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THE 2008/09 BUDGET STATEMENT

Motion

1. Mr. Speaker Sir, and Honourable Members, I beg to move that the Recurrent Account and Development Account of the 2008/09 Budget be referred to the Committee of the Whole House, to be considered Vote by Vote; and that thereafter, they be adopted.

Introduction

2. Mr. Speaker Sir, this is the last budget sitting of this Parliament and I want to begin by reminding my honourable colleagues that the moment is about to come when each one of us must give an account of achievements and failures of our stewardships to our constituencies. Similarly, now is the time when Parliament must report on what has been achieved under its stewardship since the May 2004 General Election. The House will therefore expect me to provide a highlight of what has been done up to now since May, 2004 in the financial and economic domain of our work.

3. And so, Mr. Speaker Sir, permit me to preface the highlight of our deeds with a short recapitulation of the financial and economic situation in the country as this Parliament was taking over. Our performance will be seen more vividly against this backdrop.

4. Mr. Speaker Sir, in fiscal terms, the dominating feature of the economy in 2004 was a huge domestic debt that was 25 percent of Gross Domestic Product

(GDP) and the attendant high interest rates pegged to a bank rate of 35 per cent. Inflation that fell momentarily in 2003 began a vigorous climb back to double digits. There was a large liquidity overhang as a result of huge Government domestic borrowing that took place during the period leading to the General Election that fuelled lagged inflation in 2005. It was in these confused budgetary and financial circumstances that the International Monetary Fund (IMF) and other donors suspended their programmes in Malawi. The result of all this instability, was a severely depressed economy, and investments declined to a level that could not generate meaningful economic growth rates. Consequently, Malawi was characterised by abysmally low growth rates that averaged three per cent per annum. This, Mr. Speaker Sir, is a summarised economic and financial situation that the Government and this Parliament took over in 2004.

5. Fortunately, Mr. Speaker Sir, everybody, everywhere in Malawi was determined to revitalise the economy and the 2004 General Election was seen as the vehicle for ushering in new economic policies that would breathe life into the economy.

6. When His Excellency the President, Dr. Bingu wa Mutharika, took over the helms of the Government, he clearly defined how the economy could be resuscitated. He defined what economic goals we had to aim for and the strategy of how to achieve the objective of re-energizing the economy. In financial matters Mr. Speaker, Sir, the House agreed with his strategy, without exception, that first and foremost we had to enforce fiscal discipline and respect for our financial rules and regulations. Furthermore, this House agreed with His Excellency the President's government on what ought to be the cornerstones of his budgets; we had to reduce the domestic stock of debt, interest rates, inflation and to stabilise the exchange rate;

and they had to emphasise development against consumption. These then were the agreed objectives of our fiscal and financial policy as defined by the government and approved by this House through budget approvals.

7. Mr. Speaker Sir, in the economic field we were set to attain economic growth rates of 6 percent, at the minimum, and to continue with the policy of poverty reduction that aimed at empowering the poor to participate vigorously in the economic activities of the nation. This strategy for achieving sustainable growth had to include a transformation of the economy from a consuming and importing economy to a producing and exporting one.

8. In parallel Mr. Speaker Sir, was a decision by Government, and supported by this House, that the tax system in Malawi should be reformed so as to improve business environment and to create a fair tax system.

9. The House will also recall that when we took over as a Government and Parliament, the remuneration system of the Public Service was dominated by distorted pay incentives that consisted of a multiplicity of allowances that formed the largest portion of an individual's pay package. The actual core salaries that formed a base for pension calculation could be as low as a quarter of a total pay package. The system was also characterised by low wages at the middle and lower ranges of salary scales, while top salaries were relatively high. As a result, a good deal of civil servants supplemented their official employments with private business undertakings. The result of course was a decline of productivity in the civil service and lack of commitment and dedication to their official duties. Morale in the civil service plummeted to unacceptable levels. To address the challenges, Mr. Speaker Sir, the Government launched a Medium Term Public Pay Policy under which, inter

alia, allowances were consolidated with core salaries and progressive salary increases were approved by this House particularly for the middle and lower levels of the service. It was agreed to consolidate allowances with core salaries so as to increase the salary base for pension calculations leading to a boost in pensions.

10. This Mr. Speaker Sir, is a summary of what we set ourselves to attain under His Excellency, the President's able leadership. It is important to report on what has been achieved and what remains to be done so that our performance can be assessed.

11. Mr. Speaker Sir, I am pleased to report that our success in macroeconomic management has been commended by many including the international community. We have reduced the stock of domestic debt from 25 percent to about 11.5 percent of the GDP in four years. As a matter of fact we have virtually normalised this important fiscal element. The inflation rate, which climbed to 17 percent in 2005 because of the large build up of the money supply during the run-up period prior to the 2004 General Elections, fell to 7 per cent by the end of 2007. Thirdly, Mr. Speaker Sir, as honourable members are aware, interest rates fell progressively and reached a low of 15 percent in November, 2007. These low macro-economic elements have permitted the stabilisation of the exchange rate at the prevailing rate of K140 per US Dollar for about 3 years.

12. Honourable members, this success of macroeconomic management, as members are aware, was rewarded by the international community by according Malawi the status of Highly Indebted Poor Country (HIPC) Completion point on the basis of which our external creditors, including the World Bank, IMF, the African

Development Bank and bilateral donors cancelled a huge amount of our external debt.

13. Lastly, Mr. Speaker, Sir, it is satisfying that for three successive years, Malawi has attained growth rates of over 7.0 per cent and that in 2006 the growth rate that was achieved was higher at 8.4 per cent. In fact, with the exception of Angola, which relies on huge oil reserves; Malawi's economic performances have been considered one of best performing economies in the SADC region during this period. It is also pleasing to observe Mr Speaker Sir, that our exports which, from the 1980s to 2004 stagnated at between US\$400 and US\$500 million reached a record of just over US\$700 million in 2007. In fact, international experts forecast that the figure could exceed US\$800 million this year and when Kayerekera becomes fully operational, total exports could pass the US\$1 billion mark by 2010. The House can therefore see that the Bingu dream of transforming Malawi into a producing and exporting country is fast approaching.

14. Because of these robust achievements, the inescapable verdict of Malawi's performance is that under the stewardship of this Parliament and the Government led by His Excellency the President, Dr. Bingu wa Mutharika, this country has achieved impressive results in the economic and financial field.

Fiscal Performance Under The 2007/08 Budget

15. Mr. Speaker Sir, let me now branch off and account to the House for the implementation of the 2007/08 budget. As was the case last year, Honourable Members will find detailed reports of how the budget was implemented in the documents that will be made available to them immediately after the delivery of this

statement. I wish to emphasise that over and above these documents my colleagues and I stand ready to answer questions the honourable colleagues may have on the budget. As we have always done, we want to be as accountable and as transparent as possible in exercising this responsibility to the House and the country.

