources, Energy and Mining is facilitating the Malawi - Mozambique and Malawi - Zambia Interconnectors. Feasibility studies for the Malawi – Mozambique Interconnector have been completed and the Project is expected to reach completion in 2021. As for the Malawi-Zambia Interconnector, the feasibility studies are still underway.

52. Mr. Speaker Sir, Malawi cannot talk of energy sector without reflecting on indictable mark that the Millennium Challenge Corporation (MCC) has permanently left on the Malawi soil in the area of electricity transmission and distribution systems. In addition, the rehabilitation of the first hydro power plant in the country – the Nkula A increased the country’s energy generation capacity. However, I wish to remind this Honourable House that the Millennium Challenge Compact with Malawi will come to an end on 30September 2018. The Government has already started negotiating with the MCC on the second compact.

53. Mr. Speaker, Sir, Government is also facilitating the implementation of MAREP Phase 8 which is targeting to electrify 336 rural growth centres through grid connection, thereby increasing access to electricity in the rural areas. Currently, construction works have been completed in 177 centres.

54. Mr. Speaker Sir, other power projects include; the Energy Sector Support Project (ESSP) which is being financed by the World Bank. This project aims at increasing the reliability and quality of electricity supply in Malawi. Furthermore, the 300megawattsKam’wamba Coal Fired Power Plant Project is expected to commence. This project has huge potential to improve electricity supply in Malawi.

THE 2018/19 BUDGET

55. And now Mr. Speaker Sir, I am in position to address Honourable Members on the 2018/19 budget.

56. The underpinnings of this budget is a focus on robust economic growth as the main goal of economic management alongside the maintenance of macroeconomic stability for robust, inclusive and sustainable growth.

57. In the medium to long term, Government's economic goal is founded on common aspirations of Malawians that the country should move out of a group of countries that is considered to be the poorest in the world.

The Budget

58. The budget (total Expenditure and Net Lending) has been set at K1,504 billion which is 28.2 percent of GDP. It has been increased over the revised budget by 13.8 or by just less than 4 percent in real terms. The development budget has been increased by 25.6 percent over the 2017/18 development budget to K391.7 billion, representing 7.3 percent of GDP. The Recurrent Expenditure is estimated at K1,104.5 billion which is 20.7 percent of GDP.

59. The Revenue and Grants are projected at K1,261 billion which is 23.6 percent of GDP and domestic revenue has been set at K1,052 billion, representing 19.7 percent of GDP. Grants are programmed to reach K209 billion (3.9 percent of GDP) of which K60 billion is budget support from the World Bank. Mr. Speaker Sir, as I said before, it is expected that the E.U. will also disburse an unknown amount of budget support during the course of the 2018/19 fiscal year. This however, has not been included in this budget. The grants are constituted by the budget support from the World Bank and dedicated grants are expected to amount to K62 billion and project grants at K86 billion.

60. The overall balance (budgetary deficit) is expected to amount to K242 billion which is 4.5 percent of GDP. However, in view of diminished net foreign borrowing, domestic borrowing is expected to rise to K176 billion.

61. On the whole therefore, this is a controlled budget. The rise in tax revenue matches the expected average annual inflation rate of just over 7.0 percent. The recurrent budget itself with a rise of 7.4 percent is closely aligned to growth in the tax revenue.

62. In the event therefore, Mr. Speaker Sir, the majority of vote by vote allocations as discussed below will also be lower than last year's in real terms. Annex II in the financial statement that has been circulated gives a vote by vote budget estimates.

63. Mr. Speaker Sir, it will be seen from the data that the allocation to the Education sector is close to K166 billion (allocations to the Universities and to the local authorities which control primary schools have been added to the education vote). The second is the Agricultural sector with an expenditure amount of K151 billion followed by the Health sector at K86.7 billion and ranks third.

64. Within a total of K392 billion of the Development Budget, the highest allocation has gone to the Agricultural sector with an amount of K78 billion compared to K43 billion to the Education sector and K69 billion which has been allocated for road construction. Thus allocations in the budget closely reflect the dictates of the MGDS III.

