



MALAWI GOVERNMENT

THE 2022/2023 BUDGET STATEMENT

Delivered in the

**NATIONAL ASSEMBLY OF THE
REPUBLIC OF MALAWI**

by

**MINISTER OF FINANCE AND ECONOMIC AFFAIRS
HONOURABLE SOSTEN ALFRED GWENGWE, M.P.**

at

**THE PARLIAMENT BUILDING
LILONGWE**

on

Friday, 18th February 2022

MOTION

1. **Madam Speaker**, I beg to move that the estimates on the Recurrent and Development Accounts for the 2022/2023 Budget of the Malawi Government be referred to the Committee of the Whole House, to be considered vote by vote, and thereafter be adopted.

2. **Madam Speaker**, I stand here carrying the hopes and aspirations of many young people in this country. I feel the weight on my shoulders to deliver change and I will do the best I humanly can not to betray the trust that His Excellency the State President Dr. Lazarus McCarthy Chakwera has bestowed upon me to carry the flag on behalf of many equally deserving young people in this country.

3. **Madam Speaker**, in appointing me as his Minister of Finance and Economic Affairs, President Chakwera has demonstrated his resolve to include the youth as part of the long walk to this country's economic and developmental emancipation. I most sincerely thank the president for his trust in me in particular, and the youth in this country in general. I pledge to do my best to ensure that the agenda of the Tonse Alliance Government led by His Excellency the State President Dr. Lazarus McCarthy Chakwera is fulfilled in totality sooner than later.

INTRODUCTION

4. Madam Speaker, in accordance with the requirement of Section 21, Subsection 3, of the Public Finance Management Act of 2003, I stand here today before this August House to present the 2022/2023 financial plan. The Plan contains a statement of the estimated tax revenues, grants and all other revenues as well as details of the Government's proposal on how the available resources will be utilized.

5. Madam Speaker, the genesis to this budget I am about to present started with my predecessor Honorable Felix Mlusu. Allow me to express my profound and sincere gratitude to him for the manner in which he conducted the initial processes of this budget formulation.

6. Madam Speaker, Malawians deserve quality and efficient public service delivery. They deserve a conducive and enabling environment that guarantees wealth creation, job creation and food security. The 2022/2023 financial plan, therefore, has been developed to continue fulfilling the campaign promises that this Administration made when it was ushered into Government. In keeping with the spirit of the President's State of the Nation Address delivered in this House on Thursday, the 3rd of February 2022 titled "Fixing the Systems to Deliver Long Term Priorities and Defuse Short Term Pressure", this budget will build on that premise. **Madam Speaker,** it is for this reason that the 2022/2023 Budget Statement is titled "**Accelerating Implementation towards Wealth Creation, Job Creation and Food Security.**"

7. Madam Speaker, to make this budget responsive and aligned to the aspirations of the people of Malawi as outlined in the Malawi 2063, and the First Ten -Year Implementation Plan (MIP-1), My Ministry consulted extensively with various stakeholders who made valuable contributions, some of which have been incorporated into this budget while others will form part of future budget processes to allow for further comprehensive analysis. This budget therefore reflects those aspirations and how they will be achieved.

8. Madam Speaker, this budget will therefore start addressing issues of public debt management, export diversification and import substitution and in turn start confronting issues of Balance of Payment. The budget has been anchored on strict fiscal consolidation policy. As the Domestic Resource Mobilisation Strategy will be implemented, the financial year will also see some programme reforms aimed at containing costs more sustainably. All this, **Madam Speaker,** is a way of accelerating our journey towards an inclusively wealthy, self-reliant and industrialised nation.

2021/2022 BUDGET PERFORMANCE

9. Madam Speaker, the 2021/2022 Budget was implemented amidst the Covid-19 pandemic, which has wrecked the world economy since November 2019. This is a health pandemic, which quickly morphed into an economic crisis largely through measures

adopted to contain the spread of the virus and in the process causing disruptions to global supply chains leading to rising inflation around the globe. However, as the global supply chains begin to reopen to near pre-pandemic levels, Malawi's economy has also been steadily recovering.

Performance of Revenues and Grants

10. Madam Speaker, as the August House is aware, the 2021/2022 fiscal budget was for nine months, from July 2021 to March 2022. The shorter than normal fiscal year was necessitated by Government's transitioning to a new financial year which will be from April to March. The 2021/2022 likely outturn for total revenues and grants is projected at K1.240 trillion representing 12.1 percent of the country's GDP. Of this amount, domestic revenues are projected to end the year at K1.101 trillion representing 10.7 percent of GDP and 88.8 percent of total revenues. Grants are projected at K139.0 billion representing 1.4 percent of GDP and 11.2 percent of the total revenues.

11. Madam Speaker, of the total domestic revenues, tax revenues are projected at K1.044 trillion or 94.8 percent of total domestic revenue while other revenues are estimated to end the fiscal year at K56.9 billion representing 5.2 percent of total domestic revenues. Honourable Members may wish to know that both tax and other revenues are expected to meet their approved targets.

However, Grants are projected to underperform since only K139.0 billion is projected to be realised out of a target of K170.3 billion. The underperformance in Grants is mainly on account of delayed start to some of the projects.

Performance of Expenditure

12. Madam Speaker, the likely outturn for total expenditure for the 2021/2022 fiscal year is projected at K2.064 trillion representing 20.1 percent of GDP comprising K1.525 trillion of recurrent expenditure and K539.8 billion development expenditure. The projected recurrent expenditure comprises the following major expenditure lines: Compensation of Employees at K493.0 billion, Interest Payment at K299.7 billion, Generic Goods and Services at K182.7 billion, Grants to Other General Government Units at K163.1 billion, Affordable Input Programme at K142.0 billion and Pensions and Gratuities at K77.2 billion. Development expenditure is projected at K539.8 billion of which K219.9 billion is being financed using domestic resources and K319.9 billion by foreign resources.

Overall balance and borrowing

13. Madam Speaker, based on the likely outturn of revenues and expenditure for 2021/2022 fiscal year, the overall budget deficit is projected at K825.0 billion, representing 8.0 percent of the country's GDP. The projected likely outturn is higher than the approved deficit of K723.8 billion. The increase in deficit was mainly on account of higher

than planned salary adjustment and increased critical expenditure needs. The deficit is being financed through domestic borrowing at K690.2 billion and foreign borrowing at K134.8 billion.