Revenue and Grants

16. This House approved the 2007/08 budget with total revenue and grants that were estimated at K163.9 billion which, because of higher tax collections and larger grant receipts, is being revised to K174.9 billion: this increase of K11.1 billion, K4.9 billion is an increase in domestic revenue. Malawi also received K6.2 billion additional grants. However, because of delays in establishing the grants-in-aid scheme, Government departments collected K800 million less than the targeted non-tax revenue.

17. Mr. Speaker Sir, the House will wish to join the Government to express our thanks to our development partners for demonstrating their confidence again in our country by increasing pledged grants of K65.7 billion which Parliament approved for 2007/08 to K71.8 billion. The Government wishes to register its continued appreciation for these acts of generosity. We are aware that these resources represent sacrifices by the Government and the people of these donor countries and that the resources are intended to support poverty reduction in Malawi and to enhance the welfare of its people.

Expenditure

18. The approved estimated total expenditure for that year Mr Speaker Sir, was K173.6 billion which has been revised upwards by K10.2 billion; of which the increased amount of K4.9 billion represents cost escalations of the recurrent budget. Mr. Speaker Sir, honourable members will note from the documents that this recurrent expenditure overrun was almost exclusively due to escalated costs of the Input Subsidy Programme which includes subsidies of fertilizers and seeds under Vote 190 of the Ministry of Agriculture and Food Security. The documents show that the cost of the combined programme in 2007/08 was K4.2 billion more than the budgeted figure of K11.5 billion. Honourable members will note, therefore, that the combined cost of escalations of the remaining 56 votes was less than K700 millions which is 0.4 percent of the total voted expenditure or 1.75 percent of the approved total ORT of the 2007/08 budget.

19. All in all therefore, Mr Speaker Sir, the sum of these revisions has slightly improved the fiscal position than was originally planned. We now expect to finish the financial year with a slightly lower overall fiscal deficit since the increased resources at K11.1 billion were more than the cost escalations of K10.2 billion. It was planned to finish the year with a deficit of approximately K9.7 billion, and we now expect to finish the year with a reduced deficit of K8.8 billion. Therefore Mr. Speaker Sir, our ability to repay part of domestic debt of K1.5 billion, as approved by Parliament, is enhanced and we expect to increase this amount to K1.7 billion. The House will see a well presented budget framework on pages 3 and 4 of document No. 5.

20. The total expenditure overrun of the development account of the 2007/08 budget was K5.3 billion of which K4.2 billion were escalations in the cost of the

domestically funded development programme. The unprogrammed expenditure was particularly evident in the road sector where the implementation of projects was faster than envisaged.

The 2007/08 Development Programme

21. Mr. Speaker Sir, the House will recall that the budget for the financial year 2007/08 was dominated by the development programme particularly in the road sector. I, therefore, propose to spend a few moments to report on some of these notable projects. In the Central Region as planned, the construction of the Bunda-Mitundu road is underway and the Mponela-Ntchisi and the Nkhoma-Kamphata roads were completed. Furthermore, His Excellency, the President has just launched the construction of the Lumbadzi-Dowa road, as planned. However, due to the shortage of funds, this year prevented us from commencing the construction of the Kasungu-Msulira and the Old Airport-Kasiya roads.

22. In the Northern Region, apart from Chitipa-Karonga road whose construction is underway, work has just commenced on Mzimba-Kafukule-Ekwendeni-Njakwa road after His Excellency the President launched the construction programme recently. We expect that if resources become available, the Jenda-Endingeni-Euthini and the Rumphi-Nyika roads could commence since feasibility studies have been completed. Negotiations with financial institutions for the needed funds are still underway.

23. In the Southern Region, where the construction of a number of roads is in progress, construction has commenced on the Bangula-Nsanje-Marka as well as the

Chilinga-Chiradzulu roads. The rehabilitation of Liwonde-Mangochi-Monkey Bay has also commenced.

24. Over and above this programme, Mr. Speaker Sir, work is underway at the rehabilitation and construction of road systems in the cities of Lilongwe, Blantyre and Mzuzu. I am also pleased to inform the House that the Japanese Government has commenced the conversion of Chipembere Highway in Blantyre and the Livingstone Street in Limbe into four lane streets. The House will note from the documents, that we intend carrying these projects forward as part of the 2008/09 road development programme.

25. In the Education Sector, Mr Speaker Sir, again as programmed and after a long time of waiting, the rehabilitation of Blantyre, Dedza, Lilongwe Girls' and Mzuzu Secondary Schools has commenced. It is expected that these schools once again could be brought to a level where together with Zomba Catholic Secondary School they would again provide the country with model schools in the country. Work is proceeding on a number of the World Bank projects and domestic funded projects as can be seen in document No. 5.

26. There have been some problems as regards Phalombe, Nkhata Bay and Dowa district hospitals which we had planned to commence construction. In 2007/08 in the case of Nkhata Bay and Phalombe district hospitals, plans have progressed sufficiently well for the construction work to commence in 2008/09. We could also commence the construction of a new district hospital at Dowa Boma in 2008/09.

27. The Ministry of Irrigation and Water Development constructed twenty small community dams across the country. It also undertook the implementation of several irrigation projects. Moreover, the Ministry constructed about 2,000 water points, consisting of boreholes, piped water tap points etc.

28. All in all therefore, the development programme that this Parliament approved has progressed well during 2007/08. Time is not sufficient for me to go into a report of other development projects that were included in the budget. I hope Members will have time to study the documents where they will see how these and other projects have progressed.

29. Mr. Speaker Sir, the House will also recall that it approved a 20 percent general salary increase for the public service. Let me take this opportunity to correct an error that frequently appears in the media where it is said that the Government promised that each civil servant would receive a salary increment of 20 percent. I wish to emphasise that individual officers or teachers etc. can be awarded higher or lower increases than the general (average) increase of, in this case, 20 percent. Last year, for example, the lower and middle levels up to P5, received increments that were much more than 20 percent. This was also the case in the teaching service. However, senior officials whose salaries continue to be inordinately higher than their junior counterparts, received less than the average general increase of 20 percent

World Economic Outlook

30. And now Mr Speaker Sir, as is traditionally the case, I will give the House the economic context of the 2008/09 budget.