HIGHLIGHTS OF THE 2018/19 BUDGET

Wages and Salaries

65. Mr. Speaker Sir, wages and salaries are projected at K392.0 billion (7.4 percent of GDP), and representing a 24.3 percent increase over the 2017/18 likely outturn. The increase is due to 20 percent salary adjustment for junior grades and 10 percent salary for senior grades in the public service.

Government has also planned to recruit 10,500 primary school teachers, 500 secondary school teachers and 1,000 medical personnel. Thus starting from this year, teachers and other personnel will be recruited soon after their graduation. The practice that started in 2013 to recruit teachers one year after graduation will no longer be necessary. Mr. Speaker Sir, in this Budget we have also provided resources for increments in our Chief's honoraria across all ranks.

Interest Payments

66. For the 2018/19 financial year, interest payments have been projected at K183 billion (3.4 percent of GDP). Of the K182.9 billion, K14.3 billion is for foreign interest while K168.6 billion is for domestic interest.

Pensions and Gratuities

67. Pensions and gratuities budget line has been allocated K80.6 billion representing 6.0 percent increase from the 2017/18 likely outturn figure of K76.1 billion. Of the K80.6 billion, K11.4 billion is contribution to the National Pension Scheme for newly recruited staff and officers of 35 years and below.

Tripartite Elections

68. Mr. Speaker Sir, the elections budget is estimated at K31.5 billion to cover voter registration and verification, education and outreach, election materials, vehicles and polling services. This represents the total budget for the general elections that MEC will require for the Tripartite Elections. Thus this time Malawi will pay for its Election without donor support.

Housing and Population Census

69. An allocation of K6.4 billion has been made to cater for the housing and population census.

Farm Input Subsidy Program

70. Mr. Speaker Sir and Honourable Members, Government will continue with the implementation of the Farm Input Subsidy Program (FISP) in the 2018/19 growing season. The program has been allocated K41.5 billion which will reach out to one million beneficiaries for both fertilizer and seeds. This is an increase from the 2017/18 revised figure of K33.2 billion. The private sector will continue to retail fertilizer under the FISP to complement the role of ADMARC and SFFRFM in this Program.

Maize Purchases

71. Mr. Speaker Sir, in the 2017/18 farming season, some parts of the country experienced dry spells and infestation of fall army worms, two unexpected occurrences which resulted in reduction in crop harvest of about 10 percent. To ensure that there is adequate food for the affected households, Government has allocated K20 billion towards maize purchases and distribution. The Honourable House will recall that K10 billion was provided in 2017/18 budget for the purchase and distribution of 117,647 metric tons of maize by NFRA and ADMARC. Thus the money is available for immediate purchase of maize by both of these institutions. This will be in addition to the current maize stocks of 282,000 metric tons which ADMARC and NFRA have in their storage facilities across the country.

Major Budget Lines

Youth Development Programs

72. The 2018/19 budget will include ambitious youth programmes that are primarily intended to reduce Youth unemployment. It is for college graduates and non-graduates and has included projects which are targeting the youth as follows:

Youth Internship Program:

73. An amount of K4.8 billion has been allocated to a newly created Youth Internship program. The program has been designed to recruit 5,000 youth aged between 18 and 30 years, selection of which will be based on qualifications and they will be placed in various Ministries, Departments and Local Councils. The objective of this program is to equip the youth with knowledge, skills and ethics as a way of nurturing them for a career in the Civil Service as well as in the Private Sector.

74. Basically, this will help in reducing unemployment among our youth that this country is currently experiencing.

Youth Tree Planting Program:

75. Additionally, an amount of K5.0 billion has been allocated for tree planting and care program that will employ another 10,000 group of Youths. The Department of Forestry in the Ministry of Natural Resources, Energy and Mining has already identified areas which require reforestation. These areas will include; road sides, forest reserves, river banks, bare mountains and other catchment areas. The identified areas, Mr. Speaker, Sir, will determine the types of trees to be planted, including fruit trees. It is expected that the youth, working in groups and in their localities, will plant and care for the trees. They will be supported by Government in a similar fashion as is the case with the public works program. This, Honourable Members, is expected to minimize the effects of deforestation and climate change that this country has experienced. In addition, the trees will provide vegetative cover to reduce soil erosion and control flooding. It is further expected that this program will continue for the next three years to ensure high survival rate of the planted trees.

