



MALAWI GOVERNMENT

THE 2023/2024 BUDGET POLICY STATEMENT

Delivered in the

NATIONAL ASSEMBLY OF THE
REPUBLIC OF MALAWI

by

MINISTER OF FINANCE AND ECONOMIC AFFAIRS
HONOURABLE SOSTEN ALFRED GWENGWE, M.P.

at

THE PARLIAMENT BUILDING
LILONGWE

on

Thursday, 2nd March 2023

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MOTION

1. Madam Speaker, I beg to move that the estimates on the Recurrent and Development Accounts for the 2023/2024 Budget of the Malawi Government be referred to the Committee of the Whole House, to be considered vote by vote, and thereafter be adopted.

INTRODUCTION

2. Madam Speaker, in accordance with the requirement of Section 33 (3), of the Public Finance Management Act of 2022, I am mandated to present before this August House, a statement of the estimated receipts in form of tax revenue, grants and all other revenue as well as details of Government's proposed expenditure of the available resources.

3. Madam Speaker, let me, therefore, take this opportunity to thank my fellow Cabinet Ministers; various Ministries, Departments and Agencies (MDAs); private sector; Non-Governmental Organizations; academia; professional bodies; Development Partners and the public at large for their support and valuable contributions during the pre-Budget consultations. The

contributions were candid and constructive, a true reflection of the patriotism in so many of us out there who truly want the fortunes of our country to turn. Some of these contributions have been taken on board while others will be considered in the subsequent budgets.

4. Madam Speaker, this Budget has been formulated in line with the aspirations of the country as outlined in the Malawi 2063 First Ten- Year Implementation Plan (MIP-1). The resources for MDAs have therefore been allocated based on the Pillars and Enablers. In addition, Budget Programmes have now been fully aligned to MIP-1 Focus Areas. This Budget has also been aligned with the State of the Nation Address delivered by His Excellency the State President, Dr Lazarus McCarthy Chakwera on 17th February, 2023 titled *“Delivering Economic Transformation and Governance Reform through Sacrificial Action and Service Excellence”*.

5. Madam Speaker, the resource envelope for Malawi has always been inadequate when compared to the country's development needs. In the past few years, this situation has been compounded by increasing mandatory expenditures such as interest payment on public debt and compensation of

employees that take up a substantial portion of the resource envelope leaving very little for all other operations. This limited resource envelope, therefore, calls for prioritization, efficient allocation and prudent utilization if meaningful development is to be achieved.

6. In view of this, **Madam Speaker**, Government will through this budget implement policy reforms to enhance resource mobilization accompanied by prudent expenditure management to ensure that the country's debt is put on a downward trajectory. What this means is that our expenditures should to a large extent be within our domestic resources. It is for this reason that this Statement is titled: *"Sacrificing today for a better tomorrow: Regaining macroeconomic stability and growth through collective responsibility for our shared future"*

WORLD AND REGIONAL ECONOMIC OUTLOOK

World Economic Outlook

7. **Madam Speaker**, let me now present to this August House the economic developments at the global, regional and

national level. These developments affected the implementation of the 2022/2023 Budget and will continue to have an impact on the Budget that I am about to present. According to the IMF World Economic Outlook (WEO) Report of January 2023, Global growth is projected to fall from an estimated 3.4 percent in 2022 to 2.9 percent in 2023, then rise to 3.1 percent in 2024.

8. Madam Speaker, there is positive outlook on inflation for 2023 and 2024. According to the WEO report of January 2023, Global inflation is expected to fall from 8.8 percent in 2022 to 6.6 percent in 2023 and to 4.3 percent in 2024. This is still above the pre-pandemic (2017-2019) levels of about 3.5 percent. For advanced economies, growth is estimated to slow down from 2.7 percent in 2022 to 1.2 percent in 2023 and 1.4 percent in 2024. The projected slowdown is concentrated in the US and European economies. Declining real disposable income continues to dampen consumer demand, and higher interest rates are taking a toll on spending globally.

Sub-Saharan Africa Economic Outlook

9. Madam Speaker, Growth in Emerging markets and developing economies is estimated at 3.9 percent in 2022 and 4.0 percent in 2023 and slightly peak to 4.2 percent in 2024, this is in contrast to the deepening slowdown in advanced economies. In sub-Saharan Africa, growth is estimated at 3.8 percent in 2022 and expected to remain there in 2023. In 2024, growth is projected at 4.1 percent.

Malawi's Macroeconomic Developments

GDP Growth

10. Madam Speaker, Malawi's economy slowed in 2022 as it registered real GDP growth of 1.2 percent down from a growth of 4.6 percent in 2021. Growth in 2022 was challenged by intermittent energy supply and weather-related shocks which reduced agricultural output. Moreover, growth in 2022 was affected by supply chain disruptions emanating from the on-going conflict in Ukraine. Going forward, the economy is estimated to grow by 2.7 percent in 2023 due to expected high yield in agriculture, stabilization of energy supply and increased

output in other economic sectors like mining and construction. In 2024, the economy is projected to grow between 3 and 4 percent.

Inflation

11. Madam Speaker, the growth developments were also affected by price movements. Consumer prices continued to rise in 2022 due to pressure in food and non-food prices. Annual average inflation in 2021 was in single digits at 9.3 percent but substantially increased to 20.9 percent in 2022. Notably, food inflation rose to 31.3 percent in December 2022 from 14.2 percent in January 2022 while non-food inflation rose to 18.6 percent in December 2022 from 9.6 percent in January 2022. The annual average inflation for 2023 is expected to slightly decrease to 18.2 percent due to the expected increase in agricultural output and economic recovery from recent economic shocks. The increase in inflation is also emanating from the devaluation of the Malawi Kwacha in May 2022.

Monetary Policy

12. Madam Speaker, to contain inflationary pressures, the Reserve Bank of Malawi (RBM) adjusted its Policy rate from 12.0 percent to 14.0 percent in April 2022 and to 18.0 percent in October 2022. In response, the average lending rate moved in sync with the Policy rate adjustment, rising from 18.0 percent to 19.3 percent in May 2022 and to 22.6 percent in November 2022. In February 2023, in anticipation of a more favorable outlook for inflation, the RBM held its policy rate at 18 percent.

Foreign Exchange Reserves

13. Madam Speaker, foreign exchange reserves remain remarkably low as need for imports far out paces the exports. To boost the foreign exchange reserves, the RBM implemented a surrender requirement of 30 percent of exports and, in May 2022, devalued the Malawi Kwacha. Let me assure the House that Gross official reserves are expected to recover to above 3 months of import over the medium term.

Total Public Debt Stock and Management

14. Madam Speaker, allow me to appraise the House on how our debt currently stands. As at end-December 2022, Total Public Debt reached K7.90 trillion or 69.93 percent of GDP. Out of this stock, K4.43 trillion is domestic debt while K3.47 trillion is external debt. Compared to end-March 2022, total Public Debt Stock amounted to K6.38 trillion, representing an increase of 23.8 percent; mostly out of issuance of treasury securities to finance budget deficits and refinancing of old maturing debts.

15. Madam Speaker, the pace of borrowing that I have just cited is unsustainable and needs to be curtailed. That can only be done by ensuring that most of our expenditures are met from our domestic resources and we thus need to boost our domestic revenue capacity. Our utility parastatals need to improve on efficiency and most importantly be able to have a pricing mechanism that recovers cost at the minimum. Government will re-double its fight against corruption, fraud, abuse and pilferage of public resources. Government will also continue its debt restructuring strategy which, through a combination of fiscal consolidation and debt treatment, is expected to bring public

debt levels to moderate risk in the medium term. On debt restructuring, the Government already engaged its external commercial creditors and is now engaging its bilateral creditors notably China and India for a possible debt treatment. So far, the response has been positive. Government is also exploring debt swap arrangements to supplement restructuring and discussions are at an advanced stage.

