

2017/2018 BUDGET STATEMENT

MOTION

1. Mr. Speaker, Sir, I beg to move that the Estimates on Recurrent and Development Accounts for the 2017/18 budget of the Government of Malawi 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, this honourable house has been assembled to debate and decide how the financial resources that are projected to become available during the 2017/18 financial year, should be utilized to optimize the welfare of Malawians. The resources are also intended to generate economic growth that could boost future financial resources to fund the needed enhancement of future welfare of Malawians.

3. Mr. Speaker, Sir, I am mandated by the President of the Republic, His Excellency, Professor Arthur Peter Mutharika to submit to the house the proposals of the Government on how the resources can be raised and used; for the consideration and approval of the house on behalf of the people. This is a serious and noble responsibility and; I am humbled and privileged that yet again, His Excellency has entrusted this duty to me.

4. Mr. Speaker, Sir, the budget has been designed to be implemented within the context of international, regional and domestic, economic developments and it is therefore fitting that I start by sharing the view of the Government on these developments.

World Economic Outlook

5. According to the International Monetary Fund, global economic growth rose from 3.1 percent in 2016 to 3.4 percent in 2017 and it is projected to continue to grow by 3.6 percent in 2018; reflecting a strong economic rebound in advanced economies and a marked pickup of economic activity in emerging and developing economies. Economic growth rates in advanced economies have been revised upwards recently, in the United States reflecting expectations of fiscal easing and rising confidence; while in Europe and Japan the upward revisions merely reflect cyclical recovery in manufacturing and trade.

6. For emerging and developing countries, growth is expected to remain strong in China, India and many other commodity importers. Malawi stands to gain from these developments if it positions itself appropriately, by producing quality tradeable goods that are expected to be in demand worldwide.

7. Therefore the Government will continue to encourage the private sector to take advantage of these global trends. In particular it intends to push the production of legumes and cotton and the development of a thriving system of marketing for these commodities.

8. The Ministry of Industry, Trade and Tourism is poised to tackle this task while the Ministries responsible for Agriculture, Irrigation and Energy stand ready to support small and large scale farmers to increase the production of these commodities.

9. Inflation in 2016 increased by 0.7 percent in advanced economies but declined by 4.5 percent in emerging and developing economies. It is anticipated that consumer price inflation will continue to rise globally resulting from an expected rise in oil prices. These global inflation pressures could occur when Malawi poised to continue on a trajectory of declining rate of inflation.

Sub-Saharan regional outlook

9. Growth in the Sub-Saharan Region slowed down considerably from 3.4 percent in 2015 to 1.6 percent in 2016. This was on account of the domination of oil exporting countries that influenced a continued diminishing of growth rates. However, in Malawi, depressed economic conditions largely resulted from unfavourable climatic reasons. It is projected however, that growth in this region will pick up to 2.8 percent in 2017 and 3.7 percent in 2018, although in Malawi higher growth rates are possible and expected during this period.

10. Mr. Speaker, Sir, inflation within the region, remains high, especially in large oil exporting countries where inflation dramatically increased from 9.1 percent in 2015 to 19.1 percent in 2016. In oil producing middle income countries, inflation increased to 5.4 percent in 2015 and to 7.0 percent in 2016; whereas in low income countries, the increase was mild - from 5.7 percent in 2015 to 5.8 percent in 2016. It is anticipated that consumer price inflation will worsen in oil exporting and low income countries in 2017. However, in Malawi better financial and fiscal outcomes will lower inflationary measures and rate of inflation.

Economic Developments in Malawi

12. Economic activity in 2016 remained subdued at 2.7 percent from 3.3 percent that was recorded in 2015 following two consecutive seasons of poor crop harvest. Simultaneous floods and dry spells in 2015 and in 2016 resulted in a severe curtailment of agricultural output, declining by some 35 percent cumulatively in 2016. Concomitantly, growth in such sectors as manufacturing, energy and water supply was significantly reduced during the two years. However, signs of recovery begun to emerge in the second half of 2016 when inflation begun to ebb downwards. The strong fiscal and monetary policies, that were reinforced by the IMF supported programme, have sustained this recovery which is continuing into 2017 and is strongly expected to continue to gather strength in 2018, when it is projected that single digit inflation that has been unsuccessfully pursued for the past seven years could prevail.

13. This expected favourable environment, if sustained, will augur well for public and private sector capital investments and could provide the linchpin of a needed robust growth. Based upon our recent annual economic survey, it would seem that a number of companies are already considering to expand production and increase the recruitment of labour in particular because of the vast improvement in the availability of forex, and the expectation of further interest rate reduction.

Mr. Speaker, Sir, it is strongly believed that the economy could register an increased growth rate of between 5-6 percent in 2017 and thereafter, depending upon good weather conditions, a resumption of robust economic growth rates is likely.

