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 (% of GDP) 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 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) -	Table 1: 2016-19 budget Estimates			
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 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			Budget (%	
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	Revenue (1)	1,261,331	22.8	
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	Domestic Revenue	1,052,250	19.0	
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 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	Tax revenue	940,040	17.0	
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	Non-tax revenue	112,210	2.0	
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	Grants	209,081	3.8	
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	Program grants	60,000	1.1	
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	Dedicated grants	62,720	1.1	
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	Project grants	86,361	1.6	
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	Total expenditure (2)	1,504,191	27.2	
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	Recurrent expenditure	1,104,509	20.0	
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	Wages and salaries	392,939	7.1	
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	Interest on debt (3)	182,904	3.3	
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	Goods, services and transfers	305,297	5.5	
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	Subsidies and Transfers	219,369	4.0	
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	Development expenditure	391,682	7.1	
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	Domestically funded (Part II)	158,350	2.9	
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	Foreign financed (Part I)	233,332	4.2	
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	Net Lending	8,000	0.1	
Total financing 242,860 4.4 Foreign (net) 66,777 1.2 Borrowing 107,262 1.9 Amortisation -40,485 -0.7	Overall balance(4) (1 minus 2)	-242,860	-4.4	
Foreign (net) 66,777 1.2 Borrowing 107,262 1.9 Amortisation -40,485 -0.7	Primary Balance (4 plus 3)	-59,956	-1.1	
Borrowing 107,262 1.9 Amortisation -40,485 -0.7	Total financing	242,860	4.4	
Amortisation -40,485 -0.7	Foreign (net)	66,777	1.2	
.,	Borrowing	107,262	1.9	
Domestic Borrowing (Net) 176,084 3.2	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.

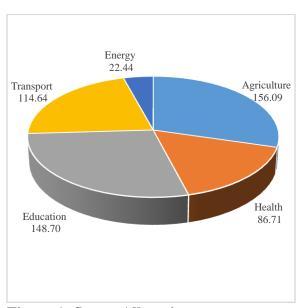


Figure 1: Sector Allocation

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