16. Madam Speaker, in order to institutionalise debt management, I am pleased to inform the Honourable House that in-line with the PFM Act 2022, Cabinet approved a Medium-Term Debt Management Strategy (MTDS) for the period 2022-2026. The Strategy outlines the Government's plan to achieve the optimal debt portfolio, grounded in a ranking of the cost and risk trade-offs of alternative debt management instruments.

BUDGET PERFORMANCE

17. Madam Speaker, let me now turn to the 2022/23 budget performance. The likely outturn for total expenditure for the 2022/2023 fiscal year is estimated at K3.04 trillion, representing 26.7 percent of Gross Domestic Product (GDP), comprising K2.35 trillion of recurrent expenditure and K688.45 billion development

expenditure. The estimated recurrent expenditure comprises the following major expenditure lines:

- i. Compensation of Employees at K771.16 billion;
- ii. Interest Payment at K645.20 billion;
- iii. Generic Goods and Services at K254.95 billion;
- iv. Grants to Other General Government Units at K245.74 billion;
- v. Affordable Input Programme at K140.27 billion; and
- vi. Pensions and Gratuities at K115.75 billion.

Overall balance

18. Madam Speaker, based on the likely outturn of revenues and expenditure for 2022/2023 fiscal year, the overall budget deficit is projected at K1.01 trillion, representing 8.8 percent of the country's GDP. The estimated likely outturn is higher than the approved deficit of K884.04 billion. The increase in deficit was mainly on account of higher than planned salary adjustment, Public Debt Interest, Pensions and Gratuities, and other critical expenditure needs. The deficit is being financed through domestic and foreign borrowing at K745.79 billion and K261.11 billion, respectively.

Progress on Selected Projects in the 2022/2023 Fiscal Year

19. Madam Speaker, I am delighted to report that the Government has made substantial progress in some of the projects that were budgeted for in the 2022/2023 financial year. As you are aware, our development projects are financed by loans and grants from foreign sources as well as direct financing from our domestic resources. To meet the growing demand on infrastructure, we have also been raising finances from the domestic market through local currency bonds.

But the question remains **Madam Speaker;** What has the 2022/2023 budget achieved?

20. Madam Speaker, Government realizes that modern infrastructure and equipment are important building blocks to the delivery of quality health services. It is with great pleasure that I stand before you to report on the progress of the health sector. His Excellency the State President, Dr. Lazarus McCarthy Chakwera officially opened the 250-bed capacity Phalombe District Hospital in October 2022. I further wish to report that Government completed and handed over Nsanje, Chitipa,

Salima, Nkhotakota Emergency Treatment Units and expanded the Queen Elizabeth Central Hospital Intensive Care Unit. In addition, an oxygen gas plant house has been constructed at Mzuzu Central Hospital and the gas plant installation is underway and expected to be completed by end March 2023. Government also completed rehabilitation of area 23, Chilanga, Namcholi health centers and Umoyo Houses in Thyolo and Chikwawa. The construction of the bunkers for the Cancer Center is in progress and construction of superstructures at Mponela Community Hospital is at an overall progress of 40 percent.

21. Madam Speaker, the construction of state-of-the-art Lilongwe Institute Orthopedic and Neurosurgery at Kamuzu Central Hospital is near completion. The facility will provide neurosurgical, orthopedic services, laboratory, CT scan, operating theaters and MRI scan. To better address road traffic accidents, Government completed construction of trauma centers at Dedza, Ntcheu, and Balaka District Hospitals along the M1 road and also at Lusungwi Health Center and Queen Elizabeth Central Hospital. The Capital hill clinic has been completed and the allocation in the 2023/24 budget is now for furnishing and medical equipment. This Madam Speaker is a

clear testimony of a government committed to improving both access and quality of health care services for all Malawians.

22. Madam Speaker, In the Education Sector, three Teachers Training Colleges (TTCs) in Mchinji, Chikhwawa and Rumphu, have been successfully constructed and will open next month, April 2023. 1800 students have been selected, names to be released soon. The allocation in the 2023/2024 budget will only be for landscaping and ancillary works.

23. In the primary education, **Madam Speaker,** in order to increase the number of primary school teachers, in 2022/2023 FY the Ministry recruited 4,125 primary school Auxiliary Teachers under the Malawi Education Reform Programme (MERP). It also completed expansion of 14 urban primary schools and provided the necessary equipment to those schools. The Ministry also recruited and deployed 2,644 secondary school teachers.

24. Madam Speaker, Government through the Secondary Expansion for Development (SEED) Project is constructing 250 Secondary Schools across the country. Phase 1 of the project involved the expansion of 30 Urban Community Day Secondary Schools (CDSSs) which were dully completed. 51 more are

expected to be constructed and completed in the 2023/2024 fiscal year. The Government also plans to construct 34 Secondary Schools of Excellence and currently, sites have been identified in the six pilot education districts. The 2023/2024 budget has allocated resources for the construction of initial 6 schools of Excellency in the six education districts as follows: One in Chikwawa, then Phalombe, Mangochi, Lilongwe, Nkhotakota and one in Rumphu.

25. In the higher education, **Madam Speaker**, Government is committed to provide the necessary infrastructure for the new delinked Public Universities, as such, construction of various structures is underway. In addition, with support from Japanese Government, our Government has completed the expansion and upgrading of Domasi College of Education in Zomba. Furthermore, Government has partnered with the private sector to construct hostels in all Public Universities through Public Private Partnership Commission (PPPC). In this regard, Old Mutual Group has constructed and handed over a 154-bed space hostel to Kamuzu University of Health Sciences (KUHeS).

26. **Madam Speaker**, in a quest to provide our men and women in uniform decent accommodation, the Government has so far

completed and handed over 35 houses to beneficiary institutions and it is envisaged that a total of 300 houses will be completed by next month.

27. Madam Speaker, with regard to the Government's initiative to secure the lives of people with albinism, I wish to report that, to date, 21 houses have been completed and 19 of them have been occupied. I am happy to announce that the Government intends to construct more houses in the 2023/2024 financial year to further support this important cause and ensure the safety of people with albinism as was promised during the campaign times.

28. Madam Speaker, I am happy to report that the Government is taking meaningful steps to improve the reliability, security, efficiency and utilization of electricity in the Country. To that end, Government successfully completed the 19.1 Megawatts (MW) Tedzani IV Hydro Power Project. Further, the restoration of electricity generation at the damaged Kapichira Hydropower Station is advancing well with 50 megawatts of electricity to be added back to the grid by this month end.

29. Madam Speaker, As of January 2023, 19,473 customers were connected to the grid using ESCOM resources through the Malawi Electricity Access Project. In addition, a Fund Manager was appointed to disburse loans for the rollout of solar home systems to 200,000 off-grid customers in June 2022. The development of 75kW Chipopoma mini-grid's Hydro Power Plant at Mantchewe, Livingstonia in Rumphu District, which will go a long way in transforming the lives of the people within and around the area has also been completed.

30. Madam Speaker, I am pleased to report that, in line with our commitment to promote economic development and the general social welfare of our people, the Government has prioritized investment in the maintenance and upgrading of the road network to ensure that the road sub-sector, which continues to be the predominant mode of transport in the country, remains accessible and safe. As such, the House is being informed that:

- i. Phase II of upgrading the 30.8 km Jenda – Embangweni – Edingeni – Manyamula – Mzimba road has been completed up to surfacing. This Project was fully funded by Government;

- ii. Upgrading of the 25km Nsanje – Marka road has also been completed with the road connection to the site of the new border post that will be constructed alongside the railway station. This road has five state of the art bridges on its stretch.

Madam Speaker, in addition to these projects, there are other key ongoing projects whose progress is at different advanced levels.

- i. upgrading of Nsanama-Nayuchi Road is at 80 percent physical progress;
- ii. phase I of upgrading the Ntcheu–Tsangano – Neno-Mwanza Road is at 71 percent physical progress;
- iii. upgrading of Njakwa- Livingstonia, Phwezi-Phwamphwa and Livingstonia Mission Loop Road is at 95 percent physical progress with surfacing done up to 47.8km; Bridges were constructed and the remaining 25km to be constructed in 2023/24 financial year.
- iv. upgrading of Thyolo-Makwasa–Muona-Bangula road is at 91 percent physical progress with surfacing done up to 76km.

