On the 18th May 2018, the Government presented the 2018/19 Budget Statement to Parliament. According to the budget statement, the key focus of the budget is robust economic growth as the main goal of economic management alongside maintenance of macroeconomic stability for robust, inclusive and sustainable growth.

The national budget remains the most important document through which policies and programmes are executed by governments. These policies and programmes have implications, either positive or negative, on private sector performance. An analysis of the budget statement is therefore very important because the statement reveals government’s position, commitments and advances it has put in place to stimulate private sector activity.

First of all, MCCCI would like to applaud Government through Ministry of Industry, Trade and Tourism on the efforts that have been made on ensuring that the reviewed Control of Goods Act is passed in parliament. The act now empowers the Minister to engage stakeholders before banning or restricting imports and exports of commodities. The previous Act empowered the Minister of Industry Trade and Tourism to institute bans without consultation with relevant stakeholders.

MCCCI would also like to commend Government on the job well done in its mission towards macroeconomic stability. Indeed, inflation which is at 9.7 percent as of April 2018 has continued its downward spiral as food prices, maize prices especially, continue to drop. Lending rates though still high at an average of 26.9 percent have fallen and the policy rate is at 16 percent compared to the average lending rate and policy rate of 31.6 percent and 22 percent respectively during the same period in 2017. In addition to this, exchange rate has stabilized and foreign reserves are adequate enough to cover at least 3 months’ worth of imports. The International Monetary Fund has approved a new Extended Credit Facility program with an amount of US$112.3 million and the World Bank is expected to extend a MK60 Billion concessional loan as part of budgetary support. The Extended Credit facility is subject to performance that has been agreed to ensure that key issues are dealt with if the economy can be on the right growth trajectory.

Despite these achievements, it is very surprising to note that the 2018/2019 budget has totally ignored the private sector, a sector which has the highest potential to catapult the country to economic freedom. Complementary enablers for inclusive growth and industrialization, such as immediate remedial solutions to the energy crisis that the economy is facing and incentives have not been considered in this budget.

Budget Statement Analysis

The budget, as presented by Minister of Finance, Economic Planning and Development, is built on assumptions that are not strong to drive economic growth of Malawi.

The following macroeconomic targets were outlined in the 2018/19 budget statement:

- A real GDP growth rate of 4.1 percent in 2018 and 6.0 percent in 2019.
- An average inflation of around 7 percent.

The modest GDP growth forecast of 4.1 percent and 6.0 percent in 2018 and 2019 respectively is not enough to fix the economy, because our export base is narrow, commodity based and prone to climatic conditions. Furthermore, the average GDP growth rate of 2.4 percent for SADC as stipulated in the budget statement cannot be used as a yardstick for Malawi since countries within SADC have GDP bases which are much higher than Malawi. For instance, Zambia’s GDP for 2017 is estimated at 19.55 billion United States Dollar which is five times more than Malawi. Malawi needs at least 7 percent growth rate sustained over a period of not less than 6 years to meaningful bring a change in the economic development of the country. The quality of growth and the sectors in which the growth is generated matters. It is a very well known fact that sustainable growth cannot, and will not, happen without private sector prosperity. This sector has the potential to have a transformative impact on a struggling economy like Malawi and shift the economy from an agriculture based economy to an industrial based one. More and more countries in Sub-Saharan Africa are shifting towards value addition through industrialization. Industrialization, driven by private sector growth, has all the pre-requisites of mopping out unemployment which is one of the major challenges that Malawi is grappling with today.

Secondly, improvements in the macroeconomic environment such as inflation rates and lending rates have not trickled down to businesses because of consistent key challenges in the business environment. These challenges include among others inadequate supply of electricity, lack of affordable long term capital, uncertainty in the economic and regulatory policies. Malawi is characterized by changing of laws and policies every year creating much uncertainty for private sector.

