MALAWI GOVERNMENT

2022/23 BUDGET PERFORMANCE REPORT (Q1 & Q2)

Ministry of Finance and Economic Affairs

P.O. Box 30049

Lilongwe 3

Malawi

April, 2022

Table of Contents

Foreword

A Quarterly Budget Performance Report aims at highlighting how the National Budget is faring during implementation after a quarter has elapsed. In the 2022/23 Financial Year, the first quarter report was not produced due to technical glitch from the data sources. This report therefore provides a consolidated budget performance of both Q1 and Q2 and refered in this report as the First Half. It thus provides an analysis of all the budget categories prepared and formulated at the planning stage. These categories include; Revenue that was collected for the period under review, status of Grants and Loans and the subsequent Expenditures that Government has incurred. These are viewed in light of the approved figures.

The Ministry of Finance and Economic Affairs hopes that the information provided in this report will be valuable and informative to all the Stakeholders and thus provide a good picture on how the national Budget has perfomed by mid-year of the 2022/2023 Financial Year.

Abbreviations and Acronyms

FY	Financial Year
IFMIS	Intergrated Financial Management Information System
MoFEA	Ministry of Finance and Economic Affairs
NTRs	Non-tax Revenues
ORT	Other Recurrent Transactions
Part I	Donor supported projects
Part II	Projects financed by domestically generated resources
PE	Personnel Emoluments
Q1	First Quarter
Q2	Second Quarter

Executive Summary

Revenue Performance

In the 2022/23 Financial Year, Government planned to collect a total of K1,955.8 billion in revenues of which Taxes, Grants and Other Revenues (Non-Tax Revenues) are K1,534.8 billion, K320.3 billion and K100.7 billion respectively. In the first half of the financial year, it was projected that total revenues will be K1,003.4 billion. The outturn however, was K937.9 billion. Thus revenue underperfomed during the period under review by K65.4 billion. This is mainly on account of lower than anticipated inflows from grants and other revenues. Grants underperformed by K49.6 billion and other revenues by K31.9 billion whereas taxes K16.0 billion.

Expenditures Performance

In the 2022/23 Financial Year, Government planned to spend K2,839.9 billion, including net lending. Out of this sum, K2,021.0 billion was planned for Recurrent Expenditure and K818.9 billion for Development Budget Expenditure with a net lending/borrowing of K884.0 billion. During the period under review, Government planned to spend K1,432.0 billion, of which, K1,013.4 billion was for Recurrent Expenditure and K418.7 billion was for Development Budget Expenditure. However, total Government expenditure amounted to K1,463.2 billion reflecting an overexpenditure of K31.2 billion against the target for the same period.

Fiscal Balance

Government planned an overall fiscal balance of K428.7 billion in the period under review. The outturn, however, showed that the overall fiscal balance was K525.3 billion, higher than the anticipated balance by K96.6 billion.

1
INTRODUCTION

1.1 Background to the Report

In March 2022, the National Assembly approved a Budget of K2,839.9 billion for the 2022/23 Financial Year (FY). This Budget is expected to be financed by Domestic Resources amounting to K1,635.5 billion, Grants amounting to K320.3 billion and net lending of K884.0 billion.

In order to assess the performance of the National Budget from time to time, a report is produced on a quarterly basis to provide insight into the performance of all the relevant components of the budget.

This report therefore, examines performance of Government Budget in meeting the set targets in the First and Second Quarters (April to September, 2022) of the Financial Year regularly refered to as the First Half of the Financial Year. The report highlights where discrepancies between the projected and the outturn figures have occurred and also provide a possible explanation for such discrepancies.

1.2 Key Objectives of the Report

The main objective of this report is to present the performance of Government in implementing the National Budget in the First Half of the 2022/23 Financial Year. Specific objectives of the report include:

(i)   To present the performance of Domestic Revenues;

(ii)   To report on performance of Grants and Loans from Development Partners;

(iii)   To present the details of the performance of Expenditures of Government; and

(iv)   To present the overall financing

1.3   Methodology

The review and assessment of receipts and expenditures for the First Half of the 2022/23 Financial Year was done in October, 2022. The work involved analysis of data from the Reserve Bank of Malawi, Spending Agencies, Intergrated Financial Management Information System (IFMIS) and consultations with relevant Stakeholders.

