

BUDGET IN BRIEF



What is the National Budget?

In June every year, the Minister of Finance announces government's spending and financing plans for the next fiscal year. This is called the national budget. It describes how government intends to raise and spend money. The national budget allocates money to the central and local governments as well as subvented organisations

2007/08 Budget Framework

The budget framework shows the main categories of revenues and expenditures. For 2007/08, the following is the framework.

	<u>K'million</u>
Total Revenue & Grants	163,862
Domestic Revenue	98,207
<i>Tax</i>	86,200
<i>Non Tax</i>	12,007
Grants	65,655
<i>Budget Support</i>	11,120
<i>Projects</i>	31,190
<i>Dedicated Grants</i>	23,345
Total Expenditure	173,595
Total Current	110,434
<i>Wages and Salaries</i>	30,386
<i>Interest Payment</i>	12,684
<i>Other Current Exp.</i>	55,864
<i>Input subsidy</i>	11,500
Total Development	63,269
<i>Domestic (Part II)</i>	10,389
<i>Foreign (Part I)</i>	52,880
Overall Balance	-9,733
Financing Net	9,733
Net foreign borrowing	11,278
Borrowing	12,847
<i>Foreign debt repayment</i>	<i>-1,569</i>
<i>Domestic debt repayment</i>	<i>-1,545</i>

Total resources for 2007/08 budget are projected at K163.862 billion which is a sum of K98.207 billion and K65.655 billion from domestic sources and grants respectively.

However, government plans to spend a total of K173,595 billion for both recurrent (K110,434 billion) and development (K63,269 billion) budgets.

This results in an overall deficit of K9,733 which will be financed through borrowing. Total borrowing shall be K12,847 billion, out of which K1,569 billion shall be for repayment of foreign debt and K1,545 shall be used for repayment of domestic debt.

Attainment of the HIPC completion point in August 2006 and the resultant debt relief has led to a reduction in the amount of resources that are used to repay foreign debt. For example, in this year without debt cancellation, amount of foreign debt repayment would have been K11 billion. This position would have compelled government to either reduce spending on pro poor activities or increase domestic borrowing to finance expenditures. But with debt cancellation, government will be in a position to repay K1.5 billion of its domestic debt.

BUDGET HIGHLIGHTS

Economic Performance

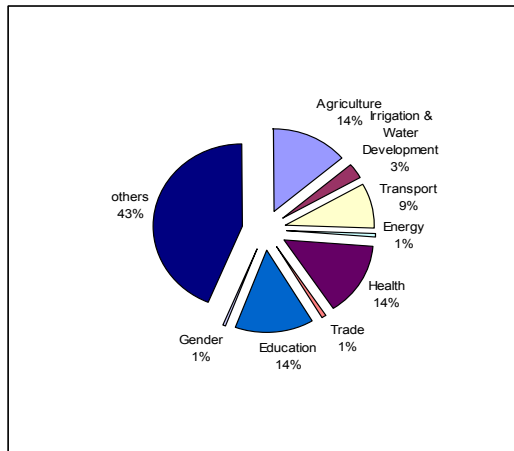
Government intends to consolidate the stable macro economic environment which has been achieved so far. Economic indicators such as GDP, interest rates, inflation and exchange rates are critical to this process. Government projects a 7.1% GDP growth.

Macroeconomic stability will be attained through continued deceleration of domestic debt. This will in turn reduce interest rates thus creating an enabling environment for private investment. Government intends to achieve a 10% interest rate.

Sectoral Allocations

As already indicated earlier government intends to spend K173.6 billion in various sectors as follows:

Chart 1: Sectoral Allocations



Health

The health sector has been provided a total of K25.2 of which K4.561 billion is for the procurement of drugs and hospital equipment. This sector has the largest share and represents 14.3% of the national budget.

Education

Total provision to education sector is K24.7 billion which is inclusive of K4.4 billion and K327 million to the Universities of Malawi and Mzuzu respectively. Total allocation to ministry of Education is K17.6 billion of which K5.6 billion is development budget that includes construction and rehabilitation of schools. K1 billion has been provided for teaching and learning materials.

Agriculture

The agricultural sector has been allocated a total of K24.6 billion representing 14% of the budget. K13 billion has been allocated to Nutrition and Food Security Programme which includes K10.7 billion and K800 million for fertiliser and seed subsidy respectively.

Transport and Road Infrastructure

A good transportation infrastructure is key to economic development. K15.2 billion has been allocated for construction and maintenance of roads, maintenance of airports and development of the Shire-Zambezi Waterway. Urban roads, particularly in the cities are to be given a face lift.

Irrigation and Water Development

The allocation to Ministry of Water is K5.2 billion, representing 3% of the budget. Access to safe drinking water is a basic right hence government's commitment to provide such to Malawians.

Energy

To achieve long term sustainable economic growth Malawi needs increased and reliable supply of energy. K1.3 billion has been allocated to this cause which includes the Malawi Rural Electrification Programme (MAREP).

In order to increase generation capacity and improve reliability of energy supply, Government through financing from World Bank intends to interconnect with Caborabassa in Mozambique.

Other Sectors

- K742 million for Tourism
- K1.5 billion for Industry and Trade
- K1.616 billion for Justice and governance institutions
- K1.014 billion for Judiciary
- K8.590 billion for defence (the Army) and internal security (Police, Immigration & Prisons)

Decentralisation

Government is committed to improving public service delivery to Malawians hence continued devolution of its functions to local assemblies. A total of K9 billion is being channelled direct to district assemblies for Health, Women and Child Development, Education and Agriculture sectors.

Conclusion

The government will continue in its endeavors to consolidate the stable macro economic achievements attained. Thus the 2007/08 budget has been formulated as an instrument through which the set goals will be reached.