- v. Capacity Improvement of Kenyatta Road and Sharrar Street. Overall physical progress is at 25%. Subject to relocation of services, the Project is expected to be completed within 12 months.
- vi. Upgrading of Chitipa - Ilomba Road. The Contractor has now fully mobilised.
- vii. Construction of Mwanza – Neno – Tsangano -Ntcheu Road is in progress. The physical progress for Lot 1 of the project is 71% complete with 8.58 kilometres of the road surfaced. For Lot 2, the physical progress of the project is 20% complete with earthworks and pavement works up to subbase in progress.
- viii. Rumphu – Nyika – Chitipa road is at 22 percent completion status; the project delayed due to contract termination.
- ix. Lirangwe – Chingale – Machinga road is at progress is at 53 percent; the project delayed due to contract termination.
- x. Malomo – Mpalo – Ntchisi – Dzaleka road. Malomo Ntchisi road section of 10km was completed. Dzaleka Ntchisi road section has just commenced.
- xi. Capacity improvement of the M1 road from Crossroads to Kanengo in Lilongwe city. The road construction is at

30% completion rate; and

xii. Construction of Chakazi Bridge has been completed.

31. Madam Speaker, in rail sub-sector, Government is rehabilitating and upgrading the 72km Marka – Bangula Railway Section and it is at 17.5 percent completion rate.

32. Madam Speaker, progress of rehabilitation of Nkaya – Chipala railway line and Chipala – Mchinji border railway line is at 85 percent and 15 percent, respectively. Progress affected by the wash away of the Bridge at Nanyangu in Ntcheu. Under a concession agreement, Government is also rehabilitating the 72-Kilometre railway section from Limbe to Sandama. The project track progress is at 80 percent completion status.

33. Madam Speaker, in addition to the rehabilitation of the railway lines, the construction of a 170-metre bridge across the Ruo river at Osiyana in Nsanje is in progress and currently at 93 percent completion rate. This bridge will be used by both vehicles and trains.

34. Madam Speaker, committing to the so many road and other infrastructure developments across the Country, in very

difficult economic situations that the Country continues to sail through, is a hallmark of a resilient and able leader that His Excellency Dr Lazarus McCarthy Chakwera is.

35. Madam Speaker, the Tonse Alliance Government, continues to invest in our young people and create opportunities for them to succeed and contribute to the development of our nation. In this regard, Government has trained more than 3,000 youths under the Business Incubation Program. Some of these trained youths are now running their own small and medium-sized businesses and have created over 2,000 jobs.

36. Madam Speaker, although actual construction works for the Griffin Saenda Indoor Sports Complex in Lilongwe were not completed, the indoor complex was made ready for the Region-5 Games. The construction works are now at 80 percent completion rate nonetheless.

37. Madam Speaker, the construction of an aquatic complex at Kamuzu Institute for Sports in Area 17 in Lilongwe is at 63 percent. It is the intention of Government to complete these projects in earnest.

38. Madam Speaker, Agriculture remains the backbone of this economy and Government is promoting agriculture commercialization and diversification as one way of reforming the sector. In the 2022/2023 financial year Government implemented interventions aimed at building Productive Alliances among producer organizations and off takers to promote agriculture commercialization. Most of the producer/farmer organizations were supported with matching grants which were accessed through Sustainable Agriculture Production Project (SAPP), Agriculture Commercialization Project (AGCOM) and Malawi Watershed Services Improvement Project (MWASIP) projects. During the period, Government through SAPP funded a total sum of MK 356.8 million to 119 groups comprising 4,453 beneficiaries while through AGCOM, Government funded a total of MK6.3 billion to 173 Producer Organizations benefitting 38,852 farmers. Cumulatively, Government through AGCOM has reached to 275 farmer organizations and has disbursed about MK21.9 billion. The Government through MWASIP has further disbursed MK441 million to 36 farmer groups.

39. Madam Speaker, I am pleased to inform the House that building on the successes so far and the need to expand the

Agriculture Commercialization Programme, the Government, in collaboration with the World Bank, is preparing phase two of the Programme to the tune of US\$235 million up from the currently US\$95 million. The future is Agriculture commercialization.

40. Madam Speaker, as of 1st March, yesterday, 2,048,634 of our farmers have benefited from a 50 kg bag of NPK and 1,722,388 have benefited from a 50kg bag of UREA. This was made possible by the K109 billion that this House appropriated and the gesture of many friends of Malawi who stepped forward with donations of fertilizers.

41. Madam Speaker, the Mining sector remains one of the key drivers of economic growth in this country and Government has issued 51 large-scale Mine Exploration Licenses, 9 Medium-scale Mining Licenses, 351 Small-scale Mining Licenses, and 423 Reserved Minerals Licenses. In addition, gold purchases have reached a total volume of 186.96 kilograms at a total purchase cost of MK9.4 billion, as of 30th November 2022.

42. Madam Speaker, within the year Government continued with its drive to promote, industry, trade and private sector development for sustainable economic growth. In this context,

Government facilitated the establishment of edible oil crushing plants in the Country to reduce imports of crude oil. Some of the companies include Agri Value Chain Industries at Nsundwe in Lilongwe, MOTI Mill Oils at Kanengo in Lilongwe and Bakhresa in Limbe-Blantyre. Agri Value Chain Industries at Nsundwe has started crushing soya beans into crude oil and is expected to start production of refined cooking oil in the next four months. In addition, it facilitated the development of a leather tannery at Liwonde that is processing hides and skins to final leather.

43. Madam Speaker, His Excellency the State President, Dr Lazarus McCarthy Chakwera and His Excellency Hakainde Hichilema of Zambia commissioned the Mchinji-Mwami One-Stop Boarder Post that will enhance trade not only between the two countries but across the region through reduction of transit times and ease movement of goods and people as well as boosting revenue collection. In addition, the construction One Stop Border Post at Dedza-Colomue has now been completed while Mwanza-Zobue is at 95 percent completion. Progress in construction has also been registered at Muloza-Milanje and Chiponde-Mandimba Border Posts.

44. Madam Speaker, the Government continues to enhance the provision of Early Childhood Development services with the purpose of promoting the rights of children in order to develop their full cognitive, emotional, social, and physical potentials. During the period under review the Government constructed 120 Community Based Child Care Centres (CBCC's) and increased the number of model Early Childhood Development Centres (ECDs) from 30 in 2021 to 45 in 2022, representing a 50 percent increase. Currently, ECD services cater for an estimated 1.9 million children from 1.7 million children enrolled in 2021, representing a 11 percent increase.

45. Madam Speaker, during the 2022/2023 financial year, Government constructed Community Technical Colleges in Nkhotakota, Chikwawa, and Chiradzulu. Currently there are 20 Community Technical Colleges that are operational with an overall enrolment of 7,220. Other colleges are being constructed in Rumphu, Machinga and Nsanje.

Social Support for Resilient Livelihoods Project

46. Madam Speaker, Government is aware of the economic hardships that Malawians, particularly the urban and rural areas

are facing. To cushion these vulnerable groups, Government in collaboration with the World Bank intensified resource mobilization for the Social Support for Resilient Livelihoods Project which aims at improving resilience among the poor and vulnerable population and strengthening of the national platform for safety nets in Malawi. Through the Project, the Government is implementing the social cash transfer program, enhanced public works program and other livelihoods support programs such as promotion of village savings and loan groups which has proven to contribute to economic empowerment of the poor. Total available financing for the Project is US\$489.76 million, approximately MK504.5 billion, making it the biggest project in the history of social protection programs in Malawi. It is expected, **Madam Speaker**, that those households who do not qualify for the Affordable Input Program will be covered under this program under the AIP reform dubbed AIP 2.0. It is expected under the AIP reforms that targeting of beneficiaries will be more efficient and that an individual shall not benefit from multiple programs, a practice called double dipping.

