

## **2019/20 BUDGET STATEMENT**

### **MOTION**

1. Madam Speaker, I beg to move that the estimates on the Recurrent and Development Accounts for the 2019/20 Budget of the Malawi Government be referred to the Committee of the Whole house, to be considered vote by vote, and thereafter be adopted.

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### **INTRODUCTION**

2. Madam Speaker and Honourable Members, this is my first Budget Statement ever since it pleased His Excellency the State President of the Republic of Malawi, Professor Arthur Peter Mutharika to appoint me as Minister of Finance, Economic Planning and Development. Let me, therefore, take this opportunity to thank His Excellency the State President for entrusting me with this enormous responsibility which I do not take lightly. I undertake to hold my office as Minister of Finance, Economic Planning and Development with honour and dignity to be a trusted and faithful advisor and to perform the functions of my office meticulously and to the best of my capability.

3. Madam Speaker, let me also express my sincere gratitude to the immediate past Minister of Finance, Economic Planning and Development, Honourable Goodall Gondwe, who applied his best efforts to achieve the macro-economic stability

prevailing currently. This will surely make my job easier as we try to focus on inclusive, resilient and sustainable economic growth.

4. To this effect Madam Speaker, I am mandated by His Excellency the State President, as Minister of Finance, Economic Planning and Development, to submit to this August House, Government proposal on how resources that are expected to be available for the 2019/20 budget will be utilized, for the consideration and approval of the House on behalf of the people of Malawi.

5. Madam Speaker, it is Government's wish that Honourable Members will ensure that the resources are reasonably allocated to various sectors of the economy in order to improve productivity for the development of this country, and the wellbeing of its citizens. I therefore wish to urge Honourable Members, to support me in this noble task by constructively debating and contributing to the proposals that I, together with my team at the Ministry and in consultations with other relevant stakeholders have put together. This is a budget for all Malawians regardless of race, region, religion or political affiliation.

6. Madam Speaker, let me mention that the budget allocations are in line with the priorities of our National Blueprint, the Third Malawi Growth and Development Strategy. The budget is intended to leverage on the macroeconomic stability that has

been achieved during the past two fiscal budgets to tackle four key issues of: economic growth; job creation; economic empowerment; sustainable debt management and infrastructure development. As such, Madam Speaker, the 2019/20 budget has been developed under the theme **“Inclusive Growth and Economic Empowerment: The Future We Want”**.

7. Madam Speaker, this being the second term of office of His Excellency, the State President, Professor Arthur Peter Mutharika, I feel duty bound to outline major achievements in the past five years. As such, I will endeavour to touch on some of these achievements, though in brief, cognizant of the fact that the President ably outlined them in his State of the Nation Address delivered in this August House in May 2019.

8. Madam Speaker, my budget statement will start with an outline of the general economic outlook at international, regional and national level. I will then review the performance of the 2018/19 Budget. After this review, Madam Speaker, I will present to this House some of the general policy issues that will anchor the 2019/20 budget, after which I will present the 2019/20 fiscal year budget.

### **ACHIEVEMENTS OVER THE PAST FIVE YEARS**

9. Madam Speaker, as I earlier on indicated, I will now highlight some of the major achievements as presented by His Excellency the State President, Professor Arthur Peter Mutharika, in the State of the Nation Address.

10. Madam Speaker, one of the major achievements during the past five years was the stabilization of the economy. Inflation rate has declined and stabilized in single digit. Interest rates have fallen and the exchange rate has stabilized. Going forward, Government is committed to consolidate and safeguard these gains in order to transform Malawi economically.

11. Madam Speaker, over the past five years, Government has achieved a lot in promoting irrigation farming in this country. Government established the Green Belt Authority whose objective is to oversee the implementation of large scale irrigation programs in Malawi. For example, the Authority has facilitated the production of sugar at Salima Sugar Factory with production capacity of over 4,000 metric tons. The hectarage of sugar cane plantations under irrigation will increase from 4,000 to 6,000 hectares.

12. Furthermore, the rehabilitation of the Bwanje Irrigation Scheme was completed which will increase land use under irrigation from 300 to 800 hectares. This will see more farmers joining the scheme, achieving double cropping and resulting into improved income and food security.

13. Madam Speaker, in the Education Sector, Government has increased access to education at all levels. In this regard, Government abolished payment of fees in secondary schools. In

addition, under higher education, a number of infrastructure projects were completed including the construction of Open Distance Learning Centres for public universities, lecture theatres, modern ICT facilities and science laboratories at the Polytechnic and Chancellor College. Furthermore, Government has constructed and rehabilitated 23 Technical and Community Colleges for Youth skills development.

14. Madam Speaker, Government has also accelerated decentralization of services to the councils. Government has completed the construction of Rural Growth Centres in Neno, Jenda in Mzimba, Malomo in Ntchisi, Monkey Bay in Mangochi and Nthalire in Chitipa. Furthermore, Government completed the construction of 13 modern markets in rural areas.

15. In the energy sector, Madam Speaker, Government successfully completed the Malawi – Zambia Interconnector which has greatly improved power supply to our industries and the people of Malawi. Under the Millennium Challenge Account, Government rehabilitated and modernized the Nkula A Hydro Power plant which has increased generation capacity and constructed new transmission lines and rehabilitated old ones for more power carrying capacity.

16. Madam Speaker, under the trade and industry development sector, Government launched the Malawi Agricultural and Industrial Investment Corporation which is expected to go a long way in financing commercial agricultural and industrial projects. In addition, Government has established a One-Stop-Service-Centre and Trade Portal.

17. Madam Speaker, in the transport sector, Government completed the construction of the Mzuzu- Nkhatabay road; the Mangochi – Liwonde road; the Zomba – Jali – Phalombe – Chitakale road; the Lilongwe old Airport – Kasiya – Santhe road; the Parliament – Bingu Stadium Dual Carriage Way; and a number of city roads as well as street lighting in Mzuzu, Lilongwe, Zomba and Blantyre were successfully completed and launched.

18. Madam Speaker, under the Decent and Affordable Housing Project, Government has constructed and rehabilitated about 37,000 houses for the poor and the elderly, thereby improving their living standards and well-being.

19. Madam Speaker, as highlighted above, His Excellency the State President Professor Arthur Peter Mutharika has achieved a lot over the last five years of his administration. These highlighted projects are among the many achievements and I am quite certain

that Malawians have faith that these achievements will be surpassed in the next five years.

## **WORLD AND REGIONAL ECONOMIC OUTLOOK**

20. Madam Speaker, according to the International Monetary Fund's latest World Economic Outlook report of July 2019, global growth is forecast at 3.2 percent in 2019 and expected to pick up to 3.5 percent in 2020. Global growth remains subdued compared to the 2017 to 2018 period due to continued USA-China trade and technology tensions, macroeconomic stress in Argentina and Turkey, tighter credit policies in China and financial tightening alongside the normalization of monetary policy in advanced economies.

21. However, improvements are expected in the second half of 2019 as a result of positive signals from the US Federal Reserve and accommodative policy stance by other major central banks. US-China trade tensions are also expected to dissipate hence an improved growth rate in 2020.

22. For advanced economies, growth is projected at 1.9 percent in 2019 and 1.7 percent in 2020. In the United States of America, 2019 growth is projected at 2.6 percent, moderating to 1.9 percent in 2020 as the fiscal stimulus unwinds. Growth in the euro area is projected at 1.3 percent in 2019 and 1.6 percent in 2020, slower than earlier projections due to weaker-than-expected external demand.