Progress on selected projects in the 2021/2022 fiscal year

14. Madam Speaker, Government has made substantial progress in some of the projects that were budgeted for in the 2021/2022 financial year. Let me now highlight progress made during the year in some of the projects.

15. Madam Speaker, in the health sector, progress has been made. Construction of Phalombe District hospital has been completed and currently placement of human resources is underway. Additionally, construction of superstructures at Mponela Community hospital has started while construction of Domasi Community hospital is continuing.

16. Madam Speaker, this Government made a serious undertaking to ensure that our men and women in uniform are well taken care of. As a testament to this commitment, Government in 2021/2022 allocated K5 billion for construction of houses for security institutions. Construction of 1,000 houses under the first phase is currently under way. Over 30 percent of the houses in this phase will be completed by end February, 2022.

17. Madam Speaker, to secure the lives of fellow Malawians with albinism, Government has embarked on a project to construct houses for people with albinism. In the first phase, Government has commenced the construction of 28 houses in 13 District Councils. Implementation progress of these houses are at different stages.

18. Madam Speaker, Government is aware of the need to increase the reliability, security, efficiency and utilization of electricity in the country. The country's current projected demand is 795 megawatts while installed capacity was at 364MW megawatts at the start of the 2021/2022 fiscal year.

19. Madam Speaker and Honourable Members, I am happy to report that the country's installed capacity increased considerably to 591MW as at 16th February 2022 after successful implementation of a number of projects during the year. The projects which were completed in the course of the financial year included:

- i. Commissioning of Tedzani IV Hydro Power Plant;
- ii. Launching solar PV Station at Nanjoka in Salima by JCM Power; and
- iii. Mloza Small Hydro Power Project operated by Cedar Energy Ltd.

20. Madam Speaker, all these projects express the Tonse Alliance Government's commitment to meeting the demand for expanded industrial activities as per the aspirations in our Vision, Malawi 2063. These developments are further in line with the declaration that was made by His Excellency the State President, Dr. Lazarus McCarthy Chakwera to add 1,000 Megawatts to the national grid by 2025.

21. Madam Speaker, the road transport sector continues to be the predominant mode of transport in the country. The social economic benefits that good accessible roads bring are a catalyst for our accelerated development. It is in this vein that Government prioritized investment in the maintenance and upgrading of the road network to fully support economic development and the general social welfare of our people.

22. Madam Speaker, in the 2021/2022 fiscal year Government implemented many projects across the country with varying progress reported as follows:

- i. Upgrading of Jenda – Embangweni – Edingeni – Engalaweni – Manyamula road. The 15.84 kilometer stretch from Chindoka to Embangweni has been completed;
- ii. Upgrading of Thyolo – Thekerani – Muona – Makhanga road. Progress on this project is at 92.5 percent with 69 kilometers of

- the road surfaced. The construction is estimated to be completed in June, 2022;
- iii. Construction of Mwanza – Neno – Tsangano -Ntcheu Road is in progress at 40 percent completion status;
 - iv. Njakwa – Phwezi – Livingstonia road at 56 percent completion status. About 41 of the 78 kilometers has been done;
 - v. Nsanje – Marka road. 24 out of 28 kilometers are completed representing 91 percent of the works;
 - vi. Thyolo – Thekerani road. About 71 out of 82 kilometers are completed representing progress at 93 percent;
 - vii. Rumphu – Nyika – Chitipa road is at 20 percent completion status;
 - viii. Lilangwe – Chingale – Machinga road is at progress is at 53 percent;
 - ix. Capacity improvement of Kenyatta road in Lilongwe city to six lanes. Construction work has started;
 - x. Malomo – Mpalo – Ntchisi – Dzaleka road. Works commenced and progress at 20 percent;
 - xi. Capacity improvement of the M1 road from Crossroads to Kanengo in Lilongwe city. Works have started with financial assistance from Peoples Republic of China; and
 - xii. Construction of Chakazi Bridge is nearing completion.

23. Madam Speaker, I am also pleased to report that construction of Chingeni Toll Plaza in Ntcheu and Kalinyeke Toll Plaza in

Dedza was completed and both Toll Plazas are in operation. These are expected to greatly assist in mobilisation of resources needed for road maintenance.

24. Madam Speaker, in rail sub-sector, progress of rehabilitation of Nkaya – Chipala railway line and Chipala – Mchinji border railway line is at 85 percent and 15 percent, respectively. Under a concession agreement, Government is also rehabilitating the 72-Kilometre railway section from Limbe to Sandama. The project is at 80 percent completion status.

25. Madam Speaker, in addition to the rehabilitation of the railway lines I have mentioned, construction of a 170-metre bridge across the Ruo river at Osiyana in Nsanje is also continuing and currently progress is at 65 percent. This bridge will accommodate both vehicles and trains.

26. Madam Speaker, Malawi is among the countries with a large proportion of a youthful population. To reap the benefits of the demographic dividend, the Government recognizes that it is important to empower youth and the need to remove all obstacles to ensure their full participation in the social-economic development of the country in line with the Malawi 2063, which is a youth-centric vision. To move from rhetoric to action in youth empowerment, the Tonse Alliance Government trained 3,043 youths under business incubation

programme in the 2021/2022 fiscal year. 1,022 of the trained youths are now running their own small and medium-sized businesses and have created over 1,000 jobs.

27. Madam Speaker, construction of the Griffin Saenda Indoor Sports Complex in Lilongwe is progressing well. The facility once completed will accommodate sporting disciplines such as netball, basketball, volleyball, table tennis, boxing, squash, handball and darts. Currently, this project has 172 local young people who are working at the project site. **Madam Speaker,** Honourable Members may also wish to note that the construction of an aquatic complex at Kamuzu Institute for Sports in Area 17 in Lilongwe has commenced and is also progressing well. The aquatic complex is expected to be used for the African Union Region 5 Youth Games that Malawi will be hosting in December, 2022.

28. Madam Speaker, under the Graduate Internship Programme, 4,000 interns were recruited and deployed to various Ministries, Departments and Agencies in 2021/2022 financial year. I am pleased to inform the House that through this programme, about 1,600 interns secured jobs with various organizations.