Fighting Cholera Outbreak

47. Madam Speaker, this statement cannot go without acknowledging the challenges and loss of lives that this Nation is experiencing due to the Cholera outbreak. Recognising the intensity of the problem, the State President, His Excellency, Dr Lazarus Chakwera added Cholera to the Presidential Task Force on Covid 19 as one of its responsibilities.

48. Subsequently, **Madam Speaker,** the *Tithese Cholera Campaign* was launched on 13th February 2023 to intensify people level action in water and sanitation, food hygiene, risk communication and community engagement. Approximately 1000 additional dedicated health care workers have been recruited to work in Cholera treatment units. This was supplemented by a cholera vaccination campaign.

49. To ensure that people have access to clean and safe water, Government rehabilitated water kiosks and community water points including provision of Chlorine for water purification in Cholera hotspots. Furthermore, Government was providing prepaid water tokens to public facilities and repairing non-functional boreholes and community kiosks.

Malawi Water Sanitation Program

50. Madam Speaker, the Government is also preparing a Malawi Water and Sanitation Project to be supported by the World Bank. The first phase of the Project will be in the amount of US\$145 million, approximately MK149.4 billion. The objective of the project will be to increase access to improved water supply and safely managed sanitation services in Blantyre Metropolitan Area and to enhance the operations and financial efficiency of the Blantyre Water Board.

51. Madam Speaker, to this effect, I will be bringing a grant authorization bill for the Project during this session of Parliament. This Project is the first in a series of projects that aim to improve access to water and sanitation in Malawi. Upon successful implementation, the Project will be extended to other water boards in the Country.

Project Financing - Infrastructure Bond Projects

52. Madam Speaker, Government continues to fund high value and impact projects using infrastructure bonds including: (i) Construction of the Aquatic Complex at the Kamuzu Institute for

Sports which was used to successfully host the recent African Union Sports Council Regional 5 Games; (ii) Rehabilitation of Kaphatenga-Benga road and (v) Kholongo Multipurpose Dam in Mponela (iii) Rehabilitation of Railway Section Marka- Bangula, (iv) Construction of 300 of the 10,000 housing units for MDF, Police, Prisons and Immigration.

Budget Support

53. Madam Speaker, building on the on-going discussions with the International Monetary Fund (IMF), the Government is also engaging the World Bank and the European Union for possible budget support. Among others, the World Bank has committed about US\$160 million, approximately MK164.8 billion for a Development Policy Operation budget support while the EU will announce its committed amount as discussions continue. This shows that the current Administration is regaining the trust/donor confidence in its systems, especially public finance management, including the fight against corruption and other Public Finance Management reforms taking place.

GOVERNMENT REFORM PROGRAMS

Public Finance Management

54. Madam Speaker, it is evident that Commercial State-Owned Enterprises have been registering losses, borrowing heavily from commercial banks or persistently requesting for Government bailouts to finance their operations. Some contingent liabilities for SOE have eventually turned into actual debt and responsibility of the Government. To address the fiscal risks posed by loss making SOEs, Government will continue to conduct fiscal risk analysis to detect potential areas of fiscal risks facing SOEs in the country. Those that continue to make losses may have to be restructured or indeed closed altogether. Over 90 percent of SOEs have opened revenue holding accounts with RBM.

55. Moving on to efforts in addressing under collection of non-tax revenue including, dividends and surpluses, Government will continue enforcing opening of revenue holding accounts at the Reserve Bank of Malawi for all commercial SOEs. Government will sanction those that do not comply in line with the PFM Act, 2022

by 1st of April 2023.

Integrated Financial Management and Information System (SAP IFMIS)

56. Madam Speaker, in the 2023/2024 financial year, Government will continue consolidating the gains that have been registered on IFMIS implementation so far. This will include enhancing the system in financial reporting, bank reconciliation, recording of Government commitments and payment efficiency through a stable Electronic Funds Transfer (EFT) platform. Government through the Department will also roll out additional system functionalities such as Contract Management, Revenue Management, Asset Management and Project Systems. In addition, it will develop strategies on how Local Council IFMIS could be improved to be robust as the Central Payment System.

International Public Sector Accounting Standards (IPSAS)

57. Madam Speaker, Government will continue migrating to implement Accrual International Public Sector Accounting Standards (IPSAS) whose benefits include greater accountability

and fight against fraud and corruption, improved financial management information reporting and transparency, improved cash-flow management and improved use and management of public sector resources. There shall be a sense of accountability and tracking of how public resources are being managed and utilized. For the first time, Government shall conduct a valuation of all Government Assets in compliance with Accrual Accounting Standards as a core component of Financial Statements. In addition, the exercise will provide a clear picture of the total value of all Government assets and improve financial management and reporting.

58. Madam Speaker, The Deposit Insurance Corporation Act, 2022 which establishes a deposit insurance scheme is expected to promote the stability of financial system and protect small depositors from losses. In this regard, Government will operationalize the Deposit Insurance Corporation during the 2023/24 financial year with funding from the National Budget and the Reserve Bank of Malawi.

Malawi Carbon Markets Initiative (MCMI): Making Carbon Markets Work for Malawi

59. Madam Speaker, In pursuance of the MIP-1 particularly the Sustainable Development Goals (SDGs) on Environmental sustainability, related to *Ecosystem Conservation and Environmental Management*, Government will operationalize the Carbon Credit Trading Market.

60. Madam Speaker, in his address to the Sixth Africa Forum, His Excellency, Dr. Lazarus McCarthy Chakwera made a strong pitch for Malawi's opportunities in carbon markets. He recognised that carbon pricing and regional market development are a win-win game. They do not only encourage private investment in the green business or low-carbon development aimed at curbing carbon emissions and other pollutants; the markets also allow the investors to generate and trade carbon credits and earn significant returns from their investments, which can be used to expand business operations in Malawi and global value chains and create decent jobs. Government has this far received a number of enquiries through the Mega Farm initiative to come and invest in our abandoned and depleted forests reserves with the aim to participate in the carbon credit market.

61. Madam Speaker, Malawi has vast land resources including mountains covered by forests occupying about 35 percent or about 3,237,000 hectares of Malawi's land area. Malawi's fresh water resources cover 21 percent of land area and include Lake Malawi, which is the third-largest freshwater lake in Africa. With this, Malawi has a lot of potential for carbon sequestration in that the country has a total of 1,068,987 hectares of designated forest reserves, including both exotic and indigenous trees and 1,044,000 hectares of land under wildlife conservation parks and reserves, all of which can be traded for carbon credits. Using the prevailing global market prices, and according to expert calculations, the value of Malawi's carbon credits from our forests, is estimated at 20 million metric tons of carbon per annum.

62. *To operationalise the initiative, the Government of the Republic of Malawi has undertaken the following:*

- i. His Excellency, Dr. Lazarus McCarthy Chakwera has appointed an inter-ministerial panel to provide Cabinet oversight on carbon markets and operationalisation of initiative and appointed the Minister of Finance and

Economic Affairs as the Champion for operationalisation of MCMI;

- ii. The Minister of Finance and Economic Affairs, has authorised the MCMI Steering Committee and Secretariat to engage prospective investors and development partners in order to raise any additional resources, both financial and technical, for the smooth operation of the MCMI.
- iii. The Minister of Finance and Economic Affairs, has authorised the MCMI Steering Committee and Secretariat to initiate engagements with various partners including investors, carbon trading partners, UNECA, ACMI, Afreximbank, among others to start negotiations, with various investors.

Social Support Programs

63. Madam Speaker, Government continues to scale up implementation of social support programmes aimed at cushioning livelihoods of the poor and vulnerable. The 2022/23 financial year has seen significant scaling up of the Climate Smart Enhanced Public Works Programme which has increased its coverage from an initial 10,000 households in 2020/2021 to a

targeted 435,000 households in 2022/2023 and is expected to reach 524,000 households in 2023/2024.