23. Economic growth in emerging markets is expected to slightly decline to 4.1 percent in 2019 from 4.5 percent realized in 2018. This is partly on account of lower commodity prices and tighter financial conditions in the late 2018. However, it is projected that these economies will pick up in 2020 to 4.7 percent. Emerging and developing Asia alone is expected to grow at 6.2 percent in 2019/20, lower than earlier years, largely reflecting the impact of tariffs on trade and investment. India's economy, however, is set to grow at 7.0 percent in 2019, picking up to 7.2 percent in 2020.

### **SUB-SAHARAN REGIONAL ECONOMIC OUTLOOK**

24. Madam Speaker, allow me to also give a snapshot on the economic outlook for Sub-Saharan Africa. GDP growth has also been sluggish but recovering and is estimated to increase from 3.0 percent in 2018 to 3.4 percent in 2019 and 3.6 percent in 2020. These low growth rates are mainly on account of rising government debt and low commodity prices. South Africa, Malawi's major trading partner is projected to grow by 0.7 percent and 1.1 percent in 2019 and 2020, respectively.

### **ECONOMIC OUTLOOK FOR MALAWI**

25. Madam Speaker, the country's Gross Domestic Product grew by 4.0 percent in 2018. Economic outlook for 2019 is positive as the economy is estimated to grow by 5.0 percent and by 7.0 percent in 2020. This, Madam Speaker gives us a fiscalised growth rate of 6 percent for the 2019/20 fiscal year. The expected impressive growth is on account of favourable weather conditions

during the last growing season and the consequent spill over effects to other sectors in the economy. In addition, the Malawi-Zambia power interconnection project has stabilized the country's power supply since the beginning of 2019.

26. Madam Speaker, Malawi's economic performance in the past 10 years has been volatile, recording growth rates ranging from 2.1 percent in 2012 to 6.2 percent in 2014, before coming down to 2.7 percent in 2016 and rising again to 5.2 percent in 2017. Honourable Members, this is mainly due to frequent shocks hitting the country's productive system such as drought and floods. It further suggests the importance of investing in resilience, particularly in the agriculture sector for sustainable growth. The frequency of shocks also entails the need for this country to rapidly diversify its sources of growth to include for example other sectors such as tourism and mining.

27. According to the final round of agricultural production estimates for 2019, maize production is estimated at 3,391,924 metric tons, representing a 25.7 percent increase from the 2017/2018 growing season. This increase is attributed to better yields due to favourable weather conditions and an increase in inputs uptake by farmers.

28. Madam Speaker, allow me now to move onto price developments in this country. The annual average inflation rate has been on a downward trajectory during the past three years. In

2019, inflation rate is estimated to continue declining to an annual average rate of 8.0 percent from 9.2 percent in 2018. However, in July 2019, inflation rate picked to 9.3 percent on account of food inflation which went up to 14.2 percent from 13.7 percent in June 2019. Madam Speaker, the high food inflation in 2019 is largely driven by maize prices which have increased because traders are buying with the intention of exporting to neighbouring countries. Maize price expectations are also not well anchored such that traders believe that maize prices will soar during the lean period, hence causing speculative buying.

29. In response to the declining annual average rate of inflation, the Reserve Bank of Malawi lowered its policy interest rate by 10.5 percentage points from 24 percent in 2017 to 13.5 percent since March 2019. Madam Speaker, following the decline in the policy stance by RBM, commercial banks also revised their base lending rates downwards to 13.9 percent from as high as 24.8 percent in June 2018. As a result, real private sector credit growth picked up to 8.1 percent in June 2019 from minus 4.1 percent in 2018.

30. Looking ahead, Madam Speaker, in 2020 inflation is expected to continue declining to a single digit rate of 6.1 percent. This downward trend will largely emanate from the expected improvement in agricultural production, stable exchange rate and relatively low and stable international oil prices. Honourable Members, Government remains committed to achieve its long term

inflation target of 5.0 percent, notwithstanding risks such as erratic weather patterns and shocks to international oil prices.

31. Gross official reserves have improved to an import cover of 3.7 months in June 2019 compared to 3.1 months in June 2018. This, Madam Speaker, gives confidence to the business community of continued supply of foreign exchange. It also prevents speculative tendencies in the foreign exchange market that usually leads to volatility in the exchange rate which can lead to macroeconomic instability. Government, through the Reserve Bank of Malawi will continue to build up foreign exchange reserves in order to provide the economy with a required buffer to cushion against exogenous shocks.

32. Honourable Members, Government aim to achieve a target of 6 months of imports by 2022 from the current 3.7 months of imports. In order to achieve this, Government will continue supporting the Export Development Fund as a vehicle for supporting efforts aimed at increasing the country's exporting capacity. Government will also intensify its efforts to curb illicit financial flows done through transfer pricing and illegal externalization of foreign exchange. These malpractices, Madam Speaker, are depriving this country the much needed foreign exchange from its natural resources.

33. Furthermore, Government, through the Reserve Bank of Malawi, will continue courting diaspora remittances through, *inter alia*, creating a diaspora unit, information portal, issuing of diaspora bonds and creation of various investment vehicles that promote short-term and long-term investments by the diaspora communities. It is Government's belief Madam Speaker that all these measures, will help increase the country's foreign exchange reserves.

### **EXTENDED CREDIT FACILITY PROGRAM WITH THE IMF**

34. Madam Speaker, allow me to inform the House that at the center of the macroeconomic stability so far attained, is Government's implementation of the third Extended Credit Facility of SDR78.1 million, which is equivalent to US\$112.3 million, with the International Monetary Fund. The program aims at entrenching macroeconomic stability and fostering higher, more resilient and inclusive growth. The third ECF program is anchored on Government's commitment to reduce fiscal deficits in the short term and record surpluses in the medium to long term that will bring domestic debt on a downward path.

35. In terms of progress, the first review was successfully conducted in September 2018 when the country met almost all the qualitative and quantitative targets under the program. To this effect, two disbursements totaling to SDR22.3 million have been made since the Program commenced. I am pleased to inform this August House that the IMF Mission team is arriving in Malawi tomorrow, 10<sup>th</sup> September 2019 for a 2<sup>nd</sup> and 3<sup>rd</sup> review that will also

lead to further disbursement of resources. The program is so far on track and Government is committed to ensure that it remains on this path.

36. Madam Speaker, Honourable Members, I am also pleased to inform this House that upon successful conclusion of the 2<sup>nd</sup> and 3<sup>rd</sup> reviews, the IMF has already decided to provide more financial resources to Malawi through augmentation as a response to the effect of the devastation caused by Tropical Cyclone Idai that hit this country sometime in March 2019.

### **Public Debt**

37. Madam Speaker, notwithstanding all these positive developments, Government is facing challenges in the areas of fiscal deficits and public debt. In the previous fiscal years, Government operations have recorded fiscal deficits which have contributed to rising public debt. As at end December 2018, government debt stood at 62 percent of GDP. However, Madam Speaker, I am duty bound to assure the August House and all Malawians that with the policies that Government has put in place, it is envisaged that debt will soon be declining in the medium to long term. The Medium Term Debt Strategy outlines measures that will translate into a reduction in domestic debt to 20 percent of GDP by 2023.

38. Madam Speaker, Government will endeavour to borrow in a prudent manner to ensure debt sustainability for the current and future generations. Government recognizes that a reduction in domestic debt requires an increase in revenue and reduction in expenditure to create fiscal space for retiring debt. Given the macro stability and low interest rates, Government plans to reduce domestic borrowing from K264.6 billion in 2018/19 fiscal year to K45.9 billion in 2019/20 fiscal year. In addition, external borrowing will be contracted with careful consideration to ensure realization of value for money. My Ministry is reviewing the terms and conditions of borrowing of all our external creditors to ensure that Government borrowing is on concessional terms and for projects with high economic returns.

