NATIONAL BUDGET ANALYIS FY2022/2023

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1.0 Introduction

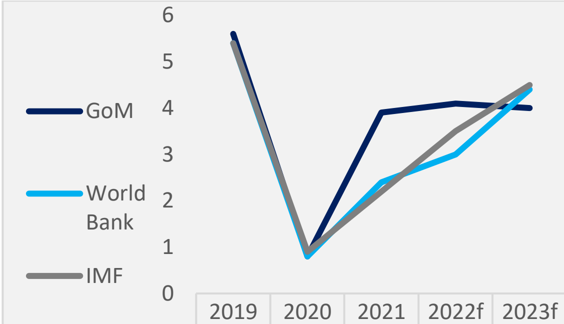
The Minister of Finance and Economic Affairs presented the FY2022/2023 budget statement at Parliament on 18th February 2022 titled: "**Accelerating Implementation Towards Wealth Creation, Job Creation and Food Security**." The budget has been anchored on a strict fiscal consolidation policy and seeks to address the issues of public debt management, export diversification and import substitution. This budget analysis aims to interrogate the budget assumptions, policy measures and alignment of the budget with the Malawi 2063, SDGs, and UNDP programming.

2.0 Macroeconomic Context

2.1 GDP Growth

Economic growth rebounded in 2021 moving from an annual GDP growth rate of 0.8 percent in 2020 to 3.9 percent in 2021. Growth is expected to remain on this upward trajectory with an annual growth rate of 4.1 and 4.0 percent projected for 2022 and 2023, respectively, supported by economic activities in mining and quarrying, manufacturing, transportation, construction, and wholesale and retail trade. The 2022 GDP projection is higher compared to projections made by the IMF and World bank.

Figure 1: GDP Growth (Annual %)



	2019	2020	2021	2022f	2023f
GoM	5.6	0.8	3.9	4.1	4
World Bank	5.4	0.8	2.4	3	4.4
IMF	5.4	0.9	2.2	3.5	4.5

Sources: IMF and World Bank Reports[1], FY2022/2023 Budget[2] Statement. 2022f and 2023f represents forecasted projection.

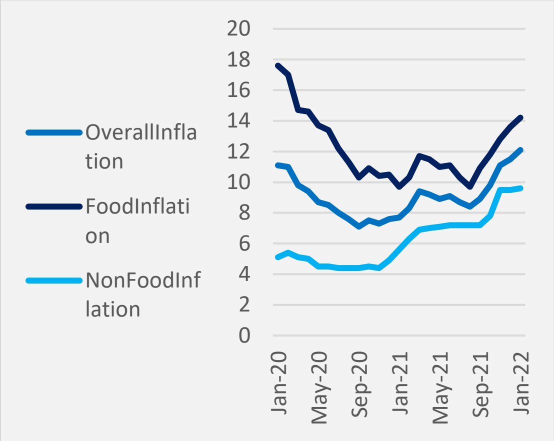
Key Message: Malawi's vulnerability to weather related shocks continues to pose a threat to the growth of the economy. The country has been hit by the Tropical Storm Ana, which has affected agriculture production and livelihoods of many people, mostly in the southern parts of the country. Most likely the annual growth rate of 4.1 percent will be diminished by a factor of 1.0 percent due to the impact of the Storm based on past experience, thus rendering the project unrealistic. Government, with the support of its development partners, needs to put in place strategic mitigation and adaptation measures to counter the adverse impacts of the Storm to address its negative affect on GDP growth and the livelihoods of citizens.

[1] Global Economic Prospects January 2022 and World Economic Outlook January 2022.

[2] Government of Malawi (GoM) FY2022/2023 Budget Statement

2.2 Inflation

Figure 2: Headline Inflation



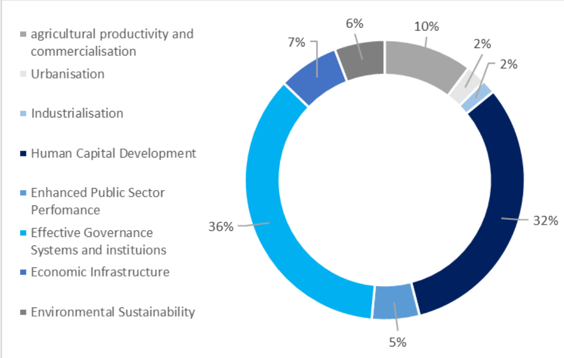
Source: National Statics Office

The year 2022 was ushered in by accelerating consumer prices, which persistently pushed up the cost of living. The headline inflation as of December 2021 was at 11.5 percent from 7.6 percent in the same period in 2020. Inflation has been highly driven by increased commodity prices and rising global oil prices. The average annual headline inflation is projected to go up from 9.3 percent in 2021 to 10.4 percent in 2022.

