



2023-24 MID-YEAR BUDGET REVIEW STATEMENT

**Delivered in the National Assembly of the
Republic of Malawi**

Titled

**“Time for reflection to Recover, Develop and
Protect our Economy”**

Presented by

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Minister of Finance and Economic Affairs**

on

Monday, 20th November 2023

MOTION

1. **Madam Speaker**, I beg to move that the Mid-Year revised estimates on the Recurrent and Development Accounts for the 2023-24 National Budget be reviewed by the Committee of the Whole House, to be considered vote by vote, and that thereafter be adopted.

INTRODUCTION

2. **Madam Speaker**, the Public Finance Management Act (PFMA) 2022 requires me, as Minister responsible for Finance and Economic Affairs, to submit to this August House, a report on Budget implementation during the first half of the 2023-24 Fiscal Year and a Government proposal on how the resources can be mobilized and utilized during the second half of the fiscal year. I therefore urge all Honourable Members to constructively deliberate on the Budget revisions that I will soon present.

3. **Madam Speaker**, this is my first budget review statement to this August House ever since my appointment as Minister responsible for Finance and Economic Affairs on 7th October 2023. Honestly, I am honored that His Excellency the State President, Dr. Lazarus McCarthy Chakwera entrusted me with this noble task to manage the public purse at a time that the economy is exposed to several economic shocks. Let me assure His Excellency the President and this August House that I will execute my role as required, with utmost integrity, and most importantly endeavor to meet the needs of ordinary Malawians.

4. **Madam Speaker**, let me assure you and the citizenry that Government is doing whatever is necessary to better the lives of Malawians regardless of the challenges the country has been facing in recent years. The policy shock to align the exchange rate was tough, painful but hugely important because the financial benefit from the misalignment accrued only to a few individuals at the expense of the majority Malawians. With the alignment, the

macroeconomic stability that is a necessary though not sufficient condition for sustainable economic growth is in sight. The alignment, if franked with a cocktail of other supporting policies and strategies to spur growth through private sector involvement will surely boost economic activity with the resultant increase in real GDP, declining inflation and interest rates as well as a buildup of gross official reserves and a stable exchange rate. This, **Madam Speaker** is the goal this Government aim to achieve within the next twelve months and it is possible if we all join hands within the Government agenda to” **Recover, Develop and Protect the economy**”.

5. The 2023-24 mid-year financial plan, was developed in keeping with the spirit of the President's State of the Nation Address which was delivered in this House on Friday, the 17th of February 2023 titled “**Delivering Economic Transformation and Governance Reform Through Sacrificial Action and Service Excellence**”, as well as the theme of the 2023-24 Budget Statement titled “**Sacrificing Today for a Better Tomorrow: Regaining Macroeconomic Stability and**

Growth Through Collective Responsibility for Our Shared Future” which was delivered in this August House on 2nd March, 2023.

6. **Madam Speaker**, allow me at this point to present to this House the macroeconomic developments that have ensued in the midst of implementing the current Budget. I will start at global level then move to national developments because whatever happens at global level has implications on the domestic economy. Overall, global and regional economic performance is still recovering from a number of economic shocks including the aftermath of Covid-19 pandemic and the Ukraine and Russia War.

MACROECONOMIC DEVELOPMENTS

World Economic Outlook

7. **Madam Speaker**, according to the International Monetary Fund (IMF) October 2023 World Economic Outlook

report, Global economic activity is slowly recovering but still lower than the pre-pandemic levels with inflation significantly slowing down. The performance is attributed to the long-term consequences of the Covid-19 pandemic, Russia-Ukraine geo-political conflict, increasing geo-economic fragmentation and cyclical interventions like tight monetary policy to reduce both food and non-food inflation.

8. **Madam Speaker,** Global growth is therefore forecast to slow down from 3.5 percent in 2022 to 3.0 percent in 2023 and 2.9 percent in 2024. The projections reflect significant changes in the underlying growth trajectories of major economies. In the Sub-Saharan Africa (SSA) Region, real economic growth for 2022 is estimated at 4.0 percent.

9. Global inflation is forecast to steadily decline from 8.7 percent in 2022 to 6.9 percent in 2023 and 5.8 percent in 2024. The declining trajectory in global average inflation is partly a result of tight monetary policy and more significantly, decreasing international commodity prices. In low-income

developing countries, inflation is on average projected to be in double digits and is not expected to fall until 2024.

Macroeconomic Developments in Malawi

10. **Madam Speaker**, the domestic economy is also prone to natural disaster which affects productivity in various sectors. Therefore, this August House might wish to note that the macroeconomic parameters that we assumed at the time of preparing the current Budget have changed and hence the need to revise the budget estimates.

11. **Madam Speaker**, the recent 44 percent realignment of the Kwacha against the US dollar is one such change in budget assumptions that warrants a review of our budget if Government has to deliver on its social and developmental mandate. Like I indicated in my Ministerial Statement presented in this August House a few days ago, there is a lot that is expected from the Government in response to the changes in the economic environment. The

measures to cushion Malawians from the currency adjustment for example will impact the implementation of the current budget and hence my plea to the Members of this August House is that let's consider adopting the proposed budget review so that we don't delay the support Malawians deserve.

12. **Madam Speaker**, the country was already experiencing rising inflation due to supply chain disruptions brought about by the Russian-Ukraine war, the aftermaths of Covid-19 pandemic and weather-related shocks. The Kwacha realignment is therefore expected to exacerbate this upward trajectory in inflation. The average inflation for 2022 was 20.9 percent and is projected to rise to 29.0 percent in 2023 before it stabilizes and start to decline in 2024 with an average projection of 27.1 percent.

