Introduction

On the 17th of February 2017, Mr. Goodall Gondwe, the Minister of Finance, Economic Planning & Development presented the Mid-Year Budget Review for the period June to December 2016 to the Parliament. This Brief provides highlights of the Mid-Year Budget Review. It concludes with a quick analysis of what the next six months are likely to look like, based on the presentation by the Minister.

Key Issues from the Mid-Term Review

- *The economy may be on the long road to recovery. Growth has increased and the budget deficit has been reduced.*
- *However, debt repayments are still consuming a large proportion of the budget and have been underestimated. Projected debt repayments are now expected to reach K168.5 billion in 2016-17, more than what is spent on Education. Debt management has suffered from poor planning in the past and will need to be improved if the Government is to keep within its domestic borrowing targets.*
- *An additional K 57 billion raised in revenue has been used to finance interest on debt overruns (K 25 billion), increased operational spending (K 17 billion), new domestically financed development projects (K 4 billion) and reduced domestic borrowing (K 15 billion).*
- *However, additional resources have not all been used for the most pressing needs of the country, with an additional K3.4 billion being allocated to the Malawi Defence Forces and additional development spending allocated to issues such as construction of stadiums.*
- *There were large deviations from the planned expenditure on interest on debt and foreign financed development.*
- *Projected donor development spending was much higher than the historical trend suggesting it may not have been realistic.*
- *The overall budget has been reduced from K 1,149 billion to 1,129 billion, a reduction of K20 billion, this is mostly due to a reduction in foreign financed development.*

Overview: Macro-Economic Situation

- Average inflation down from 20% to 18.2%, (Non-food inflation decreased from 24% to 21% and food inflation decreased from 15.4% to 15%).
- Improved capacity utilization from 57.8% to 68.5%.
- Domestic borrowing at K 25.1 billion lower than the projected K 40 billion.
- Economy expected to grow from 2.9 percent in 2016 to approximately 5.6 percent in 2017.

Public Revenue Performance

- Total end-year domestic revenue is projected at MK 840.5 billion up from the expected 783.3 billion, an increase of MK 57.2 billion. The roll out of electronic tax devices and policy changes (abolition of zero rated VAT goods) are credited for this good performance. VAT, income tax and import duties all outperformed expectations.
- All categories of non-tax revenue performed slightly better than expected with the exception of parastatal dividends which collected only 24% of the mid-year target. This led to the overall underperformance of non-tax revenue of MK 5.2 billion non-tax against a target of K34.0 Billion. The selection process and composition of parastatal boards has been heavily criticised and may contribute to the poor performance of Malawi’s parastatal organisations.

- Project grants were significantly lower than expected at K30.0 Billion against a target of K103.3 Billion.

### Overview of Government Expenditures

- The total end of year budget has been revised downwards by K 20 billion from K 1,149.2 billion to K1,129.2 billion. This was mostly due to foreign financed development (part I) which was revised downward by K 69.6 billion.

- Of the reduced part I budget, one third or K23.4 billion came from the Ministry of Agriculture.

- Total expenditure to December amounted to K506.1 billion against a target of K 586.2 billion.

- Interest on debt accounted for 17.4% of total expenditures between 1 July and 31 December 2016 with domestic debt accounting for 94%.

- 70% of Farm Input Subsidy Programme (FISP) has been deferred to the third quarter of the financial year due to delays in the delivery of supplies. The end of year provision has not been revised, indicating the program is still expected to meet its approved expenditure. It is hoped that the reformed program will not have cost overruns as it has in the past.

- Domestic borrowing at mid-year was K25.1 billion, almost K15 billion lower than budgeted.

### Table 1: Changes in ORT to selected MDAs in K 000,000

<table>
<thead>
<tr>
<th>MDA</th>
<th>2016-17 Approved Estimates</th>
<th>Revised Estimates</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ministry of Agriculture, Irrigation and Water Development</td>
<td>71,151</td>
<td>74,861</td>
<td>3,710</td>
</tr>
<tr>
<td>Malawi Defence Forces</td>
<td>6,836</td>
<td>10,236</td>
<td>3,400</td>
</tr>
<tr>
<td>Subvented Organisations</td>
<td>47,340</td>
<td>49,677</td>
<td>2,337</td>
</tr>
<tr>
<td>Road Fund Administration</td>
<td>12,401</td>
<td>14,583</td>
<td>2,182</td>
</tr>
<tr>
<td>Malawi Revenue Authority</td>
<td>21,265</td>
<td>22,647</td>
<td>1,382</td>
</tr>
<tr>
<td>Ministry of Health</td>
<td>29,794</td>
<td>30,794</td>
<td>1,000</td>
</tr>
</tbody>
</table>

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3 https://www.nyasatimes.com/mutharika-appoints-new-parastatal-boards-list-includes-dpp-operatives-chiefs-clergy/#comments
The Budget for Other Recurrent Transactions (ORT) was revised upward by K 17 billion. The largest upward revision was to the Ministry of Agriculture amounting to K3.7 billion followed by the Malawi Defence Force with an increase of K3.4 billion, which is nearly 50% higher than the initial estimate. This was used to fund the purchase of equipment.

Development Expenditure part II was revised upwards by 10.7 percent, from K38.6 billion to K42.7 billion to finance the commencement of the construction of the Mombera University, some city roads and stadiums in Ntcheu and Zomba.

Overview of Social Sector Spending (June to December 2016)

- Ministry of Health wages were revised upwards by 11%
- Operational budget for Ministry of Health increased by K1 billion.
- Part II Development Health spending was reduced by K 550 Million, most likely due to stalled construction of community health centers.
- Education wages were increased by 1 percent to pay for teachers’ salaries who were recruited in the previous financial year but only paid in 2016-17.
- The Development budget for education was increased by 133% or K3.4 billion to fund the construction of Mombera University.

Future Outlook

- The economy is projected to grow by 5.6%. A large increase from 2.9% in 2016.
- Debt repayments will continue to eat into national budget as maturing zero coupon promissory notes, from domestic borrowing, are being converted into interest bearing securities.
- Amidst the reduction of grants and donor development support the announcement of possible budget support by the World Bank is welcome news. The US$ 80 million could possibly be used to reduce pressure towards domestic borrowing.
- Development expenditures, especially in social sectors such as health, education, child protection, sanitation and social protection will remain depressed for the remaining part of the fiscal year.
- The National Budget will continue to be consumptive, with recurrent costs taking a lion’s share of the national budget.
- It is likely that MRA will also perform well in the second half of the year. To this extent, the expected rise in tax revenue by 6.5 percent from K 708.8 billion to K 754.9 billion seems realistic.

Conclusion

The mid-year budget shows the Government is responsibly reducing domestic borrowing and returning the budget to a sustainable position. Social sector spending has largely been protected from budget cuts. However the funding for key child related sectors is insufficient to ensure delivery of essential services to children. For as long as the revenue base remains small, in spite of encouraging performance by MRA, public spending on sectors and programs supporting survival, protection and development of children will continue to be insufficient, considering actual financial needs on the ground. The large deviations in foreign financed development spending and interest on debt show that improvements can be made in the planning of these expenditures.

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