15. Mr. Speaker, Sir, and honourable members, it is encouraging that this view of an improving economy and a measure of success in the public finance management reforms is shared by the international community.

16. The recent resumption of the World Bank budgetary support, the expected confirmation by the IMF that Malawi is on track in its pursuance of fiscal management reforms as well as the pending European Union's resumption of budgetary support, are all welcome signs of international confidence in what is being achieved.

17. Mr. Speaker, Sir, I will be the first to admit that we still have a lot to do to perfect economic management and certainly the economy still requires careful handling. Financial resources are still scarce. In the circumstances a careless use of resources can easily reverse the rebound. I also admit that we yet have a lot to do to adopt basic sound fiscal management practices as needed to routinize bank reconciliations.

18. As the recent forensic audits have shown, lack of systematic reconciliations have resulted in inexplicable use of huge amount of resources. It is therefore, imperative that on completion of the current audit by independent auditors regarding the remaining K236 billion, an exercise that is voluntary being paid for by the Government itself, further transparency of our fiscal system, must be routinised.

We also have a lot to do regarding the systematic compliance by the fiscal system to our own financial rules and regulations. In the event, the establishment of a fiscal structure that provides for a systematic reconciliations between Government accounts and bank statements ought to be adopted forcibly and

urgently. Mr. Speaker, Sir, we no longer need donors to demand this, for us this is most important measure against corruption.

20. However, it must be equally admitted that a noble start has been made and that the international confirmation that Malawi is achieving positive results in this domain is morale boosting to Malawians in general and the public service in particular and we are determined to do more.

21. Mr. Speaker, Sir, at this point, I find it necessary to recapitulate what has been achieved. First, I wish to repeat, and request that it be noted by the house, that despite the failure for some four years to bring down inflation that was unleashed in May 2012, the annual rate of inflation has been falling steadily for more than 10 months since June 2016.

22. Helped by declining food prices, a relatively stable Kwacha, and lower international fuel prices, and more significantly, by fiscal adjustments that have characterized fiscal management since June 2014, overall inflation has declined without interruption by 9.7 percentage points from 24.3 percent in July 2016 to 14.6 percent in April 2017. This downward trajectory of both food and nonfood inflation has provided scope for monetary policy to start unwinding.

23. Mr. Speaker, Sir, in response to this development, the Reserve Bank of Malawi reduced its policy rate to 22 percent in March 2017 from 27 percent at its peak. With a continuation of this trend in inflation, it is expected that the Reserve Bank of Malawi will reduce the policy rate further and generate a continued fall of rates of interest leading inter alia to a significant reduction in the “interest payment bill” of future budgets and improved access to credit by the private sector.

24. During this period, the volatility of the exchange rate that prevailed for a long time, halted. I am pleased to report to the House that the exchange rate remained fairly stable in the second half of 2016 up to May 2017 depreciating by only 2.0 percentage points against the US dollar between June 2016 and mid May 2017.

25. This was largely due to a seamless supply of foreign exchange that the country experienced in 2016 through to the first quarter of 2017. The stability of the exchange rate is likely to persist due to an expected augmented supply of forex.

26. With a careful husbandry of forex after augmenting the reserves from seasonal proceeds of our exports; inflows from international organizations as described earlier the exchange rate stability should continue.

27. Mr. Speaker, Sir, foreign international reserves have been maintained at around 3 months of import cover during the 2016/17 financial year and although for a short time in April 2017, reserves declined to 2.7 months of import cover; the resumption of budget support by the World Bank, European Union, and the expected disbursements from the IMF and export proceeds reserves are likely to even surpass the 3 months import cover by the end of the financial year.

28. And now Mr. Speaker, Sir, I owe it to the house to point out that an economic rebound does not mean that we now have enough resources to spend. It merely means that we have emerged out of the hole into which we were thrust by the “cashgate” episode and that we can now commence an economic management that should lead to robust economic growth. It does not mean that we can indulge into lavish

expenses and focus on personal wealth gathering, because such actions will push us back into the economic dungeon.

29. In fact Mr. Speaker, Sir, we have reached a very critical economic point when our main preoccupation will be to manage our resources very carefully. In view of the accumulation of domestic debt and a large amount of arrears of K155 billion as at June 2014, the budgetary support that we have received must all go into the repayment of debt and the settlement of arrears.

30. Mr. Speaker, Sir, this then is the sum total of the background to the 2017/18 budget that I am about to present to the august House on behalf of the Government. It has been designed to maintain macroeconomic stability and to jump-start a robust sustainable economic growth. This particularly means that to grow, we must maintain the austerity measures that are leading to macroeconomic stability and discernible of economic growth.