Also of concern to the private sector is domestic borrowing which the budget statement alluded i s going to rise by MK176 billion due to diminished foreign borrowing. This is a very worrying trend for the private sector considering that Malawi is already above the 20 percent threshold for domestic borrowing. This is likely to influence an upsurge in the interest rates and crowd out private sector capital. The money that would be borrowed by Government if also not used for productive purposes will further push up inflation rates

Grants are likely to continue declining, as some development partners such as European Union will only consider resuming budgetary support if there is progress in critical areas such as curbing corruption- which is not evident at the moment- as well as maintaining macroeconomic stability. This is a signal to other developing partners to cautiously support Malawi. The fact that Government will self-sponsor the 2019 Tripartite Elections is evidence of the reluctance of donors to fully commit budgetary support to the Government.

The expenditure outlay for 2018/19 has increased by 14 percent from K1.3 trillion to K1.5 trillion. The 2017/18 budget faced setbacks such as unbudgeted salary increase for the Malawi Police Service. The wage bill will continue to increase in the 2018/19 budget with the doubling of honoraria to chiefs at every grade, the 10 percent and 20 percent salary adjustment for senior and junior grades in the civil service, respectively. In addition to that, Government plans to recruit 10,500 primary school teachers, 500 secondary school teachers and 1,000 medical personnel within the 2018/19 financial year. This will put a strain on the government purse taking cognizance of the fact that Wages and Salaries contribute a substantial amount of government expenditure- approximately 35 percent of the 2018/19 recurrent expenditure.

Furthermore, improved revenue performance is very doubtful for Malawi in the 2018-19 fiscal year. The budget has estimated an increase in tax revenue from K0.95 trillion to K1trillion. This is unlikely to be achieved considering that the private sector is the main source of revenue for the Government and its financial performance is not expected to significantly improve. This was evidenced from the underperformance of the Malawi Revenue Authority (MRA) in the current fiscal period of 2017/18. We foresee that MRA will underperform once again in the 2018/19 fiscal year due to the challenging business environment that the private sector is operating in. These are things that are likely to disturb the smooth implementation of the budget, as such fiscal prudence should have been one of the main pillars of the budget.

Government has pointed out in the budget statement that it is introducing non tax measures in the budget which will be cost reflective and inflation adjusted. It has also indicated that specific Ministries, Departments and Agencies will communicate the non tax measures. An analysis of the budget figures shows that large increments to non tax revenue will originate from the Registrar General and Department of Immigration offices. We urge that Members of Parliament should be given an opportunity to know which areas will be adjusted. This is an area of great importance and interest to the private sector owing to previous experience where Government raised fees for labour occupation and health services by more than 300 percent a few years ago. Business licenses were also increased astronomically from MK10,000 to K120,000.

While commending Government’s success in implementing the contributory pension Scheme for Government employees who were born in 1982 and younger, the budget statement did not articulate the policy measures that have been put in place to ensure that this huge pool of resources, which presents great opportunities for increased savings and investments to boost productive sectors, finances long term investments.

The economic developments that have occurred at World and Regional level, as observed from rising world economic growth of 3.9 percent for 2018 from 3.8 percent in 2017 have not been having any meaningful impact on the local economic performance because of lack of deliberate efforts to restructure the economy.

Primary exports from agriculture have dominated export sector resulting in an unstable growth trend with little sustained improvements. Agriculture exports are also associated with a number of risks because of existing strong trade relationships between potential markets and other strong and developed economies. The very budget has shown that there are economic risks due to the decline in the agriculture estimates from 3.5 metric tonnes to 2.8 metric tonnes in the 2017/18 agriculture season. The climatic conditions are uncertain for the 2018/19 season which still poses a risk to the ambitious 6.0 percent economic growth projected by government.

The K80.6 billion allocated to agriculture sector in the development budget with a focus on irrigation is commendable. The Green Belt Initiative though being the main vehicle to develop irrigation in Malawi with a business focus, suffered a reduction in the 2017/18 funding season. This important initiative should be considered one of the priority activities in the 2018/19 funding season without reductions during mid-year reviews.

