



## Key Messages

***The 2018/19 Budget falls short of delivering a significant and positive impetus to poverty reduction and realizing the aspiration of a productive, competitive and resilient nation. While welcome, the pursuit of macroeconomic stability needs to be matched by initiatives to grow and diversify the economy. That said:***

- a) The Government should continue to pursue robust macroeconomic management through strict compliance with Public Finance Management requirements while supporting private sector investment to grow the economy
- b) In light of public perceptions that this is a campaign and consumption budget, the Government should strive to enhance the image and credibility of the budget by ensuring that it will be delivered in line with available resources.
- c) To graduate Malawi from category of LDC, the Government increased its provisions on the Development Budget beyond 7 percent of GDP and aims to grow above 7 percent of GDP per annum.
- d) Development Partners will need to monitor program spending closely to check if the MGDS III priorities are being implemented and through that the achievement of SDGs.
- e) Given the Government insistence on FISP, Development Partners should urge for policy reforms to shift resources in favor investment in the NAIP and away from FISP given its limited impact on food and nutritional security.
- f) Given the insufficient allocations to governance institutions, further effort is needed for the Government to increase the allocation to create an environment of transparency and accountability and sustain the fight against financial mismanagement and corruption.
- g)** Since wages and salaries seem to be disproportionate to the quality of services provided, the public service reform should be revisited to synchronize service delivery and recruitment and deployment of staff.
- h) On youth employment, UNDP and other Development Partners should fast track measures to support catalytic programs to create jobs for youth while supporting an environment for private sector expansion for acceleration and sustainability of employment generation.
- i) Given that the total domestic debt stock has reached unsustainable levels, the Government should be urged to monitor the trends to avoid escalating the same.
- j) The UN should take measures to urge the Government not to lose sight of SDGs implementation by ensuring strong focus and alignment of the National Budget to Agenda 2030.
- k) A separate budget review should be undertaken to explore and assess how the past and present budgets have been aligned to SDG implementation and how the current budget is also aligned to the MGDSIII

## 1.0 Introduction

Following the 2018/19 National Budget Statement in Parliament on 18<sup>th</sup> May 2018, this brief aims to assess the extent to which the budget conforms to its stated position on ensuring macroeconomic stability and whether budget provisions are aligned with MGDS III implementation. This analysis also explores major policy issues that could impact implementation. More detailed budget review is expected to be done based on detailed Revenue and Expenditure Documents to explore how past and present budgets have been supportive of SDGs implementation.

## 2.0 Consistency with Macroeconomic Stability

The budget appears to be consistent with the IMF program on maintenance of macroeconomic stability. Inflation is expected to be stable and in single digit at 7.0 percent. The exchange rate remains stable and foreign exchange reserves have been growing. The base lending rate is still at 16 percent meaning that interest rates remain low.

- However, there appears to be risk of regressing on the alignment with the ECF given the low projected growth of 4.1 percent in 2018 which is below the average for sub-Saharan African low-income countries of 5.5 percent.
  - The growth outlook is uncertain given the inherent potential risks from vulnerability to natural disasters and Fall Army Worm attacks which will negatively impact on the agriculture sector, the mainstay of the economy.
  - Suboptimal allocations to governance institutions pose a risk to the fight against corruption and financial mismanagement which could aggravate fiscal slippages.
- ***Robust macroeconomic management through strict compliance with Public Finance Management requirements should continue to drive the development agenda of the Government. The Government should take measures to grow the economy through support on private sector development.***

## 3.0 Uncertain outlook

The annual growth rates of 4.1 and 6.0 percent in 2018 and 2019 respectively are predicated on infrastructure development projects and sound macroeconomic policies that will contribute to the medium to long term economic goal to move Malawi out of the LDC category.

- The country has in the last couple of years made efforts towards macroeconomic stability, as noted in the considerable decline in inflation rates and substantial increase in international reserves to cover nearly 4 months of imports.
  - However, further reforms are needed to ensure a sustained growth rate of 6-7% by reducing dependence on unpredictable and fluctuating aid and moving towards self-reliance.
  - To graduate from category of poor countries, the country needs sustained growth rate of minimum 7.0 percent for approximately 17 years with the aim of achieving MIC status of US\$1,025 per capita from the current US\$320 per capita.
  - Increasing domestic borrowing to K176 billion risks crowding out the private sector as the main generator of growth.
- ***To graduate from LDC, the Government should aim to grow the economy at higher rates of 7 percent by increasing resource allocation to the Development Budget and reduce consumption through the Recurrent Budget with the view to stimulate private sector development the main generator of equitable growth.***

