



Press Release on the 2017/18 Budget

The 2017/18 budget has been formulated within the backdrop of a rebounding economy and an improving macroeconomic environment. Growth in economic activity is expected to pick up from a subdued growth of 2.7% in 2016 to 6.1% in 2017. This rebound is mainly on account of Agriculture, manufacturing and electricity. Inflation is subsiding. From an average rate of 21.8% in 2016, inflation eased to 14.6% by April 2017. It is expected that this trend will continue and will trigger corresponding reductions in the policy rate of the Reserve Bank of Malawi (RBM).

Total revenue and grants in the 2017/18 fiscal year (FY) is at K1,108.0 billion which is equivalent to 22.3% of GDP. This comprises K980.3 billion (19.7% of GDP) domestic revenue and 2.6% grants. The momentum taxes displayed in 2016/17 FY is expected to continue into 2017/18 FY such that taxes are estimated to amount to K900.8 billion (18.4% of GDP). This comprises K474.7 billion in taxes on income and profits, K364.2 billion in taxes on goods and services, and K78.8 billion in taxes on international trade. Non-tax revenue will total K79.4 billion (1.6% of GDP), K4.1 billion lower than the previous fiscal years on account of low remittances of dividends from Parastatals.

Grants are estimated to continue on the downward spiral, amounting to K127.7 billion (1.6% of GDP) in 2017/18 FY compared to K139.4 billion (2.0% of GDP) in 2016/17 FY. Budget support is expected to resume in 2017/18 FY with the World Bank disbursing US\$80 million. Dedicated grants expected to total K32.5 billion (0.7% of GDP) while project grants are estimated at K59.3 billion (1.2% of GDP).

Total expenditure and net lending (the budget) is estimated at K1,299.4 billion (26.2% of GDP) comprising K946.6 billion (19.1% of GDP) recurrent expenditure; K348.8 billion (7.0% of GDP) development expenditure and K4.0 billion (0.1% of GDP) net lending. Recurrent expenditure comprises K303.6 billion wages and salaries, K185.8 billion interest payments, K197.3 billion subsidies and transfers, and K256.0 billion purchases of goods and services. Domestically financed development expenditure is estimated at K132.6 billion (2.7% of GDP) which is 1.7 percentage points higher than 2016/17 FY. Foreign financed development expenditure is projected to amount to K216.1 billion (4.4% of GDP).

The major projects being implemented under the 2017/18 FY budget include:

- Shire Valley Irrigation Project, Agriculture Productivity Program for Southern Africa (APPSA), Mzimba Integrated Urban Water and Sanitation Project, and Rural Irrigation Development Programme under Agriculture sector;

- Higher Education, Science and Technology (HEST), Construction of three Teachers Training College for primary and secondary school teachers, and construction of Science Laboratories and Libraries under Education Sector;
- Construction of community hospitals, food and nutrition security programme, and initiative on maternal mortality under health sector; and
- Rehabilitation of the railway system, construction of Likoma and Nkhatabay Jetties and construction of various city and feeder roads under the transport sector.
- In the energy sector, the budget has included a substantial amount of resources for energy generation and electrification which is expected to be financed by the African Development Bank and the World Bank.

The following tax measures have been proposed to parliament:

- An increase in the tax free threshold from K20,000 to K30,000 per month.
- A new tax bracket of 35% for wage income above K3,000,000 per month to enhance income distribution.
- Exempting VAT on fresh milk following budget consultations.

The public should therefore note the following in the 2017/18 FY:

1. Domestic revenues are expected to remain buoyant in the 2017/18 FY and will continue to offset withdrawn budget support and dedicated grants. To this effect, the 2017/18 budget has included an amount that is aimed at automating and modernising the Malawi Revenue Authority.
2. As part of fiscal adjustment, the 2017/18 budget has been formulated so that recurrent expenditure can be fully financed by domestic resources which are expected to total 19.7 percent of GDP. Therefore, Malawi has reached a point when it has enough resources to fund recurrent operations of the Government and remain with a small balance to contribute to capital expenditure.
3. Over time the fiscal deficit has been reduced from 6.1% of GDP in 2013/14 FY, when budget support and a sizeable share of dedicated grants were withdrawn, to 3.9% of GDP in the 2017/18 FY.
4. Interest payments are expected to begin declining as a share of GDP in 2017/18 FY to create fiscal space for other growth-enhancing expenditure.
5. Growth in wages and salaries in the 2017/18 budget has been limited to less than inflation as part of the efforts to contain inflationary pressure.
6. The budget has provided for the housing and population census and tripartite elections which are expected to take place in 2018 and 2019 respectively.