1.4   Layout of the Report

The First Chapter introduces the report, its objectives and methodology in assessing performance. The Second and Third Chapters discuss the performance of Revenues and Grants respectively.   The Fourth Chapter focuses on the discussion of Expenditures while Chapter Five looks at financing. Chapter 6 concludes the Report.

2

Performance of Domestic Revenues

2.1 Introduction

In the 2022/23 Financial Year, Government projected to collect total Domestic Revenues to the tune of K1,635.5 billion, of which, K1,534.8 billion were projected to be Tax Revenues and K100.7 billion from Other Revenue sources. This Chapter therefore discusses the performance of Government in Revenue collection during the First Half of the Financial Year by comparing the Revenue Outturn for the period under review against the set targets; and discussing some of the underlying factors to explain the variances.

2.2 Overall Performance in Revenue Collection

In the First Half of the Financial Year, the Domestic Revenues were projected to amount to K821.6 billion of which, K750.5 billion was expected to be Tax Revenues while Other Revenues were projected at K71.1 billion. The performance is such that, during the period under review, total actual domestic revenue outturn was K805.8 billion of which Taxes were K766.6 billion and Other Revenues was K39.2 billion.

This shows that on the overall, domestic revenue underperformed by K15.9 billion mainly on account of poor performance of other revenues which underperfromed by K31.9 billion representing an underperformance of 44.9 percent. The taxes, on the other hand, overperformed by 2.1 percent.

Figure 2.1 below compares the Outturn in Domestic Revenues in the First Half of the Financial Year against their corresponding targets.

Figure 2.1 Total Domestic Revenues Performance

Domestic Revenue Performance

	Total Domestic Revenue	Tax Revenue	Other Revenues
Q1 & Q2 Target	821,634.00	750,548.00	71,086.00
Q1 & Q2 Outturn	805,768.00	766,551.00	39,217.00
Variance	(15,866.00)	16,003.00	(31,869.00)
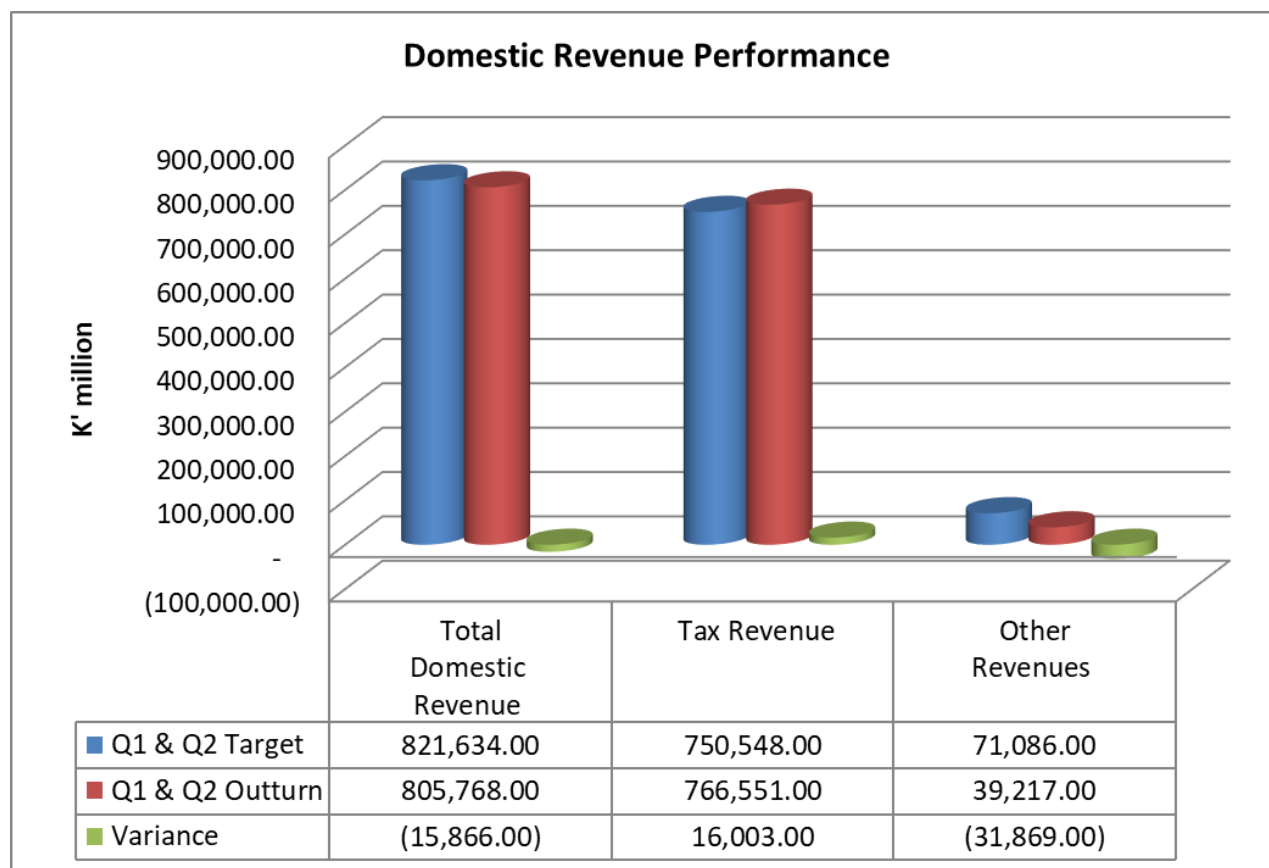
2.3 Tax Revenue Performance