29. Madam Speaker, the devastating impact of Covid-19 pandemic continued to be felt by many households in 2021/2022 fiscal year. In order to mitigate the impact of the pandemic on the poor and vulnerable households, Government provided social support in form of

cash transfers. The cash transfers were made under Social Cash Transfer Programme popularly known as Mtukula Pakhomo; Covid-19 Urban Cash Intervention and Covid-19 Boma response program.

WORLD AND REGIONAL ECONOMIC OUTLOOK

Global Outlook

30. Madam Speaker, before I present the 2022/2023 fiscal plan, let me appraise the Honourable Members as to how we see the state of current affairs in terms of economic developments and macroeconomic outlook at international, regional, and national levels. The economic outlook is important because it points to the risks and opportunities that could have a bearing on the implementation of the Budget and likely outcomes.

31. Madam Speaker, global economic recovery continues, but the momentum has weakened and uncertainty has increased because of the Covid-19 pandemic. According to the IMF World Economic Outlook Report for January 2022, the global economy grew by 5.9 percent in 2021 and is projected to grow by 4.4 percent in 2022 reflecting a downgrade for advanced economies partly due to supply chain disruptions and for low-income developing countries, largely due to worsening Covid-19 pandemic dynamics.

32. Madam Speaker, advanced economies' output is forecasted to exceed pre-pandemic medium-term projections largely reflecting sizable anticipated further policy support in the United States. By contrast, persistent output losses are anticipated for the emerging markets and developing economy group due to slower vaccine rollouts and generally less policy support compared to advanced economies. These economic divergences are a consequence of large disparities in vaccine access and policy support. While almost 60 percent of the population in advanced economies are fully vaccinated and some are now receiving booster shots, about 96 percent of the population in emerging markets are unvaccinated.

33. Madam Speaker, headline inflation among advanced economies was projected to peak to 3.6 percent in the final months of 2021 while in 2022, headline inflation is projected at 3.9 percent. Across most economies, inflation is expected to come down to its pre-pandemic range in 2022 once supply-demand mismatches resolve. The outlook for headline inflation for emerging markets and developing economies is projected at 5.9 percent in 2022. Risks remain tilted to the upside over the medium term for emerging markets.

Sub-Saharan African Regional Economic Outlook

34. Madam Speaker, the Sub-Saharan Africa economy is expected to grow by 4.0 percent in 2021 and by 3.7 percent in 2022. This rebound follows a sharp slump in 2020 when growth was -1.7

percent. The region rebound is a result of a sharp improvement in global trade and commodity prices. Favourable harvests have also helped in lifting agricultural production.

35. Madam Speaker, economic growth in South Africa is projected at 4.6 percent in 2021 and 1.9 percent in 2022. The slow growth in 2022 for South Africa is due to the discovery of the Omicron variant, which resulted in many countries effecting travel bans ahead of its summer holidays. Nigeria's economy will grow by 3.0 percent in 2021, driven by the recovery in non-oil sectors and higher oil prices, even though oil production is expected to remain below pre-Covid-19 levels. Growth will inch down slightly to 2.7 percent in 2022 and remain at this level over the medium term.

Malawi's Macroeconomic Developments

36. Madam Speaker, Malawi's economy experienced a rebound in 2021 as it registered real GDP growth of 3.9 percent up from a growth of 0.8 percent in 2020. Growth in 2021 was driven by improved economic activities in a number of sectors, including mining and quarrying, accommodation and food service, transportation, and construction. In 2022, assuming the effects of natural disasters like Tropical Storm Ana do not persist, the economy is expected to further grow by 4.1 percent. This growth will be supported by an increase in economic activities in mining and quarrying, manufacturing,

transportation, construction, and wholesale and retail sectors. In 2023, the economy is projected to grow by 4.0 percent.

37. Madam Speaker, moving on to price developments, consumer prices accelerated markedly during the 2021/2022 fiscal year mostly driven by an increase in food and fuel prices. Headline inflation, which had been in single digits for close to two years, recently crept back into double digits. Headline inflation accelerated to 11.5 percent in December from 9.1 percent in June 2021. Food inflation, which has been the main driver of inflation in the country, rose to 13.6 percent in December 2021 from 11.1 percent in June 2021.

38. Madam Speaker, the increase was largely seasonal, following the depletion of stocks of cereals from the 2020/2021 agricultural season, but was exacerbated by the general increase in costs of imported food items. Similarly, non-food inflation increased to 9.5 percent in December 2021 from 7.2 percent registered in June 2021. The upsurge was mainly on account of the increase in global oil prices which directly feed into non-food inflation. The global oil prices rose to US\$88.2 per barrel at end-January 2022, from US\$73.5 per barrel at end-June 2021. Nevertheless, the annual average headline inflation remained in single digits in 2021 at 9.3 percent. The annual headline inflation for 2022 is projected at 10.4 percent.

GOVERNMENT REFORM PROGRAMS AND POLICY MEASURES

39. Madam Speaker, allow me to report to the August House on progress on various reforms that the Government is undertaking and the reforms to be introduced in the 2022/2023 fiscal year with the view of enhancing the management of financial resources and improving public service delivery.

Expenditure Control Measures

40. Madam Speaker, as directed by His Excellency the State President in his State of the Nation Address, my Ministry will in the 2022/2023 fiscal year, implement the following expenditure control measures:

- i. Review benefits and entitlements for senior Government officials, including the Presidency and Cabinet Ministers;
- ii. In consultation with the Office of the President and Cabinet, review the Government Motor vehicles policy with an aim of reducing expenditure in terms of number, types and sizes of motor vehicles;
- iii. Continue with the installation of pre-paid utility meters in all government institutions without exception;
- iv. Procure security equipment and fertilizer directly from manufacturers;
- v. Recruit competent graduates in accounting to fix challenges faced in processing of payment in IFMIS and Government Accounting; and
- vi. Fast track the digitization drive to reduce paperwork and fraud.

Public Debt Management

41. Madam Speaker, public debt management will be at the center of the 2022/2023 budget implementation. Honourable Members may wish to note that my Ministry is currently reviewing our domestic debt profiles with a view of restructuring debt towards longer maturity period, which will address the current debt sustainability concerns. In addition to debt restructuring, the Government will in the 2022/2023 fiscal year continue to exercise fiscal discipline, avoid debt creating policies, and reduce granting of extra budgetary financing at Treasury. The Public Finance Management Act (2003) is also being reviewed to address gaps that have been observed in the current legal framework on issues of contracting public debt.