Key Message: The average headline inflation for 2022 is projected to rise to double digits signaling tough times ahead for consumers, as prices for commodities will continue to rise into the year. The rise in inflation together with other public grievances such as corruption will mostly likely trigger discontent due to the escalation in the cost of living and possibly resulting in demonstrations once the rains stop. This is a situation to watch out for and be ready to provide support where necessary, especially engagement with and education of citizens on global development trends and the adverse impacts on the domestic economy.

3.0 Budget Allocations According to MW2063 Pillars and Enablers

Figure 3: Spending Allocation according to MW2063 Pillars and Enablers



The FY2022/2023 budget allocations are aligned to the Malawi 2063 enablers and pillars. The agriculture productivity and commercialization pillar has the highest allocation amongst the three pillars, representing 10.2 percent of the budget followed by urbanization and industrialization at 2.3 percent and 1.6 percent, respectively. The Effective governance systems and institutions enabler has the highest allocation, representing 35.6 percent. The Human capital development enabler has the second highest allocation at 31.8 percent of the budget followed by economic infrastructure, environmental sustainability, and enhanced public sector performance with allocations of 7.0 percent, 5.8 percent, and 5.5 percent of the budget, respectively. However, the least allocation amongst the enablers is for private sector dynamism and mindset change with an allocation representing only 0.1 percent of the budget for each enabler.

Key Message: Despite the Government's recognition of the important role of the private sector as mentioned in the SONA and that of mindset change driving economic and structural transformation, these important enablers have received the least allocations of less than 1 percent of the budget. The tight fiscal space and increased debt levels have led to overcrowding of the private sector development in Malawi thereby stifling its potential to contribute to job and wealth creation.

4.0 Budget Financing and Debt Management

- On reflections, Malawi obviously needs more financial support to transform to the economy for sustainable development post COVID-19 pandemic era, to create jobs and wealth of tomorrow, and attain the MIC status desired by the country in 2030. But at the same time, there is urgent need to develop cutting edge and ground-breaking solutions to rid the country of poverty given the adverse impact of the pandemic. However, the following is worth noting:

- In our opinion, COVID-19 pandemic is an opportunity to relaunch economic growth by mobilizing resources within and outside of Malawi from both domestic and international public and private finance to finance development programs in view of the perceived donor fatigue.

- Debt has been supporting development in Malawi but solution cannot be entirely dependent on debt restructuring and possible pardon. Malawi must resort to mobilizing more resources, fight fraud and capital flight, and introduce innovative and effective means of taxation administration through the introduction of digital tax systems.

- The model, which appears to have placed much emphasis on accumulating debt to finance sustainable development interventions has never worked as the debt stock has continued to accumulate.

- Malawi must rethink its budget financing model to support sustainable development and at this point calls for design of new financing instruments that focuses on: Capital markets, issuance of local bonds, infrastructure bonds, green bonds, blue bonds, use of PPP, Sovereign bonds, Diaspora bonds, Debt to climate adaptation fund, Domestic issuance bond, Pension funds, and Debt for climate finance fund.

- These instruments or most of them appear to be missing in the 2022/2023 National Budget. As such, the adoption of a more integrated national development financing approach is the way to go in this regard.

Further the instruments could also include:

- Further, the instruments could also include: Leveraging on diaspora funding with focus on diaspora anthropologists, diaspora remittances, diaspora investment, and diaspora savings.

- Employ the digital space to redesign the financing system for fit of purpose and create efficiency gains.

5.0 Alignment with Integrated National Financing Framework

•The Government through the Ministry of Finance and Economic Affairs approved the Development Finance and Local Level Finance Assessment (DFA/LLFA), which offers various development financing opportunities/options and potential sources, policies and strategies available to the country, both domestic and international public and private finance that can be leverage through the Integrated National Financing Framework (INFF) that UN system through technical leadership of UNDP is supporting the government on to develop, which can effectively be used to support the realisation of national priorities in MIP1 and the SDGs. The following to be noted:

- Irrespective of the limited fiscal space in the 2022/2023 National Budget, the Government, despite being in possession of the DFA/LLFA have failed to reflect its value addition in FY2022/2023 Budget Statement.

- This suggests that, while dialogue is going on at technical level on merits of the DFA/LLFA, the same cannot be said at Policy/Ministerial level, Budget Director, and the Secretary to the Treasury.

- Similar situation may prevail with the Malawi Multidimensional Poverty Index and the National Human Development Report.

Key Message: Going forward, it is being recommended to hold policy dialogue meeting with the highest level of authority including the Minister of Finance and other key policy makers to build awareness on these key strategic interventions that have the potential to assist in expanding the fiscal space and guide policy targeting to ensure that no one is left behind.