13. **Madam Speaker**, in view of the recent developments, the Mid-year review specifically

concentrates on measures to cushion Malawians while ensuring that inflation remains within manageable levels. I wish to report to this August House that Government has already devised necessary measures to deal with effects of the exchange rate correction mainly through tight monetary policy and prudent fiscal policy.

14. For example, **Madam Speaker**, the Reserve Bank of Malawi has put in place measures to counter the effects of exchange rate correction. The Reserve Bank will continue implementing a tight monetary policy and closely monitor inflation developments. The recent Monetary Policy Committee held towards the end of October 2023, maintained the policy rate at 24.0 percent and the Liquidity Reserve Requirement Ratio on both domestic and foreign deposits at 7.75 percent and 3.75 percent, respectively.

15. **Madam Speaker**, consistent with the downturn in global economic growth that I mentioned earlier, Malawi's

growth prospects have been equally affected with real GDP growth for 2022 estimated at 0.9 percent. This is a downward revision from 1.2 percent envisaged at the start of the 2023/24 Fiscal Year. In 2023, growth is projected at 1.5 percent, a downward revision from 2.7 percent projected at the beginning of this fiscal year. The downward revisions is attributed to a number of factors including the macroeconomic imbalances due to the exchange rate misalignment and the resultant shortages of foreign exchange for importation of raw materials, Russian-Ukraine War and the tail-end impacts of cyclone Freddy.

16. **Madam Speaker**, with the realignment of the Kwacha, total public debt stock has increased from K10.60 trillion to K12.56 trillion. External debt now accounts for 53 percent of the revised total debt stock while the remaining 47 percent is domestic debt. Prior to the realignment, external debt accounted for 44 percent of the total debt stock while 56 percent was for domestic debt. Thus, the change in the Public debt stock post-realignment is driven by an increase in

external debt expressed in Kwacha from K4.66 trillion to K6.62 trillion.

17. **Madam Speaker**, while we appreciate that some of the borrowing was to implement Government development projects, the recent borrowing between 2017 and 2020 was contracted merely to support a stable exchange rate that we experienced in those days. This kind of borrowing led to the increase in public debt stock and has contributed to the high magnitude of the recent currency realignment because it delayed a legitimate correction in the exchange rate at the time economic fundamentals warranted a devaluation.

18. **Madam Speaker**, Government will continue addressing persistent budget deficits despite the pressure emanating from the exchange rate correction. Following the recent approval by the International Monetary Fund Executive Board, the country has secured support through the Extended Credit Facility amounting to USD174 million

covering the next four years. Foreign support is expected to help us stabilize the economy thereby putting our economy on a growth trajectory.

2023-24 Mid-Year Budget Performance

19. **Madam Speaker**, the first half of the 2023-24 fiscal year was characterized by budgetary pressures largely emanating from rising expenditure demands to respond to a myriad of economic shocks as well as significant debt maturities despite a relatively above average revenue performance.

Performance of Revenues and Grants

20. **Madam speaker**, at mid-year total revenue and grants amounted to MK1.45 trillion against a midyear projection of MK1.25 trillion. The Mid-year outturn for domestic revenues is estimated at MK1.18 trillion against a projection of MK1.09 trillion. Of the domestic revenue, tax revenue is

estimated at MK1.03 trillion while other revenue (non-tax) is estimated at MK151.8 billion.

21. **Madam Speaker**, Total Grants disbursed in the first half amounted to MK273.40 billion against a mid-year projection of MK155.30 billion. Projected grants for the fiscal year have been revised upwards to MK645.94 billion representing 4.2 percent of GDP from an earlier projection of MK310.59 billion which was 2.01 percent of GDP. This upward adjustment reflects additional confirmed disbursements from development partners following the ECF program.

Performance of Expenditure

22. **Madam Speaker**, the expenditure side of the budget experienced pressure from rising inflation and significant debt maturities during the first half of fiscal year. Total expenditure for the first six months of the financial year is estimated at MK2.02 trillion, comprising recurrent

expenditure at MK1.45 trillion and development expenditure at MK567.24 billion. Total expenditure at midyear registered overruns amounting to MK32.24 billion.

Performance of Recurrent Expenditure

23. **Madam Speaker,** Recurrent expenditures amounted to MK1.45 trillion against a target of MK1.58 trillion, representing an expenditure underperformance of MK122.99 billion. This was mainly on account of under spending on use of goods and services and social benefits. The reason for under expenditure on use of goods and services is Government continued effort to contain expenditures. Honourable members should note that all the other expenditure lines were either within projection or slightly beyond the expected outcome.

Performance of Development Expenditure

24. **Madam Speaker**, development spending during the first half of the 2023/24 fiscal year amounted to MK567.24 billion with MK120.63 billion from the domestically financed component and MK466.61 billion from foreign financed component. The foreign financed development expenditure over performed by 50.6 percent while the domestic development expenditure overperformed by 4.6 percent. The over performance on donor financed projects was on account of improved absorption and implementation rate by our Project Implementation Units in different MDAs leading to high disbursements of project grants and loans. Furthermore, the currency adjustments announced from the forex auction contributed to the higher outturn.

Overall Balance and Domestic Borrowing

25. **Madam Speaker**, the overall balance (deficit) in the first half of the 2023/24 financial year was MK569.79 billion against a projected MK737.82 billion resulting into a lower total financing borrowing requirement by MK168.03 billion. Of this amount, net domestic borrowing amounted to MK516.84 billion while foreign financing amounted to K52.96 billion.