64. Madam Speaker, in order to improve the efficiency and effectiveness of social protection programmes, Government is facilitating the implementation of an Integrated Safety Net Programme by accelerating implementation of the Unified Beneficiary Registry (UBR) which collects socio- economic and demographic information on households. This will ensure a harmonised and coordinated targeting framework for various social protection programmes and will enhance its efficiency and avoid multiple access by some beneficiaries.

Additionally, Government and its Development Partners have signed a Multi-donor Trust Fund to support implementation of the integrated social protection program.

THE 2023/2024 BUDGET

65. Madam Speaker, I now wish to present to this August House the 2023/2024 fiscal plan and the assumptions underpinning the estimates. In the 2023/2024 financial year, the main focus of the budget is to progressively continue containing the budget deficit. The 2023/2024 budget continues to address issues of

public debt management; fiscal consolidation; ensuring prudent and efficient use of public resources to achieve value for money; export diversification and import substitution; strengthening the balance of payment position as well as promoting local manufacturing.

Major Assumptions for 2023/2024 Budget

66. Madam Speaker, the 2023/2024 budget has been formulated with the following underlying assumptions:

- i. The real GDP growth of 2.7 percent in 2023 and 3.2 percent in 2024, giving a fiscalized GDP growth rate of 2.8 percent
- ii. Average inflation rate of 17.9 percent during the fiscal year
- iii. A policy rate of 18 percent
- iv. Tax refunds of 3.0 percent of the total tax collection

Total Revenues and Grants

67. Madam Speaker, total revenue and grants for the 2023/2024 fiscal year are estimated at K2.55 trillion representing 16.8

percent of GDP. Domestic revenue is estimated at K2.24 trillion representing 14.7 percent of GDP. Of the domestic revenue, tax revenue is estimated at K2.13 trillion while Other revenue is estimated at K114.34 billion.

68. Madam Speaker, Grants are estimated at K311.5 billion, representing 2.0 percent of GDP. Grants comprise K299.07 billion from international organization and K12.43 billion from foreign governments in form of dedicated and project grants.

Total Expenditure

69. Madam Speaker, total expenditure for the 2023 /2024 fiscal year is projected at K3.87 trillion, representing 25.5 percent of GDP. Of the total expenditure, recurrent expenses are estimated at K2.98 trillion, representing 19.6 percent of GDP and 76.9 percent of the total expenditure, respectively. Development expenditure is at K896.21 billion, representing 5.9 percent of GDP and 23.1 percent of total expenditure. This represents an increase of K207.75 billion from a projected 2022/2023 likely outturn of K688.45 billion. Development expenditure is composed of K600.28 billion foreign resources and K295.93 billion domestic resources.

Overall Fiscal Balance and Financing

70. Madam Speaker, the 2023/2024 overall fiscal balance is estimated at a deficit of K1.32 trillion, which is 8.7 percent of GDP, an improvement of 0.01 percent from last year's 8.8 percent likely out turn. Government continues to ensure that the fiscal deficit is minimized to the extent possible. This deficit will be financed through foreign borrowing amounting to K288.78 billion and domestic borrowing amounting to K1.19trillion.

HIGHLIGHTS OF THE 2023/2024 BUDGET

RECURRENT BUDGET

Wages and Salaries

71. Madam Speaker, wages and salaries are estimated at K897.00 billion, representing 23.2 percent of total expenditure and 5.9 percent of the country's GDP. At this level Wages and salaries represent 30.4 percent of the recurrent expenses. I am also pleased to inform the August House that a salary increment of 8.0 percent has been included for civil servants.

72. Government has approved introduction of transport allowance to all civil servants effective April 2023. To this effect a provision of K39.1 billion has been made for this purpose.

73. Madam Speaker, I am also pleased to notify the house that another Special allowance is being considered and will be announced once the due processes have been concluded.

74. Madam Speaker, recognizing the important role that our chiefs play in the development of our country, also considering that their honorarium low as it is, has not been revised for the longest time, a provision of K3.16 billion has been made to allow for the doubling of chief's honorarium.

75. Madam Speaker, another provision of K8.9 billion has been made for recruitment of primary and secondary school teachers and an additional MK4 billion for general recruitment in various MDAs.

Interest Payments

76. Madam Speaker, interest on public debt has been estimated at K914.86 billion, representing 6.0 percent of GDP,

which is an increase of K269.66 billion, from K645.20 billion for 2022/2023 financial year's revised provision. This increase is partly on account of the impact of devaluation of the Malawi Kwacha against the major foreign currencies and huge maturities of promissory notes used to clear arrears. Of the total resources earmarked for interest payments, K35.87 billion is for foreign interest payment while K878.99 billion is domestic interest payment.

Affordable Input Programme

77. Madam Speaker, Government will continue implementing a reformed Affordable Inputs Program in 2023/2024 fiscal year. Learning from the challenges encountered this financial year and the previous ones, the AIP will undergo various necessary reforms to enhance targeting, efficiency and mitigate all risks on the fiscus.

Pensions and Gratuities

78. Madam Speaker, Pensions and Gratuities have been allocated a total of K140.55 billion while K26.54 billion has been

allocated to Government contributory pension scheme. Government is committed to continue reducing the waiting period and K10.00 billion has been allocated for this cause. A date for the commencement of the new Pensions bill will be gazetted in endue course having concluded preparations with all stakeholders involved.

Maize purchases

79. Madam Speaker, in the 2023/2024 fiscal budget, K12.00 billion has been allocated for maize purchases by the National Food Reserve Agency and ADMARC to replenish the Strategic Grain Reserves. These resources are part of the total allocation to the agriculture sector. Apart from being allocated 6billion for restructuring costs in the 2022/23 budget, Admarc has also been allocated 4 billion in the 2023/24 budget as start up resources for its recapitalization.

Grants to other General Government Units

80. Madam Speaker, grants to other General Government Units are estimated at K297.34 billion. The key breakdown includes:

transfers Roads Fund Administration amounting to K67.45 billion; Malawi Revenue Authority amounting to K62.76 billion; K146.14 billion is for subvented organisations; K16.00 billion for University students' loans and K5.00 billion to Roads Authority.

2023/2024 KEY SECTOR ALLOCATIONS AND DEVELOPMENT PROJECTS

Education and Skills Development Sector

81. Madam Speaker, Education and Skills Development is one of the key priority areas for the Government in tandem with the enabler number 5 in the MIP-1, Human Capital Development. Cognizant of the important role of education to the social economic growth and development of this country, Education and skills development sector has been allocated a total of K603.36 billion in the 2023/24 financial year. This represents 4 percent of GDP and 15.6 percent of the total budget. These resources will cater for wages and salaries; routine operations for primary and secondary schools, technical and community colleges and public universities as well as development projects in this sector.

Education Sector Projects

82. Madam Speaker, in 2023/2024, the Tense Alliance Government will continue investing in the education sector through implementation of a number of projects including the following:

- i. Commencement of the construction of 34 Schools of Excellency Programme with 6 starting in this financial year
- ii. Construction of Inkosi Mmbelwa University, with an initial 5 billion allocated.
- iii. Construction of teachers houses;
- iv. Construction of Primary Schools and Rehabilitation of Other
- v. Education Facilities;
- vi. Construction of a Library at Mzuzu University;
- vii. Construction of Girls Hostels;
- viii. Construction of Science Laboratories and Libraries in CDSSs;
- ix. Rehabilitation and Expansion of Infrastructure in Public Universities;

Agriculture, Water Development and Climate Change

83. Madam Speaker, the agriculture sector continues to be mainstay of this economy. Consistent with this, the sector has been allocated K455.10 billion representing 3.0 percent of GDP and 11.8 percent of the total budget, respectively. These resources will cater for wages and salaries; operations including Affordable Inputs Programme; transfer to NFRA for rehabilitation of Limbe warehouse which is in dilapidated state; maintenance of grain silos; recapitalization of ADMARC; development projects in the Ministries of Agriculture; Forestry and Natural Resources; and Water and Sanitation.