42. Madam Speaker, high level of external debt is also a matter of concern for this Government and particular attention will be paid to make our external debt sustainable. Government will maintain a policy of concessional borrowing; preferring grants and only under very exceptional circumstances contract non-concessional loans for high value investments. Government will engage its external creditors to restructure some of the loans. My Ministry will intensify efforts to refinance all expensive and near-maturing debt using cheaper debt to create fiscal space. This will enable Government to have resources for financing exports enhancing projects such as in the mining sector.

43. Madam Speaker, in line with the G20 and the Paris Club Debt Service Suspension Initiative (DSSI), Government engaged all its creditors to suspend debt service payments for the period January to December 2021. The initiative was aimed at supporting poor countries to overcome the intertwined health and economic effects of covid-19 pandemic. Government would like to acknowledge the temporary relief provided under the DSSI. Madam Speaker, on behalf of the Malawi Government I would like to thank the Abu Dhabi Fund for Development and Saudi Fund for Development for favorably responding to our request for debt repayment suspension. Government managed to free up K1.0 billion that could have been used for debt service during this period.

Fiscal Discipline

44. Madam Speaker, with the current level of fiscal deficit, which is beyond the internationally acceptable level of 3 percent of GDP, my Ministry will ensure implementation of fiscal consolidation measures to enhance revenue collection and manage expenditures. To enhance revenue collection, the Ministry will continue rolling out the implementation of the just launched Domestic Revenue Mobilisation Strategy (DRMS), which was developed under the theme “Building a Tax Compliant Culture for national development.” To this end **Madam Speaker**, this budget will embark on a painful but necessary journey to

start flattening the net lending line and in the short to medium term put it on a sustainable downward trajectory.

State Owned Enterprises (SOEs) Performance

45. Madam Speaker, in order to strengthen financial oversight over state owned enterprises, a number of reforms are being implemented which include the formulation of guidelines for issuance of parastatal guarantees and issuance of letters of consent to enable borrowing by parastatals. In addition, to ensure proper monitoring and remittance of returns on Government investments in State Owned Enterprises, my Ministry developed the Dividend and Surplus policy for statutory bodies in Malawi.

46. Madam Speaker, to enhance monitoring of revenues collected by SOEs, all commercial SOEs will from 2022/2023 financial year open holding accounts with the Reserve Bank of Malawi. This arrangement is expected to help in addressing the challenge of non-remittance of Dividends and Surpluses to Government by SOEs and will also reduce Government borrowing of its own resources.

47. Madam Speaker, the Public Finance Management Act (2003) mandates me to lay in the national assembly the financial statements of SOEs. I intend to do this religiously starting from this financial year so that members of parliament are given a chance to

discuss SOEs performance in plenary. Let me therefore, request all Chief Executive Officers in all State Owned Enterprises to submit their audited financial statements in accordance with Section 79 of the Public Finance Management Act, 2003.

48. Madam Speaker, as the Ministry of Finance and Economic Affairs considers the many bailout requests, there is a required minimum performance and key deliverables that Malawians expect from SOEs. A good example is the Lilongwe Water Board, which after starting implementing their turn-around strategy, they are now reporting some profits. This Honourable Members shows that it is possible to turn around SOEs and there is no better time to pay more attention to SOEs than now **Madam Speaker.**

Foreign Exchange Reserves

49. Madam Speaker, the country is emerging from the pandemic with worryingly low foreign reserve levels due to the rising external payment requirements, driven by a surge in global commodity prices. The increase in global commodity prices over the past few months is being driven by a sharp recovery in demand as economies bounce back from a Covid-19-induced slump. Consequently, the Kwacha continued to lose its value and depreciated cumulatively by about 6.4 percent against the US dollar in 2021, reflecting excess demand for foreign exchange.

50. Madam Speaker, let me assure the August House and the whole country that Government will continue to undertake policy actions aimed at ensuring that the market has adequate foreign exchange liquidity for maintaining confidence in the market. Honourable Members may wish to know that in the 2021/2022 fiscal year, the Reserve Bank of Malawi re-introduced the requirement on sale of export proceeds by exporters, for a mandatory sell of 30 percent of their export proceeds to Authorized Dealer Banks while retaining 70 percent of the proceeds in their Foreign Currency Denominated Accounts. In addition, exporters are required to repatriate export proceeds within 120 days effective 31st July 2021 in line with regional best practices. Previously, it used to take 180 days for proceeds to be repatriated. Further, the Reserve Bank of Malawi in collaboration with the Malawi Revenue Authority and other stakeholders will intensify tracking of export proceeds to ensure that they are accounted for. Injection of dollar resources into the country will remain a priority in this financial year.

51. Madam Speaker, Government will continue to put in place policies and measures aimed at increasing export revenue generation in order to enhance availability of foreign exchange in the market, while re-building gross official reserves to the minimum requirement of three months of imports in the medium term. To achieve this, Government is committed to implement the National Export Strategy II

as we continue supporting the Export Development Fund as a vehicle for promoting exports.

52. Madam Speaker, the other low hanging fruit in as far as enhancing foreign exchange availability in this country is concerned is ensuring robust implementation of donor funded projects. I therefore, call upon all responsible line ministries and project implementation units (PIUs) to expeditiously work on their project implementation plans that will lead to increased and timely disbursement of donor resources and even consider frontloading their disbursements where possible. We will work closely with all PIUs to ensure that any hindrances to smooth project implementation are timely identified and addressed. The department of Monitoring and Evaluation in the Ministry of Finance and Economic Affairs is being enhanced specifically to address low absorption of donor funded resources.

Alignment of the Budget to Malawi 2063

53. Madam Speaker, this reform is aimed at providing an all-inclusive approach to resource allocation. The reform provides opportunities for Ministries, Departments and Agencies to coordinate and collaborate more during budget preparation and execution. In the 2022/2023 fiscal plan, annual budgetary resources will continue to be allocated to strategic issues, which are aligned to the Malawi 2063. The resources for Ministries, Departments and Agencies will be

allocated based on the Pillar and Enabler Coordination Groups. This will address the problem of institutions working in silos.

54. Madam Speaker, by linking the budget to the Malawi 2063, Government resources will be allocated to priority interventions as outlined in the Malawi 2063 First Ten- Year Implementation Plan (MIP-1).