Table

	2015/16	2015/16 (% of GDP)	2016/17	2016/17 (% of GDP)	2016/17	2016/17 (% of GDP)	2016/17	2016/17 (% of GDP)	2017/18	2017/18 (% of GDP)
	Outturn	Outturn	Approved	Approved	Mid- Year Review	Mid-Year Review	Likely Outturn	Likely Outturn	Estimate	Estimate
Revenue and Grants	765,318	21.5	978,017	23.0	999,160	23.5	977,833	23.0	1,108,010	22.3
Domestic Revenue	634,311	17.8	783,291	18.5	840,463	19.8	838,463	19.8	980,274	19.7
Tax Revenue	564,441	15.8	708,837	16.7	754,910	17.8	754,910	17.8	900,839	18.1
Taxes on Income and Profits	288,827	8.1	376,897	8.9	409,927	9.7	409,927	9.7	474,707	9.6
Taxes on Goods & Services	225,467	6.3	263,747	6.2	287,973	6.8	287,973	6.8	364,162	7.3
International Trade Taxes	52,562	1.5	57,761	1.4	63,343	1.5	63,343	1.5	78,761	1.6
Other	(2,415)	(0.1)	(5,359)	(0.1)	(6,332)	(0.1)	(6,332)	(0.1)	(16,790)	(0.3)
Non Tax Revenue	69,870	2.0	74,454	1.8	85,553	2.0	83,553	2.0	79,435	1.6
Grants	131,007	3.7	194,726	4.6	158,697	3.7	139,371	3.3	127,736	2.6
Budget Support	17,397	0.5	13,583	0.3	11,500	0.3	-	-	35,902	0.7
Dedicated Grants	64,069	1.8	53,822	1.3	54,639	1.3	58,268	1.4	32,539	0.7
Project Grants	49,542	1.4	127,321	3.0	92,558	2.2	81,102	1.9	59,295	1.2
Expenditure and Net Lending	894,106	25.1	1,149,336	27.1	1,129,433	26.6	1,147,351	27.0	1,299,379	26.2
Recurrent Expenditure	726,168	20.4	823,364	19.4	868,929	20.5	880,599	20.7	946,628	19.1
Wages and Salaries	226,174	6.4	272,381	6.4	270,769	6.4	270,769	6.4	303,576	6.1
Interest on Debt	125,674	3.5	143,519	3.4	168,537	4.0	183,537	4.3	185,835	3.7
Use of Goods and Services	202,499	5.7	238,805	5.6	258,554	6.1	258,414	6.1	255,955	5.2
Generic	86,390	2.4	88,429	2.1	100,136	2.4	97,041	2.3	122,644	2.5
Health	31,330	0.9	35,025	0.8	36,025	0.8	40,426	1.0	35,635	0.7
Education	20,824	0.6	24,586	0.6	24,586	0.6	24,586	0.6	25,255	0.5
Agriculture	6,182	0.2	4,161	0.1	3,861	0.1	3,861	0.1	4,984	0.1
Subsidies and Transfers	171,821	4.8	163,659	3.9	168,070	4.0	164,879	3.9	197,262	4.0
Development	166,664	4.7	322,472	7.6	257,044	6.1	263,292	6.2	348,751	7.0
Domestic Development	20,995	0.6	38,581	0.9	42,715	1.0	42,715	1.0	132,612	2.7
Foreign Development	145,670	4.1	283,891	6.7	214,329	5.0	220,578	5.2	216,139	4.4
Net Lending	1,274	0.0	3,500	0.1	3,460	0.1	3,460	0.1	4,000	0.1
Overall Balance	(128,788)	(3.6)	(174,819)	(4.1)	(130,273)	(3.1)	(169,518)	(4.0)	(191,370)	(3.9)
Total financing	125,416	3.5	174,818	4.1	118,948	2.8	162,644	3.8	191,370	3.9
Foreign (net)	66,038	1.9	111,194	2.6	76,603	1.8	105,200	2.5	165,761	3.3
Domestic (net)	59,379	1.7	63,624	1.5	42,345	1.0	52,993	1.2	25,609	0.5
GDP	3,561,441		4,245,204		4,245,204		4,245,204		4,965,660	