Agriculture and Water Development Sector Projects

84. Madam Speaker, the Government continues to implement projects in the agriculture sector in 2023/2024 financial year and these include:

- i. Agriculture Commercialization project;
- ii. Shire Valley Transformation project;
- iii. Livestock Infrastructure Development;
- iv. Nkhata-bay Town Water Supply and Sanitation project;

- v. Lilongwe Water and Sanitation project;
- vi. Sustainable Fisheries, Aquaculture Development and Watershed Management; and
- vii. Agriculture Infrastructure and Youth in Agribusiness Project, among others.

Health Sector

85. Madam Speaker, consistent to the enabler number 5 of the MIP 1, Human Capital Development, the health sector has been allocated K330.18 billion in 2023/2024 fiscal year. The Government prioritizes the Health Sector because the healthier the population is, the more it will positively contribute to the social economic growth and development of this country. These resources will cater for wages and salaries for health personnel; operational expenses for central and district hospitals, procurement of medical drugs and vaccines; maintenance costs for hospitals and medical equipment; as well as development projects in the sector.

Health Sector Projects

86. Madam Speaker, in the 2023/2024 financial year, Government will continue to implement a number of projects in the health sector. Some of the projects to be implemented include the following:

- i. Construction of Mponela and Domasi Community hospitals;
- ii. Construction of Cancer Centre;
- iii. Construction of 55 Health Posts Phase I;
- iv. Multi Sectoral Nutrition program and
- v. Malawi Emergency Project to protect Essential Health Services, among other.

Transport and ICT Infrastructure Sector

87. Madam Speaker, Transport and ICT is a very important catalyst of social economic growth and development of this country. In the 2023/2024 financial year's budget, this sector has been allocated 246.29 billion, representing 6.4 percent of the total budget and 1.6 percent of GDP, respectively. Government continues to implement the following projects under the

transport and ICT sector:

- i. Capacity improvement of a section of Mzimba Street in Lilongwe city from crossroads roundabout to Central Medical Stores to six lanes;
- ii. KIA Junction – Kasungu – Mzimba road;
- iii. Ntcheu – Tsangano – Mwanza road;
- iv. Mzimba – Ezondweni - Njakwa road;
- v. Njakwa – Phwezi – Livingstonia road;
- vi. Monkeybay – Cape Maclear road;
- vii. Kaphatenga – Nkhotakota road;
- viii. Chitipa – Illomba road;
- ix. Dedza Boma loop road;
- x. Thabwa Chitseko – Seven road;
- xi. Chikwawa-Chapananga road;
- xii. Digital Malawi project; and
- xiii. Last Mile Rural Area Connectivity Project.

Energy, Industry and Tourism Development

88. Madam Speaker, The Energy Sector falls under enabler number 6, Economic Infrastructure of the MIP-I. This is a very critical sector in as far as providing an enabling environment for

all the economic activities to thrive and attracting foreign direct investment. In this regard, the sector has been allocated K51.83 billion which is 0.3 percent of GDP and 1.3 percent of the total budget. This provision will cater for wages and salaries, operations and development projects in the Ministries of Energy; Mining; Trade and Industry; and Tourism.

Energy Sector Projects

89. Madam Speaker, Government will continue implementing impactful projects under this sector. Some of the projects to be implemented in 2023/2024 financial year include the following:

- i. Mpatamanga Hydro Power project;
- ii. Malawi-Mozambique Inter-connector project;
- iii. Malawi Electricity Access project;
- iv. Extension of Wovwe Hydro Power Plant;
- v. Promoting Investment and Competitiveness in Tourism Sector;
- vi. Improvement of Access Roads to Resort Areas;

Madam Speaker, illicit trade and smuggling continue to be a menacing economic evils of our time. It deprives our private sector of fair competition and it exacerbates our shortage of

forex talk less of the lost taxes. To this end, the Ministry of Trade and Industry has been allocated 1 billion to coordinate anti smuggling efforts with the Malawi police, the Malawi Defence Force and indeed the MRA and Malawi Bureau of Standards.

Mining Sector

90. Madam Speaker, the Mining Sector continues to be the Governments priority because of its enormous potential to generate foreign exchange, create jobs for many Malawians, generate wealth for the country and diversify the country's exports. The country is endowed with many rare and valuable minerals and natural resources that if put to good use can turn around the fortunes of this country. Government will therefore continue to promote this sector through negotiations with potential investors in the sector in order to realize its full potential. Madam Speaker, the House may wish to note that Government has allocated resources for completion of the construction of the Mineral Laboratories.

Governance and Rule of Law Sector

91. Madam Speaker, the Governance and Rule of Law sector has been allocated K125.94 billion, which is 0.8 percent of GDP and represents 3.3 percent of the total budget. These resources will cater for wages and salaries and operations of oversight institutions including Judiciary, Anti-Corruption Bureau, Office of the Ombudsman, Law Commission and Malawi Human Rights Commission. The resources will also cater for development projects in these institutions.

Allocations to Local Councils

92. Madam Speaker, in the spirit to promote fiscal decentralization and ensuring delivery of timely and quality service in the Local Councils, the Government has allocated a total of K488.09 billion to Local Councils. Out of this amount, K427.7 billion is the total recurrent budget and K60.4 billion is for Development Projects.

Key Allocations within the Council

93. Madam Speaker, some notable allocations to the Local Councils include: K379.24 billion earmarked for Personal Emolument and K48.42 billion as Other Recurrent Transactions. Of the K48.42 billion under Other Recurrent Transactions; K2.26 billion has been allocated to the Agricultural Sector; K17.94 billion to Education Sector; K12.45 billion to the Generic Health Sector; K2.08 towards the purchase of drugs; and K4.85 billion towards General Resource Fund (GRF) among others.

94. Madam Speaker, under the Development Budget for Local Councils, the following are some of the key allocations:

- i. Constituency Development Fund with an allocation of K19.3billion
- ii. Dualisation of Chileka – Blantyre Road with an allocation of K1.0 billion;
- iii. Construction of City Roads with an allocation of K18.6 billion;
- iv. District Development Fund with an allocation K4.7 billion;
- v. Construction of Water Structures with an allocation of K2.3 billion;

- vi. Infrastructure Development Fund with an allocation of K810 million;
- vii. Rehabilitation of District Hospitals with an allocation of K13.6 billion.

REVENUE MEASURES

Revenue Policy and Administrative Measures for the 2023/2024 Fiscal Year Budget

95. Madam Speaker, the revenue policy and administrative measures that I am about to announce today have been designed to fulfill what I have said and emphasized in the past on strengthening domestic resource mobilization, by broadening the tax base and enhancing tax compliance; promoting domestic and foreign investment in agriculture, manufacturing, and the energy sectors; improving administrative functions of the Malawi Revenue Authority and other Government revenue collecting Ministries, Departments, and Agencies and correcting errors in the tax laws.

96. Firstly, allow me, **Madam Speaker**, to appreciate the many suggestions that we received from the private sector, academia, and many other individuals and organizations when we conducted the Prebudget Consultation Meetings in the three main cities of the Country. I want to assure everyone that your suggestions were closely examined and that some of them have been adopted. Others have been reserved for future consideration as it is not possible to implement all the suggestions in one fiscal year. I therefore want to express my sincere gratitude to everyone who patronized the Pre-Budget Consultation Meetings I conducted and the follow-up contributions through the post and electronic mail. All these have contributed to the formulation of this year's budget and tax policy measures.

Tax Policy Measures for the 2023/2024 Budget

97. As you are aware, **Madam Speaker**, the Customs and Excise tax measures will be effective from midnight today whereas the Value Added Tax (VAT), Income Tax, and Administrative measures will be effective on 1st April 2023 after due process of the relevant Bills.

Customs Measures

98. Madam Speaker, countries are starting to get rid of diesel- and petrol-powered motor vehicles in preference for electric powered motor vehicles. To ensure that Malawi is not left behind on this new innovation, the Government is introducing a Customs Procedure Code in the Customs and Excise (Tariff) Order to cater for duty free importation of materials for the construction of electric motor vehicle charging stations. To this effect, Government is removing taxes on importation of electric motor vehicles and electric motor vehicle charging systems.