## **GOVERNMENT REFORMS PROGRAM**

### ***The New IFMIS***

39. Madam Speaker and Honourable Members, Procurement and installation of the New IFMIS commenced during the 2018/19 financial year. In this budget, an amount of K3.0 billion has been allocated for this project. According to the implementation roadmap, the go-live date for the New IFMIS is 1<sup>st</sup> July 2020. Once the new software is installed, it is expected to enhance speed and security in processing of financial transactions and bank reconciliations.

40. Honourable Members, Government is confident that the New IFMIS will have a tight control environment and will be robust enough as it will cover other Government business processes that are currently done outside the current IFMIS. These processes Madam Speaker include: Revenue Management, Asset Management, Contracts and Project Management and Fleet Management. In addition to these, the New IFMIS will have Electronic Document Management functionality to electronically keep supporting documents within the system. This will address the issue of missing documents during audit engagements.

41. The New IFMIS will further enable the replacement of cheques as a mode of payment with Electronic Funds Transfer. This means that payments of Civil Servants Salaries, Pensions and supplies of goods and services will be faster than before, hence improving delivery of services to the general public. The New IFMIS will have inbuilt security controls that would prevent tampering of financial transactions. It will also have biometric access controls to enforce nonrepudiation on actions performed by each and every user at all levels.

### ***Management of Treasury Funds and Other Resources***

42. Madam Speaker, let me also inform this August House that Government will enhance transparency and accountability of all revenues collected by the Treasury Funds and regulatory institutions to ensure efficient transfer of the same to Account Number One at the Reserve Bank. In line with provisions of the RBM

Act (2018), Government deposits with commercial banks will be required to be transferred to Account Number One at the Reserve Bank at the close of every business day.

43. This, Honourable Members, will improve Treasury control over public resources and prevent Government from borrowing its own resources from the banks. Government will also review management of concessions and contracts so that Government maximises benefits from its natural resources.

44. Madam Speaker, Government will finalize the review of the Public Finance Management Act (2003) to enhance transparency and accountability in the management of public resources. Through this review, Treasury will enhance enforcement of sanctions and hold public officers accountable in order to eliminate the laissez faire attitude in the public service. Committing of Government resources by controlling officers without the knowledge of the Treasury will no longer be allowed.

45. Furthermore, Treasury through the PFM Act will sanction any Controlling Officer who creates arrears and default on outstanding payments. This includes those who accumulate arrears on utilities, contributions to SACCOs, tax remittances to MRA, and pension contributions. All contracts with financial implications will require vetting by Treasury before approval of the same by the Public Procurement and Disposal of Assets Authority. This will be done in a manner that will not add unnecessary bureaucracy and

delays.

46. All Government contracts will have no escalation clauses and Government guarantees to public institutions will be granted upon satisfaction of a number of conditions including strong evidence of capacity by the contracting institution to repay without recourse to public resources.

47. Government will strengthen its Monitoring and Evaluation function. Payment of Certificates of Completed Works will be made upon technical verification and evaluation of the completed work by the Treasury.

48. Madam Speaker, in an effort to enhance implementation of Government projects and programs, the review of the PFM Act (2003) will also provide mandate to the Secretary to the Treasury to sanction a controlling officer who request resources for development projects and other programs but fail to implement even in the event where resources were made available.

### ***Public Spending Efficiency***

49. Madam Speaker, in an effort to enhance efficiency in public spending and improve service delivery, Ministry of Finance, Economic Planning and Development, together with Ministry of Local Government and Rural Development will work with other Government ministries to embrace decentralization in full. It has come to the notice of the Treasury that most professionals recruited

through ministry headquarters such as primary school teachers, accountants, nurses and even extension workers are holding positions in the district councils while working at their headquarters or in the cities.

50. This, Madam Speaker, has created operational and financial management challenges in district councils and poor or unavailability of government services. Government will therefore, endeavour to improve service delivery through redistribution of its professionals between the urban and rural areas. It is expected that with full decentralization, recruitment for positions such as primary school teachers, nurses, accountants and extension workers under district councils should be done by the Local Government Service Commission and not by the headquarters.

### ***Diversification in Agriculture***

51. Madam Speaker, Ministry of Finance, Economic Planning and Development will work with the Ministry of Agriculture, Irrigation and Water Development on efforts to diversify from the production of tobacco and maize to other high value crops with export and growth potential. Government will complete ADMARC restructuring to allow its commercial division to participate in the purchasing, processing and exporting of agricultural produce alongside other private sector traders. In this regard, an allocation of K1.0 billion has been made in the budget through Cotton Council of Malawi to promote cotton production and K1.85 billion for legume production.

52. Honourable Members, the restructuring of ADMARC will allow competition in the produce market leading to improved prices to smallholder farmers. Commercial ADMARC will play the role of an aggregator of all smallholder crops for the export market through structured markets and the commodity exchanges. Government however, expects Social ADMARC to continue performing other functions deemed social in nature such as FISP and servicing the population especially in hard to reach areas.

53. Through a number of Government and donor supported projects, this country will in the 2019/20 fiscal year establish robust horticulture value chain companies for exports of flowers, fruits and vegetables. Government will support schemes to increase the production of fish, rice, cotton, oil seeds and horticulture products as well as agro-processing and value addition activities on these products for job creation and economic empowerment.

54. Madam Speaker, under the Agriculture Commercialization Project, Government will intensify efforts to ensure adoption of climate smart agriculture, irrigation and large-scale farming for the production of export crops. Government will provide an enabling environment for the establishment of efficient and vibrant structured markets for different crops such as rice, groundnuts and pulses, with proper export mandates. This will encourage farmers to start producing these crops in large quantities as they will be guaranteed availability of a market.

## **THE 2018/19 BUDGET PERFORMANCE**

55. Madam Speaker, in June 2018, Parliament approved total expenditure of K1.455 trillion which represents 29.5 percent of GDP, comprising K1.120 trillion for recurrent expenditure and K335.2 billion for development. At mid-year in February 2019, the 2018/19 Budget was revised downwards by 1.7 percent from K1.455 trillion to K1.430 trillion. This reduction was necessitated by a reduction in revenues and grants by 6.1 percent from K1.249 trillion to K1.174 trillion.

### **Revenues**

56. Madam Speaker, during the 2018/19 fiscal year, revenues and grants amounted to K1.121 trillion representing 19.9 percent of the country's GDP. Domestic revenues grossed to K1.006 trillion against a target of K1.052 trillion. The under collection was largely on account of unsatisfactory performance of taxes and parastatal dividends. Grants declined to K115.1 billion from the budgeted amount of K197.1 billion, largely on account of the non-disbursement of K60 billion budget support. Madam Speaker, I invite Honourable Members to refer to the Budget Framework provided in the Financial Statement.

### **Expenditure**

57. Total expenditure amounted to K1.441 trillion, representing 25.6 percent of GDP. Recurrent expenses amounted to K1.160 trillion, constituting 80.5 percent of total expenditure and

20.6 percent of GDP. Major expenditure lines within recurrent expenses included: compensation of employees including salaries and wages at K398.8 billion; interest on public debt at K224.3 billion; and generic goods and services at K156.7 billion. Development expenditure amounted to K281.3 billion representing 5.0 percent of GDP and 19.5 percent of total expenditure. Development expenditure was financed using K103.9 billion from domestic resources and K177.4 billion of foreign resources.