Table 2.1 shows the performance of tax revenue for the First Half of the Financial Year against the projections. As the table illustrates, overall, Tax Revenues overperformed by K16.0 billion. The outturn of Tax revenue was K766.6 billion against a target of K750.5 billion. The overperformance on the Tax revenue is mainly attributed to higher than projected inflows from taxes on Income and profits, and on international trade and transactions which

overperformed by 6.3 and 3.2 percent respectively. Taxes on goods and services, on the other hand, underperformed by 2.3 percent.

Table 2.1 Tax Revenue Performance

GFS Code	Revenue	Q1+Q2 Projection	Q1+Q2 Actual	Variance
		K' Million		
11	**Taxes**	**750,548.00**	**766,551.00**	**16,003.00**
111	**Taxes on income, profits and capital gains**	**335,876.00**	**357,178.00**	**21,302.00**
1111	Payable by individuals	189,583.00	200,506.00	10,923.00
1112	Payable by corporations and other enterprises	146,293.00	156,672.00	10,379.00
114	**Taxes on goods and services**	**337,641.00**	**329,940.00**	**-7,701.00**
1141	General taxes on goods and services	234,614.00	211,454.00	-23,160.00
1142	Excise	98,236.00	113,987.00	15,751.00
1145	Taxes on use of goods and on permission to use goods or perform activities	4,791.00	4,499.00	-292.00
115	**Taxes on international trade and transaction**	**76,374.00**	**78,781.00**	**2,407.00**
1151	Customs and other import duties	76,374.00	78,781.00	2,407.00
116	**Other taxes**	**657.00**	**652.00**	**-5.00**
1161	Payable solely by business	657.00	652.00	-5.00

2.4 Performance of Other Revenues in the First Half

Table 2.2 presents the outturn in Other Revenues (non tax) during the first half of the 2022/23 Financial Year against their set targets. As indicated in the table, actuals under this category amounted to K39.22 billion compared to a target of K71.09 billion, thus an undercollection of K31.87 billion. This performance is mainly attributed to the underperformance of property income which was projected at K50.39 billion for the period under review, but only K9.24 billion was collected. On the other hand, sales of goods and services and penalties overperformed by K8.03 billion and K1.2 billion respectively.

Table 2.2 Non – Other Revenues Performance in the First Half

GFS Code	Revenue	Q1+Q2 Projection	Q1+Q2 Actual	Variance
		K' Million		
14	**OTHER REVENUE**	**71,086.00**	**39,217.00**	**-31,869.00**

GFS Code	Revenue	Q1+Q2 Projection	Q1+Q2 Actual	Variance
		K' Million		
141	**Property income**	**50,398.00**	**9,235.00**	**-41,163.00**
1412	Dividends	50,398.00	9,235.00	-41,163.00
142	**Sales of goods and services**	**18,956.00**	**26,990.00**	**8,034.00**
1423	Incidental sales by non market establishments	18,956.00	26,990.00	8,034.00
143	**Fines, Penalties and Forfeits**	**1,732.00**	**2,992.00**	**1,260.00**
1431	Penalties	1,732.00	2992	1,260.00

2.5   Conclusion

In aggregate terms, the performance of revenue collection in the first half of the financial year was below the set targets for other revenues which affected the overall performance of domestic revenues. There is need therefore, to encourage revenue collectors specifically parastatals to enhance their revenue collection methods in subsequent quarters to avoid missing the annual targets.