99. Madam Speaker, some religious organisations own and run credible schools and hospital facilities in the Country. These religious institutions are greatly assisting the Government in providing the critical health and education services. As one way of encouraging them and recognising the commendable contributions they make to the economic development of our Country, Government will allow them to import duty-free, every five years, two motor vehicles which are principally designed for the transportation of persons, if the religious organisation has at least 5 health facilities or 5 education institutions. The

Government believes that these motor vehicles will ease the transport challenges that they face in the monitoring functions of their education institutions and health facilities.

100. Madam Speaker, to take into account the impact of inflation, the Government is revising upwards the following rebates and fees:

- i. travellers' rebate on personal non-commercial accompanied baggage from **MK300,000** to **K750,000**;
- ii. rebate for personal non-commercial unaccompanied baggage from **MK50,000** to **MK100,000**; and
- iii. warehouse rent for importers who keep their goods with the Malawi Revenue Authority warehouses from **MK500** per tonne or cubic meter per month to **MK1,000** per tonne or cubic meter per day.

101. Madam Speaker, to ensure that there is uniformity in the treatment of privileged individuals as regards the disposal of duty-free motor vehicles, the Government is extending the duty-free disposal of motor vehicles after 5 years, currently being provided only to Members of Parliament, to other individual beneficiaries with similar privileges such as Judges, diplomats,

senior government officers and returning residents.

102. You may recall that last year Government removed taxes on some solar products in order to promote the use of clean energy in support of the Government's initiative of addressing deforestation as well as reducing the strain on hydroelectricity, and aligning with the Government's development policies such as the Malawi 2063, National Energy Policy and National Charcoal Strategy. In continuing with the same spirit, **Madam Speaker**, the Government is removing import duties on gas appliances such as cookers and hotplates.

103. Madam Speaker, during my Pre-Budget Consultation Meetings, several contributors highlighted the use of specific taxes for second-hand motor vehicles to address the challenge of under-valuation of motor vehicle imports. This notwithstanding, I am also aware of the numerous complaints from importers about the Malawi Revenue Authority's unilateral decision in uplifting the value of their second-hand motor vehicles thereby increasing their tax burden. To overcome this challenge, Government has adopted the proposal to use specific taxes for second hand motor vehicles. The targeted motor vehicles are

those manufactured between the years 2000 and 2020 while those outside these years will continue to be cleared using ad valorem customs duty rates using their transaction value. The Malawi Revenue Authority will in due course publish a document showing specific taxes to be applied based on the motor vehicle's make, model, year of make, and engine size. For example, if you are importing a 2014 Toyota corolla with engine capacity of 1.5 litres, you will be able to see the tax payable clearly indicated, say for argument's sake, MK4 million. This specific tax will be non-negotiable, thereby removing room for corruption or undervaluation or indeed MRA uplifting the value of the motor vehicles. An importer will be buying a vehicle fully aware of what duty it will attract by simply referring to the matrix that MRA will release in due course.

104. Madam Speaker, the Government, through the Malawi Revenue Authority, continues to strengthen controls in our borders in order to curb smuggling and avoid the market distortions. The Honorable House may wish to note that, through our extensive consultations, we have received numerous complaints and suggestions on the effects of this cancer on domestic producers of various products in our economy. In order

to deal with the challenges of smuggling and the production of fake products, which also pose a health risk to the society, Government will introduce electronic tax stamps on the following additional goods; still water, lotion, and glycerine.

105. Madam Speaker, the Government is amending some Customs Procedure Codes such as CPC 419, 420, and 496 to clarify that motor vehicles that are eligible for duty-free importation under these CPCs are those that are principally designed for the transportation of persons, except buses.

106. Madam Speaker, to promote girl hygiene, Government is removing import duties and Value Added Tax on urinary drainage bags of Tariff Subheading 3926.90.10.

107. Madam Speaker, the Government is restricting the duty-free importation of consumables such as cutlery and bed linens imported under CPC 442 for tourism industry to be enjoyed only during the initial investment period. This is being done to curb abuse of the facility.

108. In order to ensure fair treatment of manufacturers that are operating under the Industrial Rebate Scheme, against any unproven malpractices levelled against them, **Madam Speaker,** Government will amend the Customs and Excise Act to provide for administrative hearing processes under the Industrial Rebate Scheme before the Commissioner General of the MRA decides on their industrial rebate status.

109. Madam Speaker, as one way of tracking exports and reconciliation of export earnings, Government will require that exportation of all non-traditional agricultural produce to be exported from a customs-controlled export warehouse as designated by the Commissioner General of MRA.

110. Madam Speaker, as a way of correcting some errors, Government will remove the Tax Stamps Schedule from the Customs and Excise Act and place it in the Regulations and introduce duty rates on some products where the rates are missing under the African Continental Free Trade Area column in the Customs and Excise Tariffs order.

Excise Tax Measures

111. Madam Speaker, one way of unlocking development in the Country is through increased access to digitalisation. The Government is thus committed in ensuring that the cost of data and telecommunication is reduced. Accordingly, Government will reduce excise tax on airtime and data from 10% to 7.5%.

112. Madam Speaker, the Government is introducing a 5% excise tax on roofing tiles coated with acrylic paint as one way of broadening the tax base.

Income Tax Measures

113. Madam Speaker, Government is introducing the mega farms concept as one of the key priority sectors in the Taxation Act to promote large-scale farming, this sector being the backbone of our economy. This administration is inviting and promising all Malawians who invest in large-scale farming for commercial purposes, including mega-farms, to benefit from a tax holiday of up to 10 years and duty-free importation of various items including machinery and building materials. The details of

how to qualify for these incentives will be published in the gazette once the necessary Bill is passed by this August House.

114. Madam Speaker, in addition to this initiative, the Government will make some amendments to the Priority Industry Scheme to make it more attractive to investors. These amendments will include:

- i. Allowing investors who registered before 2013 to qualify for incentives under Priority Industry Scheme provided that the investor is operating the new investment as a subsidiary;
- ii. Requiring all companies operating in priority industry to have at least 30% local employees in management positions;
- iii. Allowing joint ventures of Malawians and non-Malawians to be treated as Malawian investment if the Malawian investors are contributing at least 51% capital investment;
- iv. Include assessment criteria for qualification to operate in the priority industry in the regulations to increase the transparency of the assessment process;
- v. Including a sunset clause for each sector so that the current sectors of agro-processing, energy generation

and distribution, and mega farms will be the designated sectors in the priority industry for the next 10 years from 2023 to 2033. After the 10 years lapse, these sectors will be removed and replaced by new sectors that the government will identify as the next priority sectors to be supported or indeed the whole scheme will be evaluated for either continuity or revocation;

- vi. Including the tax holiday period for each investment in the regulation. For example, for electricity generation and distribution, the period for tax holiday will no longer depend on the amount invested but on the amount of electricity being produced. For example, investors producing 2 to 4 megawatts of electricity and those producing at least 20 megawatts will enjoy 5- and 10-years holiday respectively.

115. Madam Speaker, to align with the treatment of other incomes such as income from businesses, the Government is removing the 40% income bracket in the Pay As You Earn (PAYE).

116. Madam Speaker, One of the common requests I received during the Pre-Budget Consultation Meetings was to replace the

3% withholding tax on farm produce sold by farmer's clubs with a 1% final tax as is done for tobacco sold by farmer clubs. The Government could not agree more with this pertinent proposal hence it will be implemented as proposed.

117. Madam Speaker, the Government has noted with dismay, the meagre export earnings that the Country is realising, although there are many farm products being exported to different countries. Further, some exporters are fraudulently claiming tax refunds for goods that they did not actually export. To mitigate against these illegitimate claims, the Government will introduce the following measures;

- i. 10% Advance Income Tax on all exports, if the exporter is not registered with the Malawi Revenue Authority for tax purposes or if the exporter does not have a Tax Clearance Certificate. In other words, if a person is a compliant taxpayer, they will not pay the 10% Advance Income Tax on exports; and
- ii. the Malawi Revenue Authority will start to request proof of receipt of export proceeds from the banks before processing Value Added Tax refunds for exports.