New Integrated Financial Management Information System (IFMIS)

55. Madam Speaker, the August House may wish to know that the new IFMIS which is SAP based was rolled out to all MDAs on 1st July, 2021 after piloting it successfully in ten votes in the previous financial year. The IFMIS implementation focused on core modules to enable payments, banking, accounting and reporting. With the New IFMIS, Government has also implemented an interim Electronic Funds Transfer method of payment. This effectively means that cheques are no longer being issued for payments. In the grand scheme of things, we should not lose sight of the fact that abolishing issuance of paper cheques has saved government a lot of resources which would have been lost through fraud and other pilferages.

56. Madam Speaker, this is not to say that this transition has not faced challenges. The main one being that not all users were trained in using the system, as such, some Ministries Departments and Agencies faced challenges in processing transactions that led to

delays in making payments. The number of End Users that were expected to be trained before full rollout was 1,350. However, only 480 were trained at the start of the rollout due to restrictions that were introduced on gatherings as one way of containing the Covid-19 pandemic. Lack of skills in using the system resulted in many errors in processing transactions thereby delaying the payment process.

57. Madam Speaker, now the system has stabilized as most of the teething problems have been resolved. I therefore, wish to assure this August House that the situation is now under control and things will improve in the coming fiscal year as most back logs have now been cleared.

Other Public Finance Management Reforms

58. Madam Speaker, as the August House is already aware, the review of the Public Finance Management Act (2003) is at an advanced stage. The goal is to align the Act with ongoing public finance management reforms thereby making the PFMA more robust. I am happy to report that in the review process, all relevant Committees of this House were engaged and some of their proposals for improvement have been incorporated in the reviewed Act. The Bill will soon be presented to this August House and it is, therefore, the expectation of Government that all Honourable Members will support the bill and pass it.

THE 2022/2023 BUDGET

59. Madam Speaker, now allow me to present to this August House the 2022/2023 fiscal plan and the assumptions underpinning the estimates. In the 2022/2023 financial year, the main focus of the budget is on recovering the economy from the global slowdown caused by Covid-19 pandemic. In addition, attention will also be paid on fiscal consolidation, public debt management, fiscal discipline, export diversification and import substitution as we promote local manufacturing.

60. Madam Speaker, Government is optimistic that in 2022/2023 fiscal year, the global supply chain may begin to normalise to near pre-pandemic levels thereby easing the inflationary pressures due to the increase in the uptake of Covid-19 vaccines, which will continue to reduce the severity of the pandemic.

Major Assumptions for 2022/2023 Budget

61. Madam Speaker, the 2022/2023 budget has been formulated with the following underlying assumptions:

- i. The real GDP growth of 4.1 percent in 2022 and 4.0 percent in 2023;
- ii. Average inflation rate of 9.1 percent during the fiscal year;

- iii. A policy rate of 12 percent; and
- iv. Tax refunds of 3.0 percent of the total tax collection.

Total Revenue and Grants

62. Madam Speaker, total revenues and grants for the 2022/2023 fiscal year are estimated at K1.956 trillion representing 17.2 percent of GDP. Domestic revenues are estimated at K1.636 trillion, of which tax revenues are estimated at K1.528 trillion while other revenues have been estimated at K107.8 billion. Grants are estimated at K320.3 billion, representing 2.8 percent of GDP. These grants comprise K278.4 billion from international organizations and K41.9 billion from foreign governments in form of dedicated and project grants.

Total Expenditure

63. Madam Speaker, total expenditure for the 2022/2023 fiscal year is projected at K2.840 trillion, representing 24.9 percent of GDP. Of the total expenditure, recurrent expenses are estimated at K2.019 trillion, representing 17.7 percent of GDP and 71.1 percent of the total expenditure. Development expenditure is programmed at K820.67 billion, representing 7.2 percent of GDP and 28.9 percent of total expenditure. This is an increase from a projected 2021/2022 likely outturn of K540 billion. The development expenditure is composed of K580.9 billion foreign resources and K239.7 billion domestic resources. The large increase in our development financing is largely in line with

Government recovery plan under the Social Economic Recovery Plan (SERP), which outlines the need for frontloading of project implementation.

Overall Fiscal Balance and Financing

64. Madam Speaker, the 2022/2023 overall fiscal balance is estimated at a deficit of K884.0 billion, which is 7.7 percent of GDP. Effectively the 2022/2023 deficit as a percent of GDP is lower than the projected likely outturn in the 2021/2022 fiscal year although the 2021/2022 fiscal year was only for 9 months. Government has taken a decision to level and flatten this line from this financial year onwards. Government, **Madam Speaker**, intends to stabilize the debt creation processes and embark on a downward debt trajectory in the subsequent national budgets. The deficit **Madam Speaker** will be financed through foreign borrowing amounting to K230.07 billion and domestic borrowing amounting to K653.98 billion.

HIGHLIGHTS OF THE 2022/2023 BUDGET

RECURRENT BUDGET

Wages and Salaries

65. Madam Speaker, wages and salaries are estimated at K670.28 billion, representing 33.2 percent of the recurrent expenses and 5.9 percent of the country's GDP. The Honourable House may wish

to note that Government will increase civil service salaries by a magnitude that will be determined after Government consultations with Civil Service Trade Union. The amount also includes resources for filling of critical vacant positions in MDAs.

Interest Payments

66. Madam Speaker, interest on public debt has been estimated at K523.75 billion, representing 4.6 percent of GDP, which is an increase from K299.73 billion for 2021/2022 financial year. This is on account of huge maturities of promissory notes used to clear arrears. Of the total interest bill, K22.69 billion is for foreign interest payment while K501.06 billion is domestic interest payment. Domestic debt has in the recent past grown substantially on account of consistent recording of budget deficits due to the rising expenditures against slow growth in revenues as well as a drop in budget support.

Affordable Input Programme

67. Madam Speaker, Government will continue implementing the Affordable Inputs Program in 2022/2023 fiscal year. **Madam Speaker,** the AIP is going through some reforms to iron out the challenges that have so far been experienced. Government also intends to upscale safety net programmes to better serve the rural population in form of public works.

Pensions and Gratuities

68. Madam Speaker, Pensions and Gratuities have been allocated a total of K100.9 billion while K18.5 billion has been allocated to contributory pension scheme.