31. But before I take up issues of the 2017/18 budget, I owe the house to report on the outcomes of the 2016/17 budget.

32. Mr. Speaker, Sir, last year the attention to this part of presentation resulted in some members' surprise that I did not give the house a review of the outcome of the past budget. I therefore request the attention to what I will report as well to the background of data to the issues.

THE 2016/2017 BUDGET OUTTURN

The design of that budget Mr. Speaker, Sir, was part of a vigorous fiscal adjustment that has been pursued since June 2014 in order to progressively match the diminished available resources with the needed total budgetary requirements.

33. The objective of the adjustment is to reduce domestic borrowing so as to eliminate excessive liquidity in the system that has been a major factor in fueling inflationary pressures.

34. In the event, after the huge exchange rate depreciation of May 2012, it has been necessary to conduct yearly fiscal adjustments to achieve this objective.

35. In 2016/17, at mid-term, it became necessary to reduce an approved expenditure amount of K 1,149.0 billion (27.1 percent of GDP) down to K1,129.0 billion (26.0 percent of GDP).

36. Mr. Speaker, Sir, the house should take note, (Annex I), that the final budgetary outturn data for 2016/17 have changed somewhat. From that annex, it will be seen that total receipts comprising of domestic revenue and grants have been revised downwards from K999.0 billion (23.5 percent of GDP) to K977.8 billion (23.0 percent of GDP).

37. Mr. Speaker, Sir, therefore it is now projected that the deficit including grants that was estimated at K130.2 billion (3.1 percent of GDP) is likely to turn out to be higher at approximately K169.5 billion (4.0 percent of GDP). This outturn will still be lower than the deficit that was originally approved at K174.8 billion (4.1 percent).

38. The house will further note, Mr. Speaker, Sir, that the major cost escalation relates to the “interest payment bill” (budget line) that was projected to be K168.5 billion and is now estimated to rise to K183.5 billion (4.3 percent). With this exception, all major expenditures have behaved as projected including expenditures on FISP and the wage bill that have always been uncontrollable in the past.

39. The house will also note a significant departure from the mid-term figure relating to expenditures on the development programme which was projected at K257.0 billion (6.1 percent). We now expect that figure to be K6 billion higher and increase to K263.3 billion (6.2 percent).

40. This is due to improvements in the implementation of projects that resulted from His Excellency the President's decision to set up a Cabinet Subcommittee on Project Implementation that was charged with the Surveillance of Project Implementation. The Committee includes senior officials responsible for implementing the projects. It reports to the President. This improvement augurs well for the 2017/18 development programme that is much higher and more involving.

41. The house is invited to carefully note other smaller changes from the annex which could be discussed with individual ministries in the time available for this purpose.

THE 2017/2018 BUDGET

42. As I have alluded to before, in view of the economic and financial outcomes of the year, it is felt that conducive macroeconomic conditions are emerging which will provide a necessary foundation for the resumption of robust economic growth.

43. The underpinnings of the budget therefore, are the maintenance of macroeconomic stability and a relaunch of a programme of robust economic growth.

44. The Government's economic goal for the medium term and for the financial year, 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.

45. Most economists and Malawians in general feel that a better management of the economy could pull the country out of this group and it is assumed here that this can and should be done within 10 years by doubling our income per capita by that time.

46. In our calculation, this objective is possible if we shape our policies and management of the economy to register an average growth rate of 7 percent per year.

47. There will be others who will be apprehensive about this objective, and will give arguments as to why this objective is too ambitious. However, the target of a growth rate of 7 percent per year is an ambition that is not based on complicated mathematical economics but it has to be attained if the aspirations of Malawians are to be satisfied.

48. It should also be pointed out that this country's potential is far from being exploited fully and that with good policies and sound economic management of the resources, the required hardwork from all Malawians and institutions, there is no reason why this target cannot be reached.

49. As a matter of fact, this country has been known to grow at rates of more than 9.0 percent in the 1970s, 1990s and in the early 2000s and it is therefore argued that if dormant resources are mobilized; clear and enough incentives for hard work are established including appropriate compensation for labour and discipline is reinforced, Malawi could redouble its present economic achievements and surpass this average growth rate.

50. It is also important to remind ourselves that at various times during the 50 years of independence, we have reached this point at which macroeconomic stability has been achieved and a beginning of a robust growth started but faltered because of policy reversals and a belief that a point of economic success had been reached and therefore fiscal discipline could be relaxed.

51. Therefore, as we launch yet another new phase when the opportunity to attain robust sustainable growth rates is opening up, the house should decide to insist that policies that maintain macroeconomic stability particularly to fiscal discipline, be sustained. The leadership should spend more time on developing the country than on personal welfare. This should be the anchor of their workload.

53. With this preamble, let me now give a short review of the proposed 2017/18 budget that is clearly illustrated by the documents that will be distributed shortly today.