76. This program, Mr. Speaker Sir, is also expected to employ 10,000 youths for definite periods in the year.

Capacity Building for Civil Servants:

77. Apart from the Scholarship Fund Program, financing for further training of Civil Servants has been expanded by an additional K2 billion. The program will now focus more and more on youthful officers to train up to PhD level courses. This is expected to enhance public sector service delivery in various fields and reduce costs on consultancies.

The Development Budget

78. The rankings in the allocation of the resources within the development budget reflect the priorities that His Excellency the President announced in his SONA and as outlined in the Malawi Growth and Development Strategy MGDSIII. These include: 1. The Agriculture, Irrigation and Climate Change group of activities; 2. The Energy Sector; 3. The Educational activities; 4. Health programs; and, 5. Transport and Communications Infrastructural activities. It will be noted therefore from AnnexIII that the development budgetary allocations closely reflect these priorities.

79. Mr. Speaker Sir, in line with the growth focus of this budget, the development budget has been raised towards the required threshold of 8.0 percent of GDP.

80. In the Agriculture sector, the development budget has been increased to K80.6 billion, representing 9 percent of the total development expenditure and 1.5 percent of GDP. The allocation to the Transport sector at K89.2 billion represents 1.5 percent of GDP while that to Education at K44.9 billion, represents 0.8 percent of GDP. The allocation to Health at K31.5 billion represents 0.6 percent of GDP.

81. In the Agriculture sector, most of the projects focus on irrigation agriculture to wean the country away from her reliance on rain fed agriculture in order to ensure resilience in the country's economic growth. Mr. Speaker, Sir, the most notable projects under the irrigation and water development to be

implemented by Government are the Shire Valley Transformation Program; Mzimba Integrated Urban Water and Sanitation Project; the Rural Irrigation Development Program; and the Sustainable Rural Water Supply and Sanitation Project.

82. Mr. Speaker, Sir, development expenditure in the Transport sector will now be guided by the National Transport Master Plan which was developed by the Government through the Ministry of Transport and Public Works. The Plan seeks to reduce transport costs using a number of interventions including the shifting of traffic from road to rail and in-land water transport along Malawi's major corridors. An amount of K69 billion will be spent on road construction.

83. In terms of water transport, as the Honourable House is aware, Likoma Island's main mode of transport is by water. As such, the Government will construct reliable and durable all-weather Jetty or quay at Likoma Island and Nkhata Bay and Nkhotakota. This will enhance the usage of the lake mainly between Likoma/Chizumulu and Nkhata Bay. A feasibility study for the Jetty was completed in 2017 and engineering designs were produced.

84. Mr. Speaker, Sir, in order to enhance air transportation, the Government will acquire Airport Navigation Equipment to improve the safety and efficiency of air navigation through Malawi Airspace; and Modern Fire Fighting Equipment to enhance the safety and security standards at the airports in line with the International Civil Aviation Organisation's requirements.

85. Mr. Speaker, Sir, the Government intends to commence implementation of a number of road projects in 2018/19 financial year. I would like to invite honourable members to see Annex III of Document IV for details of this programme. Honourable Members, these include the periodic maintenance of Balaka-Salima Road; rehabilitation of some roads including the Kaphatenga-Nkhotakota-Dwangwa Road;

upgrading of Parliament Roundabout–Kamuzu Central–M1-Amina Roundabout Road; and upgrading Bunda-Town Hall Roundabouts- Crossroads-Area 18 Roundabouts-Kanengo-KIA road.

86. In the Education sector, the main objective of most projects is to improve quality of the learning environment through provision of the required equipment and amenities. Major infrastructure projects under education include the construction of three teachers training colleges for primary school teachers; rehabilitation of infrastructure for most institutions of higher learning; provision of desks for primary as well as secondary schools and construction of girls hostels in a number of secondary schools across the country.

87. In the Health sector, most of the development expenditure is intended for the construction of Phalombe District hospital, Domasi Community Hospital and the Cancer centre in Lilongwe. Mr. Speaker Sir, I am also delighted to inform this august house that the Health sector will in 2018/19 fiscal year continue to benefit from development financing under the donor health joint fund.