6.0 Fiscal Consolidation

•The Budget has been anchored on fiscal consolidation policy. As such, the financial year 2022/2023 contains programme reforms aimed at containing costs substantially. This is demonstrated by series expenditure control measures, which among others include review of benefits and entitlements to seniors Government officials. The following is noteworthy:

- Fiscal consolidation is concrete policies aimed at reducing government deficits and debt accumulation. These consolidation plans and detailed measures are given as a percent of nominal GDP. No percentage has been quantified in the budget.

- Empirical evidence[3] suggests that attempts to reduce debt via fiscal consolidations, coupled with chronic financial mismanagement, corruption, and capital flight may result in a higher debt to GDP ratio through their long-term negative impact on output and ultimately negate GDP growth.

- Fiscal consolidation could therefore be self-defeating as Malawi can enter a negative loop where attempts to reduce the Government debt and other expenditures are not effective because of the reductions in GDP growth.

Key Message: Going forward, the Governments needs to examine the merits and demerits of fiscal consolidation policy, in terms of its political implications, impact on achieving its long-terms development plans, and explore the options of balanced budget financing using findings in the DFA/LLFA and spending to avoid negating long-term growth.

7.0 Progressive Tax Incentives

•The 2022/2023 National Budget has introduced new tax incentives for the benefits, mostly of the private sector investments. These, among others include removal of VAT on tap water and cooking oil, removal of import duty and excise on tax on solar lamps and reviewing industrial rebate system. In addition, the Government has boosted electricity generation from installed capacity of 364MW to 591MW with target of 1000MW in the near future. The following to note:

- The tax measures will cushion the private sector and incentivize productive investment when they are considered together with a boost in power generation and improving the enabling policy and business environment for private sector growth and development.

- This has the potential to improve the ease of doing business index for the country and may attract FDI; however, all will depend on robust implementation.

- Irrespective of the removal of duty on cooking oil, casual observations are that the retailers have not complied to this measure, which was effective midnight of the day of budget presentation. Prices have not gone down.

Key Message: The tax measures on removal of duty on cooking oil will likely be open to abuse by the retailers and hence demands the Malawi Revenue Authority to increase enforcement to ensure compliance for the citizens' benefit.

8.0 Compliance with Regional Obligations

- Education and skills development: In line with the Enabler 5 in MW2063, human capital development, education sector has received the largest share of the FY2022/2023 of K462.24 billion, which is 16.3 percent of the total Budget. This is lower than the Government's commitment to education for all of the Dakar declaration, which requires Governments to allocate 20% of their total national budget to education.

- Agriculture, Water Development, and Climate Change: This sector has been allocated 15.8 percent (K447.66 billion) of the FY2022/2023 budget being MW2063 Pillar 1 and critical for economic growth and food security. The bulk of this is for the Affordable Input Program. This allocation exceeds the

[3] Journal of International Economics, Volume 112, May 2018, Pages 238 – 250: https://www.sciencedirect.com/science/article/pii/S0022199617301411

Maputo declaration of 10 percent of total national budget, which is commendable.

• Health sector: This sector has been allocated 10 percent (K283.57 billion) of the budget. However, this allocation is lower than the commitment towards Abuja Declaration, which mandates Governments to allocate 15 percent of their total national budget to the health sector.

Key Message: The Government should comply with regional and international obligations to ensure coherence with the pace of social development in other countries in the region, as well as attaining SDGs.

9.0 Agenda 2030 and Environmental Sustainability

• With regard to Government past commitment to attain the SDGs, the following are noteworthy:

 Both the FY2022/2023 SONA and National Budget have been conspicuously silent on direct reference to Agenda 2030 and attainment of the SDGs. This suggests that the new Ministry may have limited interest and/or knowledge about the SDGs and their implications to the development of the country.

 Equally notable is the dead silence on environmental sustainability and need to build resilience despite the perennial natural disasters and flooding that the country is currently experiencing. Worse still the budget is premise on discontinuity of the natural disasters, which is an unrealistic assumption unless concrete mitigation and adaptation measures are designed, adopted, and implemented.

Key Message: To resuscitate Government interest in the SDG, UNDP may wish to hold dialogue with the Minister of Finance and Economic Affairs and its management to cultivate interest in Agenda 2030 and environment and climate change issues, as they relate to the development of the country.

10.0 Alignment with UNDP programming

10.1 Governance

• In the 2022/2023 FY, Effective Governance Systems and Rule of Law has been allocated K61.62 billion, representing 0.5 percent of the budget. These resources have gone to Anti-Corruption Bureau, Office of Ombudsman, Law Commission and Malawi Human Rights. These resources cater for development projects.

• However, no provision has been made in the 2022/2023 National Budget to NRB for Child Mass Registration. This may be on account of the tight fiscal space that the Government will experience due to uncertainty in its capacity to generate adequate revenue arising from weak economic growth projections and rising debt service.

Key message: It is understood that this activity requires US$8, million as contribution from the Government through the National Budget. Given that the Government is unable to provide in this budget, it is further understood that options such as deployment of Health Centers, Primary schools, Community registration are being explored.