54. The budgetary outline is in Annex I. Annex II contains vote by vote allocations and Annex III provides a detailed list of the projects vote by vote that are being proposed for implementation during the financial year.

55. It is being proposed Mr. Speaker, Sir, that total revenue and grants should be increased from a likely outturn of K977.8 billion (23.0 percent to K1, 108.8 billion (22.3 percent). Therefore, whereas in current prices, total revenues and grants are projected to increase by 13.3 percent, in real terms, it will be slightly reduced particularly as regards grants which are projected to decline by 8.4 percent. Domestic revenue is budgeted to increase by 17.0 percent and remain at the same level in real terms.

56. Total expenditure (the budget) is projected at K1,297.2 billion (26.1 percent) and register a 13.5 percent increase at current prices but decline somewhat in real terms. This is particularly true of recurrent expenditure which will decline in real terms from 20.5 percent to 19.1 percent of GDP, whereas development expenditure will increase by 32.6 percent in current prices and register a slight decline in real terms by 0.6 percent of GDP.

57. There average Wages bill will increase by a total of 10.0 percent. However, with wage creep of 3 percent, the total wage increment will be approximately 13 percent. It is hoped that this rate of wage or salary increment can be applied to everyone who is paid from the Consolidated Fund in Parliament, Judiciary, Civil Servants, etc.

58. The attention of the house is called to two significant budgetary projected occurrences; the first is that after a long time, Malawi is expected to generate enough domestic revenue that could exceed recurrent expenditure by close to K32 billion.

59. This is an objective that has been sought for since the 2009/2010 zero deficit budget when the desired objective was to balance recurrent expenditure with the domestic resources.

60. Secondly, as frequently demanded by this house, the increased recurrent expenditure is lower than the increase in development expenditure which is also more than 25 percent of total budget, a threshold for deciding whether the budget is a development budget or a consumption one. These are significant achievements and it is hoped that future budgets can build on this success.

61. The projected deficit “including grants” in 2017/2018 as can be seen from annex I, is 3.9 percent of GDP this an adjustment from 4.1 percent of GDP last year. Although it was hoped at mid-term to reduce the figure to 3.1 percent at GDP, the likely deficit for 2016/17 budget is slightly higher GDP. These are commendable figures as it will be recalled that the deficit in the 2013/14 budget was 6.1 percent of GDP. This shows a huge fiscal adjustment that has occurred within the last 3 years.

62. In parallel, it is projected that domestic net borrowing will be reduced from K63.6 billion (1.5 percent of GDP) to K27.5 billion (0.6 percent of GDP). Here again, we are making a significant improvement and shows the efforts behind the economic rebound that has been made.

63. In light of this development, the budgetary support that has been received will all be used to repay domestic borrowing and the huge arrears that were accumulated by June 2014.

HIGHLIGHTS OF SOME RECURRENT EXPENDITURES

Pensions

64. Mr. Speaker, Sir, there is a pension disparity between those who retired prior to 2004 when allowances and basic salaries were amalgamated to form a pension base clean of allowances, while for those who retired before 2004, the pension base was net of allowances. A retiree from the latter group could now be receiving a quarter of the pension paid to a post 2004 retiree who retired at the same grade and had the same number of years of service.

65. As we migrate to the National Pension Scheme, it is being proposed that we start a process of eliminating these pension disparities between the two groups of retirees. It is proposed to start with a 200 percent increase of pensions of those who retired prior to 2004 and hold the pensions of those who retired after 2004 constant during the process until the two are equated.

66. The budgetted increased pension bill from K50 billion to K70 billion partly reflects the needed resources for such an increase.

67. Secondly, the increase reflects the migration of Civil Servants that are below 35 years of age and the incoming new recruits. These will migrate from the present Government pension scheme to the contributory National Pension Scheme as from 1st July 2017. The increased pension bill also include the contribution that the Government will pay for each migrating Civil Servant to the National Pension Scheme.

Devolved Services to Local Authorities

68. The house will note that a substantial amount of resources from a number of votes have been transferred to the Local Authorities Vote to fund devolved services. These include recurrent resources consisting of “Personnel Emoluments” and “Other Recurrent Transactions” from, in particular, the Ministry of Agriculture, Irrigation and Water Development, the Ministry of Education, Science and Technology and Ministry of Health among many others.

69. It is planned that the local authorities take over the management of these resources such as salary payments to primary school teachers and similar grade levels of officials

from the other ministries including Agriculture and Health. A total of K132 billion “Personnel Emoluments” from these votes has been transferred to the local authorities vote where it will be managed. As can be seen from Local Councils vote, the total amount of recurrent budgetary resources totalling K162.3 billion has been transferred to the local councils to be managed there.