Procurement of New IFMIS

88. One notable project in the 2018-19 budget is the procurement of the New IFMIS which has been allocated an amount of K5.0 billion. Once the new software is installed, it is expected to enhance speed and security in processing Government financial transactions. In addition, it will assist in expenditure tracking and bank reconciliations.

Decent and Affordable Rural Housing Project

89. The project has been allocated K10 billion representing an increase of 14.3 percent from the 2017-18 revised figure of K7 billion. It is expected that from this amount about 8,000 houses will be constructed and rehabilitated.

Local Councils Development Budget

90. An amount of K20.7 billion for Rural Development through Constituent Development Fund, District Development Fund, Local Development Fund and a further K7 billion that could be used on community projects has been included in the budget. This is more than 5 percent of the total Development Budget of the Central Government. District Development Fund (DDF), K4.5 billion for Constituency Development Fund. Mr. Speaker Sir, Government is proposing to commence another Funding Window for rural development that could service some 300 Area Development Committees. An amount of K6.0 billion has been earmarked for this purpose.

Revenue Measures for 2018/19

91. Mr. Speaker, Sir, let me now outline the revenue policy measures for the 2018/19 fiscal year: I would first like to thank everyone that took part in the pre-budget consultation meetings which my Ministry conducted this year. The participation of all the key stakeholders and valuable comments yet again our understanding of the various views and opinions that our people have on the Budget.

92. As usual, the Customs and Excise tax measures will be effective from mid night today whereas the VAT and Income Tax measures will be effective 1st July, 2018 when the Bills are passed by this Honourable House.

Tax Revenue Measures

93. Mr. Speaker, Sir, with immediate effect customs duties on cesspool and water bowsers have been removed and only VAT will be applicable. Government believes that this measure will lower the costs and encourage infrastructure development, especially roads, through reduced importation costs of the capital equipment.

94. Mr. Speaker, Sir, in order to ensure that only legitimate projects benefit from the tax privileges under the various Customs Procedure Codes (CPCs), I wish to inform Honourable Members that CPCs will be amended to include a provision requiring full payment of taxes upon change of use or the intended purpose that made the project qualify for tax concessions.

95. 100. Mr. Speaker, Sir, I will now turn to Value Added Tax (VAT) measures as follows:

96. Mr. Speaker, Sir, in the 2014/2015 Budget, to encourage adoption of the Electronic Fiscal Devices (EFDs), a provision was introduced under the EFD Regulations to allow for recovery of the purchasing costs. This provision has achieved its intended purpose, as such; the provision will now be revoked but VAT operators will still be able to expense the cost of purchasing EFDs under the Taxation Act.

97. Mr. Speaker, Sir, the administration of VAT has been improving over the years, and to enhance compliance and collection of VAT, a provision will be introduced under the VAT Act allowing for registration of VAT Withholding Agents who will be able to withhold the VAT at source and remit to Malawi Revenue Authority (MRA).

98. Mr. Speaker, Sir, Government will introduce a requirement under Section 34 of the VAT Act for submission of VAT returns to MRA on imported services. This measure will be applicable only to services delivered by Non Residents who are not registered for VAT and this will be a compliance measure.

99. Mr. Speaker, Sir, in order to encourage mineral exploration in the country, the VAT Act will be amended to allow mining companies in the exploration phase to register for VAT. This will ultimately reduce their costs, as the companies will be able to claim their input VAT. Honourable Members can appreciate that investment in mineral exploration is risky and very expensive hence the need for Government to provide a conducive environment to attract mining exploration investments.

100. Mr. Speaker, Sir, let me now outline the Income Tax measures as follows:

101. Mr. Speaker, Sir, I am pleased to announce that the tax free income bracket under Pay-As-You-Earn (PAYE) will be increased from MK30,000 to MK35,000 per month in order to improve the disposable income of taxable salaried persons.