<div align="right">

3

</div>

Performance of Grants

3.1   Introduction

For the 2022/23 Financial Year, the projected resource inflows from Grants amounts to K320.33 billion, of which, K41.91 billion was from foreign governments and K278.42 billion from international organisations. These were in form of program grants and dedicated grants in support of both recurrent and capital expenses.

In the First Half of the 2022/23 Financial Year, Government expected to receive K153.84 billion as Grants from international organisations (multilateral donors) and K27.87 billion from foreign governments. This Chapter therefore, examines the performance of these Grants for the period under review.

3.2   Grants Performance

Table 3.1 presents the performance of Grants in the first half of the financial year against the set targets. As indicated in the Table, overall, Grants underperformed by K49.56 billion largely due to lower than anticipated disbursement from both foreign governments and internal organiations resulting from reduced activities.

Table 3.1 Performance of Grants in the First Half

GFS Code	Revenue	Q1+Q2 Projection	Q1+ Q2 Actual	Variance
		K' Million		
13	**Grants**	**181,718.00**	**132,160.00**	**(49,558.00)**
131	**From Foreign Governments**	**27,874.00**	**13,439.00**	**(14,435.00)**
1311	Current	-	-	**-**
1312	Capital	27,874.00	13,439.00	(14,435.00)
132	**From International Organisations**	**153,844.00**	**118,721.00**	**(35,123.00)**
1321	Current	-	-	**-**
1322	Capital	153,844.00	118,721.00	(35,123.00)

3.3   Conclusion

As indicated above, disbursement of donor resources under Grants category underperformed in first of the financial year. There is need to revist the assumptions made on grants visavis the projects as this will directly affect the public sector investment program implementation.

4

Expenditure Performance

4.1   Introduction

This chapter highlights the performance of expenditures during the first half of the 2022/23 Financial Year and explains the factors underlying the observed expenditure trends.
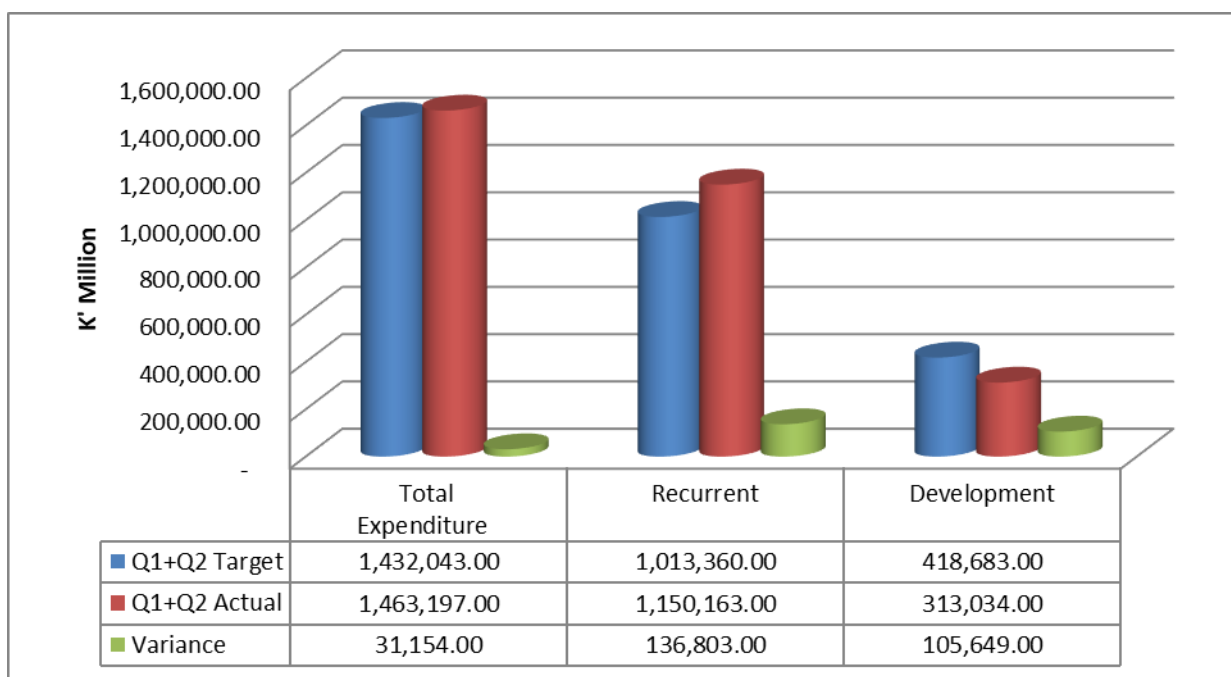
In the 2022/23 Financial Year, Government is expected to spend K2,839.89 billion including net lending. Of this sum, K2,021.02 billion is projected to be Recurrent Expenditures and K818.87 billion is projected to be Development Budget Expenditures. In the period under review, total expenditure was projected at K1,432.04 billion broken down as K1,013.36 billion recurrent expenditure and K418.68 billion development expenditure.