### **Overall Balance and Financing**

58. A deficit of K320.2 billion was recorded during the 2018/19 fiscal year. This deficit, Madam Speaker, was on account of a number of factors including: (a) over-expenditures on interest payment; (b) expenses in response to the impact of tropical cyclone Idai; and (c) non-disbursement of some programmed budget support. The deficit was financed using both foreign resources at K61.3 billion and domestic resources at K258.9 billion.

### **MAJOR ACHIEVEMENTS DURING 2018/19 FISCAL YEAR**

59. Madam Speaker, allow me to take stock of how the resources that were generated in the 2018/19 financial year including support from development partners were utilized and what the country managed to achieve.

60. Government continues to strategically invest in the transport sector as one of the most important growth enabling

sector in this country. In this regard, the following projects were completed in the 2018/19 financial year:

- Phase one of the construction of a 4.4 km dual Carriageway road between Parliament Round about and Bingu National Stadium in Lilongwe at a contract sum of about K11.0 billion including the inter-change;
- Rehabilitation of a 46km Karonga Boma – Songwe border M1 road section at a contract sum of K19.4 billion with financial support from the World Bank;
- Rehabilitation of a 75km Mangochi – Liwonde road section with a contract amount of K30.8 billion with financial support from the African Development Bank;
- Rehabilitation of a 46km Mzuzu – Nkhatabay road with contract amount of K19.3 billion with financial support from the African Development Bank. The Mzuzu –Nkhatabay road is part of the Mtwara corridor which seek to connect Malawi to the Indian port of Mtwara in Mozambique;
- Upgrading of a 95km Lilongwe Old Airport – Kasiya – Santhe road with contract amount of K40.8 billion using Government resources; and
- Construction of 180 meters long Chapananga Bridge on Mwanza River connecting the districts of Chikwawa and Mwanza with funding from locally generated resources.

61. In addition, Madam Speaker, Government continued to monitor progress of several ongoing road projects which are

presented as part of budget documents provided to the Honourable Members.

62. Moving on to air transport, Government has been carrying out a number of infrastructure improvements at the two major international airports to improve security, safety and services. Government commenced resurfacing of main runway at Chileka International Airport. This, Madam Speaker, is 100 percent financed using local resources at an estimated cost of K4.8 billion.

63. The Government through the Japanese grant aid, undertook the rehabilitation and expansion of terminal buildings at the Kamuzu International Airport in order to increase airport capacity, improve efficiency of airport operations and safety of airport users. Madam Speaker, the construction of the domestic and international terminal buildings and installation of a radar system were completed in April 2019 at a cost of 3.7 billion Japanese Yen which is equivalent to US\$33.0 million. The Radar system at Kamuzu International Airport will enhance surveillance and monitoring of over flights in the Malawian airspace for security and revenue collection. Meanwhile, rehabilitation of the old terminal building has commenced.

64. Madam Speaker, in line with the National Transport Master Plan which advocates shifting of mode of transportation of cargo from road to rail, Government has been undertaking a number of initiatives to restore train operations in Malawi. In the

2018/19 financial year, the Government completed hydrology, sedimentation, climate change and topography studies on the Sandama – Makhanga railway section which was affected by the floods of January 2015. Government is in the process of identifying financing for the rehabilitation of the railway line.

65. In the Health Sector, in order to reduce expenditure on external referrals of patients for specialized care, Government progressed with the construction of the Cancer Center, which will become operational in 2019/20 financial year. The construction of the Lilongwe Institute of Orthopaedic and Neuro-Surgery will continue during FY2019/20. Other ongoing infrastructure projects include the new Phalombe District Hospital, at 55 percent completion, and Domasi Community Hospital in Zomba at 50 percent completion.

66. Madam Speaker, in the education sector, Government through the Ministry of Education, Science and Technology made a number of strides in basic, secondary and higher levels of education in the 2018/2019 financial year. Under Basic Education, Government recruited and deployed 8,434 primary school teachers nationwide; and promoted 15,491 primary school teachers to various grades.

67. In addition, Government started the construction of fourteen new primary schools in urban centers, five in Blantyre; five in Lilongwe; two in Zomba; and two in Mzuzu. Overall, most sites are

at superstructure level, and progress is at around 40 percent. Government also started construction of three Teachers Training Colleges in Chikwawa, Mchinji, and Rumphu and progress is at an average of 45 percent in all the three sites.

68. Under secondary education, Government provided bursaries to 14,499 students and cash transfers to 4,343 students; rehabilitated conventional secondary schools in Blantyre, Balaka, Chilumba, Mulanje, and Chikwawa; commenced construction of schools, laboratories and libraries in various districts in the country including Thumbwe Secondary School in Chiradzulu district and Machinga Secondary School. Madam Speaker, progress on these projects is at different stages.

69. In addition, with support from the European Union, the Ministry has upgraded 21 Community Day Secondary Schools; with support from United States Agency for International Development, Government constructed 10 new secondary schools; a total of 500 secondary school teachers have been recruited; and 4,719 secondary school teachers have been promoted to various grades.

70. Under higher education, Government completed the Higher Education, Science and Technology Project and the Skills Development Project that has seen the construction of Lecture Theatres, Laboratories, Workshops, Administration Blocks, Open

Distance Learning Centers, ICT Libraries in the Seven Beneficiary institutions namely; Mzuzu University, Chancellor College, Polytechnic and Technical Colleges at Nasawa, Soche, Lilongwe and Salima.

71. In addition, Madam Speaker, Government is in the process of delinking the University of Malawi constituent colleges into three new Universities. Chancellor College will be the University of Malawi, Polytechnic will become Malawi University of Business and Applied Sciences, and College of Medicine and Kamuzu College of Nursing will merge to form Kamuzu University of Health Sciences. Furthermore, with an estimated cost of K54.0 billion, the Government of Malawi is constructing Mombera University in Mzimba district which will focus on animal science.

72. Madam Speaker, at this juncture, let me now turn to the 2019/20 Budget.

### **THE 2019/20 BUDGET**

73. Madam Speaker, allow me to briefly outline the major assumptions anchoring this budget. These assumptions include;

- a. An estimated growth of 5.0 percent in 2019 and 7.0 percent in 2020;
- b. Average inflation rate of 8.0 percent during the fiscal year;
- c. A stable exchange rate of about K750/US dollar;
- d. A Policy rate of 13.5 percent;
- e. Upward review of user fees and charges;

- f. Coupon value of K15,000 for FISP and 900,000 beneficiaries; and
- g. Wages and Salaries increase of between 10 percent to 15 percent depending on grade, with an average of 12 percent.

74. Madam Speaker and Honourable Members, it is important to note that if these assumptions do not materialize, they form part of risks to budget implementation. Government will therefore work earnestly to minimize the risks for smooth implementation of this budget.

### **Revenues**

75. Total revenue and grants are projected at K1.575 trillion, representing 25.1 percent of GDP, and an increase of 26.1 percent from the 2018/19 approved amount of K1.249 trillion. Domestic revenues are projected at K1.425 trillion, which is 22.7 percent of GDP, comprising K1.369 trillion as tax revenue and K55.8 billion as other revenues or non-tax. Grants are projected at K150.1 billion, representing 2.4 percent of GDP, comprising of K107.4 billion from International Organizations and K42.7 billion from Foreign Governments.

### **Expenditures**

76. I now turn to the expenditure side of the 2019/20 fiscal budget. Madam Speaker, total expenditure is projected to amount to K1.731 trillion which is 27.6 percent of GDP and representing an increase of 20.1 percent from the 2018/19 preliminary outcome of K1.441 trillion. Out of the total planned expenditure, K1.293 trillion,

which is 20.6 percent of GDP, is under recurrent expenditure while K437.9 billion, representing 7.0 percent of GDP, is provided for the development budget.