To ensure the effectiveness and efficiency of devolved services, the frequency of auditing local authorities has been increased. In the 2016/17 financial year, a total of 20 local councils out of 28, have been audited and the reports are being submitted to the Ministry of Local Government where appropriate action against malfeasances will be taken. From the Development Budget, net of CDF, DDF and LDF, a total of K13.3 billion has been transferred to Local Councils to enable them to take over the responsibility for grass root development projects. The Ministry of Local Government, has also been allocated a further amount of K8.5 billion for grass root projects. This ministry will also be charged with surveillance over Local Authorities activities.

Youth Development Programmes

71. Apart from the technical colleges that offer skills to the youth, other notable innovations in this programme include, an increased allocation to the National Sports Council of 60 percent to K1,752.0 billion. It is being proposed for example that Malawi should start professional football activities that will be offered at various youth centres including the Youth Centre in Lilongwe which will be rehabilitated extensively and in Blantyre and the Mzuzu where other centres will be constructed. Within the new Ministry of Civic Education and

Community Development, a sizeable amount has been set aside to construct an Arts and Drama Academy in Blantyre that will include the productions of films and movies and other youth entertainments. It is therefore, being proposed that over and above the skills vocational colleges that are being set up, an initial amount of K150 million be set aside for the establishment of a Development Programme in the Ministry of Civic Education and Community Development. The budget should support a comprehensive Youth Social and Athletic Development Programme starting from this financial year. The total cost of Youth Programmes amount to more than K5.0 billion.

Governance Votes

70. The house will note that in response to the criticism of the mid-term revised budget, governance institutions such as the ACB, the Directorate of Prosecutions, the Ombudsman, the Legal Aid Bureau and the Asset Declaration Department, have benefited from large budgetary increases within their ORT budgetary lines. These will help them to operate unretarded by lack of funds.

Ranking of Allocations

71. The Education, Science and Technology sector which has been allocated K235 billion or 18.1 percent of the budget has had the highest budgetary allocation. The second largest allocation is in the Agriculture Sector that amounts to K192.0 billion or 15.5 percent of the total budget. Health with an allocation of K129.0 billion which is 9.9 percent of total budget is the third largest.

HIGHLIGHTS OF THE DEVELOPMENT BUDGET

72. The rankings in the allocation of the resources within the development budget reflect the priorities that His Excellency the President announced in his SONA. These include 1. The Agriculture, Irrigation and Climate Change group of activities; 2. The Educational activities; 3. Health programmes; 4. The Energy sector; 5. Transport and communications infrastructural activities and; 6. Tourism.

73. It will be noted from annex III that the development budgetary allocations closely reflect these priorities. In agriculture and climate change for example, the development budget is increased to K62.0 billion which is 17.4 percent of the total development budget is the highest. In Education Sector the development budget allocation is K38.7 billion which is 11.1 percent of the total budget. The allocation to Health K25.7 billion, Roads Sector's allocation is K69.9 billion and in the Energy Sector is K12.7 billion and Tourism has K1.3 billion.

74. Within this Agriculture Sector, the majority of projects relate to the need to popularise irrigation agriculture. The Ministry of Agriculture, Irrigation and Water Development will therefore be in a position to concentrate on the development of small scale irrigation projects that will cover the majority of small scale farmers in the country. It is hoped that in time, such farmers can continue to produce even under unfavourable weather conditions.

75. Large scale irrigation projects will be managed under the Green Belt Authority whose total development expenditure is projected at K17.6 billion including the Shire Valley Irrigation

project that is just about to be completed. It is expected that the Authority can extend its services to large scale farmers that could lease land within the area covered by this project. The Authority will also continue spending resources in Salima.

76. In education, the main objective of the projects that are estimated to amount to K38.7 billion is to improve the quality of education by improving the adequacy required school equipment. A production of 5 million desks for instance is envisaged and a construction of libraries and laboratories in each constituency for the use of community day secondary schools is also planned to commence this year.

77. It is also expected that some 12 primary schools could be built in the Cities of Blantyre, Lilongwe and Mzuzu that will be fully equipped. The intention would be that in the medium term, every school going child will be provided with adequate school materials and learning equipment including a desk. The pupil teacher ratio will be vastly improved in rural and urban schools alike.

78. The programme also includes the rehabilitation of 50 national secondary schools and an enhanced number of girls' hostels throughout the country.

79. In Health, it is intended to concentrate on the construction of community health facilities as well as the construction of district hospitals in Phalombe, Blantyre and Lilongwe. The Ministry will also rehabilitate a number of district hospitals which have become relatively small with the ever increasing population.