31. The world economy has continued to be generally depressed because of the financial crisis that was originated by the subprime loan crisis in the United States of America (USA). This year, oil and food price hikes worsened the World economic outlook. In the event, global output is projected to slow down to 1.3 percent in 2008 from 2.7 percent in 2007 with the USA showing a much lower rate of 0.5 percent in 2008 compared to 2.2 percent in 2007. The consequent falling consumer confidence is exacerbating the already depressed economic conditions. These conditions are not expected to improve much in 2009 when output of the world economy is projected to grow by less than 3 percent.

32. Despite this world economic outlook, vibrant economic activity in the Asia sub-region continues. China, for example, registered a growth rate of 11.4 percent in 2007 and it is expected that in 2008/09 growth in that country will only decelerate to 9.3 per cent in 2008 and 9.5 per cent in 2009

33. Mr Speaker Sir, coming closer to home the downturn of world economic conditions have not had a sufficient impact on the African Region whose growth is expected at 6.5 percent in 2008 and 6.9 percent in 2009. These rates will be applicable particularly in the SADC region where, apart from Angola, Malawi is forecast to register a high growth rate of 7.5 percent in 2008 and almost a similar rate in 2009.

Developments in the Malawi Economy

34. Mr Speaker Sir, our economic policy objective is to achieve and maintain high economic growth rates in stable macro-economic conditions. As stated earlier, we

have succeeded to maintain fiscal discipline and have created a sound macroeconomic framework within which to manage the economy. Within this framework, Mr Speaker, Sir, driven mainly by small-scale agriculture, construction, transport and communication sectors, the Malawi economy will have grown by more than 23 percent between 2005 and 2008 end. Indeed, as I said earlier, the current economic growth rates reflect a substantial improvement when compared to those recorded between 1997 and 2005 and are far above the 6.6 percent growth that is needed to achieve the targeted level of poverty reduction by 2015.

35. Moreover, Mr. Speaker, Sir, according to recent Sub-Saharan Africa Regional Economic Outlook published by the IMF in April this year, the ratio of investment to GDP in Malawi rose to 28.1 percent in 2007 and is expected to stand at 24.4 percent in 2008. This contrasts sharply with the rate of investment that averaged 14.4 percent of GDP between 1997 and 2004. If we continue to manage the economy as well as we are doing and continue to follow the economic growth strategy that we have adopted, these forecasts augur well for the sustenance of the good economic prospects.

36. Mr Speaker, Sir, the prospects are also good in the external sector. Malawi's trade balance improved by about 3.0 percentage points to a deficit of 14.9 percent of GDP in 2007 from 19.6 percent and 17.4 percent in 2005 and 2006 respectively. The improvement is attributed to increased exports which for the first time, since independence, climbed above the US\$600 million mark to US\$705.0 million in 2007.

37. Mr. Speaker Sir, despite the relatively positive outlook for the external sector, it would be remiss of me not to bring the attention of the House to the significant challenges the current world situation will present us in the coming years. The

combined effects of the steep rise in oil and fertilizer prices will affect Malawi's overall terms of trade with the rest of the world, and significantly exacerbate the challenges we face in accumulating foreign reserves.

38. Despite the down turn of economic activity in the developed countries and the high oil and food prices, the 2008/09 budget has been prepared on the basis of relatively good and robust macroeconomic assumptions as I will indicate later.

The 2008/09 Budget Perspectives

Medium Term Pay Policy

39. Mr. Speaker Sir, let me now give an outline of budgetary perspective for 2008/09. Let me begin with how the Medium Term Pay Policy has developed and what remains to be done. It is clear, Mr. Speaker Sir, that this Policy is still not well understood. Despite the fact that it was advertised in the papers four years ago, and that I have repeatedly discussed it in my budget statements, the questions that arise indicate a lack of an understanding of the policy. I would therefore like to summarise what we set out to do under the policy.

40. Mr Speaker Sir, the House is aware that the Government has been implementing a Medium Term Pay Policy since the 2004/05 financial year. As His Excellency the President stated in his speech to the House on May 19th, 2008, this policy represents one of the tools for improving governance in the Public Service and aims at enhancing its effectiveness. Mr Speaker Sir, here I merely should, yet again, review its elements and will inform the House what it intends to do in 2008/2009 in pursuance of its objectives.

41. The policy seeks to harmonise and unify a proliferation of salary scales that have emerged in the public service overtime. The emergence of these salary scales has resulted in a number of salary distortions in the public service; so that officers who do the same job, with the same qualifications and experience are not equally remunerated. Thus a clerk in the civil service who has counterparts in either the Judiciary or Parliament or indeed in the Anti Corruption Bureau (ACB), could be paid half the salary of his counterparts. The Policy seeks to remove such distortions.

42. Secondly, Mr. Speaker Sir, it seeks to eradicate the wide disparity between salary levels of low and middle staff below the Under Secretary (P5) level on the one hand, and senior officers at Deputy Secretary (S4) and above. The emergence of a large salary gap of about 500 per cent as it was in 2004, between the two groups has been a source of low morale and demotivation of a large group of civil servants. By awarding higher salary increments to the “junior” group in the public service than to the top levels, this gap has been reduced to approximately 200 percent. However, more work must be done to reduce it further to acceptable levels of, say 20 percent. Lastly, under this policy, all allowances have been consolidated with core salaries in order to boost the salary pension base that leads to higher pension benefits.

43. Mr Speaker Sir, the House is aware that the Government has established a Public Service Remuneration Board consisting of independent eminent Malawians to assist in the implementation of this policy and to advise the Government on general conditions of service of the public sector, including the determination of salaries in the service. As part of the implementation of this policy, the 2008/09 budget includes a proposal of a general salary increase of 20 percent that would be effective on July 1st 2008. The Board will be responsible to the Government in determining salary

increments across the public service salary scale and it will be guided by the Medium Term Pay Policy objectives.

The Subsidy Programme in 2008/09 Budget

44. The Government intends to continue with this extremely valuable programme. Due to increased fertilizer prices, this year's cost of subsidizing fertilizers and maize seed is projected to increase from K10.7 billion (revised to K14.5 billion) to K17.78 billion for the fertilizer subsidy and from K800 million (revised to K1.2 billion) to K1.7 billion. This programme is considered crucial to the welfare of the poorer segment of the Malawian population.

45. On the other hand, it is estimated that before and after harvests of maize, up to 40 percent of the grain is eaten by weevils. The chemical that would eliminate the variant of weevils that destroy hybrid maize is expensive and as a result its use is not prevalent among small farmers. Government has therefore decided to include the subsidisation of the pesticide in the subsidy programme, to encourage farmers to use the chemical. The effect of the subsidy would be to reduce the price of chemicals from K250 per satchet to K100 a satchet. This will cost approximately K650 million to the budget and appears in the budget as part of the maize seed subsidy.