77. Madam Speaker, the recurrent expenditure comprises K443.4 billion for wages and salaries; K244.0 billion for interest payments; and K290.9 billion for goods and services. Out of the planned development expenditure, K131.5 billion, representing 26.6 percent increase on last year will be domestically financed while K306.5 billion worth of development projects will be financed using foreign resources.

### ***Projected Fiscal Balance***

78. Madam Speaker, the expected overall deficit for the 2019/20 fiscal year is estimated at K155.9 billion or 2.5 percent of GDP, which also represents a reduction of about 51.3 percent from the 2018/19 preliminary actual budget deficit outturn of K320.2 billion. The 2019/20 projected deficit will be financed by net foreign borrowing amounting to K109.7 billion and a domestic borrowing of K46.1 billion. Honourable Members, as you will observe from the numbers, the 2019/20 Budget has been prepared with the objective of reducing domestic borrowing in order to reduce public debt.

## **HIGHLIGHTS OF THE 2019/20 RECURRENT BUDGET**

### ***Wages and Salaries***

79. Madam Speaker, Wages and Salaries are projected at K443.4 billion, which is 7.1 percent of GDP and representing a 12.6 percent increase from last fiscal year's approved figure of K393.6 billion. I am pleased to inform this August House that salary increment for civil servants of between 10 percent to 15 percent has been budgeted. Lower grades in the civil service are expected to get relatively higher salary increments than the high ranking grades.

### ***Interest Payments***

80. Madam Speaker, one of the major concern in Government is the astronomical increase in public debt. For the 2019/20 fiscal budget, payment of interest on the country's public debt is projected at K243.9 billion or 3.9 percent of GDP representing 8.8 percent increase from the amount paid during the last financial year. Of this total, K15.5 billion is for foreign interest payment while K228.5 billion is for domestic interest payment.

### ***Social Benefits***

81. Government has programmed to spend K123.9 billion, or 2.0 percent of GDP under social benefits and representing an increase of 12.0 percent on the amount spent last financial year. Of this total, K85.9 billion has been allocated for Pensions and Gratuities comprising K11.0 billion for the contributory pension scheme and the balance for pensions.

### ***Farm Input Subsidy Program***

82. Madam Speaker, Government will continue with the Farm Input Subsidy Program and K35.5 billion has been allocated to

this program. This year, the program will reach out to 900,000 beneficiaries for both fertilizer and seed. Fertilizer purchases are programmed at K27.0 billion. This allocation was agreed after thorough consultations with the Ministry of Agriculture, Irrigation and Water Development.

### ***Maize Purchases***

83. Honourable Members will recall that in the 2018/19 farming season, some parts of this country experienced natural disasters including the tropical cyclone Idai. Farmlands in southern and other parts of Malawi were destroyed. To ensure that there is adequate food for the affected households, we propose in this budget an allocation of K10.0 billion for the purchase of maize by National Food Reserve Agency to restock the Strategic Grain Reserves. This is an increase of around 14.7 percent when compared to the amount that was spent last financial year.

### ***Decent and Affordable Rural Housing Program***

84. This program, Madam Speaker will continue. Government has allocated K10.0 billion which is the same amount allocated to the program during the previous financial year. It is expected that from this amount 8,000 houses will be constructed and rehabilitated. Out of the K10.0 billion, K600.0 million has been earmarked for the construction of houses for people with albinism. Madam Speaker, allow me to inform this August House that all arrears under this project will be paid during this financial year after thorough scrutiny and audit of the claims.

### ***Student Loans***

85. Madam Speaker, an amount of K9.0 billion has been allocated to provide loans to our needy students studying in the public and private universities throughout the country. This is an increase from K8 billion that was allocated during the previous fiscal calendar. I however wish to inform Honourable Members that my Ministry will work very closely with the Ministry of Education, Science and Technology to ensure that loans are given to bonafide needy students. A mechanism has also been put in place to involve Students Union bodies in the various universities to help us identify the qualifying students for support.

### ***Security institutions houses***

86. Government will issue a long term financial instrument to raise resources for the construction of 10,000 houses for all security institutions. The construction of these houses will commence this fiscal year and houses of different sizes will be constructed. Government expects to construct 4,000 houses for the Malawi Defence Force, 4,000 houses for the Malawi Police Service, 1,000 houses for the Immigration Department and another 1,000 houses for the Malawi Prison Service. The target is to reach 10,000 houses in 5 years. The budget allocation of K250.0 million that has been made in this budget is for preparatory works and designs.

### ***Empowerment of Persons with Disabilities and Albinism***

87. Madam Speaker, in an effort to empower persons with disabilities to enable them to participate in the country's economic activities, an allocation of K200 million has been made in the 2019/20 budget to operationalise the Disability Fund as provided for in the Disability Act (2012). This Fund, Madam Speaker, is aimed at assisting persons with disabilities access seed money which they can use to start small scale businesses.

88. Madam speaker, Honourable Members, the 2019/20 budget has also made an allocation of K400 million for the implementation of the Action Plan for the protection of people with albinism. In addition to this allocation, K600 million under the Decent and Affordable Housing Project has been earmarked for the construction of houses for people with albinism.

### ***Fight against Corruption and Promotion of Good Governance***

89. Madam Speaker, Government remains committed to the fight against corruption and promotion of good governance and the rule of law. In this regard, this budget has allocated substantial amounts to Governance institutions such as; the Anti-Corruption Bureau, Malawi Human Rights Commission, Office of the Ombudsman, Law Commission, Auditor General and the Judiciary. Furthermore, Government will also support the NGO Board for it to undertake its oversight function.

90. Madam Speaker and Honourable Members, I humbly wish to reiterate that the fight against corruption is the responsibility

of every Malawian and not Government alone. I therefore call upon all of us to be united in the fight against this evil.

### ***Allocation to Local Councils***

91. Madam Speaker, Government will continue with implementation of development projects in local councils. In the 2019/20 budget, Government has increased Constituency Development Fund from K25.0 million to K30.0 Million per Constituency. Furthermore, K2.3 billion has been allocated for construction of water structures in the Councils and K3.2 billion has been allocated for District Development Fund.

### ***2019/20 Development Budget***

92. Madam Speaker, this budget is pro-growth. Government has therefore increased allocation to the development budget by 30.6 percent to K437.9 billion, which is 7.0 percent of GDP, compared to K335.2 billion allocated last financial year. Of the total development budget, K131.5 billion or 2.1 percent of GDP, will be domestically financed while K306.5 billion, representing 4.9 percent of GDP, is foreign financed.

93. Madam Speaker, the list of projects has been highlighted in the Financial Statement and the Detailed Budget Document. Honourable Members will note that Government has prioritized and allocated resources for developmental projects in the agriculture, transport, energy and tourism sectors to spur economic growth.

94. Substantial amounts for developmental projects have also been allocated in the education and health sectors in order to improve Government's social services delivery. Four office complexes at Capital Hill will also be constructed and financed through a PPP arrangement with Pension and Insurance companies.

### ***Youth Development and Women Empowerment***

95. Madam Speaker, to live up to the theme of this budget, Government has included in this budget resources targeting the youth for economic empowerment. The Youth Internship Program will continue and an amount of K4.4 billion has been allocated for this program. Of this total, K3.1 billion is allocated for new interns while K1.3 billion is for recruitment of last year's interns into permanent employment. This year, the program will recruit 2,000 youth aged between 21 and 30 on a 10-months internship period. Recruitment and placement into various ministries, departments and local councils will be based on their qualifications and expertise.