Energy Sector

Mr Speaker, Sir, as His Excellency the President stated, the Energy Sector will be another sector of focus in this budget and other budgets to come. This is because as Mr. Speaker, and Honourable Members are aware, energy is what is going to unlock our nation's development potential. Our pace of development as a country has, thus far, been stifled as result of inadequate power in our country. It is therefore the policy of this government to ensure that we provide adequate power for industries, agro processing, mining, irrigation, informationtechnology, and all sectors that will be the main drivers of our economy.

83. The Government continues to be grateful to the Millennium Challenge Corporation of the United States of America for the huge investment that they have made to ensure that the transmission of the large power that will be generated is possible. The Corporation continues to provide leadership in enhancing the effectiveness in this sector. I hope Malawi's relations with the Corporation can extend to other sectors soon.

84. In this budget and budgets to come, we will provide adequate resources, in collaboration with our partners such as World Bank and the African Development Bank, to ensure that there is revolutionary growth in energy generation transmission and distribution. We will achieve this by providing on - grid and off - grid power from both renewable and non-renewable energy sources. We will also put in place tax policies and incentives to achieve two objectives: firstly, that Malawi is an attractive destination for private sector investment in the power sector; and secondly that electricity is affordable especially to rural communities.

85. Very soon, Mr Speaker Sir, after parliamentary approval, we will be signing a financial agreement with EXIM Bank of China which will see the commencement of Kam'mwamba Coal Fired Power Project which will add 300MW to the grid. This project, once completed, in three year's time, will almost double the current power supply in Malawi. Simultaneously, the Government with support of the World Bank and African Development Bank through institutions such as the Multilateral Investment Guarantee Agency (MIGA) will facilitate the signing of Power Purchase Agreements between ESCOM and other Independent Power Producers. Further, EGENCO will be facilitated to enter into Public Private Partnership arrangements with various financial and other power companies to increase its current generation capacity.

86. Mr. Speaker, Sir, I now turn to the tax policy and tax administrative measures that underpin the domestic revenues for the FY20 17/18 budget. The tax measures I will be announcing will concentrate on improving administrative efficiency, encouraging tax compliance and broadening the tax base in order to generate adequate domestic resources. In the just ending fiscal year 2016/17, the Malawi Revenue Authority has demonstrated an exceptional performance by collecting tax revenues beyond our estimates and I therefore, would like to commend Malawians from various sectors for honouring their noble duty of paying taxes honestly. We are optimistic that the exceptional performance demonstrated in this fiscal year will continue in the 2017/18 budget.

87. Mr. Speaker Sir, my team and I received various proposals for consideration during this year's pre-budget consultations, and I wish to acknowledge that most of the proposals were insightful and constructive. Mr. Speaker, Sir,

although a number of the suggestions that were made may not appear in this budget, many have been included in various parts of the budget and I am grateful for some spirited discussions that we had.

Mr. Speaker, Sir, the Customs and Excise tax measures that I shall be announcing today will be effective from midnight tonight, whereas the VAT and Income Tax Measures shall be effective on 1st July, 2017, once the relevant bills are passed by this House.

Customs and Excise Act Amendments

89. Mr. Speaker, Sir, there are several amendments to the Customs and Excise Regulations which will appear in the Government Notice to be published in support of the 2017/18 Budget. As it has been done in the past, I do not intend to list down these changes to the Customs and Excise Regulations. The Commissioner General of the Malawi Revenue Authority will publish the amendments through public notices after the changes have been gazetted.

90. Let me appeal to members of the public to follow-up these changes by logging in MRA's website, or by requesting copies of the changes from MRA's corporate affairs office, or by reading in the local newspapers, or even by obtaining copies of the Government Notice from the Government Printer.

Introduction of 10 Percent Excise Tax on TV Subscriptions Fees.

91. Excise taxes have a multifaceted function ranging from revenue generation role to income distribution and influencing consumption behavior of the populace. To the extent that we

are shifting reliance, in the long term, on domestic resources mobilization from income and investment to consumption taxes; and to expand the revenue base, we are introducing 10 percent excise tax on fee based TV services.

92. As you are aware, Mr. Speaker, Sir, Government is already providing free TV services through MBC TV and it is pleasing to note that there are several free private TV service providers such as Zodiak, Times TV, just to mention a few in addition to free religious TV service providers.

93. The 10 percent excise tax will therefore be levied on subscription fees paid by only those consumers of fee based TV service providers effective from midnight tonight.

Deletion of Customs Procedure Code 443 for Buses and Minibuses.

94. Mr. Speaker, Sir, in a bid to encourage Malawians to participate in the passenger service transport sector, Government had created Customs Procedure Code 443 for buses and minibuses to be imported duty free in the past four years. Considering the excellent up take in the public passenger transport sector that ordinary Malawians are participating and in line with sun-set clauses on tax incentives policy that Government has put in place, I wish to inform the House that CPC 443 will be deleted. The relevant Customs Tariff Headings for Buses and Minibuses shall be amended to provide duty and excise free provisions for buses and minibuses that are less than five (5) years old. This measure will therefore apply duty and excise free provisions to buses and minibuses that are less than five (5) years old only. For those buses and minibuses above 5 years old, excise taxes

will apply on a graduation or progressive basis whereas the Customs duties will be 15 percent and VAT will be 16.5 percent.