Maize purchases

69. Madam Speaker, in the 2022/2023 fiscal budget, K12.0 billion has been allocated for maize purchases by the National Food Reserve Agency and ADMARC to replenish the Strategic Grain Reserves. These resources are part of the total allocation to the agriculture sector.

Empowerment of People with Disabilities and Albinism

70. Madam Speaker, to continue to empower persons with disabilities, K100 million has been allocated to the Disability Fund and K300 million for the implementation of the Action Plan for the Protection of People with Albinism. In addition, K500 million has been allocated under the Ministry of Lands for the construction of houses for people with albinism.

Grants to other General Government Units

71. Madam Speaker, grants to other General Government Units are estimated at K217.06 billion. These include transfers to Malawi Revenue Authority, Roads Fund Administration. An amount of K113.7 billion is for subvented organisations, K9.0 billion for University students' loans and K4.17 to Roads Authority.

2022/2023 KEY SECTOR ALLOCATIONS AND DEVELOPMENT PROJECTS

Education and Skills Development Sector

72. Madam Speaker, for the 2022/2023 fiscal year, and in line with Enabler number 5 in the Malawi 2063, Human Capital Development, the education sector has been allocated a total of K462.24 billion. This represents 4.1 percent of GDP and 16.3 percent of the total budget. These resources will cater for wages and salaries; operations for primary and secondary schools, technical and community colleges and public universities as well as development projects in this sector.

Education Sector Projects

73. Madam Speaker, in 2022/2023 the Tonse Alliance Government will continue investing in the education sector through implementation of a number of projects including the following:

- i. Construction of Teacher Training Colleges in Rumphi, Mchinji and Chikwawa;

- ii. Construction of Primary Schools and Rehabilitation of Other Education Facilities;
- iii. Construction of a Library at Mzuzu University;
- iv. Construction of Girls Hostels;
- v. Construction of Science Laboratories and Libraries in CDSSs;
- vi. Rehabilitation and Expansion of Infrastructure in Public Universities;
- vii. Inkosi M'mbelwa University under the Local Development Bond; and
- viii. Construction of Community Technical Colleges.

Agriculture, Water Development and Climate Change

74. Madam Speaker, the agriculture sector has been allocated K447.66 billion representing 3.9 percent of GDP and 15.8 percent of the total budget. This provision, Madam Speaker, is in line with Malawi 2063 which prioritized agriculture productivity under Pillar One. These resources will cater for wages and salaries, operations, including Affordable Inputs Programme, and development projects in the Ministries of Agriculture; Forestry and Natural Resources; and Water and Sanitation.

Agriculture and Water Development Sector Projects

75. Madam Speaker, some of the projects to be implemented in the agriculture sector in 2022/2023 financial year include:

- i. Agriculture Commercialization project;
- ii. Shire Valley Transformation project;
- iii. Livestock Infrastructure Development;
- iv. Nkhata-bay Town Water Supply and Sanitation project;
- v. Lilongwe Water and Sanitation project; and
- vi. Sustainable Fisheries, Aquaculture Development and Watershed Management.

Health Sector

76. Madam Speaker, the health sector which falls under Enabler number 5, Human Capital Development, has been allocated K283.57 billion in 2022/2023 fiscal year. This represents 10.0 percent of total budget. These resources will cater for wages and salaries for health personnel; operational expenses for central and district hospitals, procurement of medical drugs and vaccines; maintenance costs for hospitals and medical equipment; as well as development projects in the sector.

Health Sector Projects

77. Madam Speaker, in the 2022/2023 financial year, Government will implement a number of projects in the health sector. Some of the projects to be implemented will include the following:

- i. Construction of Mponela Community hospital;
- ii. Construction of Domasi community hospital;
- iii. Construction of Cancer Centre;
- iv. Construction of Health Posts; and
- v. Multi Sectoral Nutrition program.

Transport and ICT Infrastructure

78. Madam Speaker, the transport and ICT Infrastructure sector has been allocated a total of K211.74 billion representing 7.5 percent of the total budget. Out of this amount, K155.44 billion has been allocated to Roads Fund Administration for rehabilitation and maintenance of the road network across the country.

Transport and ICT Sector Projects

79. Madam Speaker, in 2022/2023 financial year Government will implement the following projects under the transport and ICT sector:

- i. Capacity improvement of a section of Mzimba Street in Lilongwe city from crossroads roundabout to Central Medical Stores to six lanes;
- ii. KIA Junction – Kasungu – Mzimba road;
- iii. Ntcheu – Tsangano – Mwanza road;

- iv. Mzimba – Ezondweni - Njakwa road;
- v. Njakwa – Phwezi – Livingstonia road;
- vi. Monkeybay – Cape Maclear road;
- vii. Digital Malawi project; and
- viii. Last Mile Rural Area Connectivity project.

Energy, Industry and Tourism Development

80. Madam Speaker, just like the transport sector, which falls under Enabler 6, Economic Infrastructure of the Malawi 2063, the Energy sector is very critical to promote economic activity and catalyze foreign direct investments for wealth creation. This sector has been allocated K54.02 billion which is 0.5 percent of GDP and 1.9 percent of the total budget. This provision will cater for wages and salaries, operations and development projects in the Ministries of Energy; Mining; Trade and Industry; and Tourism, Culture and Wildlife.

Energy Sector Projects

81. Madam Speaker, Government will continue implementing impactful projects under this sector. Some of the projects to be implemented in 2022/2023 include the following:

- i. Mpatamanga Hydro Power project;
- ii. Malawi-Mozambique Inter-connector project;
- iii. Malawi Electricity Access project;
- iv. Extension of Wovwe Hydro Power Plant;

- v. Promoting Investment and Competitiveness in Tourism Sector;
- vi. Improvement of Access Roads to Resort Areas;
- vii. Golomoti Solar PV Project by JCM Power;
- viii. Solar project in Dwangwa Nkhotakota by Voltalia; and
- ix. Solar PV project in Nkhotakota by Phanes.

Industrial Development

82. Madam Speaker, industrialization is the second pillar in Malawi 2063. Government recognizes the importance of this sector in ensuring economic growth, employment opportunities and wealth creation. Through the Ministry of Trade and Industry, Government will continue with implementation of programs aiming at developing the country's industrial sector and value addition.