## 4.0 Constrained Fiscal Space

Revenue and Grants are projected at K1,261 billion, which is 23.6 percent of GDP. Recurrent Expenditure is estimated at K1,104.5 billion which is 20.7 percent of GDP. Development budget has been increased by K25.6 to K391.7 billion, representing 7.3 percent of GDP. Noted is the following:

- Trend analysis based of the 2014/15 to 2017/18 financial statements shows that total revenue and grants have been declining by an average 3.0 percent, recurrent expenditure increasing by average 3.5 percent, while development budget has declined by 2.1 percent per annum.
  - This pattern is likely to be repeated in 2018/19 in view of the likely pressure of a pre-election year and the added expenditure relating to the national census. Figures for revenue and grants, recurrent expenditure, and development budget may adjust by the factors above.
  - The 2018/19 budget is insufficient to lay a strong foundation for structural transformation and realizing Malawi's transition to MIC status.
- ***The Government should be urged to implement the Budget with caution as there is risk of failure to deliver as planned given Close monitoring of program spending is needed to ensure MGDS priorities are being implemented and through that the achievement of SDGs***

## 5.0 Agriculture Budget

The highest allocation of the Development Budget, has gone to the agricultural sector with an amount of K78 billion. FISP has been allocated K41.5 billion being an increase from the 2017/18 revised figure of K33.2 billion:

- The Government is commended for sustaining its international commitment under Comprehensive Africa Agriculture Development Programme (CAADP) and Maputo Declaration by allocating close to 10 percent of its budget in agriculture.
  - Out of the K78 billion allocated to the sector, K41.5 billion (53 percent) goes to FISP which continues to dominate agriculture investments without significant improvement to food and nutritional insecurity.
  - The expectation was that the Budget would align agriculture spending with the National Agriculture Investment Plan (NAIP) by going beyond allocating resources to FISP and maize procurement.
- ***Considering that NAIP and the National Resilience Strategy, of which the NAIP is a major component, is crucial for agriculture diversification, policy reforms that favor investment in more productive areas of the NAIP as opposed to FISP are welcome.***

## 6.0 Democratic Governance and Accountability

Governance institutions appears not to have been allocated adequate budget requirements in transparency and accountability.

- The MEC reports that out of the K55 billion elections budget, the Government has committed to provide 85 percent of the budget leaving K8.25 billion short-fall. The K31.5 billion proposed in the National Budget is inadequate.
  - The Auditor General reports that the K2.2 billion proposed in the Budget is inadequate and this is worsened by the withdrawal of support from Development Partners.
  - The Directorate of the Public Officer's Declaration has been allocated K670,000,000 being 8.0 percent increase over 2017/18 provision and below inflation while ACB has been allocated 2.3 billion being 10.0 percent over 2017/18 provision.
- ***The trend is repeated in many governance institutions, which will have implications on the fight against financial mismanagement and corruption. All efforts should be***

***undertaken to lobby the Government to increase allocation to these institutions to sustain improve transparency and accountability.***

### **7.0 Gender and women empowerment**

**There is no specific mention in the budget on gender and women empowerment. Neither is there any indication that the Budget has been engendered. That said the following should be noted:**

- The allocation of the Ministry of Gender, Children, Disability, and Social Welfare in the 2018/19 Budget on ORT has increased from K2.7 billion to K3.1 billion being 15 percent increase which is above inflation.
  - Even better the development budget has increased by 227 percent over the 2017/18 Budget revised budget which was revised K50 million, the bulk coming from K6.5 billion from KfW for social protection.
- ***The Ministry is one of the most favored in the 2018/19 Budget but measures need to be taken to lobby for the allocations to be sustained and retained given the inadequate provisions in other sectors.***

### **8.0 Wages and Salaries**

**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 Government plans to recruit 10,500 primary school teachers, 500 secondary school teachers and 1,000 medical personnel.**

- The nominal increase of 24.3 percent is higher than the expected inflation of 7 percent in 2018 and this is positive development as the wages and salaries increase in real terms. Of concern is that the public sector is bloated having reached 186000 in 2016.
  - The total value of the wage bill accounts on average 30 percent of the recurrent expenditure since 2016 and as per the accepted practice of treasury this should not exceed 10 percent.
  - The ratio of the wage bills to goods and services has been 2.91:1, 2.14:1, and 2.71:1 for the approved estimates for the period 2016/17, 2017/18, and 2018/19 respectively (The ratios are almost similar when actual budget outruns are considered).
  - This shows that there is very little efficiency in public spending as the good and services are not commensurate with the wages and this limits space for non-wage expenditure (teaching materials, medicines, and maintenance of capital investments).
- ***The wages and salaries seem disproportionate to the services provided. Therefore, public service reform should be revisited to synchronize service delivery and recruitment and deployment of staff.***

### **9.0 Youth Development Program**

**The budget has allocated K4.8 billion to a newly created Youth Internship program which is designed to recruit 5,000 youth aged between 18 and 30 years for career in the civil service. Additionally, budget statement report of K5.0 billion to employ 10,000 youth in tree planting. This is not indicated in the Financial Statement, which notes only K1.5 billion in 2018/19.**

- Given the bloated civil service, it is inconceivable that there is extra space to recruit the youth for career development and considering the struggles in private sector due to energy problems, it is highly unlikely that the private sector can recruit interns.