Value Added Tax Measures

95. Mr. Speaker, Sir, in the 2016/17 fiscal year we made a number of changes to the VAT Act with the objective of expanding the revenue base; removing some economic distortions in the production and supply chains and again shifting reliance of domestic revenue from taxes that fall on labour and investment to taxes that mainly fall on consumption, among other goals.

96. Mr. Speaker, Sir, the current positive revenue performance registered by the Malawi Revenue Authority (MRA) is, partly, on account of economic efficiency gains that were effected to the VAT Act and indirectly to the revenue base expansion also implemented in the 2016/17 Budget.

97. Mr. Speaker, Sir, let me also hasten to state that the positive revenue performance is also a function of the visible and strict enforcement efforts undertaken by the MRA. To enhance compliance, two years ago Government, introduced use of cash registers requirement for all VAT registered operators. The cash registers are technically known as electronic fiscal devices (EFDs) and these machines assist the MRA to track tax compliance. EFDs are customs designed and supplied by designated manufacturers. Recently it has come to the notice of the MRA that there are some unscrupulous VAT registered operators who are using unlicensed and fake cash registers or EFDs with the intention of defrauding Government of VAT revenues.

98. Mr. Speaker, Sir, to counteract this fraud, I shall be proposing an amendment to the VAT Act to introduce stiff penalties to would-be-offenders to curb the malpractice of using fake or unlicensed EFDs and I invite the whole House to support this measure.

Value Added Tax on Milk

99. Mr. Speaker Sir, during the consultations for the 2017/18 budget, my team and I received a lot of contributions for consideration. One of the outcries that has been raised by the general public in various fora including the consultations was on the introduction of VAT on milk. In order to encourage farmers to produce more milk for the market and boost the market for milk in the country and increase its uptake by many Malawians, the VAT on milk is therefore being withdrawn and in this regard, milk will continue to be exempt from VAT as was the case before the VAT was imposed.

Income Tax Measures

Increasing Tax Free Income Bracket from K20,000.00 Per Month to K30,000.00 Per Month.

100. Mr. Speaker, Sir, the income tax free threshold that triggers taxation for salaried employees was last adjusted in 2013/14 Fiscal Year. I am pleased to announce that the tax free income bracket has been increased from K20,000.00 per month to K30,000.00 per month.

101. Mr. Speaker, Sir, in consultation with the representatives of employers and employees, the minimum wage has been increased from K19,000 to K25,000 per month. This means that all those who earn a minimum wage will be below the threshold.

102. Mr. Speaker, Sir, an appropriate amendment bill will be presented to this House for consideration and approval.

Introduction of an Additional PAYE Bracket of 35 percent for Salaried Income of above MK3,000,000.00 per Month

103. Mr. Speaker Sir, the increase of the Minimum PAYE Threshold from MK20,000.00 to MK30,000.00 is expected to cost Government revenue in excess of MK10.0 billion. It is therefore prudent for Government to explore other means of recouping this loss in revenue. One of the ways of recovering this lost revenue is by bringing in more progressivity in our taxsystem. In order to improve the distribution of income from the rich to the poor and increase the progressivity of the tax system, Government is introducing an additional bracket of 35 percent on those earning salaried income above MK3,000,000.00 per month. I wish to highlight that this top rate of 35 percent will not affect individuals who earn their income from businesses.

Changing the Description of Withholding Tax on “Bank Interest” to “Interest”.

104. Mr. Speaker, Sir, the current description of the term interest in the Taxation Act is limiting withholding of tax to “interest” earned at a bank.

105. As you are aware, Mr. Speaker Sir, interest is also earned from different sources of income apart from investments made at commercial banks.

106. In order to increase coverage of withholding tax to non-bank institutions, the Taxation Law on withholding tax will be changed on “bank interest” to read “interest”. An appropriate

bill effecting this proposed amendment will be presented to this House.

Tax Administration Changes in the Taxation Act

Use of Biometrics in Registering Natural Persons or Individuals

107. Mr. Speaker, Sir registration of natural persons or individual for income tax purposes has faced challenges of duplications, among other problems. To uniquely identify natural persons or individuals and prevent duplication, we shall be proposing the use of biometrics in registering natural persons or individuals.

Interest Charged on Overdue Taxes

108. Mr. Speaker, Sir, there are varying interest rates charged or levied by the MRA on overdue taxes across different tax types. Due to the differences in interest rates being charged on overdue taxes, taxpayers also take advantage and default in payment on due dates for taxes that have lower interest rate charges.