83. Madam Speaker, in 2022/2023 budget, Government has therefore, allocated K3.5 billion for the development of Special Economic Zones or industrial parks in this country. The project entails establishing the Special Economic zones at Matindi and Chigumula in Blantyre, Area 55 in Lilongwe, and Dunduzu in Mzuzu. Government has already paid for the land in Chigumula and is currently working with the Export Development Fund to mobilize resources for compensation. Furthermore, Government is at an advanced stage in discussions with foreign financiers who are interested in this project.

84. Madam Speaker, these industrial parks will accommodate Cooperatives in various fields such as in tailoring, furniture manufacturing and SMEs that could engage in value addition and import substitution activities to benefit from the Buy Malawi Campaign such as in provision of food rations, furniture and uniforms for security and health personnel. All Government institutions are therefore, advised to priorities procurement of their supplies from local manufacturers.

Mining Sector

85. Madam Speaker, in an effort to diversify the country's exports, Government will promote the mining sector. Malawi is blessed with the abundance of natural resources but this far their contribution to the country's economic productivity has not been fully exploited. Discussions are at an advanced stage between Government and investors to operationalize at least two of the four near ready Mines of Kasiya and Malingunde in Lilongwe, Songwe hills in Phalombe, Kanyika in Mzimba and recommissioning of Kayelekera in Karonga, with Government standing ready to provide the needed economic infrastructure to the sites depending on their state of readiness.

Governance and Rule of Law Sector

86. Madam Speaker, the Governance and Rule of Law sector has been allocated K61.62 billion, which is 0.5 percent of GDP and represents 2.2 percent of the total budget. These resources will cater

for wages and salaries and operations of oversight institutions including Judiciary, Anti-Corruption Bureau, Office of the Ombudsman, Law Commission and Malawi Human Rights Commission. The resources will also cater for development projects in these institutions. One of the flagship projects in this sector is the construction of the Judicial Complex in Lilongwe under the Local Development Bond.

87. Madam Speaker, allocating and funding governance institutions like the Anti-Corruption Bureau is none negotiable as His Excellency Dr. Lazarus McCarthy Chakwera has from time and again repeated the need to capacitate such institutions as he guarantees their independence from the Executive, the Legislature, and the Judiciary.

Projects under Local Councils

88. Madam Speaker, in an effort to deliver meaningful development projects for enhancement of service delivery in the rural areas of the country, Government is implementing a US\$100 million Governance to Enable Service Delivery (GESD) project in all 28-district councils. Under this project, level of funding to development projects in the District Councils is based on performance such that, the better the performance, the more the funds for implementation of projects.

89. Madam Speaker, Section 13 of the Constitution reads and I quote “The State shall actively promote the welfare and development

of the people of Malawi by progressively adopting and implementing policies and legislation aimed at achieving the following goals and let me jump to part (e) Rural Life.

“To enhance the quality of life in rural communities and to recognize rural standards of living as a key indicator of success of government policies” end of quote.

90. Madam Speaker, the success of government policies should be measured by how much the living standards of rural population has improved. Section 30 sub section 1 of the constitution reads and I quote “All persons and peoples have a right to development and therefore to the enjoyment of economic, social, cultural and political development” And section 3 reads “The state shall take measures to introduce reforms aimed at eradicating social injustices and inequalities.” End of quote.

91. Madam Speaker, an honest reflection of our budgets for the past few years reveals two things:

- i. That ORT tends to take up over 90 percent of our budget;
and
- ii. The meagre development budget hardly reaches the rural population.

92. Madam Speaker, this house should try and honestly reflect on how much of the developmental budget benefits a Namageso ku

Chideza ku Nambuma or indeed Abiti Mvoso kwa Nakunkhu kwa Senior Chief Nazombe ku Phalombe. In line with Section 13 read together with section 30 of the constitution, this budget will start addressing the development inequality the rural masses have suffered for so long. This budget, **Madam Speaker** will start introducing reforms to the administration of the Constituency Development Fund.

93. The CDF will from, henceforth, **Madam Speaker** be classified as development part II and not as ORT as has been the case previously. CDF will be used as a direct and catalytic vehicle to advance meaningful development to the rural masses where every Member of Parliament will be required to show flagship projects for his or her area.

94. Madam Speaker, a budget must be inclusive, a budget must be pro poor and a budget must be developmental. It is in this vein **Madam Speaker,** that the Constituency Development Fund, as a direct injection to rural projects and as a complementary part to the 100 million dollar rural GESD program has been revised to **K100 million** per constituency.

95. Madam Speaker, a team from the Ministry of Finance and Economic Affairs, National Local Government Finance Committee, and Ministry of Local Government are working on quality and standardization of the projects such that structures to be built under CDF will have the same design in all constituencies. One should be

able to identify a CDF classroom block or a CDF health center facility because they will look exactly the same across the country.

96. Madam Speaker, the new guidelines on the administration of this capital fund will be released soon and will have to be followed strictly by the Members of Parliament as well as district councils and city assemblies.

97. Madam Speaker, Honourable Members may therefore wish to note that in the 2022/2023 fiscal year development budget under Local Councils has been allocated a total of K45.13 billion. Of this total, K19.3 billion is for Constituency Development Fund (CDF); K18.6 billion for construction of city roads; K3.1 billion is for the District Development Fund (DDF); K2.3 billion for the construction of water structures; K810.51 million has been allocated for Infrastructure Development Fund; and K1.0 billion has been allocated for dualization of Blantyre – Chileka road.

REVENUE ESTIMATES AND MEASURES

98. Madam Speaker, resource mobilization to support the 2022/2023 Budget is anchored on enhancing tax administration and automation of collection of non-tax revenues through improved taxpayer services, enforcement and compliance. This is necessary to

ensure that resources are mobilized in a cost-effective and non-distortive manner.

99. Madam Speaker, taking various demands into account, Government had to find a balance that would provide fair taxation and at the same time mobilise sufficient resources to deliver public services and spearhead development. The revenue measures that I am to announce therefore take into consideration the need to provide a conducive environment for the private sector to thrive and the need to mobilise adequate resources required for provision of public services and development programmes.

REVENUE POLICY AND ADMINISTRATIVE MEASURES FOR THE 2022/2023 FISCAL YEAR BUDGET

100. Madam Speaker, before I present the 2022/2023 revenue policy and administrative measures, allow me to say two things; First, I would like to thank everyone who took part in the pre-budget consultation meetings that my Ministry conducted. It was good to see the big participation of various stakeholders and the valuable contributions that were made. Be assured that each suggestion and proposal was carefully considered and some will be implemented in this 2022/23 fiscal year.