Out of the projected recurrent expenditure, compensation of employees was projected at K334.70 billion; Interest Payments K201.30 billion while other recurrent expenditures including Goods and Services; and Subsidies and Transfers were projected at K477.36 billion. On the other hand, expenditures on Development budget were projected at K418.68 billion broken down as K106.66 billion domestically financed projects and K312.02 billion foreign financed projects.

4.2   Performance of Overall Expenditures

The Outturn for the first half of the financial year indicates that total expenditure was K1,463.20 billion, broken down as K1,150.16 billion Recurrent Expenditures and K313.03 billion development budget expenditures. Chart 4.1 below illustrates the projected expenditures against the outturn.

Chart 4.1 Total Government expenditure in the First Half of the 2022/23 FY

	Total Expenditure	Recurrent	Development
Q1+Q2 Target	1,432,043.00	1,013,360.00	418,683.00
Q1+Q2 Actual	1,463,197.00	1,150,163.00	313,034.00
Variance	31,154.00	136,803.00	105,649.00

As can be shown in Chart 4.1, total expenditures in the quarter were above the projected amount of K1,432.04 billion by K31.15 billion. This is mainly attributed to 12 percent salary adjustment, interest payments and transfers to subvented organisations.

4.2.1 Performance of Recurrent Budget

In general, Government projected to spend K1,013.36 billion on recurrent expenses during the period under review. The outturn however shows that expenditures were above the target by K136.80 billion as shown in Table 4.1 below. The higher than expected expenditure is attributed to an adjustment in compensation of employees, increase in use of goods and services, more than anticipated payment towards interest and grants to other government establishments.

Table 4.1 Recurrent Expenditure Breakdown

GFS Code	Expense	Q1+Q2 Projection	Q1+ Q2 Actual	Variance
		K' Million		
2	**EXPENSE**	**1,013,361.00**	**1,150,164.00**	**136,803.00**
21	Compesation of employees	334,704.00	381,579.00	46,875.00
22	Use of Goods and Services	244,715.00	252,933.00	8,218.00
24	Public Debt Interest	201,301.00	263,353.00	62,052.00
26	Grants	108,267.00	132,794.00	24,527.00
27	Social benefits	112,817.00	105,319.00	-7,498.00
28	Other expenses	11,557.00	14,186.00	2,629.00