PROJECTIONS FOR THE SECOND HALF OF THE FINANCIAL YEAR

26. **Madam Speaker**, the projected budget performance for the second half of the 2023/24 financial year has been drawn with full consideration of first half performance, remaining Government payment obligations, projected revenue inflows and the just announced currency realignment.

27. **Madam Speaker**, in the second half of the financial year, total revenue and grants are projected at MK1.60 trillion

of which MK1.23 trillion is domestic revenue and MK372.54 billion are grants. Total expenditure is projected at MK2.31 trillion of which MK1.79 trillion is recurrent expenditure and MK513.41 billion is development expenditure.

28. **Madam Speaker**, of the MK1.79 trillion for recurrent expenditure, MK543.61 billion is for wages and salaries, MK561.19 billion for interest payments, MK291.91 billion for goods and services, MK178.22 billion for grants (transfers) and MK156.81 billion for social benefits. Under development expenditure, MK513.41 billion is projected to be spent in the second half of the year comprising MK353.24 billion foreign financed expenditures (Part I) and MK160.17 billion for locally financed expenditures (Part II).

29. **Madam Speaker**, as a result of the developments highlighted above on the revenue and expenditure sides, overall balance for the second half of the financial year is projected at a deficit of MK709.13 billion. It is expected that

the deficit will be closed by borrowing from both the foreign and domestic market.

PROJECTIONS TO THE END OF THE FISCAL YEAR

30. **Madam Speaker**, the 2023/24 Financial Year's approved budget has therefore been revised based on budget performance during the first half of the financial year and projected performance for the second half. It has also taken into consideration the emerging fiscal pressures under statutory budget lines, grants to subvented organizations and social benefits.

31. **Madam Speaker**, Annex II of the 2023-24 Mid-Year Budget Document presents the 2023/24 Revised Budget framework, alongside the 2023/24 Approved Budget framework. Total revenues and grants have been revised upwards from MK2.55 trillion to MK3.05 trillion. Total expenditure has been revised upwards from MK3.79 trillion to

MK4.33 trillion. The vote-by-vote adjustments are presented in Annex III.

Domestic Revenue

32. **Madam Speaker**, to the end of the fiscal year, domestic revenue is projected to go up from MK2.24 trillion to MK2.41 trillion. Of the total domestic revenue, taxes will account for MK2.20 trillion while other revenues will amount to MK209.34 billion. This represent a 3.3 percent upward revision on tax revenues from the approved position.

Grants

33. **Madam Speaker**, grants are projected to increase by MK335.35 billion from MK310.59 billion to MK645.94 billion by the end of the financial year, representing about a 108 percent increase. This is on account of the net increase of current grants from International Organizations and Foreign

Governments following the approval of the ECF program by the IMF.

Expenditures

34. **Madam Speaker**, total expenditure has been revised upwards from MK3.79 trillion to MK4.33 trillion following the exchange rate correction. The increases are estimated to occur in compensation of employees, social benefits, public debt interest, other expenses and use of goods and services.

35. **Madam Speaker**, development expenditure has been increased from an approved provision of MK831.0 billion to MK1.08 trillion. This is on account of an increase in both foreign financed projects and domestically financed projects due to the exchange rate correction and expected disbursements following the approval of an IMF program.

Highlights on Key Expenditure Categories

Wages and Salaries

36. **Madam Speaker**, the provision for wages and salaries has been revised upwards by MK80.05 billion from its approved amount of MK900.44 billion to MK980.49 billion. This is a provision to cushion civil servants from the Kwacha realignment as alluded to by His excellency the President during his national address a few days ago.

Interest Payments

37. **Madam Speaker**, the provision for interest payments on debt has increased by MK16.62 billion to MK931.48 billion. The increase is on account of exchange rate correction for the foreign interest and a lower than projected interest payment on the domestic debt.

Goods and Services

38. **Madam Speaker**, the provision for Goods and Services has been revised upwards from the approved amount of MK547.56 billion to MK614.64 billion. The increase is mainly on account of increased commodity prices following the upward price adjustment of fuel. However, Madam Speaker, this upward revision has been moderated down following the Presidential order to observe the five months austerity measure period where fuel allocations have been halved and external travel frozen. This culminated in a saving of about MK4.2 billion which has been reallocated to developmental projects especially the Maga Farms.

The Affordable Input Programme

39. **Madam Speaker**, the provision for the Affordable Inputs Programme (AIP) has been maintained at its approved level of MK109.82 billion. In an effort to contain expenditure on AIP, we have maintained its provision with a plan to

cushion any devaluation effects using beneficially contributions.

Maize Purchase

40. **Madam Speaker**, the allocation for maize purchase has been maintained at MK12 billion. However, Government has negotiated with the World Bank for support and therefore this amount has been complemented by a US\$20 million, or MK34 billion support from the World Bank for the procurement or importation of Maize to supplement the local supply for distribution so that nobody goes on empty stomach and to contain food inflation.

41. **Madam Speaker**, according to the 2023 Malawi Vulnerability Assessment Committee (MVAC) report of August 2023, it is projected that 4.4 million people in Malawi will experience acute food insecurity. These people will need food assistance and it is for this reason that Government was proactive to start negotiations with donors for support to

procure more maize even from abroad to support these households. Honourable Members might wish to note that these resources are already available from the World Bank through Agricultural Commercialisation (AGCOM) Project to support the purchase of maize.

42. **Madam Speaker**, in support of the country's food production system, I am pleased to inform this August House that the International Fund for Agricultural Development (IFAD) will facilitate the purchase of fertiliser through the Crisis Response Initiative valued at US\$ 6million or MK10.2 billion.

