BRIEF ANALYSIS OF THE 2021 STATE OF NATION ADDRESS BY PRESIDENT DR LAZARUS CHAKWERA

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1.0 INTRODUCTION

The President of the Republic of Malawi, Dr Lazarus McCarthy Chakwera presented his State of Nations Address on the State Opening of the 49th Session of Parliament and the 2022/2023 Budget meeting on 3rd February 2022.

- ***The theme of the SONA is "Fixing the Systems to Deliver Long-Term Priorities and Diffuse Short-Term Pressures"***, reflecting the recognition and need to overhaul the dysfunctional system if long-term priorities being aspired to are to be achieved. The Address laid out three immediate priorities, to focus on over the next three years, (i) fixing the economic system in order to create wealth, (ii) fixing the production system to create jobs, (iii) fixing the agricultural system to achieve food security. Given how deeply rooted a regressive mindset in Malawi is, which is major contributor to state of dormancy in development, there is indeed a strong case for overhauling the dysfunctional systems. However, this demands a developmental leadership and a mindset change by the general public to embrace long-terms ambitions of development and prosperity.

- The President revealed he established a Presidential Delivery Unit (PDU) in his office four months ago tasked to fix the dysfunctional systems***. The Address announced that this Presidential Delivery Unit is a big success and has kick-started routine tracking and follow-ups with MDAs responsible for delivering on key projects***. It has prioritized and worked on 104 out 192 projects that have been assessed. Notable projects that the Address highlighted are (i) the construction of the COMESA Competition Commission and the COMESA Federation of Women in Business complexes, which has potential to create 2000 jobs, (ii) the Nchalo Greenbelt Limited, which is implementing a cotton irrigation project to benefit 20,000 farmers, and the 350MW Mpatamanga Hydro Plant, which should boost power supply. *This is a major development and success in that the administration is not only fixing system failures and getting projects back on track, but dispels the notion that this country is only good at formulation policies but weak in implementation*.

2.0 ECONOMIC AND FISCAL MATTERS

The SONA pointed to a number of indicators of economic activity to highlight the state of the economic, its performance, and related matters. Below is a summary of the highlights.

Economic performance

- ***In 2021 the Malawi economy is estimated to have grown by 3.0 percent, up from 0.8 percent in 2020.*** The SONA attributes this to timely and effective government interventions, notably (i) the Affordable Input Programme (AIP) that improved output in maize and boosted overall growth of the agricultural sector, (ii) improved energy production following the commissioning of the Solar Farm in Salim, and rehabilitation of Tedzani Power Station and Nkula Power Plant, and (iii)interventions to contain the spread of COVID-19, including vaccinations. However, the following needs to be observed:

- ➢ While the Gross Domestic Product (GDP) is celebrated as notable milestone, given the adverse impact of COVID-19 pandemic on socioeconomic development, it is still significantly lower than the average GDP growth of 7 percent per annum needed to achieve the SDGs by 2030. GDP projection for 2022 at 4.1 percent is equally very low to make an impact. The country should aspire for higher GDP growth rates of 6-7 percent per annum to achieve the SDGs
- ➢ The credibility of GDP growth rate of 3.0 percent in 2021 also comes to question when compared with other projections. The IMF and World Bank project the growth rate in the same year to be 2.2 and 2.8 percent. For AfDB, GDP growth is projected to grow at 3.3 percent in 2021 and 6.2 percent in 2022. The wide range of disparity conveys the impression that GDP projects constantly exaggerates its quantum.

- **The cost of living has increased, with annual average inflation jumping from 8.6 percent in 2020 to 9.3 percent in 2021**. Among other factors, the rise in inflation has been caused by increased fuel prices, depreciation of the Malawi Kwacha, low foreign exchange reserves, as well as supply chain related, notably shortage of, long waiting times of goods at ports, and lack of critical inputs for most products.
    - o **Comment**: What is notable with the SONA is that it does not mention the public discontent and demonstrations that have been sparked by the same increase due to increase in the cost of living. This makes the SONA insensitive to the plight of the citizenry and, thus, likely to cause more discontent.
- **The availability of foreign exchange reserves declined in 2021**. This is because of reduced exports proceeds due to weak export revenue, owing to reduced export proceeds from the traditional exports of tobacco, tea, and sugar, as well the slowdown in donor flows since 2013. The combination of these factors has caused gross official reserves to diminish to a mere 1.72 months of import cover in December 2021, compared with 2.75 months import cover in December 2020. The reduced export earnings, hence, the unavailability of foreign exchange, had the secondary impacts of reducing incomes along the value chains of all export commodities, and, hence, reduced wealth.
    - o **Comment**: Among other factors, the downward trend in gross official reserves have been perpetuated by worsen balance of payment deficits which has seen the country importing more than exports and mostly on consumer goods (as opposed to capital goods). At 1.72 months of import cover the country is in precarious position.