4.2.1.1 Expenditures under Personal Emoluments (PE)

In 2022/23 Financial Year, Government is expected to spend K688.78 billion on compensation to employees which includes wages and salaries and employer contribution to pension. In the period under review and as indicated in Table 4.1, this expenditure was projected at K334.70 billion, however the expenditure was above the projection by K46.88 billion. This is mainly on account of a higher salary adjustment of 12 percent which was higher than planned.
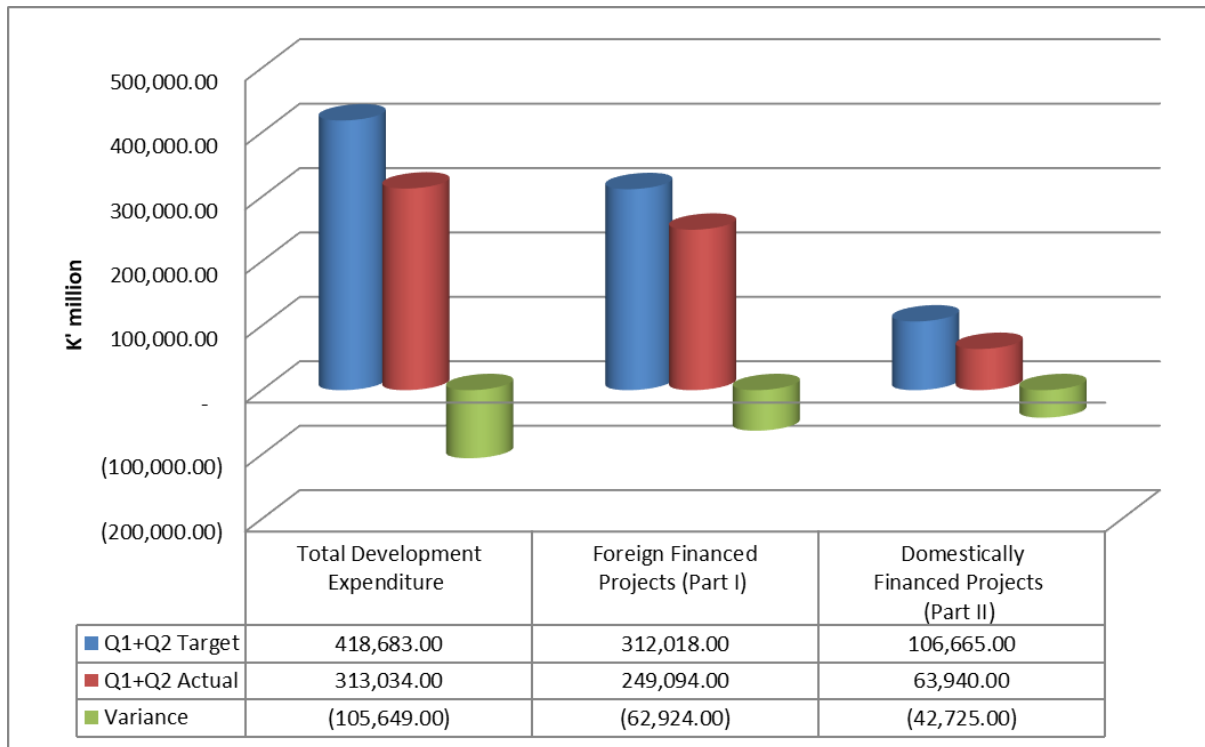
4.2.1.2 Other Recurrent Transactions (ORT)

ORT expenditure for the first half of the financial year was projected to amount to K678.66 billion (which is total recurrent expenditure less wages and salaries). Actual expenditures as at the end of this reporting period were K768.59 billion which was above the target by K89.93 billion representing an overexpenditure of 13.2 percent. This is mainly due to higher interest rates and exchange rate adjustment as a result of the devaluation of the kwacha.

4.2.2 Performance of Development Budget

On Development Budget, Government planned to spend K418.68 billion in the first half, of which, K106.67 billion was to be financed using domestic resources (Part II) and K312.02 billion was for Foreign Financed Projects (Part I). As depicted by Chart 4.2 below, the outturn on Development Budget was that K313.03 billion was spent, broken down as K63.94 billion on Part II and K249.09 billion on Part I. Overall, the development expenditure was below the target by K105.65 billion representing underexpenditure of

Chart 4.2 Performance of the Development Budget

	Total Development Expenditure	Foreign Financed Projects (Part I)	Domestically Financed Projects (Part II)
■ Q1+Q2 Target	418,683.00	312,018.00	106,665.00
■ Q1+Q2 Actual	313,034.00	249,094.00	63,940.00
■ Variance	(105,649.00)	(62,924.00)	(42,725.00)

4.3   Conclusion

This Chapter focused on the performance of expenditures of Government in the first half of the 2022/23 Financial Year. The expenditures were broken down into various categories and the analysis was based on the deviations between the target and the actual expenditure. Generally, the outturn showed that expenditures were above the set target for the recurrent budget and below the target for development activities. Overall, the outturn shows expenditures were above with projected levels.