43. I therefore invite the August House to join me in applauding our Development Partners for coming back to support this country in its efforts to recover, develop and protect its economy. Under recovery, having successfully negotiated for the ECF with the IMF and budget support with all other development partners, Government is already addressing the **4Fs** which are Forex, Fuel, Food and Fertilizer

scarcity concerns. The ECF has unlocked a number of budget support disbursements to ease forex and fuel scarcity concerns with Israel paying invoices for Malawi in importation of fuel, fertiliser and pharmaceuticals, the World Bank coming up with a facility to procure maize for Malawi to curb food insecurity and IFAD, AfDB, Japan and Israel supporting food production through importation of fertilizer. Government will continue with reforms in order to sustain the economic recovery. **Madam Speaker**, if we want to recover, we must do radicle reforms and “there is no alternative to reforms, a do-nothing scenario will only get the economic situation worse.”

2023-24FY Revised Fiscal Balance and Borrowing

44. **Madam Speaker**, the proposed revisions in Revenues and Expenditures as outlined above will result into a widening of the estimated fiscal deficit from MK1.24 trillion, which is 8.0 percent of GDP to MK1.28 billion, representing 8.3

percent of GDP. The widening deficit is mainly on account of absorbing the impact of exchange rate correction.

EXPECTED INFLOWS AFTER ECF

45. **Madam Speaker**, with the approval of the Extended Credit Facility (ECF) program, the World Bank is expected to provide a grant of US\$80 million which is translating to MK136 billion as Development Policy Operation or commonly known as general budget support. I am pleased to report that we have also negotiated a development policy grant with a catastrophe deferred drawdown option of US\$57 million, equivalent of MK96.9 billion which we will be able to draw down in the event of any disaster. In addition to this, we are expecting budget support from the African Development Bank to the tune of US\$30 million, equivalent of MK51 billion and the European Union amounting to €60 million.

46. **Madam Speaker** and Honourable Members, I am not done yet. In light of the challenges that our local firms are

facing in accessing foreign exchange or Lines of Credit to import strategic commodities such as fertilizer and pharmaceuticals, our business community stands to benefit from a US\$60 million which is equivalent of MK102 billion under the De-risking Importation of Strategic Commodities Project to be funded by World Bank and specifically for the private sector through the local banks. This facility aims at expanding the supply of trade finance and restoring confidence to the market by mitigating risks that would otherwise inhibit the activity of local issuing banks. All these, **Madam Speaker** are over and above the support from Donors that is solely targeted on cushioning the vulnerable population from the impact of the realignment that I outlined in this August House a few days ago in my Ministerial Statement. Therefore, in total following the ECF approval, Malawi is expected to receive resources amounting to US\$240 million equivalent of MK408.0 billion between now and end of March 2024. Over and above this amount, Malawi is expected to be assisted by donors through front loading of some project disbursements to cushion the population to the tune of US\$146 million or MK248.2 billion, through purchase of fertilizer, maize,

pharmaceuticals and importation of raw materials for the private sector.

47. **Madam Speaker**, the Honourable Members will recall that in recognition of the adverse and un-intended effects of the re-alignment on some sections of the population, Government has already negotiated with development partners for enhancements to the Social Cash Transfer Programs in order to cushion the poor against these effects. I did indicate that (1) Government will continue with the implementation of Cyclone Recovery interventions in Blantyre Rural, Thyolo, Phalombe, Chiradzulu, Mulanje, Nsanje, Chikwawa, Balaka, Mangochi, Machinga and Zomba Rural targeting 184,920 households where beneficiary households receive MK150,000 to support with consumption needs and cushion the affected households against the effects of the alignment; (2) Government will re-introduce the Price Shock Urban Emergency Cash Transfer Program which will target 105,000 households in Zomba, Blantyre, Mzuzu and Lilongwe city councils. Beneficiaries will receive a once off transfer of MK150,000 covering a period of 3 months; (3)

Government has increased Social Cash Transfer Benefit Levels by 57 percent which is more than the exchange rate alignment amount and this is with immediate effect; (4) Government has increased Social Cash Transfer beneficiary coverage from the current 10 percent to 15 percent of the population; (5) Government has increased the wage rate for the Climate Smart Public Works Programme and will be announced in due course. Currently beneficiaries receive MK1,200 for 4 hours working day for 12 days a month. Furthermore, CSPWP Beneficiary Work Period will be extended by having no breaks between cycles for six months in a year; (6) The number of CSPWP beneficiary households has also increased from the current 362,450 to 520,000 household's country wide. (7) The Climate Smart Public Works Program will now be extended to the City Councils to support the participants with their consumption needs. Participants will be engaged in selective works including tree planting; (8) Government has embarked on consultations with relevant stakeholders to revise the minimum wage. The government has also embarked on a similar exercise with respect to civil servants to consider a moderate wage adjustment; (9)

Government with support from development partners has commenced the recruitment of 2,741 health workers, such as nurses, clinicians and doctors; and (10) Government has initiated discussions with the banking sector to consider a short moratorium, say for 3 to 4 months on running financing facilities for SMEs in order to cushion them from the impact of the devaluation.

PUBLIC DEBT MANAGEMENT AND FISCAL DISCIPLINE

48. **Madam Speaker**, Government will ensure that in the medium-term, public debt levels go down by containing the budget deficit. Specifically, Government will continue mobilizing domestic resources to finance the budget and spending will be done according to available resources. Further, the ongoing debt restructuring strategy will assist to bring public debt levels to moderate risk in the medium term.