The budget and the State of the Nation Address do not outline short term solutions for energy supply. In fact there are no clear energy supply opportunities in sight that would be sufficient for boosting the productive capacity. The indicated solutions in the budget are all medium to long term solutions but no clear interim measures to mitigate the energy crisis that Malawi is currently facing considering that the generator sets that were procured have proved to be expensive to run and unable to cater to the electricity demands. Private sector will continue shrinking if electricity woes continue and it will face huge losses if 2021 is the projected period that Malawi should expect to have stable electricity.

In addition to these challenges, the budget lacks a solid foundation for economic growth, especially considering that Malawi is still associated with high costs of doing business compared to other countries in the region. For instance, transport costs have not declined and continue to contribute 55 percent of total costs of production and one wonders whether Malawi’s tradable commodities can be promoted particularly in the emerging and developing countries as stipulated by the budget.

Government of Malawi launched Malawi Growth and Development Strategy recently which outlines aspirations for the period 2017 -2022. The MGDS III’s theme is “Building a Productive, Competitive and Resilient Nation”. However, as the first year of implementation of the Strategy begins, the annual budget plan has not oriented itself to achieve the goals set therein. The budget is not clear on how private sector will be promoted especially considering that incentives are being taken away. The dwindling private sector requires a stimulus package which is missing in the budget. Countries such as USA which the budget has referred to, is implementing an expansionary fiscal policy through reduction of corporate income taxes from 35 percent to 21 percent. This implies that the resultant expansion of investments in these developed countries’ economies, instead of providing opportunities for countries like Malawi, will instead flood our markets to absorb their products.

Private Sector Recommendations

In relation to the analysis above, it is disheartening to note that most of the issues proposed by the private sector which we expected to be addressed or incorporated in the 2018/19 budget have not been taken into consideration. We therefore make the following recommendations to address the bottlenecks faced in the private sector:

- Strengthening enforcement institutions such as Anti -Corruption Bureau with adequate resources because corruption stifles business performance and negatively impacts the development assistance that the economy receives.
- High costs of capital and lack of access to capital e.g. Establish long outstanding Development Bank, venture capital firms and policy measures to ensure development of the capital market
- Inefficient public service delivery: There should be consideration of meritocracy in appointments
- Expedite payment of private sector arrears as businesses are still facing challenges in the following sectors: Seed Suppliers, Pharmaceutical suppliers, and rental property owners
- Strengthen the Institutions that offer private sector services with right industry expertise and resources in order for them to offer business development services in line with the theme of MGDS: building a productive, competitive and resilient nation
- Differentiation in the rate of income tax rates whether personal or corporate should be removed i.e. the 35 percent tax bracket for salaried income in excess of MK3million per month. Income tax for individuals is not supposed to be different from corporate income tax for companies.
- The stamp duty under the insurance sector lacks clear rationale as a tax. It is better to move to flat rate per policy and even do away with it entirely.
- High Excise Taxes are prone to increased smuggling i.e. beverages. Low levels of excise taxes will increase level playing field and avert smuggled goods.

- Make Investment allowances more attractive by considering further Investment allowance on newly built warehouses and other storage structures with capital investment of not less than MK200 million

Our general observation for 2018/19 budget is that it is more of a social budget than a developmental budget that is supposed to balance economic growth with social development. The decision to increase the wage bill due to doubling chiefs' honoraria which cannot be realistically accommodated within the resource envelope is one of several factors. The MK10 billion allocation to youths for internship programs and tree planting programs are temporary fixtures that will not solve the predicament faced by the youth presently. There is need to revamp the economy and turn our focus to growth oriented sectors which will invariably create jobs for the large number of unemployed youths in the country. A private sector led growth is the only way that this unemployment problem can be mopped. Only then, will we see the economy moving towards the MGDS III aspirations of a productive, competitive and resilient nation.