- The plan to engage the youth in tree planting in public works program may not work as planned as activity may not be a priority and attractive proposition for the youth.
- ***While tree planting is essential for SDGs 13, the timing of this proposition raises questions as to why now given that the past budget have not created a culture to involve the youth in tree planting before. Nonetheless, UNDP and other Development Partners should support Malawi to fast track measures to support catalytic programs to create jobs for the youth while supporting private sector expansion for sustainability of employment generation.***

## 10.0 Alignment with MGDSIII priorities

**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.**

- Alignment regarding flagship projects is as follows:
  - ✓ Agriculture and climate change management: Development budget makes provision to all projects except: Green belt initiative, Lake Malawi water supply project, and Increased empowerment of the youth, women, and people with disabilities in agriculture. No provision made on environment and climate change.
  - ✓ Energy, Industry and Tourism development: No provision on Coal fired power plant at Kamwamba, Interconnector projects, and Development of hydro power plans;
  - ✓ Transport and ICT infrastructure: No provision made only on Rehabilitation and expansion of railway lines and Development of Nsanje world inland port.
  - ✓ Education and skills development: Development budget makes provision for all flagship project except Construction of Mombera university.
  - ✓ Health and population All flagship projects provided for in the Development budget.
- ***The above analysis shows that this budget is partially aligned to MGDSIII mostly on the social sector. Hopefully, full alignment will be achieved in future budgets and to this extent, the Government should be encouraged to make all effort to align the National Budget to the MGDSIII to implement the national priorities***

## 11.0 Debt Service

**The 2018/19 Budget makes no mention on debt service of the need to retire the private sector arrears which are holding back capital investible resources for private sector growth. Due to the diminished net foreign borrowing, domestic borrowing is expected to rise to K176 billion.**

- The 2018/19 Financial Statement reports that as of end December 2017, the total public debt amounted to K2.7 trillion being 55 percent of GDP. External Debt (K1.466 trillion<sup>1</sup>) accounted for 29 percent of GDP while Domestic Debt (MK1.285 trillion) accounted for 26 percent of GDP.
- The rise in the domestic borrowing to K176 billion will likely increase domestic debt to K1.461 trillion being 29 percent of GDP and crowd out the private sector.
- ***At K2.7 trillion, the total public debt stock is 180 percent higher than the Budget. The total domestic debt is 97 percent of the total budget. Appropriate monitoring of domestic***

**debt stock is important to ensure that a good part of the resources is being directed towards development activities such as infrastructure which in turn will enhance economic growth and ability of the government to repay.**

## 12.0 Poverty reduction and inequality

The tax-free income bracket under Pay-As-You-Earn (PAYE) is proposed to increase from MK30,000 to MK35,000 per month to improve the disposable income of taxable salaried persons.

- The general sentiments are that this blanket is not wide enough and the upper limit should have been pegged at 50,000 per month given the cost of living.
  - The provision to recruit 10000 youth on tree planting program is only for 2018/19 and hence cannot have sustainable impact on reducing poverty.
  - Despite increased support to FISP, this has had no impact on improving food and nutritional security.
- ***Despite the high provision on social protection in the Ministry of Gender, Child, Disabilities, and Social Welfare, the Budget Statement should have pronounced strong pro-poor growth measures as well. This could include small scale energy generation models supported by UNDP.***

## 12.0 Other observations:

- The 2018/19 National Budget has made no mention or reference on how the budget is aligned or will enhance SDGs implementation.
- It is not clear whether the budget assumptions included the possibility of increase in petroleum pump prices given the fact that crude oil prices are edging to US\$80 per barrel as that would throw the budget off-balance.
- The increase in the chief's honoraria is considered purely for political reasons to secure their cooperation and votes in the up-coming national elections.
- UNFPA has made substantial contribution of US\$1 million and yet neither UNFPA nor UN was ever acknowledged in the Statement.
- Likewise, on elections, the contribution of the UNDP basket fund has not been acknowledged.

\*\*\*\*\*

UNDP Malawi  
P O Box 30135  
Lilongwe

Alka Bhatia  
Economics Adviser  
[alka.bhatia@undp.org](mailto:alka.bhatia@undp.org)

Patrick Kamwendo  
Economics Specialist  
[patrick.kamwendo@undp.org](mailto:patrick.kamwendo@undp.org)