96. Madam Speaker, Government will recapitalize the Malawi Enterprise Development Fund to the tune of K8 billion. About K4.0 billion of this amount will be allocated for loans to the youth for the provision of actual start-up equipment. The other K4.0 billion will be dedicated to support women groups and cooperatives such as *Banki Nkhonde* and *Zokonda Amayi* as

capital injection and training in different economic activities. All these activities are intended to align this budget to government objective of job creation and economic empowerment of its people especially the youth and women.

97. In Sports Madam Speaker, there is an allocation for the construction of two stadiums for Nyasa Big Bullets and Be Forward Wanderers. A total of K1.6 billion has been allocated for the two stadiums, K800.0 million each. An allocation of K200.0 million has also been made for the construction of a state of the art Indoor Netball Complex of international standard which will enable this country to host international tournaments. Furthermore, Government has allocated K500.00 million for the Mzuzu Youth Center and another K500.0 million for the reconstruction of the Kamuzu Institute for Sports. Government is also in the process of identifying financial resources for the construction on a National Stadium in Blantyre.

98. Madam Speaker, the Youth Tree Planting Program will continue. An amount of K1.0 billion has been allocated for this program which started during the 2018/19 financial year. The youth will continue to care for the trees that were already planted and also plant new trees when the rainy season starts. Madam Speaker, implementation of this project will be coordinated by the Ministry of Local Government and Rural Development.

## ***Sector Allocations***

99. Madam Speaker and Honorable members allow me now to give you highlights of the key sector allocations. Detailed Vote by Vote Allocations are presented in the Budget documents.

### ***Education Sector***

100. Madam Speaker, the education sector has been allocated K172.8 billion, representing 2.7 percent of GDP, which is an increase of 21.5 percent from the approved budget of K142.2 billion in 2018/19 financial year. This also represents 10.6 percent of the total budget. This, Madam Speaker is due to increased allocation for public universities and sector's development projects.

101. Madam Speaker, under Basic Education, Government will complete the construction of three Teacher Training Colleges for primary school teachers in Mchinji, Rumphi, and Chikwawa; and continue the construction of fourteen new Primary Schools in Urban centers.

102. Under secondary education, Government will continue construction of Thumbwe and Machinga Secondary Schools; complete construction of Girls Hostels; construction of 250 secondary schools under USAID; construction of Science Laboratories and Libraries; completion of the rehabilitation of 12 Conventional Secondary Schools; and improvement of quality of science and mathematics instruction in community day secondary schools under the World Bank Equity with Quality and Learning at

Secondary Schools Project (EQUALS Project) that was already approved by this August House.

103. Under higher education, Government will construct Eastern and Southern Africa Higher Education Centre of Excellence with a loan from the World Bank; continue construction of the Mombera University; and carry out expansion of Domasi College of Education with support from JICA. Madam Speaker, Government has also allocated its own resources to carry out expansion works at the Polytechnic, Chancellor College, LUANAR and rehabilitation of the Mzuzu University Library.

### ***Agriculture Sector***

104. Madam Speaker, the Agriculture Sector is the second largest in terms of budget allocation at K167.0 billion, which represents 2.7 percent of GDP, for the 2019/20 financial year, representing an increase of 11.3 percent from the approved figure of K150.0 billion during the 2018/19 fiscal year. This is due to increased allocation to a number of projects such as Shire Valley Transformation Project – Phase 1 which has been allocated K18.9 billion and the Agriculture Commercialization Project with an allocation of K13.1 billion.

105. Madam Speaker, Government through the Agriculture Commercialisation Project will develop value chains for 14 high value crops such as pulses, oil seeds, tubers, horticulture products, livestock and fisheries in order to promote these products for the

regional and international export markets. This in effect, will improve the incomes of smallholder farmers at household level and boost the availability of foreign exchange at macro level, thereby contributing to economic growth and development of this country.

### **Health Sector**

106. Madam Speaker and Honourable Members, the Health Sector rank third in terms of size of budget allocation in the 2019/20 budget after being allocated K101.0 billion. This, Madam Speaker, represents an increase of 12.6 percent from the 2018/19 financial year approved figure of K89.9 billion and the sector continues to benefit from the increased allocation of resources from the Health Sector Joint Fund. An amount of K25.9 billion has been allocated for procurement of drugs, of which K10.6 billion is for central hospitals and K15.3 billion is for district hospitals.

107. Madam Speaker, Government has also budgeted K1.5 billion for purchase as well as maintenance of critical medical equipment in central and district hospitals such as MRI, CT Scan, Anesthetic Machines, ICU Ventilators, HDU Monitors and Dialysis Machines. Furthermore, an amount of K5.8 billion has been allocated for the procurement of ambulances.

108. Under the sector's development budget, we have made allocations for the construction of the Military Hospital, Blantyre District Hospital, Balaka Referral Hospital, Mponela

Community Hospital, completion of Phalombe District Hospital and the Cancer Centre in Lilongwe.

109. Madam Speaker, the Military Hospital will be very important for this country as it will house highly qualified medical specialists and equipped with very sophisticated medical equipment for most critical medical conditions that are being referred abroad at the moment. The planned Balaka referral hospital is also very important as it will reduce travel distance and time for referral patients to get medical attention in the Eastern Region.

### ***Transport Sector***

110. Madam Speaker, in the 2019/20 budget, the Transport Sector has been allocated K88.3 billion which is 1.4 percent of GDP. This represents an increase of about 6.6 percent over the preliminary outcome for the previous fiscal year of K82.8 billion. Out of the K84.5 billion, K47.9 billion has been allocated to Roads Fund Administration for completion of various road projects across the country.

111. Madam Speaker, Honourable Members, in this financial year, Government plans to implement a number of projects in the transport sector including the following:

- a. Rehabilitation of the M1 road from Kamuzu International Airport turn-off to Mzimba turn-off and from Kacheche to

- Chiweta with K140 billion funding from European Investment Bank, European Union and the Government of Malawi;
- b. Rehabilitation of M1 and M8 road from Nsipe to Liwonde with funding from the African Development Bank;
  - c. Dualisation of the M1 road from Bunda turn-off to Crossroads hotel with financing from the Japanese Government; and
  - d. Dual carriage way from Crossroads round about to Lumbadzi with funding from the Peoples Republic of China.

112. Furthermore, I am pleased to inform the August House that work is at an advanced stage on the Blantyre Bypass road, and Government is in discussions with a number of donors for the financing of pipeline road projects such as; the Mangochi – Makanjira road, the Migowi – Nswang'oma, the Nkaya – Nayuchi – Mozambique Border road, and the Nkando – Mulomba – Phalombe road. For a detailed list of projects, Honourable Members are invited to refer to the Financial Statement and the Public Sector Investment Plan documents that have been circulated.

113. Madam Speaker, Government has also provided resources for the Livingstonia – Njakwa road. Government expects that this road will be completed during this financial year. This budget, Madam Speaker has also allocated resources for the construction of the Tsangano – Neno – Mwanza road and the Thabwa – Muona road.

114. Madam Speaker, Government realizes the important role that the water transport plays to the social and economic development of this country, especially for the communities that live along Lake Malawi and other water bodies. Government has therefore commenced construction of the Likoma Jetty at a contract sum of K10 billion. This, Madam Speaker will be fully financed using local resources. The Government also plans to rehabilitate Chipoka port, Monkey Bay port and construct Nkhotakota jetty.

115. Madam Speaker, for air transportation, Government has allocated amounts in this budget for the rehabilitation of Chileka Airport runway at K2.5 billion; Construction of New Mzuzu Airport with an initial amount of K500.0 million; and Government has also engaged external creditors for financing of Mangochi international airport.

