## 2018/19 FISCAL YEAR BUDGET IN SUMMARY

Economic performance in 2018 for Malawi experienced two major downside risks – the Fall Army Worms (FAW) and dry spells. These two manifested their adversarial impacts on reduced growth in the agriculture sector. With the strong spillover effects from this sector to other sectors, the impact of these two on the overall economy was unprecedented. Nonetheless, the economy is expected to grow by 4.0 percent in 2018 and by 6.0 percent in 2019.

Inflation dropped into the single digit zone in 2017 and closed the year at 7.1 percent and Government expects inflation rate to remain in single digits into the medium to long term.

Aswas the case in the 2017/18 budget, the overarching objective of the 2018/19 budget is to achieve a fiscal position that is consistent with sustaining macroeconomic stability. However, while the 2018/19 fiscal budget aim at entrenching macroeconomic stability, it also aim at fostering higher more inclusive and resilient economic growth.

### 2018-19 Budget in Summary

### Revenue

Revenue in the 2018/19 budget is expected to total K1.26 trillion, comprising K1.05 trillion domestic resources and K0.21 trillion grants. Owing to measures to improve domestic resource mobilization such as automation of tax administration and widening of the tax base, it is expected that performance of taxes will improve in the 2018/19 fiscal year. Taxes are thus expected to grow by 8 percent to K940 billion. Non-tax revenues are also expected to improve to K112 billion owing to improved remittance of dividends as well as departmental receipts.Disbursements of grants is expected to improve owing to improved fiscal management. Grants are thus programed at K209 billion.

**Table 1: 2018-19 Budget Estimates**

| FRAMEWORK DESCRIPTION | 2018/19 Budget | 2018-19 Budget (% of GDP) |
|---|---|---|
| **Revenue (1)** | **1,261,331** | **22.8** |
| **Domestic Revenue** | **1,052,250** | **19.0** |
| Tax revenue | 940,040 | 17.0 |
| Non-tax revenue | 112,210 | 2.0 |
| **Grants** | **209,081** | **3.8** |
| Program grants | 60,000 | 1.1 |
| Dedicated grants | 62,720 | 1.1 |
| Project grants | 86,361 | 1.6 |
| **Total expenditure (2)** | **1,504,191** | **27.2** |
| **Recurrent expenditure** | **1,104,509** | **20.0** |
| Wages and salaries | 392,939 | 7.1 |
| Interest on debt **(3)** | 182,904 | 3.3 |
| Goods, services and transfers | 305,297 | 5.5 |
| Subsidies and Transfers | 219,369 | 4.0 |
| **Development expenditure** | **391,682** | **7.1** |
| Domestically funded (Part II) | 158,350 | 2.9 |
| Foreign financed (Part I) | 233,332 | 4.2 |
| Net Lending | 8,000 | 0.1 |
| **Overall balance(4) (1 minus 2)** | **-242,860** | **-4.4** |
| **Primary Balance (4 plus 3 )** | **-59,956** | **-1.1** |
| **Total financing** | **242,860** | **4.4** |
| Foreign (net) | 66,777 | 1.2 |
| Borrowing | 107,262 | 1.9 |
| Amortisation | -40,485 | -0.7 |
| **Domestic Borrowing (Net)** | **176,084** | **3.2** |

### Expenditure

Total Expenditure is expected to amount to K1.50 trillion. This comprise K1.10 trillion under recurrent expenditure and K0.39 trillion for development expenditure.

Recurrent expenditure comprises K393 billion wages and salaries, K183 billion interest expense, K305 billion under goods and services, and K219 billion subsidies and transfers.

In line with the Malawi Growth Development Strategy (MGDS) III, allocation to the development expenditure was increased by 25.6 percent over the 2017/18 development budget and representing 7.1 percent of GDP. Of the development expenditure, K158 billion will be funded using domestic resources and the remaining K233 billion using donor resources.

Some of the items that have been prioritized in the 2018-19 budget include:

- Allocation amounting to K22.8 billion for drugs, of which K14.3 billion will be drugs for district hospitals;
- Allocation for decent housing scheme, in particular, iron sheet and cement subsidy, totaling to K10 billion;
- K5 billion for procurement of desks for primary and secondary schools as well as K5 billion for construction of 100 girls hostels in community day secondary schools;
- K20.9 billion for social cash transfers, of which K12.8 billion will be transfers through Local Development Fund (LDF);
- Allocation of K10.3 billion for recruitment of teachers and K0.8 billion for recruitment for nurses;
- Allocation of K7.8 billion for youth specific programmes, including K4.8 billion that has been allocated for youth internship; and
- K40.3 billion for Farm Input and Seed Subsidy.

For local authorities, Government has allocated as transfers resources amounting to K219 billion. This represents 15 percent of the national budget.This allocation includes:

- K9.5 billion for the education sector;
- K8.4 billion for the health sector. This is in addition to K14.3 billion for drugs for district hospital that has been allocated through budgetary central Government;
- K1.5 billion for the agriculture sector;
- K10 billion for upgrading of city roads; and
- K10.7 billion for rural projects.

**Key Sectoral Allocations**

The allocations to key sectors include: K156 billion to agriculture sector, K87 billion to the health sector, K149 billion to the education sector, K115 billion to the transport sector, and K 22 billion to the energy sector. Figure 1 illustrates the allocations to the sectors.

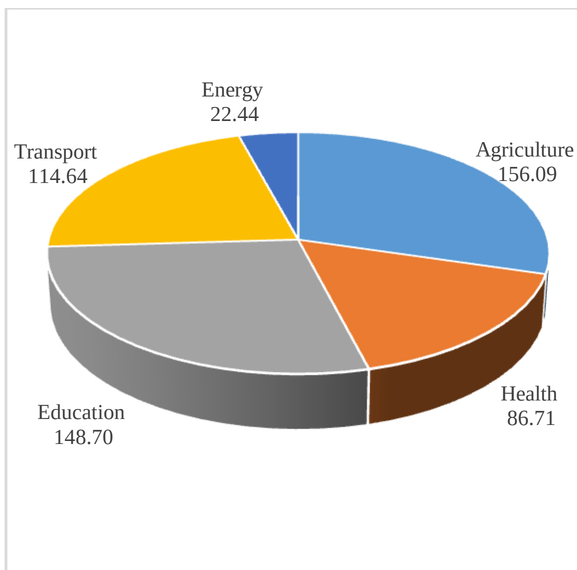


**Figure 1: Sector Allocation**

**Budget balance**

The anticipated performance in revenue and expenditure will translate to a budget deficit (equivalent to revenue minus expenditure) of K243 billion. This will be financed using K67 billion foreign resources and K176 billion domestic resources. With K183 billion of the total expenditure being expenses on interest, a deficit of K60 billion is expected to be recorded as the primary balance.

**Tax Revenue Measures**

The tax measures that Government will implemented to improve administration as well as collections of domestic revenue include:

- Removal of custom duties on cesspool and water bowsers;
- Revoked provision to recover costs for procuring Electronic Fiscal Devices (EFDs);
- Registration of VAT withholding Agents who will deduct VAT at source and remit to MRA;
- Requirement for mining exploration companies to register for VAT;
- Increased Pay-As-You-Earn (PAYE) tax free bracket from K30,000 to K35,000 and introduce a requirement for the registration of salaried employees and the corresponding issuance of a Tax-Payer Identification Number (TPIN); and
- Revision of user fees and charges to reflect the current costs of providing such services