109. Mr. Speaker, Sir in order to reduce non-compliance with respect to payment of taxes promoted by varying interest rates on overdue taxes, Government is proposing a single formula for interest on overdue tax for all tax types. The proposed change will standardize interest rates on overdue tax across all tax types and reduce tax administration costs and workload on the MRA.

Harmonizing Penalties on Late Submission of Returns and Late Payment of Taxes

110. Mr. Speaker, Sir, there are varying penalties levied for late submission of returns across tax types and taxpayers take advantage of these differences on penalties and default on those type of taxes with low penalty charges.

111. The same scenario applies to penalties for late payment of taxes across all tax types. Indeed, Mr. Speaker, Sir, some penalties are insignificant to influence change in behavior.

112. To reduce incidents of non-compliance exacerbated by varying penalties, Government is proposing to have a single formula for penalties on late submission of returns for all tax types in order to ease administration, reduce cost of compliance and remove speculative behavior on tax payments on due dates.

113. A bill will therefore be presented to this House proposing standardization of penalties on failure to file a return or late payment of taxes.

Conclusion

114. In summary Mr. Speaker, Sir, I must repeat to the house that we have almost emerged out of the hole in which the effects of cashgate pushed us in. These effects are the withdrawal of budget support which was an important permanent feature of our fiscal structure since independence in 1964. This cashgate created a pronounced mismatch between the supply of available resources to the budget and the demand for funding budgetary requirements. The consequence was a huge deficit that was covered by a huge amount of payment arrears (K155 billion) and bank domestic borrowing.

115. In this hole, Malawi experienced ever worsening and volatile exchange rates, persistently high inflation rates and therefore prohibitively high general rates of interests. These macroeconomic conditions were inimical to economic growth so that our GDP stagnated and the income per capita of our people was declining instead of increasing to reduce poverty.

116. The fiscal adjustment and tight monetary policy that we have been following during the past 2 to 3 years have been painful but necessary. They have now led to a rebounding of the economy out of the hole and it is expected that soon we could attain full macroeconomic stability, which will mark a conducive foundation for economic growth.

117. I would like to emphasise Mr. Speaker, Sir, that although the rebounding out of the economic dungeon is a huge success, it is important for the house to know that we yet have to witness a full macroeconomic stability that will be marked by single digit inflation and generally low rates of inflation and rates of interest. We yet have to achieve these but we are poised to reach these targets soon.

118. Mr. Speaker, Sir, I also wish to emphasise that it is imperative that we continue with the fiscal and monetary policies by which we have succeeded to bring ourselves out of the hole. We are in a tricky position Mr. Speaker, Sir, where there will be temptations to reverse policies and adopt more permissive and accommodative policies so as to relax the discipline we have reinforced the past 2 to 3 years. Such discipline has led to reduction of budgetary deficit (including grants) from 6.1 percent of GDP in 2013/14 to a projected 3.9 percent of GDP.

119. Temptations of policy reversals, have been constant in Malawi before and have negated the successes that were made. It is argued by many inside and outside Malawi that reversals of policies have been a backdrop of mediocre economic development during the entirety of our post-independence period.

120. The budget therefore is intended to maintain sustainable macroeconomic stability and to begin the needed robust economic growth rates. As I said before, I wish to repeat to this house that in order to satisfy Malawian economic aspirations, to move out of a group of countries considered to be the poorest in the world, it is our intention that per capita income be doubled in the next 10 years. To do so, we will require that we achieve an average economic growth of 7 percent per annum.

121. The projects selected to be implemented in the 2017/18 financial year, have been selected in such a way as to provide a credible beginning for such a phase. The priority sectors will dominate the programme. It is expected for example that the investments in the energy sector will create a basis for the needed economic take-off.

122. The programme also assumes a revitalised public service and that public finance management reform programme will be pursued in order to prevent corrupt practices to thrive. To achieve improved production of the public service, the Government has decided that in the next coming years, general salary increases will be based on an individual's performance. The Chief Secretary to the Government is working out a mode of how supervisors can evaluate performance of their staff. Mr. Speaker, Sir, it is said that "economic performance of a country is as good as its Civil Service is". It is therefore the intention of

the Government to improve incentives for hard work in the public service.

123. Overall Mr. Speaker, Sir, the Government believes that after this rebound, the country can dedicate itself to hard work for everyone because we believe that this country can do better than most instead of worse than most. The fulfilment of this country's aspiration, to emerge out of the cocoon of the poorest countries in the world depends upon its on hard work and the perfection of its future economic performance. We need to enhance the spirit of "patriotism, integrity and hardwork".

124. With these remarks Mr. Speaker, Sir, I beg to move.