49. **Madam Speaker**, taking cognizance of the high public debt levels which currently stands at K12.56 trillion,

Government will not unnecessarily contract loans but for development purposes. It is for this reason **Madam Speaker**, that Government is implementing the Local Currency Infrastructure Development Bond Programme whereby funds borrowed domestically are targeting projects that will propel development. Some of the projects under this programme include: Balaka Market-Nkhotakota-Nkhatabay (Lakeshore) Road; Kamuzu Institute for Sports (Aquatic Centre); Kholongo Multipurpose Dam; Dzaleka-Ntchisi-Mpalo-Malomo Road; Sandama-Bangula-Marka Railway; Illomba- Chitipa Road; and Houses for Security Institutions.

50. **Madam Speaker**, Government recognizes the importance of transparency in the management of public debt in this country. In this regard, we will continue to publish the status of our public debt portfolio at mid-year and at the end of the financial year. Further, we will continue to publish the Medium-Term Debt Management Strategy, Annual Borrowing Plan and Domestic Debt Securities Issuance Calendar. Furthermore, using reports from our debt

management system, we are developing a matrix that will track all loans that Government contracted. The matrix will provide information on all creditors, the dates the loan was contracted, uses of the loan proceeds, the loan amount and outstanding balances on each loan. This information will be updated regularly and made available to the public through the Ministry of Finance and Economic Affairs website.

State Owned Enterprises Performance

51. **Madam Speaker**, to manage fiscal risks arising from State Owned Enterprises (SOEs), my Ministry will continue to produce the annual consolidated report that is submitted to this House for transparency and accountability. In this regard, managing contingent liabilities will remain a priority in order to promote fiscal discipline.

52. **Madam Speaker**, to further enhance monitoring of revenue collected by SOEs, all 21 regulatory SOEs have opened revenue holding accounts with the Reserve Bank of

Malawi. This arrangement will significantly improve Dividends and Surpluses remittance and reduce the tendency of Government borrowing its own resources. Going forward, Government will roll out the opening of holding accounts at RBM to all SOEs including subvented organizations in an effort to widen the non-tax revenue base.

53. **Madam Speaker**, to fully operationalize the Public Finance Management Act (2022) my Ministry in collaboration with the Ministry of Justice has gazetted PFM Act Regulations, 2023. Going forward, my Ministry will be reviewing the Fund Orders, Treasury and Desk Instructions. This provides clear guidance on processes and procedures at all levels of PFM operations.

REVENUE POLICY REFORMS: ADDRESSING THE CULTURE OF NON-PAYMENT OF TAXES

54. **Madam Speaker**, currently Government has a huge number of exemptions in the tax laws that apply to the

different sectors of the economy, that undermine domestic revenue mobilization efforts. The government will endeavour to reinforce principles of a good tax system which are “The ability to pay principle” and “The Benefit Principle”. The ability to pay principle ensures that there is vertical equity so that people who earn higher income should pay higher taxes and horizontal equity so that people who earn same amount of income should pay the same amount of taxes. For the benefit principle, people pay taxes in proportion to the benefits they receive from government’s expenditure. Those that obtain the maximum benefits from government services such as roads, hospitals, public schools and colleges should pay the maximum tax.

55. I am dismayed **Madam Speaker** to inform the August House that our tax system does not conform to the principles of a good tax system. It is a regressive tax system which has high income earners that are paying lower share of their income as taxes than the low-income earners. It is highly subsidized by the poor. The government will endeavour to achieve a progressive tax system by eliminating the

unproductive and harmful tax exemptions. It is high time the good citizens that have the ability to pay and those High-Net-Worth Individuals began paying their fair share of taxes.

56. **Madam Speaker**, following the Presidential order to cushion SMEs from the long-term effects of the devaluation, the Ministry of Finance and Economic Affairs is reviewing applicable taxes with a view of incorporating them in the next fiscal budget. In the same vein, the Ministry is reviewing the Pay As You Earn income tax to incorporate changes in the new budget so as to help workers whose incomes have lost value regain through reduced tax burden. However, Government through the Public Finance Management Act (2022) is committed to maximise domestic revenue mobilization to finance the National Budget. Government will continue to implement effective revenue mobilization policies that ensure progressivity of the tax system and ensure that all citizens pay their fair share of taxes in order to reduce the tax expenditure.

57. **Madam speaker**, the Government is finalizing the establishment of the Revenue Appeals Tribunal, an independent body that will be entrusted with the responsibility of settling tax disputes between the taxpayers and the Malawi Revenue Authority (MRA). The main objective is to expedite the processes and ensure fair dispute settlement. This will improve the perception and integrity of tax administration in Malawi. The Tribunal is expected to be fully operational by the end of the 2023/2024 fiscal year.

58. In addition, **Madam speaker**, Government is reviewing tax laws, namely the Value Added Tax Act, the Taxation Act, and the Customs and Excise Tax Act to ensure that they are aligned with the best international practice and are able to address the emerging international taxation aspects and challenges.

59. The Government has developed the Non-Tax Revenue Policy which will provide guidance in the collection and

management of Government revenues collected by the various Ministries, Departments and Agencies (MDAs) to enhance the contribution of non-tax revenues to the total domestic revenues. This coupled with the digitization agenda under the National Electronic Payment System Gateway which is under construction will improve efficiency and effectiveness of all the business processes.