Economic policy

Monetary policy

- Throughout 2021, the Reserve Bank of Malawi maintained an accommodative Policy Rate of 12.0 percent, especially in view of the need to continue supporting economic recovery from the impacts of COVID-19. <u>*Some points to note here are the following*</u>:

- While this is touted as positive development, spread between lending and saving rates remain excessively high. This has resulted in a raging debate in Parliament on interest rate capping. The SONA appears to sideline this debate, which is gaining momentum. To note:
    - **The** commercial banks are the only institutions in the country declaring profits in billions after tax due to this unfortunate phenomenon.
    - Thus, while the commercial banks yield huge profits from depositors, very little is ploughed back, hence prompting the current debate and interventions to enact a law to address the injustice.
    - The SONA, therefore, should have discussed measures to address the high interest rate spreads and recognize the same as part of Government policy planning.

Fiscal policy and fiscal performance

- Implementing the 2021/22 national budget resulted in a widened primary budget deficit, primarily because of the need to meet a number of COVID-19 related expenditures, in the face of deteriorating domestic revenues, due to the effects of COVID-19, and substantially reduced budget support. This was financed by domestic borrowing, which added to a rise in public debt.
- The primary budget deficit incurred during the Financial Year ending 31 March 2022 is, nevertheless, projected to decline from 8.8 percent of GDP in the 2020/21 Financial Year to 7.3 percent. This can only be hailed as a positive development on the Administration's intentions to reduce the rate of borrowing and effect stringent measures to control public spending. <u>Point to note here</u>:
    - One of the Government measures revealed by the Vice President consultation on SERP was that the Government would reduce the allocation to AIP to release funds and redirect them to production of export potential crops to support diversification efforts. This appears to have been left out and perhaps will be reflected in the actual 2021/2022 Budget Statement by the Minister of Finance.

3.0 RELATED MATTERS

Progress towards job creation

- **Government estimates that in the 2021/22 Fiscal Year, the number of jobs created in both private and public sectors stood at 997,423**. This declaration has sparked debate bordering on disbelief as evidence is demanded to back the same. <u>The following to note</u>:
    - The impact of the reduced export earnings did not just cause unavailability of foreign exchange on the market and depreciation of the Malawi Kwacha, but it also translated into reduced production capacity in the industries and income along the value chains of all export commodities. This to large degree also reduced employment though layoffs which basically contradicts the claim for job creation at 997,423.

- At best the declaration is possibly a reaction to the murmurs making the rounds conveying the determination of much of the public resolve not to vote to Tonse alliance again due to failure to keep and fulfil their campaign promise of creating one million jobs.

- What is not clear again is the nature of 997,423 jobs as to whether these are fair and full-time employment of just: part-time, casual, daily hire and weekly hire, apprentices and trainees such as the interns that the government has been recruiting and whether all classified as a job and inside the 997,423 jobs. The classification matters as opposed to just the numbers. The Government will need to clarify what these jobs constitute rather than just fulfilling political commitments.

Power generation capacity

- SONA announced that the installed capacity of electricity rose from 364 MW to 617.1 MW, following the launch of Tedzani IV Hydro Power Plant in which USD 52 million grant from Japan and MWK6 billion from Malawi Government were invested. This is positive development. To note:

  - Until recently most parts of the country have enjoyed steady supply of energy only to be disrupted by the recent heavy rains. That said, while this is lauded as great improvement in electricity generation and an important milestone, the generation is still lower than the minimum requirement of 1000 MW but still good progress.

  - This is a critical area where development partners such as UNDP should continue to support the communities in the country with the mini-hydro power plants.