### ***Energy and Mining Sector***

116. Madam Speaker, in the 2019/20 budget, an amount of K40.0 billion has been allocated to the energy and mining, which is almost twice the amount allocated to this sector last financial year at K21.7 billion. As I stated earlier, the 2019/20 budget will focus on growth and economic empowerment. To achieve this, Government will support EGENCO with financing of its power generation program. My Ministry will work with the Ministry of Natural Resources, Energy and Mining and EGENCO to diversify energy

sources away from hydro to others such as coal, solar and wind for resilience in power supply.

117. In this regard, Madam Speaker, Government will fund EGENCO for a new Coal Fired Power Plant, to be implemented in phases using our own resources. This may include redirecting some resources under MAREP to finance electricity generation. I am pleased to inform Honourable Members that a similar arrangement was made in the past and successfully financed the rehabilitation of Kapichila II Hydro Power Station. Government will also support EGENCO to borrow domestically either using a long term bond, or through PPP arrangement in order to tap into pension funds. Madam Speaker, Government will also continue to pursue funding for Kammwamba Coal Fired Plant with the Chinese Government through the Exim Bank of China.

118. Madam Speaker, Government recognizes mining as a sector with growth potential. To facilitate and coordinate economic activities in the mining sector, Government will establish the Malawi Mining Authority as a regulator in the mining sector. We will therefore be consulting this August House as we embark on this process.

### ***Tourism Sector***

119. Madam Speaker, the Ministry of Industry, Trade and Tourism has been allocated an amount of K14.2 billion in the 2019/20 fiscal year. This represents an increase from K12.7 billion

allocated to this sector last financial year. Honourable Members may also wish to note that most of the infrastructure developments planned to commence this year under the tourism sector will be financed outside the budget through private sector participation. Madam Speaker, my Ministry in collaboration with the Ministry of Industry, Trade and Tourism will work on improving the country's visibility both at the regional and international level.

120. As we speak, Madam Speaker, negotiations are at an advanced stage with Afrexim Bank who have shown interest to finance the Nankumba Peninsula off-shore financial center. This, Honourable Members will include the construction of a 5-Star hotel and the Logistic Center in Mangochi. Government has also allocated resources to finance auxiliary works around the site to facilitate early commencement of this project.

121. Madam Speaker, we have provided a Public Sector Investment Program Document Number 6 which has highlighted the on-going projects, new projects as well as those in the pipeline. I am pleased to refer the Honourable Members to this document for detailed information.

## **REVENUE POLICY MEASURES FOR 2019/20 BUDGET**

122. Madam Speaker, the 2019/20 Revenue Policy Measures that I will announce today are envisaged to be: pro-poor and pro-growth; aimed at strengthening domestic resource mobilization

and management systems; promoting domestic and foreign investment; encouraging diversification in agriculture; promoting manufacturing and value addition.

123. Madam Speaker, the measures are therefore aimed at balancing between expanding the scope of resource mobilization and creating an enabling environment for investment and productivity. Madam Speaker, it has been noted that very few people contribute to the resource envelope through payment of taxes against so many competing needs. For instance, Government is already conducting research on how best it can implement Property Tax. Therefore, these revenue measures are meant to widen the revenue base without necessarily overburdening Malawians.

124. Madam Speaker, I must reiterate that various inputs and constructive proposals on the Revenue Policy Measures for the 2019/20 Budget were provided for consideration. The Revenue Policy Measures therefore have, to a large extent, taken into consideration input from the stakeholders. I therefore would like to acknowledge the various contributions from all the stakeholders including the general public. My Ministry will also undertake post budget meetings in order to give feedback to the various stakeholders that gave their suggestions for consideration in the 2019/20 Budget.

125. Madam Speaker and Honourable Members, let me point out a critical observation that I made during the pre-budget consultations. Some taxpayers and investors were requesting for tax incentives even in areas where the tax incentives are already provided for under the law. This was a clear indication that most taxpayers and investors are not aware of the existing tax incentives covering a wide range of sectors under the Malawi Growth and Development Strategy III. In this regard, my Ministry will work with the Malawi Revenue Authority and the Malawi Investment and Trade Centre to enhance public awareness on tax policy and tax incentives.

126. Madam Speaker, Government has over the years awarded tax incentives to investors and, in this Budget, tax incentives have also been given to achieve specific objectives. In this regard, where it is established that the incentives are being abused and not benefiting the intended target groups, Government will revoke the incentives. I therefore implore the private sector to ensure that where taxes have reduced or waived by Government, this should be reflected in the reduction of prices to ensure that Malawians access affordable products.

## **TAX POLICY AND ADMINISTRATION MEASURES**

127. Madam Speaker and Honourable Members, under the *Tax Policy and Administration Measures* that I will be announcing today, the *Customs and Excise Tax Measures* will be effective from mid night today whilst the *Income tax* and *Value Added Tax*

measures will be effective when the appropriate Amendment Bills are passed by this Honourable House.

128. Madam Speaker, let me now turn to the specific measures as follows:

### ***Customs and Excise Tax Measures***

129. Madam Speaker, in order to encourage fish farming and discourage depletion of fish in our lakes, the duty free privileges under Customs Procedure Code 477 for the Fishing Industry have been reviewed to include duty free clearance of equipment and items that focus on the promotion of aquaculture in the country.

130. Madam Speaker, Customs Procedure Code 409 covering people with disabilities has also been reviewed to include duty free clearance of sunscreen creams, protective gear and community security alert alarms for use by people with albinism. This measure aims at increasing accessibility of the products and promoting the welfare of people with albinism.

131. Madam Speaker, in order to leverage the tax rates with regional comparable rates on malt beer and un-denatured spirits, Government has reduced Excise Tax on malt beer of tariff heading 22.03 to 65 percent from 90 percent whilst Excise Tax on un-denatured spirits of tariff heading 22.08 has been increased to 110 percent from 95 percent.

132. Madam Speaker, Government has also introduced Excise Tax at 10 percent on plastic pipes, tubes and hoses of tariff heading 39.17; plastic articles for the conveyance or packing of goods under tariff heading 39.23 and plastic sacks and bags for packing of goods of tariff heading 63.05 in order to rationalize Excise Tax for plastic products. Generally, products under this category attract Excise Tax but were omitted under the Customs and Excise Tariffs Order hence creating discrimination.

133. Madam Speaker, in order to promote use of clean energy and minimize deforestation, Customs Duty and Excise Tax on gas cylinders has been removed. Government laments the wanton cutting of trees for fuel wood as this is negatively contributing towards adverse impact of climate change.

134. Madam Speaker, the 50 percent Export Tariff on exports of treated poles has been removed since treated poles undergo value addition and cannot be regarded as raw products. This misclassification of the treated poles in the Export Tariff Schedule was noted by the Industry and this measure therefore aims at rectifying the anomaly to ensure that the 50 percent Export Tariff should only apply to raw unprocessed timber and logs.

135. Madam Speaker, Government has introduced a surcharge on some imported goods that have local substitutes such as; vegetables, fruits, sugar, cooking oil, and cement and a

comprehensive list has been published in the Gazette. This has been done to encourage growth of local industries, save foreign exchange and promote industrialization.

136. Madam Speaker, under the wise and dynamic leadership of His Excellency the State President, Professor Arthur Peter Mutharika, Government will continue to promote the construction of decent housing among the rural masses and ensure that Malawians are able to access iron sheets at affordable prices. In this regard, Customs Duty has been removed on flat iron sheets, which is a key raw material for the production of the iron sheets locally.