FOREIGN CURRENCY GENERATION ACTIVITIES

60. **Madam Speaker**, the ECF was negotiated to help this country to recover and to achieve Macroeconomic stability in the short term. However, as a country, this must give us a reflection point and therefore, Government has developed strategies, policies and reforms that will ensure self-sustenance in the medium to long term. Building self-reliance and resilience is the only way to avoid and deal with external economic shocks and economic policy shocks that are important but tough and painful because they are associated with adverse and un-intended effects on our

citizenry. The following are some of the activities to DEVELOP this country:

61. Diaspora engagement: Government has developed a program to engage its diaspora through the creation of Diaspora Cities. Through Ministry of Lands, Government has identified 8,000 plots in the four cities of Mzuzu, Zomba, Lilongwe and Blantyre where our citizens living abroad will be given an opportunity to buy residential and commercial plots in a simplified process. Diaspora Cities will be designated areas where investors will provide social service delivery amenities like schools, clinics, shopping centers and recreational facilities. Detailed Action Plan will be released by the Ministry of Lands in the next few weeks and Government through the Reserve Bank will ensure that transaction costs in all diaspora foreign currency denominated Accounts are reduced and flexible to ease access and operations of their accounts including automated systems through full engagement of embassies. This initiative is expected to generate forex inflows into Malawi amounting to K250 million every year. From the initial

analysis, our diaspora is very interested and eager to participate in this program.

62. **Labour Exports or Trade in services Program: Madam Speaker**, in order to expand our diaspora community and increase the expected revenue and investment, Government has intensified efforts in export of labour services. This will not only give our youth an opportunity to get employment and start a career, but will also allow this country to benefit from its demographic dividend and enhanced foreign exchange inflows to Malawi.

63. **Madam Speaker**, this country exported labour to countries such as South Africa who had gaps to meet their human resources requirements as early as the 1960s. While the government seeks to open official access to foreign labor markets, it is conscious of the need to prevent its citizens from using unregulated channels of migration to ensure that their safety and security of employment is guaranteed.

64. **Madam Speaker**, the first Government to Government Labour Export Agreement is ready for signing with one cooperating country. These Agreements explicitly outlines the responsibilities of the two governments in protecting the labour exports in terms of their working conditions and remunerations. This initiative is expected to export not less than 5,000 job seekers in the Agriculture sector. In this program, a defined portion of all workers' compensation will be paid directly on a monthly basis into their foreign currency denominated accounts held in our local banks. This program will be open to all banks and it is estimated that approximately US\$180 million will be remitted to Malawi every year for five years from the 5,000 employees and the inflows will be enhanced if all the other three countries who have expressed interest in this program sign up to the Government to Government Labour Exports Agreement with this country. Malawi targets to export 10,000m to 15,000 employees over the next five years with total inflows estimated at around US\$3.6 billion.

65. **Madam Speaker**, to expedite the process, Government, through Ministry of Labour will developing a Labour Matrix to profile and classify all skills for easy identification of the required labour exports of any country and for easy participation by the general public. Government through Ministries of Finance and Economic Affairs, Homeland Security, Foreign Affairs, and Labour will put in place the required guidelines to conduct due diligence on any individual and institutions involved in the processes under this program.

66. **Discounting mineral deposits: Madam Speaker**, the Ministry of Mining has embarked on establishing the value of the mineral wealth in the country. The kawuniwuni exercise which was conducted under the World Bank financed project called "Mining Governance Growth Support project" produced a report that only indicated locations with mineral deposits and inferred values. Government has engaged the World bank for a second Kawuniwuni assignment for an in-depth study that would lead to the revelation of the quantities, quality and value of the minerals to enable

Government to negotiate with potential investors for advance or upfront payment of mineral revenues prior to commencement of mineral extraction and production. Government will also ensure that investors in our mining sector should be encouraged to include setting up of processing plants within Malawi for value addition of the minerals to fetch higher royalty revenue than unprocessed minerals. Government will work to expect about US\$1.5 billion over the next three years in discounted mineral proceeds.

67. **Mega Farms initiative: Madam Speaker**, following a call for Expression of Interest which invited all Malawian Private Sector farmers, Government has identified 100 farmers with land holding of not less than 100 hectares that could be supported under the Mega Farm Initiative. In total, these farmers have a total land holding of about 28,000 hectares and have potential to go into mechanized agricultural production in 2023/24 farming season to grow such export market crops like Tobacco, Soybean, Groundnuts, Beans, Rice, Maize, Avocado, Cherries, Garlic, Ginger as well as in

livestock value chains such as dairy, goats, poultry and piggery.

68. However, **Madam Speaker**, for these farmers to go into production, there is need for them to have financial support to cover various basic farming operations and procurement of equipment. Cognizant that the majority of the anchor/mega farmers have no agricultural borrowing capacity nor history for accessing agriculture loans from any of the conventional financial institutions in the country, one of the feasible options is to engage the Malawi Agriculture and Industrial Investment Corporation (MAIIC). This quasi-parastatal company has expressed willingness to administer production loans to farmers on behalf of government on some agricultural friendly terms which include lower interest rates of less than 15% and a waiver on traditional collateral.

69. **Madam Speaker**, it is therefore in view of this that the Ministry of Agriculture in collaboration with MAIIC and LUANAR has proposed setting up a special MK20 billion 'start-

up' loan fund facility to service some of the potential farmers. This loan facility would be managed by MAIIC at an agreed management fee but whose approval board would comprise a selected group of independent members drawn from MAIIC, LUANAR, MoF and MoA. This would expedite the approval time for the loans since we are already into the rainy season.

70. **Madam Speaker**, with the financial support from UNDP, the Ministry of Agriculture in collaboration with LUANAR has contracted, through the normal procurement process, a team of 80 young graduates as intern farm business plan developers who after undergoing orientation training will be assigned to assist the farmers in coming up with a bankable business plans for submission to MAIIC. The goal is to have as many farmers as possible to have some form of bankable farm business plan to enable them to access the loan for this year's agricultural production. However, Government will continue working through its institutions such as Green Belt Authority, MDF, Prisons and other institutions such as Press

Corporation and the private sector to upscale its drive under the Maga Farm initiative.