Maize Storage

46. Furthermore, Mr Speaker Sir, Government intends to increase maize storage capacity and as indicated in the statement, I wish to confirm that resources have become available for the construction of two more silos in Mzuzu for the Northern

Region and at Lunchenza for the Southern Region. This is of course in addition to the main silos in Lilongwe and the one that was launched in Mangochi by His Excellency the President. We have also commenced to construct 600 metal storage facilities that will be scattered around the country. It is hoped that when the programme is completed, Malawi will have enough storage capacity to enable farmers to use modern storage facilities and reduce food wastage that is being experienced now.

Crop and Weather Insurance Scheme

47. Mr. Speaker Sir, Honourable Members are aware that we have been operating a Crop Insurance Scheme in the country under which companies have bought maize with an undertaking that in case of maize shortage, Government would buy the maize at a price that the company in question purchased it. The maize is stored by us (Lilongwe silos) and the company pays for the storage expenses. If by an agreed month, (normally about January) the Government decides not to purchase the maize, the company is free to export it. The premium for this insurance scheme has been paid for us by the United Kingdom's Department of International Development (DFID) and we are extremely thankful to that institution for this arrangement.

48. Over and above this crop insurance scheme, we have been asked and have agreed to pilot a World Bank "weather insurance scheme" under which a premium is paid. This case will be paid on our behalf by DFID. And if it is found that the weather conditions have impaired crop production, the insurance company would pay Malawi Government an agreed amount that would enable us to purchase food to alleviate

the effects of the bad weather. It is expected that if the scheme works well in Malawi, the World Bank will use it elsewhere in the world. Mr Speaker Sir, the House may again wish to join me to express the pride for being chosen over other countries in the world to be the first to manage this valuable scheme which should prove invaluable in these days of climatic change.

Public Participation in the 2008/09 Budget

49. As in previous years, Mr. Speaker, Sir, we wish to thank everyone who took part in the pre-budget consultations throughout the country or who contributed ideas, suggestions and, indeed criticisms on the design and implementation of previous budgets through e-mails or letters to the Ministry of Finance. Our invitation for budget representations to be made directly to the Ministry by those who could not attend the public consultations was a new innovation this year, and I am encouraged that quite a few number of people took the trouble to put their ideas and proposals in this way.

50. The consultations we carry out each year before the budget are an important element in the budget process, and also in the wider engagement between Government and key groups such as the business community and civil society. Those who take part understand, I think, that not every idea can be adopted each year. Sometimes it is not because we don't agree with ideas being put forward, but more often because although the idea is sound, it has resource implications that cannot be accommodated.

51. I believe, however, that anyone who has attended the consultations on a regular basis would confirm that many serious reforms have been discussed during them, and have then been implemented in following budgets. In other words, the

consultations have not just been about appearing to consult, but have actually been a significant influence on the budgets that followed them.

52. Not only were good proposals made this year in relation to taxation and expenditure, but also, perhaps more than in previous years, very interesting proposals in a number of other policy areas not directly linked to the budget. These contributions have been reflected in this budget where possible, but have also led into discussion with Cabinet colleagues in several areas not specifically dealt with in the budget.

Alignment of the 2008/09 Budget in MGDS

53. This is the second budget to have been prepared as a tool for achieving the objectives and goals of the Malawi Growth and Development Strategy (MGDS). Document No. 5 describes at length, the relationship between the budget and the MGDS and points-out that expenditures in the budget are classified into MGDS and Non-MGDS expenditures. This allows those who wish to assess the extent of its alignment with the MGDS to do so. The activities that can be classified only cover “Other Recurrent Transactions” (ORT) and those of the Development Budget. They do not cover Personal Emoluments as the personnel expenditures are spread out over varied activities. Lack of an understanding of how expenditures are categorized led various attempts in the media etc. last year to arrive at conclusions on the extent to which the 2007/08 budget was aligned with the MGDS. This year we have attempted to give a full account of how budgetary activities are classified.

54. It will be recalled Mr Speaker Sir, that the Malawi Growth and Development Strategy provides detailed costings of all the activities under each financial year.

The 2008/2009 allocations are clearly displayed in MGDS by themes. It is therefore easy to compare the extent to which budgetary expenditures in this budget conform to the MGDS costings. Honourable Members will see from the document that as projected, MGDS estimates for 2008/09 amount to approximately K126.9 billion. In contrast, in the budget, MGDS themes have been allocated a total of K139.1 billion. The figures show that if wages and salaries are excluded, 73 percent of the 2008/09 budget activities are in support of main MGDS goals. In other words Mr Speaker Sir, the degree of the alignment of the budget with MGDS is higher than is envisaged in that document.

2008/09 Budget Framework

55. Mr Speaker Sir, the underlying assumptions of the 2008/09 budget are that nominal GDP will increase from K526.3 billion in 2007/08 to K588.7 billion in 2008/09 and that growth rate will remain at 7 percent in 2008/09. The average inflation during the financial year 2008/09 is projected at 6.5 percent and that interest rates will fall to an average of 12.5 percent, as the money supply growth declines to 12.2 percent. It is further assumed that exports will increase to about US\$800 million in 2008 and are projected to rise to about US\$1.0 billion in 2009. On the other hand, imports are projected to increase to US\$1.3 billion in 2008 and to be at approximately the same level in 2009. As I have already said, Malawi stands to gain from the world food price hikes if it continues to export food materials. However, petroleum imports, which are expected to rise from US\$178 million in 2007 to US\$190 million and US\$200 million in 2008 and 2009 respectively, could moderate the desired deceleration of inflation rate and fuel general price increases in the country.

56. Using these underlying assumptions Mr. Speaker Sir, the amount of resources in the 2008/2009 budget that comprise revenues and grants is estimated at K208.1 billion representing an increase of 27.0 per cent over the approved 2007/08 budget and 19.0 per cent over the revised estimates for that year.

57. Total domestic revenue is estimated at K118.2 billion and of this amount, tax revenue is estimated at K107.3 billion representing an increase of 24.5 per cent over the revised estimate for 2007/2008. Non tax revenue, on the other hand, is expected to fall from K12.0 billion to K10.9 billion, which is slightly higher than the revised amount of K10.1 billion for 2007/08.

58. We have pledges of grants Mr. Speaker Sir, that amount to K89.9 billion for the 2008/09 budget, which represents a 36.9 per cent increase over the 2007/08 figure and 24.0 percent over the revised figure of K71.8 billion. These figures demonstrate a continued confidence in Malawi's management of resources and the generosity of our co-operating partners.