Overall Fiscal Balance

5.1   Introduction

This chapter summarises performance of revenues and expenditures and determines how they translate in the overall Government's fiscal balance. The Chapter also discusses the performance of Government on debt and debt repayment against set targets.
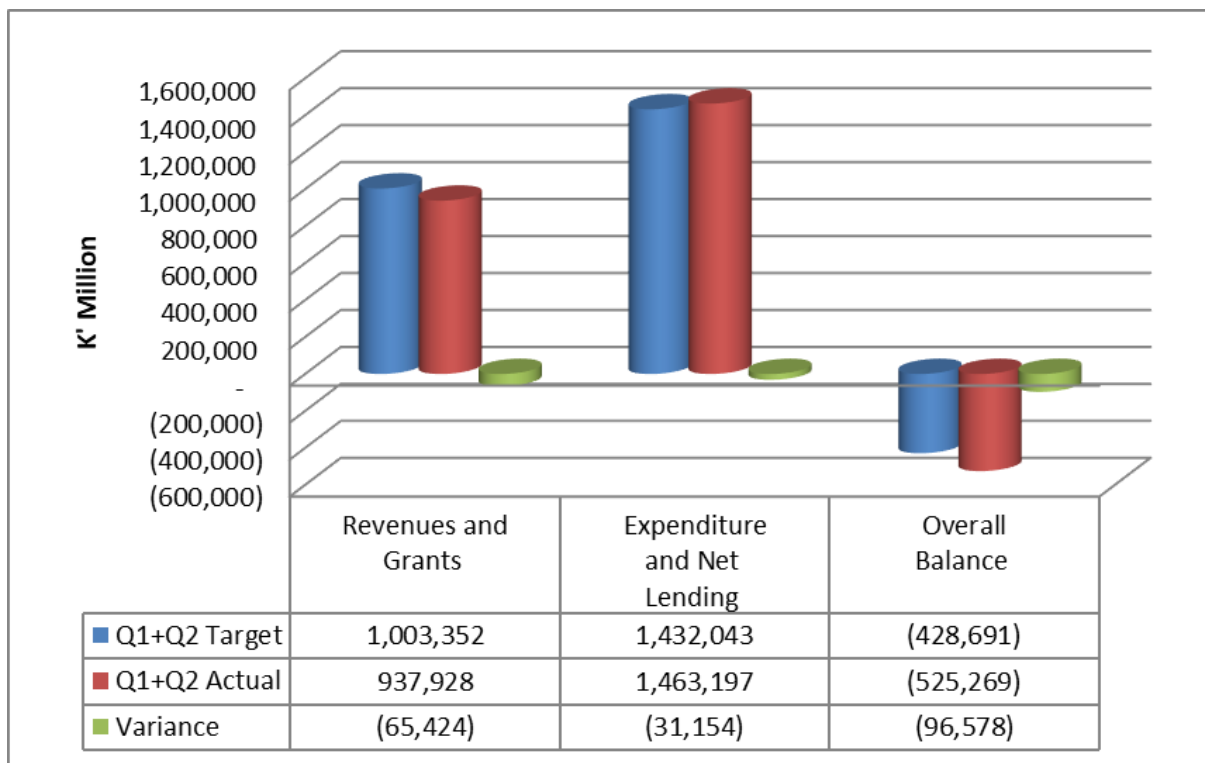
5.2   First Half Outturn on Fiscal Balance

Chart 5.1 presents the net fiscal position as at the end of the period under review. As shown on the chart, total revenues and grants were K937.93 billion against a target of K1,003.35 billion resulting in underperformance of K65.42 billion. The underperfomance was mainly on grants and other revenues with unfavourable variances of K49.56 billion and K31.87 billion respectively.

Total expenditure, on the other hand, was K1,463.20 billion against a target of K1,432.04 billion. Operational expenses (Recurrent expenditure) registered K768.59 billion against a target of K678.66 billion while Net Acquisition of Non-Financial Assets (Development expenditure) was K313.03 billion against a target of K418.68 billion. Domestically financed development expenditure recorded K63.94 billion against a target of K106.67 billion while foreign

financed development components recorded K249.09 billion against a projected expenditure of K312.02 billion.