71. **Carbon credits trading; Madam Speaker**, Malawi has huge potential in the carbon credits trading and Climate Smart Financing. In as far as Carbon Trading is concerned, this Government has made significant progress in getting it organized for maximum benefits from its natural resources. The National Carbon Trust Fund has been established and the process to operationalise it is advanced. The Fund order has been formulated and the National Carbon Trust Fund Guidelines have been developed. Through the Ministry of Natural Resources and Climate Change, the Carbon Framework has also been developed and the draft will be validated by stakeholders by the end of November 2023. This is an important blueprint for administering carbon trading in the country.

72. In terms of prospects of generating revenue (Forex), there are a number of investors and developers that have

designed and are starting executing projects. Most of the carbon proceeds/revenue will be realised when these investors have started generating and selling credits probably after two or three years. However, there are some royalties and fees that have to be paid by these investors when they start project implementation. In total, these investors are expected to pay US\$10 million in fees and royalties by March 2024.

73. I am pleased to inform the August House that out of the projects that Government has registered and given a No Objection to start, agreements for four Projects have been signed and one of which has already started its operations and is expected to declare carbon credit proceeds to Malawi amounting to US\$3.0 million by end December 2023. Currently, Government is engaging all project developers with carbon sequentialization potential with the aim of renegotiating for carbon financing to the country. For all projects registered in the Water, Energy and Agriculture sector, Malawi is expected to generate an estimated

amount of US\$1.2 billion in climate financing over the next three years.

74. **Cannabis biomass projects:** Madam Speaker, this is another area Government has focused its efforts as a diversification area. Malawi is one of the largest producers of Cannabis in the Southern Africa and at the prevailing market prices this country has potential to generate over US\$700 million a year from cannabis biomass. Government is reviewing the Cannabis Regulation Act of 2020 to allow participation of the local cannabis on the international market. On the production side, joint venture negotiations between Government institutions and private sector investors are at advanced stages.

75. **Industrial parks development: Madam Speaker,** in line with the industrialization agenda, Government has identified development of Special Economic Zones (SEZs) and/or Industrial Parks as enablers to attract investment in the manufacturing sector. The development of SEZs/Industrial Parks in Malawi will therefore mark a new era of economic

transformation, and the Malawi Government is resolute in facilitating swift implementation of these transformative initiatives. Government has identified land in Dunduzu (53 Ha) in Mzuzu, Area 55 (417 Ha) in Lilongwe, Matindi (117 Ha) in Blantyre for the development of Industrial Parks and designation as SEZs. Government has also identified Chigumula (22.7 Ha) in Blantyre for development of an Industrial Park but not designated as an SEZ.

76. Madam Speaker, for Area 55, Matindi and Dunduzu, land assessment, verification, and disclosure exercise for compensation purposes to the Project Affected Persons (PAPs) have been completed. Technical feasibility studies and master planning for Area 55 and Matindi sites have been done, and Government is discussing with potential developers. For Chigumula site, this was already unencumbered land. Master plan, road designs, Environmental Impact Assessment (ESIA) and factory designs have been completed. Water has also been connected to the site. Next steps include engagement of road upgrading

contractors, wastewater infrastructure contractors and supervising engineers.

77. **Golden Visa Program:** this, **Madam Speaker** is a residency-by-investment program that allows high net-worth individuals and their families to obtain residency or even citizenship in a foreign country by investing in its economy. These individuals like to relocate to peaceful countries such as Malawi and could be given the option of physically relocating to this country either now or upon retirement and can become residents of the state with full legal rights and benefits to live, work or invest in Malawi. Residency by investment like this program is one way that many countries have used to lure foreign direct investment usually in property development.

78. **Madam Speaker**, individuals who qualify under Golden visa program are required to maintain the investment for at least a minimally required amount of time, prove that their money was legally obtained among other things. In return

such people have contributed scientific or technological innovation, created employment for local people both skilled and unskilled. Upon expressing interest and qualifying for the program, such individuals are usually required to pay a fee of around US\$200,000 for the golden visa. In Malawi, main areas of investment identified for this program include the mega farms in agriculture and in hotels sector under tourism and indeed any other area of interest to them. The Ministries of Finance and Economic Affairs, Tourism and Agriculture will embark on a campaign to market Malawi as an investment destination under a Golden Visa Program and in the next five years the target is to issue out 10,000 visas to investors, which in turn can fetch about US\$2.0 billion.

79. Madam Speaker, when all these initiatives are implemented, and we are determined to do that, this country in the next two years can generate approximately about US\$3.5 billion depending on maturity profile of the different projects.

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Foreign Exchange Reserves

80. **Madam Speaker**, Government will continue to pursue a flexible exchange rate regime. Following the recent 44 percent exchange rate correction, the Government remains keenly focused on ensuring that the exchange rate continues to be market determined, while alleviating excess exchange rate volatilities. Government expects that as we accumulate foreign exchange reserves on account of enhanced production and increased donor grant financing following the approval of the ECF program, the exchange rate will now stabilize.

81. **Madam Speaker**, the Government will continue to undertake policy actions aimed at ensuring that the market has adequate foreign exchange and at the same time boost holdings of gross official reserves. Honourable Members may recall some of the measures which I highlighted in the press briefing on Monday 13th November 2023 which included the recovery development plan, foreign currency generation

initiatives and the protection of earned forex. These measures are expected to complement already existing regulations such as the mandatory sale of at least 30 percent of export proceeds to Authorized Dealer Banks.