Expenditure

59. The total budgeted expenditure for 2008/09 is estimated at K229.2 billion, and K172.1 billion, representing 75 percent of the total expenditure, will fund the recurrent programme of the budget while the development account will constitute 25 per cent of the budget. Mr. Speaker Sir, the House will note that the recurrent account has been increased more than the development programme. The Recurrent Account was 66 percent of last year's budget. Correspondingly, the development account share of the budget has deteriorated from 33 percent of the budget. There are two reasons for this change; the first is that this year the budget contains two

once and for all group of expenditures that total nearly K10.0 billion. The activities that are funded by this amount are either directly or indirectly related to the general election and the population census. Secondly, there has been a reclassification of the National Aids Commission (NAC) spending which last year appeared as a capital account activity. As can be seen from the table, the total account of this item is K18.0 billion. It is argued that expenditures of the National Aids Commission are a recurring item of the budget. Moreover, an amount of K4 billion for road maintenance has also been reclassified as a recurrent expenditure rather than a development one. These changes have inflated the recurrent budget and correspondingly they have deflated the development account.

60. In general Mr. Speaker, Sir the ORT to Ministries has not changed in real terms as we continue to consolidate the effectiveness and fiscal discipline in Ministries.

Overall Budgetary Balance

61. Mr. Speaker, Sir, the budget this year has a planned overall budgetary deficit of K21.1 billion, which represents 3.7 per cent of GDP whereas the deficit last year was 1.9 percent of GDP. However, the House is invited to note on page 3 of document 5 that this year we intend to withdraw the sum of K22.9 billion from outstanding external loans, including a loan of K4.1 billion from India. If these loans are taken into account as available resources, the budget will be more than balanced since available resources are more than the total planned expenditure. We, therefore, plan to continue to reduce the domestic stock of debt by K1.7 billion.

62. Mr. Speaker Sir, in order to keep money supply at an appropriate level and therefore avoid inflation, it will be necessary that from time to time Government borrow from the private sector. Government may also borrow for development purposes, especially for projects and programmes considered of high priority. Furthermore, Mr. Speaker, Sir, some domestic borrowing through long term Treasury Bonds may be necessary to deepen the financial market. The 2008/09 budget therefore envisages some borrowing of this nature.

Notable Resources Allocation in the 2008/09 Budget

63. Mr. Speaker Sir, I now wish to comment on some notable allocations in this budget which, like the previous one as I said, is driven by the requirements of the Malawi Growth and Development Strategy (MGDS). It follows therefore that the activities of the budget are aimed at achieving the two main objectives of that strategy, namely: accelerated economic growth and poverty reduction. The MGDS priorities are: food security, irrigation and water development, transport infrastructure and development; energy generation and supply, integrated rural development; and prevention and management of nutrition disorders and HIV/AIDS.

Agriculture and Food Security

64. This year, Mr. Speaker Sir, the Ministry of Agriculture and Food Security has been allocated the largest amount of resources of K32.2 billion, which is just over 14 percent of the total budget. This is a large increment over last year's allocation that was budgeted at K20.8 billion. Within this allocation of the Ministry, K24.9 billion is being earmarked for recurrent expenditures. The allocation to the combined fertilizer and seed subsidy programme, which is a recurrent activity, with a total of K19.4

billion against last year's budgeted figure of K11.5 billion. As indicated already, of this amount it is planned to spend just under K1 billion on pesticides subsidy for the first time this year. We have also budgeted K2.2 billion for domestic maize purchases that will be spent by the National Food Reserve Agency (NFRA).

65. The sum of K7.3 billion, out of the total allocation to the Ministry, will be spent on agricultural development projects, including the construction of grain silos at Luchenza and Mzuzu and the installation of 600 metal food storage facilities that are being constructed around the country, so that when the programme is complete, Malawi will possess one of the most modern and extensive network of food storage facilities in the region.

Irrigation and Water Development

66. Mr Speaker, Sir, the allocation to the Ministry of Irrigation and Water Development has been increased by approximately 50 percent to K7.7 billion. Of this amount, the sum K7.3 billion will fund that Ministry's development programme that is considered to be crucial for the attainment food security. This year, it is expected, inter alia, to construct some 16 earth dams in addition to 20 that have been constructed so far. The programme also includes the construction and rehabilitation of approximately 290 boreholes and a general improvement of water supply across the country. The Minister of Irrigation and Water Development, as my other colleagues, is likely to report on what has been done and what he expects to do next.

Road Sector

67. Mr. Speaker, Sir, I invite Honourable Members to refer to page 446 of Document No. 5 which displays the extent of the Government's road programme. This year we intend to spend approximately K15 billion on road construction, rehabilitation and maintenance. As pointed out earlier, resources designated for road maintenance have been reclassified as a recurrent activity and not as a part of the development programme. The actual cost of the road development programme therefore, is K11.0 billion and an amount of K4.0 billion has been earmarked for road maintenance. The programme includes some 20 roads that are spread all over the country and at different stages of construction and rehabilitation. It is the busiest road programme this country has seen since independence. And I would invite Honourable Members of Parliament to visit a number of these road projects as I have done on several times. This is a clearly success story for the country.

68. Over and above this list of roads, an amount of K550 million has been allocated to the four cities for the rehabilitation and construction of their road networks. This is a continuing programme that was initiated under the 2007/08 budget and as I said, at our invitation, the Japanese Government is proceeding with the conversion of Chipembere Highway and Livingstone Street into four lane avenues in the City of Blantyre. The Japanese Government has also done similar work in Dar-es-Salaam and Lusaka which transformed the look of those cities.

69. My Honourable colleagues will also wish to know that we are now discussing with the African Development Bank (ADB) for them to provide resources for the reconstruction of the Blantyre-Zomba road which as you know is the oldest tarmac road in the country and therefore has outlived its life span. Additionally, the Bank is

also willing, at the same time, to reconstruct the Mzuzu-Nkhata Bay Road and we hope that discussions can be fast tracked so that these very necessary projects can commence soon. Because these discussions have not been finalised, these projects are not included in the current Budget document.

Energy

70. The Government is continuing the discussions with donor institutions, particularly the World Bank, as regards a number of prospective hydro-electric power projects. As the President pointed out in his speech, we expect that feasibility studies can be conducted that could be followed by the construction of large Hydro Electric Power Projects along Ruo and North Rukuru Rivers. It is expected that these projects, apart from Kapichira Project and the rehabilitation of Tedzani and Nkula Falls, could together provide more power than we need and launch this country as a power exporter. The Government hopes that these discussions can be completed within this year.

Rural Development

71. Mr Speaker Sir, last year, I reported that the Clinton-Hunter Foundation and the United Nations Development Programme (UNDP) had established programmes that are effectively contributing to our rural development programme and that they had begun work in Chitipa, Ntchisi and Chikwawa. I also added that the Government was supplementing the programme by constructing infrastructure growth centres. I am pleased to say that in the 2008/09 budget, a total amount of K860.5 million is being made available by the Government to extend this programme to a number of other areas in the country.