118. Madam Speaker, as one way of increasing tax compliance in various sectors, Government will implement the following measures:

- i. Increasing the withholding tax rate for contractors and sub-contractors in the building and constructing industries from **4** percent to **10** percent;
- ii. Increasing the Advance Income Tax on imports from **3** percent to **10** percent;
- iii. Introducing **10** percent Withholding Tax on income from quarrying; and
- iv. Requirement for a Tax Clearance Certificate on procurement of explosives from the Malawi Police Service and when purchasing ethanol.

119. Madam Speaker, Government will make the following amendments to improve clarity of some sections in the Taxation Act:

- i. In Section 2, by adding the definition of “Place of Effective Management” and the definition of “Deemed Income”. Appropriate amendments will also be made to Sections 11, 12 and 27 to align the amendment being made in Section 2;

- ii. In Section 28, clarification on the deductibility of expenses relating to exempt income, investment income, and a mixture of exempt income and investment income such as dividend income expenses;
- iii. In Section 76A, to add “Place of Effective Management of Business” to ensure that those whose effective management is not in Malawi are subjected to Non-Resident Tax;
- iv. In Section 102A, to allow companies that receive rental income from the movable property business to obtain withholding tax exemption certificate when they qualify;
- v. In Section 112, to include penalty for failure to submit requested records during an audit and to specify the period required to submit the requested information; and
- vi. To amend the Regulations on Fringe Benefits Tax and Pay As You Earn to include a penalty for failure to submit Returns.

120. Madam Speaker, Government will make the following amendments to the Taxation Act to correct some errors;

- i. Re-introduce the definitions of “Debt and Equity” which was erroneously deleted; and

- ii. Remove the reference to Section 65 in the definitions of Pension Fund and Provident Fund in the Taxation Act because Section 65 was deleted.

Value Added Tax Measures

121. Madam Speaker, there is rampant smuggling of wheat flour in the Country, whereby smugglers are evading Value Added Tax which the local producers charge in accordance with the law. This has inflationary impact on the price and makes them uncompetitive on the market. To supplement the Government's efforts in addressing the problem of smuggling, Government has decided to exempt wheat flour from Value Added Tax.

122. Madam Speaker, as a way of expanding the tax base, the Government is introducing a standard rate of VAT on the following products: exercise books with hard covers; rye flour; other cereal flour; groats and meal of wheat, groats and meal of other cereals; rolled or flaked grains of oats or other cereals; other worked grains of oats or other cereal; cereal, germ, whole rolled flaked or ground; roasted malt; and malt roasted of barley, oats, rye, sorghum or mullets.

123. Madam Speaker, Government will make various amendments to the VAT Act to align the general offenses and penalties, define a “Going Concern” and the consequence of disposal of a business under reorganization or sale and define export sales to clarify that when exempt goods are exported, they should not be treated as zero rated supplies.

Non-Tax Revenue Measures

124. Madam Speaker, Government has prioritised efforts to improve non-tax revenue collection through digitalisation of revenue collection, intensive monitoring initiative, and review of legislations, fees and fines. These initiatives shall scale up non-tax revenue collection thereby boosting the budgetary resource envelope, reduce loss of revenues due to fraud and miss-use of Government General Receipts, reduce loss of revenue due to delays in banking of revenue, non-accountability of revenue, untimely reporting, and failure to undertake reconciliation of revenues collected against what has been banked.

125. Madam Speaker, in line with the Public Finance Management Act of 2022, section 6 and 42, the Government will

within the 2023/24 financial year transfer the responsibility of collecting and managing fees or fines at weigh bridges across the country from the Department of Road Traffic and Safety Services (DRTSS) to the Roads Funds Administration. Maintenance or rehabilitation of the weigh bridges will thus be financed through the Roads Fund Administration. Any legal or administrative arrangements to facilitate this transfer will commence in the next few weeks.

Stamp Duty and Estate Duties

126. Madam Speaker, allow me to elaborate on one area that has huge potential of raising the contribution of non-tax revenue to total domestic revenue. I sincerely believe that the digitization initiatives in the Department of Registrar General should be an example to other MDAs which have the potential to generate more revenue from the services that they are mandated to provide by being proactive and innovative in proposing measures that will boost revenues for supporting the National Budget.

Stamp duty and Estate duty are some of the important sources of non-tax revenue for Government whose collection is

hampered by among other factors, archaic legislation, manual and paper-based system, obsolete stamping machines, and complex formulae for calculating duty for multiple documents. These challenges create revenue leakages that undermine the ability of the Department to maximize revenue collection. To deal with these challenges and enhance revenue collection, Government is undertaking the following initiatives in the Department of the Registrar General:

- i. First, **Madam Speaker** is digitisation. The Department will start processing stamp duties through an electronic stamp duty system. Similarly, the estate duty application process and payment will also be automated. This will include simplification of the application process, as well as tracking, tracing, and valuation of deceased estates for estate duty purposes;
- ii. Second, **Madam Speaker**, is the collection of stamp duty on all instruments that are prescribed for collection in the law. An example of instruments that are under the prevailing law, but have until now not been charged and stamped accordingly, are motor vehicle registration and transfers. With the automation of stamp duty processes, all motor vehicle registrations at the Directorate of Road

- Traffic are going to be subject to stamp duty. To simplify stamp duty assessment and payment for motor vehicle registrations and transfers of ownership the stamp duty rate will be amended to provide for a flat rate of K50,000;
- iii. Third, is the revocation of the stamp duty exemption notice, of 1992. **Madam Speaker**, this provision exempted from stamp duty, instruments that constituted a security under the now repealed, Capital Market Development Act. The exemption notice was introduced in 1992 in order to support the development of the then fledgling capital market. With the revocation of the Notice, stamp duty will now be payable on transfers of securities, as is the case in most countries, including transfer of shares within employee ownership schemes. However, in order to encourage the listing or issuance of new securities on the Malawi Stock Exchange by companies, I will issue a new stamp duty exemption notice with respect to the purchase of newly issued securities on the stock exchange;
 - iv. Fourth is the exemption of Stamp duty of Small and Medium Enterprises and the Youth. **Madam Speaker**, in

order to reduce the cost of borrowing for micro and small medium enterprises and the youth, collateral instruments under Personal Property Security Registry for loans up to K10 million will be exempted from stamp duty. This measure will also promote the use of movable assets as collateral; and

- v. Lastly is the review of the Stamp Duty Act and Estate Duty Act. **Madam Speaker**, the Stamp Duties Act and Estate Duty Act are old statute that were enacted during the colonial administration. They will therefore be amended and aligned with the current international best practice.

127. Madam Speaker, the Estate Duty Act is going to be amended to ensure that assessment of Estate Duty is based on the value of the estate at the time of declaration. This will simplify valuation for estate duty taking into account the rapidly changing property values due to currency depreciation and inflation. The amendment will among other things, review the estate duty schedule, and will in particular introduce new thresholds aimed at reducing stamp duty liability for surviving widows and minors in respect of family home. A widow or children are sometimes left with the house as the only property,

to pay stamp duty at normal rates has been an additional burden on most widows and minors. Reducing this burden is part of the stamp duty reforms being proposed.

128. Madam Speaker, Finally, Government will review the Dividends and Surplus Policy for parastatals and also oversee the operation of the Treasury Single Account to ensure that they are contributing a fair share of their income to the consolidated account.

CONCLUSION

129. Madam Speaker, 2025 is an election year. We can not fund our elections using once financial year budget. To this end Malawi Electoral Commission has been allocated K45.95 billion to start initial preparation processes. We thank the EU for showing commitment to partner government in this very important democratic and governance exercise and I call upon other partners to come forward and ensure that 2025 delivers a credible election.

130. Madam Speaker, I beg to move