82. **Madam Speaker**, this economy needs protection, otherwise the informal unregulated market can easily surpass the formal sector where all players are protected from unscrupulous economic agents. The last part of Government agenda after recovering and developing this economy is to protect it. Government has commenced putting in place a legal and regulatory framework that protect our economy. We want water tight legislations that would deter those that would like to play around with our economy. Some of the measures to protect our economy includes the following:

83. With immediate effect **Madam Speaker**, the Fiscal Police, with support from the Financial Intelligence Agency (FIA) and National Intelligence Service will intensify crackdown on all illegal foreign exchange trade in all

markets across the country and in boarder areas. The public is, therefore, warned to resist and report all suspicious incidents of buying or selling of foreign exchange from unregistered vendors.

84. The Ministry of Finance and Economic Affairs will publish and gazette regulations that will including the requirement that all importers of goods and services into Malawi must show evidence of foreign currency purchase from any Authorised Foreign Exchange Dealer to the Malawi Revenue Authority (MRA) before declaring goods for duty purposes at points of entry. This will be effective once published in the Gazette and will be applicable to importation of goods whose value exceeds US\$2,000.00 or equivalent value in any currency. Any importer failing to provide such evidence will be suspected to have obtained the foreign exchange from illegal sources, which is an offence under the Exchange Control Act, 1984 and appropriate penalties shall be prescribed in the Regulations.

85. The Reserve Bank of Malawi has restricted all Authorised Foreign Exchange Dealers to sell foreign exchange in cash over the counter in any foreign currency to the equivalent of US\$2,000 per traveler. Any amount beyond this limit must be placed on an electronic bank card in line with the existing Regulations.

86. Madam Speaker, the Reserve Bank of Malawi will intensify foreign exchange compliance inspections of all financial institutions in the country, including commercial banks and authorized dealers.

87. Government through the Financial Intelligence Authority and National Intelligence Services will investigate into reports from the business community that commercial bank and central bank staff (Treasury Dealers) were trading in foreign exchange at a personal premium and Government through relevant institutions will consider conducting lifestyle audits on some bank officials who are being perceived to have unlawfully benefited from the illegal forex trading in Malawi.

88. Government working with the Competition and Fair-Trading Commission will intensify investigations of any perceived unjustified price increases within Malawi and appropriate penalties will be applied to offenders. This is to prevent unscrupulous traders from raising prices of commodities that are not, or are slightly affected by the currency re-alignment.

89. **Madam Speaker**, using relevant pieces of law, Government will enforce that all businesses operating in Malawi with a turnover of K5.0 million and above must have a verifiable, active, and operational bank account and properly registered for tax. The Ministry of Finance through MRA will intensify awareness and registration of activities for tax purposes. Malawi is open to legitimate and compliant businesses only.

90. Government shall facilitate legitimate trade and shall decisively deal with illicit trade through stronger border

enforcement. Government shall also pursue all those exporters who are holding onto export proceeds outside the country beyond the prescribed period of 180 days.

91. Government has noted with great concern that some international brokers are dealing in Foreign Exchange in Malawi without appropriate approval or registration as required under the Exchange Control Act and Regulations thereto. Henceforth, Authorized Dealer Banks (ADB), any organizations and individuals are sternly warned against dealing with these unauthorized brokers. Failure to observe these requirements shall lead to criminal prosecution under the Exchange Control Act and other relevant laws. Accordingly, the Government is calling upon all individuals and organizations including I-NGOs who transact in foreign exchange to deal with foreign currency dealers licensed or registered by Reserve Bank of Malawi only. Similarly, the Financial Intelligence Authority has been directed to track and monitor all banking transactions with a view to curb a malpractice commonly known as *Hawala* where local currency is paid into an account in Malawi in exchange for

foreign currency outside Malawi. Hawala is usually though not always associated with money laundering which is a criminal offence under the Financial Crimes Act

Integrated Financial Management Information System (IFMIS)

92. **Madam Speaker**, Government will continue enhancing the system in financial reporting, bank reconciliation, recording of Government commitments and payment efficiency through a stable Electronic Funds Transfer (EFT) platform. Furthermore, through the department of Accountant General, the Government will continue rolling out additional system functionalities such as Contract Management, Revenue Management, Asset Management and Project systems.

Alignment of the Budget to Malawi 2063

93. **Madam Speaker**, this reform is aimed at providing an all-inclusive approach to resource allocation. The reform provides opportunities for Ministries, Departments and Agencies to coordinate and collaborate more during budget preparation and execution. In the 2023/2024 fiscal plan, mid-year budgetary resources will continue to be allocated to strategic issues, which are aligned to the Malawi 2063. The resources for Ministries, Departments and Agencies (MDAs) will still be allocated based on the Pillar and Enabler Coordination Groups. This will ensure and promote networking among public institutions. By linking the budget to the Malawi 2063, Government resources will be allocated to priority interventions as outlined in the Malawi 2063 First Ten-Year Implementation Plan (MIP-1).

94. **Madam Speaker**, in summary, the main take home messages in the mid-term reviewed budget are (a) enhanced provision for maize procurement to avert food insecurity, (b) enhancement of foreign exchange earnings through diaspora cities, trade in services, mega farms just to mention a few and (c) Government has considered a moderate salary increase for civil servants and necessary steps are being taken to implement the increase.

SUBMISSION

95. **Madam Speaker**, the August House is hereby invited to note the mid-year performance of the 2023-24 Budget, as well as to consider and deliberate on the proposed Revised Budget Estimates for the 2023-24 financial year as presented in Annexes I, II and III of the 2023-24 Mid-Year Budget Review Document. The House is also requested to approve the changes as presented in some of the votes.

96. **Madam Speaker**, I beg to move.