102. Mr. Speaker, Sir, in the 2015/2016 Budget, Section 27 of Part III of the Taxation Act was amended to introduce a provision on “Deemed Interest” where no interest is charged on a loan, and subject such deemed interest income to taxation. However, this policy encountered implementation challenges, especially, the identification of the targeted taxpayers and the determination of the appropriate deemed interest rates to apply on foreign and domestically contracted loans. In this regard, Section 27 of Part III of the Taxation Act will be amended to provide clarity on the targeted taxpayers under this provision, and bring fairness on the treatment of domestic and foreign loans which attract no interest.

103. Mr. Speaker, Sir, Section 76A of Part VII of the Taxation Act requires the person making payment to non-residents to withhold the Non Resident Tax and also imposes a penalty on a person who fails to withhold the Non-Resident Tax. Therefore, to encourage compliance by the withholding agents, Section 76A of Part VII of the Taxation Act will be amended to impose the tax liability on the withholding agent where there is failure to withhold the Non-Resident Tax.

104. Mr. Speaker, Sir, in the 2015/2016 and 2016/2017 fiscal years Government introduced Thin Capitalization rules for the Mining sector and the rest of the sectors under the Sixteenth Schedule and Section 127B of Part III of the Taxation Act, respectively. The debt-equity ratio for the Mining sector was prescribed but no debt-equity ratio was prescribed for the other Sectors. Mr. Speaker, Sir, based on the current international best practice and what is applied in the region, taking into account the country’s unique needs and the structure of the

domestic financial market; Section 127B of Part XIII of the Taxation Act will be amended to provide for a general debt-equity ratio of 3:1 applicable to all Sectors, which will be limited to related-party debt, whether direct or indirect.

105. Mr. Speaker, Sir, in order to enhance taxpayer compliance and record management in the administration of PAYE for salaried employees, the Taxation Act will be amended to introduce a requirement for the registration of the salaried employees and issuance of Taxpayer Identification Number (TPIN) by MRA.

106. Mr. Speaker, Sir, Section 39 (e) and (d) of the Taxation Act provides for allowable deductions for individual donations made to Charitable Organisations and Non-Profit Institutions approved by the Minister and published in the Gazette from time to time. In order to curb erosion of the tax base, Section 39 (e) and (d) of the Taxation Act will be amended to introduce a MK5 million cap on the allowable deductions for the individual donations made to the Charitable Organisations and Non-Profit Institutions under this provision.

107. Mr. Speaker, Sir, I would like to announce that there will be some administrative measures on income tax aimed at improving efficiency, enhancing the integrity of the income tax system and facilitating automation by the Malawi Revenue Authority. These administrative measures will be covered in the Bills which I will present in this House for consideration.

Non Tax Revenue Measures

Government User fees and Charges

108. Mr. Speaker, Sir, Government Ministries and Departments provide some services to the general public that attract user fees and charges to cover the costs of administration. In this regard, the MDAs will review the user fees and charges to reflect the current costs of providing such services. The revised user fees and charges will be published by the relevant MDAs in the Gazette.

Revenue Administration and Policy Reforms

109. Mr. Speaker, Sir, Government also intends to bring efficiency in the tax dispute resolution mechanism through the establishment of the Tax Revenue Appeals Tribunal and also improve on tax administration through the implementation of the Tax Administration Bill which will be presented in this Honourable House at an appropriate time.

110. Mr. Speaker, Sir, Government remains committed to improving transparency in revenue management and accountability in the Extractive Industries Sector under the Extractive Industry Transparency Initiative(EITI) which the Government of Malawi is a signed-up member. Currently, Government with the assistance from GIZ is working on the production of the second EITI Report for Malawi.

Conclusion

111. Mr. Speaker Sir, in conclusion let me thank Honourable Members for their attention. For the long term, I wish them success in their endeavours. I have made a number of friends among them and I will always cherish my association with this august House.

112. Mr. Speaker Sir, I beg to move.

THE 2018/2019 BUDGET STATEMENT

Delivered in the

NATIONAL ASSEMBLY OF THE
REPUBLIC OF MALAWI

by

MINISTER OF FINANCE, ECONOMIC
PLANNING AND DEVELOPMENT
HONOURABLE GOODALL E. GONDWE

at

THE PARLIAMENT BUILDING
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