72. Some of these resources will support traditional rural communities, to initiate their own projects such as the construction of classrooms, teachers houses and boreholes on a self help basis. I would like to report that these activities are going on well and Government is supplementing the local efforts through MASAF to procure materials such as roofing materials, doors and windows, cement and borehole equipments.

73. At the centre of these activities Honourable Members, as I said last year, are our Chiefs. In recognition of this, the Government decided to increase honoraria paid to chiefs. I am glad to inform the House that the Government has completed the review of chiefs' honoraria and I wish to confirm that Paramount Chiefs, and Senior Chiefs, Traditional Chiefs and Sub-Traditional Chiefs honoraria will be unchanged at K50,000, K30,000, K18,000 and K8,000 respectively. However, Group Village Headmen and Village Headmen that now receive K1,000 and K500, respectively per month will have their honoraria increased to K5,000 and K2,500 respectively. I must repeat this: Group Village Headmen will receive honoraria of K5,000 per month and Village Headmen will receive K2,500 per month as from July 1, 2008 as part of this budget. The Government will undertake to continue improving the welfare of chiefs as occasions demand in future.

Social Sector

74. In the 2007/08 budget, pro-poor expenditures amount to K49.8 billion. With the various revisions that have been made, pro-poor expenditures are now estimated at K58.8 billion for that budget. The original estimate was 29.0 per cent of total expenditure. Pro-poor Expenditures in the 2008/09 budget amount to K80.9 billion,

which is 34.3 percent of total expenditure. This is an increase of 60.0 percent over the 2007/08 budgeted total pro-poor expenditures and 33.3 percent over the revised figure. This means that the 2008/09 budget is not only closely aligned to the MGDS document, but it has also included a record amount of pro-poor expenditures. The House is invited to review table 17 on page 44 of document no. 3 where these expenditure are clearly displayed. Thus, if last year's budget was pro-poor, the 2008/09 budget is even more so.

Health

75. The total allocation to the Health Sector excluding expenditure of the National Aids Commission (NAC) is K31.4 billion and is K5.3 billion more than the previous year's allocation. It is the second largest allocation in this budget. Of this total allocation, K8.0 billion will be administered by District Assemblies. The total allocation for drugs is K5.7 billion of which K2.6 billion has been allocated to the Assemblies. The allocation to the capital budget is K6.8 billion. Among the projects which these resources will fund is the construction of the Dowa, Nkhata Bay and Phalombe District Hospitals whose construction should start in the course of 2008/09 financial year.

Education

76. The Education sector has the third largest allocation of K26.1 billion. This is K3.9 billion more than the allocation in the previous year. It includes two public universities and a number of institutions of higher learning. The Ministry of Education itself has been allocated K19.7 billion. Within this, figure expenditures on non-wage expenditures, ORT and development, include K1.1 billion on Primary

Education. Of this amount, K1.0 billion is earmarked for teaching and learning materials to all primary schools. Expenditure on Secondary School Education will amount to K1.2 billion including an expenditure of K316 million on teaching and learning materials excluding University Education; Tertiary Education is estimated to cost K1.2 billion that includes an expenditure of K574.6 million for teacher training education for training primary school teachers to a degree level. The House will be pleased to see that teaching materials have been increased by K500 million over last year's figure to K1.5 billion.

77. The development programme in the Ministry of Education will cost K3.5 billion and includes the rehabilitation of four model secondary schools namely Blantyre, Dedza, Lilongwe Girls and Mzuzu Government Secondary Schools. Mr. Speaker Sir, Government hopes that the rehabilitation of schools could propel them to achieve their earlier education standards. The Ministry's development programme also includes construction of girls' hostels, and the rehabilitation of a number of day secondary schools. The House is invited to browse through document 5 which has details of this programme.

78. The total amount of the allocation to the two universities, is K6.4 billion which is more than six times the expenditure on these institutions in the 2003/04 budget. Within this figure, K360 million has been allocated to the University of Malawi to continue with the programme of the rehabilitation of buildings in its constituent colleges and a further K150 million has been allocated to Mzuzu University for its development activities. The money will also cover 20 percent general salary increases for the two Universities in the 2008/09 financial year.

Miscellaneous

79. Mr. Speaker Sir, permit me to draw the attention of my Honourable colleagues to the allocations of the Ministry of Foreign Affairs whose Personal Emoluments have been increased by more than 45 percent over the revised figures of the 2007/08 budget. This particularly reflects the increased overseas allowances for the Malawi Diplomatic staff. Our diplomats have not had their remuneration reviewed for more than a decade and their living conditions abroad have continued to deteriorate sharply. In order to improve their circumstances and to improve and motivate them professionally, the Government has decided to increase the allowances substantially. Over and above this initiative we are also augmenting the resources that would allow them to operate effectively and efficiently. In a number of embassies, including London, Washington and New York, office accommodation and residences are being rehabilitated or upgraded, as can be noted from a doubling of the development programme in that Ministry. The House is referred to Vote 260 in the "Output Based" budget document no. 5 which has details of that Ministry.

80. Mr Speaker, Sir, as regards the budgetary allocations of other votes, My honourable colleagues are encouraged to look at the votes that have details of other ministries. Let me emphasise that the fact that I have not highlighted all the votes, does not mean that they are of less importance. His Excellency, the President gave an elaborate account of what each Ministry is doing and what it plans to do. Therefore, all I have done here, in the time that has been allocated to me, is to emphasise the points where further details are needed. I have also attempted to show how the policies of MDGS have been translated in this budget.

Tax Measures For 2008/2009

81. Mr. Speaker, Sir, let me now turn to the tax measures proposed in this year's budget.

82. Last year, Mr. Speaker, Sir, the main thrust of the budget tax package was to enhance the creation of a regime that was competitive within the region for attracting investment, and we were pleased that measures adopted were widely welcomed particularly by the business community. While the package that the Government is proposing this year contains a number of further measures to encourage investment in particular sectors, we have been able to do more this year to ensure that the benefits of strong growth and improved effectiveness on the part of the Malawi Revenue Authority are felt by a wider range of taxpayers.

Value Added Tax (VAT)

83. Ever since the creation of the Value Added Tax Mr. Speaker, Sir, there have been complaints from both businesses and consumers in the country that the VAT rate has been too high but since that year the Standard Rate has remained unchanged.