Chart 5.1 Overall Balance including Grants

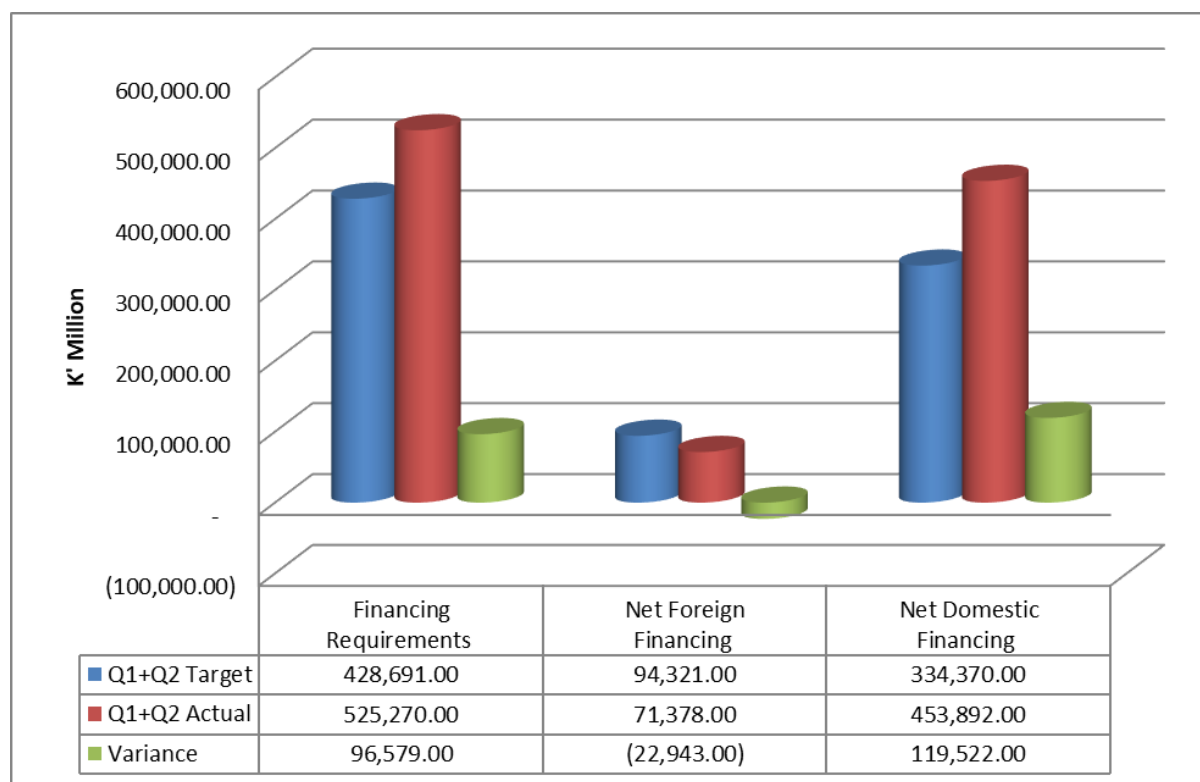|	Revenues and Grants	Expenditure and Net Lending	Overall Balance
■ Q1+Q2 Target	1,003,352	1,432,043	(428,691)
■ Q1+Q2 Actual	937,928	1,463,197	(525,269)
■ Variance	(65,424)	(31,154)	(96,578)

The overall fiscal balance was therefore, K525.27 billion which is higher than the anticipated fiscal balance of K428.69 billion. This was mainly due to revenues which were lower than the projection for the period under review. The situation was further worsened by higher than anticipated expenditures on wages and salaries and public debt interest.

5.3   Outturn on the Financing Position

Chart 5.2 presents the outturn on debt financing in the first half of the 2022/23 Financial Year. As indicated in Chart 5.2, the outurn on total revenue and grants as well as total expenditure and net lending resulted into an overall fiscal deficit of K525.27 billion against a target of K418.69 billion.The outurn translated into an overall borrowing position of K525.27 billion in both domestic and foreign markets. Consequently, the financing requirement was exceeded by K96.58 billion.

Chart 5.2 Financing

	Financing Requirements	Net Foreign Financing	Net Domestic Financing
Q1+Q2 Target	428,691.00	94,321.00	334,370.00
Q1+Q2 Actual	525,270.00	71,378.00	453,892.00
Variance	96,579.00	(22,943.00)	119,522.00

6

Conclusion and Recommendations

The report has shown that domestic revenue collection in the first half of the 2022/23 Financial Year was below the target in most categories. It is therefore recommended that revenue collection institutions should continue to prioritise revenue collection activities.

Disbursement of resources under Grants underperformed in the period under review. The underperformed was reported in all categories. It is recommended that Government should continue engaging the development partners for a turn-around of the status quo.

On the expenditure side, Government expenditure was above the target for the first half. The recurrent budget overspent mainly on salaries, interest on public debt and transfers to other government units.

The development budget was also adversely affected by the lower than anticipated disbursements on Part I projects and also lower than expected return from domestic revenues resulting in minimal progress on the ground. It is therefore recommended that Government should continue engaging development partners on Part I financing and also enhance its revenue collection efforts to meet its obligations in Part II. This sets out to ensure adherence to set targets to avoid possible project cost overruns.