137. Madam Speaker, Government has also removed Customs Duty on motor cycles of cylinder capacity of not more than 100cc commonly called *Zobanduka* to promote rural transportation. I therefore implore motorists to ensure that they get their motor cycles properly registered with relevant authorities including MRA, Police and Road Traffic Directorate so that only registered motor cycles ply on our roads to enhance safety.

### **Income Tax Measures**

138. Madam Speaker, Government has increased the Pay As You Earn (PAYE) tax free bracket to MK45,000 from MK35,000 per month in order to take into account the cost of living and increase disposable personal income. In addition, Ministry of Labour in

consultation with relevant stakeholders such as Employers and Employees associations has increased the Minimum Wage from the current K962 per day, translating to K25,012 per month to K1,346.15 per day which translates to K35,000 per month. This Madam Speaker is to partly protect the lowly paid workers and improve their welfare. Government will be reviewing the Minimum Wage from time to time to take into account developments in the purchasing power of the Kwacha.

139. Madam Speaker, in order to lessen the tax burden on smallholder farmers and increase their disposable income, Government removed Withholding Tax on tobacco sales for the first 1,200 kilograms or 10 bales of tobacco sold through the auction floors. This measure is therefore supporting the Presidential Directive that was pronounced at the opening of the tobacco auction season aimed at empowering our small holder tobacco farmers.

140. Madam Speaker and Honourable Members, Government appreciates the need to support the structured markets. It is in this respect that my Ministry will be engaging key stakeholders through the Ministry of Agriculture Irrigation and Water Development to devise means to incentivize and address bottlenecks that are hindering the growth of structured markets.

141. Madam Speaker, Government has introduced a 50 percent deductible allowance for all employers recruiting people with disabilities and the allowance will be based on the basic

salary of the employed persons with disability. This is meant to encourage employers to recruit people with disabilities, in order to enable them increasingly participate in the labour market for their improved welfare.

142. Madam Speaker, Government has revised the Withholding Tax rate for technical fees to 20 percent from 10 percent under the Fourteenth Schedule of the Taxation Act. This measure is expected to seal the revenue loophole created by differences between the Withholding Tax rates applicable to services and technical fees, which were at 20 percent and 10 percent respectively.

143. Madam Speaker, Government has also increased the Withholding Tax rate on rental income to 20 percent from 15 percent under the Fourteenth Schedule of the Taxation Act to align with the applicable rates of Withholding Taxes for Commissions, Royalties and Services, which also attract a 20 percent withholding Tax. However, I would like to implore all taxpayers that own property and earn rental income to comply with this tax obligation.

144. Madam Speaker, in order to promote value addition for exports of non-traditional processed products, Government has increased the Export Allowance available for non-traditional processed exports to 30 percent from 25 percent. In addition,

Madam Speaker, the allowance for non-traditional unprocessed exports has been reduced to 10 percent from 25 percent. This measure under income tax is expected to encourage diversification and promote exports of processed non-traditional products.

145. Madam Speaker and Honourable Members, in order to expand the revenue base and as part of the initial steps to mitigate the effects of climate change, Government has introduced a Carbon Tax on local and foreign registered motor vehicles respectively. The Carbon Tax will be calculated based on the engine capacity of the motor vehicle and the applicable rates ranging from K4,000.00 to K11,500.00 will be published in the Gazette. In terms of application, locally registered motor vehicles will be exempted at first registration and payments for locally registered motor vehicles will be done annually. Foreign registered motor vehicles will require payment of the Carbon Tax at the port of entry.

146. Madam Speaker, Government has introduced a 1.0 percent final Withholding Tax on non-bank mobile money transactions based on the transaction amount. This measure aims at ensuring that a large number of the citizenry are motivated to contribute toward national building through payment of taxes and ensure that Government has scope to improve service delivery. This Madam Speaker is in line with developments in neighbouring countries.

### ***Value Added Tax Measures***

147. Madam Speaker, in order to promote usage of clean energy and compliment hydropower in the country, Government has removed VAT on solar panels, solar batteries, solar accumulators, solar inverters, solar chargers, solar lumps, solar bulbs and energy efficient bulbs, liquefied petroleum gas and gas cylinders, and wood cook stoves. This is expected to empower Malawians to purchase these clean energy products at affordable prices.

148. Madam Speaker, Government has introduced VAT on some Oils of Chapter 15 under the Customs and Excise Tariff excluding oils which are considered as basic and nutritional commodities. In addition, Government has removed VAT on laundry soap in bars to make it affordable as this is also considered as a basic commodity.

### ***Tax Administration Measures***

149. Madam Speaker and Honourable Members under the Customs and Excise Act, VAT Act and Taxation Act, amendments have been done to; introduce administrative measures aimed at improving documentation for filing tax returns, enhance efficiency in tax administration by addressing the inconsistencies in the law, and incorporate some new reform initiatives by the Malawi Revenue Authority. Madam Speaker and Honourable Members,

the details of the Tax Administration Measures are contained in the Amendment Bills and Regulations which will be published.

150. Madam Speaker and Honourable Members, let me also take this opportunity to inform the taxpaying community that the Malawi Revenue Authority has been implored to enhance tax administration reforms in order to improve taxpayer service. The Malawi Revenue Authority will continue to monitor taxpayer compliance through risk based audits and enforcements and the use of ICT systems such as the Integrated Tax Administration System which is also referred to as Msonkho Online for Domestic Taxes which will be rolled out in December, 2019.

## **NON TAX POLICY MEASURES**

151. Madam Speaker, the *Non Tax Policy Measures* that I will announce will be effective once the respective Amendment Regulations have been promulgated by the respective Ministries, Departments and Government Agencies including when the installation of the requisite infrastructure has been done.

### ***Government User Fees and Charges***

152. Madam Speaker and Honourable Members, Government has noticed that most of the User Fees and Charges for Government services are too low and have not been revised for a long time. In order to address this, all User Fees and Charges have been revised based on the proposals submitted by the

various Ministries Departments and Government Agencies. This will ensure that the User Fees and Charges are cost reflective and commensurate with the market value of the services delivered by the respective MDAs. The revised User Fees and Charges will be published in the Gazette by the respective MDAs for implementation.

### ***Tolling Initiative***

153. Madam Speaker, during the pre-budget consultations with stakeholders there were strong views that the country needs to move with speed and install toll gates in strategic locations where toll fees could be collected as is the case in the region. This initiative will assist in mobilizing resources to be earmarked for road infrastructure rehabilitation. My Ministry will therefore continue to closely work with the Ministry of Transport and Public Works to ensure that the Tolling initiative is implemented in the country.

### **CONCLUSION**

154. Madam Speaker, the Financial Year 2019/20 budget seeks to deliver inclusive growth, infrastructure development and economic empowerment for the vast majority of our people, including the Youth, Women and the Physically Challenged. It further aims to ride on the macroeconomic stability achieved during the past two fiscal years and build a resilient economy capable of withstanding unforeseen shocks.

155. Madam Speaker, the DPP Government under the leadership of His Excellency the State President, Professor Arthur Peter Mutharika has built a firm foundation for all to seize the boundless opportunities in the economy. I therefore implore the private sector and all Malawians to take advantage of these existing opportunities. This will lead to sustained growth and development of this beautiful country.

156. Madam Speaker, as I conclude, it will be remiss of me not to thank and recognise the development partners for the enormous support rendered to the development efforts of this country. I therefore look forward to your continued support as we implement this budget.

157. Finally, Madam Speaker and Honourable Members of this August House, I wish to take this opportunity to humbly request all Malawians to jealously guard the achievements made hitherto including private and public property.

158. Madam Speaker, I beg to move.