84. We propose today to initiate a reduction of the standard rate of VAT a reduction of one percentage point from 17.5% to 16.5%. In SADC, this will leave our VAT rate to be much lower than the average, it will be at the lower end of the range within SADC, and definitely below that of our neighbouring countries; Mozambique and Tanzania. VAT is one of our major revenue earning taxes, and even this one percentage point reduction will cost approximately K2 billion in the coming year, but

we believe that one element in ensuring a competitive tax regime for the country is to keep this key rate towards the lower end of the range of VAT rates in this region.

Income Tax

85. Mr. Speaker, Sir, one consistent theme of this Government has been to improve the fairness of our tax system by increasing progressively the monthly income at which income tax starts to be paid. At the beginning of this Parliament, in 2004, a person was expected to begin paying tax at an income level of only K3,000 per month. Over the life of this Parliament, that figure has been increased in steps to the current amount of K7,000 per month. In this budget the Government again proposes to raise this figure by significantly more than inflation to a figure of K9,000 per month. This measure will provide benefits to many people across the country who struggle to raise families on salaries close to the minimum wage. This means, Mr. Speaker Sir, that those of our people whose pay, or any other income is less than K9,000 per month, will not pay income tax.

86. At the same time, Mr. Speaker, Sir, we must also ensure that the burden of tax is not unduly heavy on those who earn slightly higher incomes on the earning scale. For this reason, the Government proposes also to increase the salary level at which the 15 percent rate of income tax begins to be paid to be K12,000 per month instead of K10,000 as is the case now. The higher rates of personal income tax will remain unchanged at 30 percent. The cost of increasing these thresholds as proposed is K1.1 billion.

87. While calling for tax reductions is always easy, Mr. Speaker, Sir, reducing public goods and services that this Government has to deliver such as schools

portable water, medicines and fertilizer subsidies, is not as welcome. This cannot be done without undermining the stability on which the whole economy depends. We believe that tax reductions can only be done through a considered and consistent policy of gradual progress. This Government is proud that looking back over the entire life of this Parliament, we have been able to increase the minimum income level at which a person has to pay tax to no less than three times the level at which we found it. In 2004, only people that received a wage of K3,000 per month were exempt from paying taxes, we have progressively increased this threshold to K9,000 during a four-year period. Mr. Speaker, Sir, the House will also recall that in the course of the past four-year period, the higher rate of income tax was 40 percent when the current Government took office, we have reduced this to 30 percent which is competitive with our neighbouring countries.

Removing VAT from Manufacturing and Construction Equipment, and Creation of New Customs Procedure Codes

88. Promoting investment has been a major theme of tax policy throughout the period of this Parliament, Mr. Speaker, Sir. Today, we have a further major measure to propose which we believe will particularly assist indigenous businesses in the manufacturing and construction sectors, as well as a number of measures targeted on key sectors.

89. At present, most industrial and construction machinery is subject to VAT at 17.5%, although almost all businesses can reclaim the VAT through the refund system, often Mr. Speaker, Sir, businesses must borrow extra money to fund this VAT charge and this causes particular difficulty for our local businesses which frequently have limited access to credit. We propose, therefore, to zero rate VAT for

most machinery used in manufacturing and construction, at an estimated cost of MK 190 million in the coming year. At the same time we propose to remove duty where it still exists on these same duty lines, at an additional estimated cost of MK 80 million. The Malawi Revenue Authority is publishing a comprehensive list of the industrial equipment and machinery that will be covered by this removal of both VAT and Customs duties.

90. Mr. Speaker, Sir, let me review what has been done the past four years to improve the investment environment. At the beginning of this Parliament, the tax regime did little to promote real investment, and most incentives were granted only at the discretion of the Minister of Finance, which at times could have led to unfairness and abuse.

91. Mr. Speaker, Sir, today investors in Malawi and internationally agree that the environment has vastly improved. This is an area in which the Government has relied on advice not only from business bodies such as the Society of Accountants and Chambers of Commerce, but also outside bodies such as the IMF and the US Treasury, and we thank all who have contributed to this process.

92. Over the course of this Parliament we have progressively improved the automatic incentives that can be enjoyed by all investors. Businesses in agriculture, manufacturing, tourism and mining can now offset the whole of any investment they make against profits in the year they make the investment. Rollover relief had been introduced so that businesses can modernize or expand without incurring a tax charge on the disposal of the equipment being replaced. And there has been reform of the capital gains tax regime that has been widely welcomed.

93. Duty, and in many cases also VAT, has been removed from a wide range of investment goods, so that tax does not increase the cost of investment, and the Government collects revenue only once investors begin to profit themselves from the investments they have made. Where goods can be used either for consumption or for investment, we are making increasing use of Customs Procedure Codes to ensure taxes are not levied when investment is being made in priority sectors.

94. Last year we used this approach to assist tourism and manufacturing, and this year, Mr. Speaker, Sir, we propose to extend this approach to other areas by introducing new Customs Procedure Codes allowing importation of capital equipment, other than road vehicles, free of duty and VAT by electricity, telecommunications and water utilities; the mining industry, and the dairy farming industry.

95. We also propose both a new Customs Procedure Code exempting from duty and VAT materials imported for the construction of petroleum storage facilities, and the creation of a 100% first year allowance for such investments, but in both cases these incentives will apply only for a period of two years.

Tobacco measures

96. Despite tobacco being our major export crop, Mr. Speaker, Sir, the country no longer produces cigarettes but instead has to import. Many factors have led to this situation, including our relatively small market but also the fact that the market for legitimate tobacco products was undercut by significant amounts of smuggled products being sold without payment of duty.

97. If Malawi is to make real progress towards developing a stronger manufacturing sector, then we believe that this sector, where we produce so much of the primary crop, is one where we must look seriously towards attracting investment into value adding within the country.

98. With this in mind, Mr. Speaker, Sir, we propose a package of measures designed to make the sector more attractive to any potential producer of cigarettes considering an investment. A first step is to deal effectively with the problem of smuggling. This is necessary both to protect revenue that is currently being lost to the Government, and to ensure that any producer would have access to a market which reflects fully the consumption in the country. We propose to deal with this problem of smuggling, as many of our neighbours already have, through the introduction of a system of tax stamps.

99. In addition to introducing tax stamps that will have to be attached to any packet for it to be legally sold within the country, we have decided to move our duty system to one based on the quantity of cigarettes being imported or produced, rather than a system based on value as at present, which is far easier to administer through a system of tax stamps. From midnight tonight, therefore, the duty on cigarettes will be calculated at new flat rates as follows: (a) the equivalent of US\$18 per thousand sticks for a hinge lid packet, and (b) the equivalent of US\$12 per thousand sticks for a soft packet.

100. At the same time, however, we propose to introduce a major incentive for value addition, which already exists in both Tanzania and Uganda, in the form of a much reduced rate of Excise to be charged on cigarettes that contain at least 70% Malawian tobacco. The duty on such cigarettes will from midnight tonight be

equivalent to US\$9 per thousand sticks for hinge lid packet and equivalent of US\$6 per thousand sticks for a soft packet. While the combined effect of the new excise rates and the introduction of tax stamps is expected to be a gain of K600 million, there would be loss of revenue in the future if a factory making cigarettes here were to open taking advantage of the lower Excise rate, and that would be a loss of revenue we would welcome.

Excise Tax on Mobile Airtime

1101. Another area of Customs duty where smuggling and evasion has been widespread, Mr. Speaker, Sir, has been in the importation of mobile telephones. In this area we propose again to follow a path already followed by several of our neighbours, by removing both Customs duty and excise tax from handsets, but introducing a domestic Excise tax of 10% on airtime. This approach has been successful in those countries that have followed it. To allow companies to adjust their accounting systems, the new Excise tax on airtime will take effect from 1st June 2008, though the removal of Excise tax on handsets take effect at midnight tonight.

Taxation of Gaming/Betting including Lotteries

102. A further sector of the economy where the tax regime has not been operating well is that of gaming/betting, including lotteries. Currently, all forms of gaming are subject to VAT, but compliance has been poor in part, we believe, because it can be more difficult to apply VAT correctly to gaming revenues than for most goods and services. For this reason, Mr. Speaker, Sir, we propose to exempt gaming/betting including lotteries activities from VAT and in its place create a simple new excise tax of 10% on the amount being bet or staked by players which will be easier, both to

calculate and to collect. The Excise tax will apply on the bet, stakes or wager in any form of betting or gaming, including lotteries and gaming machines.

Fish Farming and Trawlers

103. One area that was highlighted during the pre-budget consultations as deserving support was the fishing industry. Fish is an essential source of protein in the country, and yet catches from the Lake have been declining over recent years. One way in which this trend could be reversed is through increased effort to catch fish in deeper areas of the Lake, but such an approach requires significant investment. To support this effort we have decided to remove both duty and VAT from trawlers.

104. A second way in which access to protein in the form of fish could be increased is through the increased use of fish farming, and we have decided to support this sector by introducing a Customs Procedure Code allowing the importation of specialist equipment for fish farming free of both duty and VAT.

Hessian Sacks, Testing Equipment, and Cycle Ambulances

105. Two other Customs duty issues were also raised during pre-budget consultations. One was that of Hessian sacks, where an exemption was created for Tobacco Association of Malawi (TAMA) at a time when it was a monopoly importer, but where other grower groups now also import. In response, we have decided to remove altogether the duty on Hessian sacks. The other was the issue of testing equipment to deal with ever more stringent requirements by developed countries that

import. It is proposed to zero rate this equipment for VAT used for testing aflotoxins in groundnuts.

106. Again, within the Agriculture sector, is an issue that touches upon both productivity and food security, and this is the problem of damage to crops both while growing and after harvesting, which this year has caused significant damage. From midnight tonight, Customs duties are removed from all insecticides, fungicides, herbicides and pesticides.

107. To support the Health Sector, a further duty measure we are introducing is to allow the importation of both motor and pedal cycles free of duty where these have been specially adapted for use as ambulances in the District Hospitals.

108. With the measures being proposed today, Mr. Speaker, Sir, we can say that over the course of this administration we have lowered the rate of VAT, we have lowered the highest rate of income tax, we have tripled the income level at which tax begins to be paid, and we have created the most competitive tax regime for investment in the region. We have been able to do all this against a background of continued strong revenue collection for two reasons. One is through improvements in tax administration which have meant that more of those who should pay tax are actually doing so, and the other, Mr. Speaker, Sir is that this Government has, through sound economic policies, delivered the strongest and most sustained period of growth that has been seen in the country for a generation.

Conclusion

109. Mr Speaker, Sir, to the question of what this Government and Parliament has achieved, the answers have to be robust because the achievements are demonstrable. On the initiative of this Government and with the approval of Parliament, boldly, the Fertilizer Subsidy Programme was re-established regardless of some international misgivings. The impact of this programme has been a huge boost of food production and the much needed enhancement of the welfare of people of Malawi. We achieved a record maize production in 2006/07 and indeed in some international quarters, led by Prof. Geoffrey Sachs, it has been said that through this programme we could have embarked on a possible green revolution.

As a result of the introduction of the subsidy programme, smallholder farmers who constitutes the majority of the population in Malawi have substantially increased food production to eat as well as to sell. In tandem, therefore, the rural population has much higher income from their sale of food crops as well as cash crops such as tobacco and cotton. Because of these increased income generating activities, the handout culture that prevailed before is fast weaning in Malawi today.

110. More significantly, these developments have led to a reduction of the poverty index in Malawi so that the population below the poverty line that was 65% in 2004 plummeted to just about 50%, this drastic change has of course, carried all other social indicators which are improving very rapidly.

111. During this period, we have established a sound macro-economic framework within which the economy is being managed to accelerate economic growth in a sound fiscal environment. The domestic stock of debt has been normalised, past payment arrears have been paid and interest and inflation rates have fallen steeply.

The implementation of Government policies as approved by this House has led to impressive economic growth rates that could help the country to attain the majority of the Millennium Development Goals (MGDs). These growth rates have occurred in tandem with robust increase of exports and imports to historical levels. It is clear therefore, that if these policies, this fiscal discipline, these economic policies and strategy continue, for the next five or ten years; Malawi could be transformed and the welfare of the people substantially advanced.

112. Furthermore, during this period, the Medium Term Pay Policy for the Public Service that was approved by Parliament through the approval of four successive budgets, has had impressive results. Under this policy, salaries in the civil service have increased by approximately 300 percent. This is unprecedented and deserves applauding. The lower and middle level of Government officers have had substantial improvements in their salaries. The minimum salary wage has moved from K2,500 in 2004 to now K8,900 by July 1st, 2008. Contrary to what is being popularly said, this Government has increased teachers salaries from an average of K6,000 to than K20,000 within four years. Lawyers' starting salary that was K23,000 will now be K54,000 by July 1st, 2008. By consolidating allowances and core salaries; pensions on the average have been tripled and pensions of those who are already in retirement have been substantially increased. To cap it all, for the first time, in the history of Malawi, chiefs are receiving honoraria that have increased by up to 1000 percent and can now sustain their livelihood.

113. These, Mr. Speaker Sir, are impressive and robust results by any standards. When, therefore, we are asked by our Constituents what has been done under our stewardship, we can proudly say that at the end of our 5 years mandate led by His Excellency the President, this country was being transformed, the economy was

revitalised and a foundation was laid for a bright future for the citizenry of this country.

114. Mr. Speaker Sir, I beg to move.