101. Second, Madam Speaker, I want to report to this August House that in the year 2021, my Ministry launched the Malawi's

Domestic Revenue Mobilization Strategy (DRMS). The Strategy covers the period 2021 to 2026 and, it outlines some of the tax and non-tax policy measures that Government intends to implement to increase domestic revenues by at least 5 percentage points of GDP in the 5 years of its implementation.

The Strategy is aligned to the Malawi 2063 and its First Ten-year Implementation Plan. It is therefore, integral in assisting the achievement of the country's development aspirations of ensuring that Malawi evolves into a lower medium income country by 2030.

Further, the Strategy is our way of being transparent in the formulation of tax and non-tax policies. I, therefore, want to encourage Honourable Members, the business community, and all Malawians to read and support the implementation of the DRMS.

102. Now let me turn to the tax and non-tax measures for the next fiscal year.

Tax policy measures for the 2022/2023 budget

103. Madam Speaker, the Customs and Excise tax measures that I will announce today will be effective midnight tonight whereas the Value Added Tax (VAT), Income Tax, and the Administrative measures will be effective on 1st April 2022 once the relevant Bills have been passed by this August House.

Customs and Excise Measures

104. Madam Speaker, in continuing to support the use of alternative sources of energy, and in continuing to help rural masses that are off the national grid, Government has removed import duty and excise tax on solar lamps and solar fridges.

105. Madam Speaker, in the spirit of promoting girl child education, Government has listened to the contributions that came from various stakeholders and has consequently removed duty and excise tax on sanitary pads as one way of supporting general feminine hygiene.

106. Madam Speaker, continuing with the spirit of supporting and promoting local industries, and to get as many cooperatives as possible on the industrial rebate schemes, Government has decided to reduce the minimum value addition requirement otherwise called local content to make it easier for local manufacturers to enter into the Industrial Rebate Scheme where import duty and excise tax, and in some instances VAT, is not paid on raw materials.

To this end, **Madam Speaker,** four categories have been introduced. Each of these four categories has a minimum value addition requirement ranging from 5 percent to 35 percent. The categories are as follows:

- i. Category 1 for companies registered for production of essential products such as pharmaceuticals and medicaments, fertilizer, and high-technology products. The required minimum value addition is 5 percent. This will help in attracting new investments;
- ii. Category 2 for Small and Medium Enterprises (SMEs) and cooperatives. For example, welders, furniture manufacturers, and block making companies. The minimum required value addition is also 5 percent;
- iii. Category 3 for companies producing for the local market. The required minimum value addition is 10 percent; and
- iv. Category 4 for companies that are producing for export and have been registered as such. The minimum required value addition is 35 percent.

107. To ensure that companies use this incentive effectively by investing more in their business with an aim of reducing their cost of production and improving quality of their products, all companies in categories 1, 2 and 3 will be admitted into the Industrial Rebate Scheme for a maximum of 10 years, while those in category 4 will be under the Scheme for a maximum of 15 years.

108. Madam Speaker, some soft drinks such as “Kombucha” are cleared under a tariff line “other” which does not clearly identify them as either energy drinks or soft drinks hence attracts 20 percent excise tax and not 10 percent as is the case with soft drinks. These drinks do

not have negative externalities just like most soft drinks. Government will, therefore, split such tariff lines to allow these drinks that are not energy drinks to attract a lower excise tax rate of 10 percent.

109. Madam Speaker, to support the growth of the transport sector as well as the tyre manufacturing industry, Government has removed import duty and excise tax on interchangeable tyre retreads. These tyre retreads are used for the manufacturing of tyres.

110. Madam Speaker, spare parts are not allowed to be imported duty free in most Customs Procedure Code (CPC) of the Customs and Excise Tariff Order. However, considering the importance of the energy sector, Government has decided to remove import duty, excise and VAT on spare parts for use in energy generation and distribution. Accordingly, necessary amendments will be made to Customs Procedure Code 489 to allow for the duty-free importation of spare parts for this sector. I should emphasise that the spare parts to be imported duty free under this scheme are only those for direct use in machinery for generation and distribution of electricity, not for motor vehicles or other machinery.

111. Madam Speaker, we have noted that refined glycerine imported in bulk does not attract any import duty while crude glycerine attracts a 10 percent import duty. This is an anomaly and needs to be corrected to level the playing field in the domestic

production of products such as soap. Accordingly, Government has introduced 10 percent import duty on glycerine imported in bulk.

112. Madam Speaker, Government has also introduced 15 percent import duty and 16.5 percent VAT on moulds, whose importation has significantly increased over the years. This is intended to widen the tax base.

113. Madam Speaker, Government will make various amendments to the Customs Procedure Code (CPC) 447, 449 and 496, which cater for duty free importation of some goods by a former president, a former vice president, and senior civil servants to align with their conditions of service. Further, a retired Speaker of the National Assembly and a retired Chief Justice will be added to CPC 496 so that they can also benefit from duty free importation of motor vehicles in line with their conditions of service. Also, Government will provide clarity on which CPC to use when an individual qualifies to import some goods duty free under different CPCs.

114. Madam Speaker, duty is payable at disposal for motor vehicles that are imported duty free under some CPC. However, we have noted that some sellers and buyers collude by declaring lower selling prices than what was actually paid in order to pay less duty. Further, to bring predictability in the valuation of duty-free motor vehicles, Government will gazette a valuation method to be used at disposal to determine the value for duty purposes.

115. Madam Speaker, to protect some local industries and ensure that they grow and compete globally, Government has increased the surcharge for blankets from 10 percent to 20 percent and introduced a surcharge of 10 percent on ballpoint pens.

116. Madam Speaker, Government is also revising processing fees paid by importers from MK15,000 to MK20,000 to ensure that the fee reflects cost recovery of providing the services.

Income tax measures

117. Madam Speaker, in continuing to improve the progressivity of the Pay As You Earn (PAYE) system while ensuring that Government continues to raise realistic revenues from PAYE, the monthly PAYE schedule has been revised as follows:

- i. From 0 to MK100,000 at 0 percent;
- ii. Between MK100,000 to Mk330,000 at 25 percent;
- iii. Between MK330,000 to MK3 million at 30 percent;
- iv. Between MK3 million to MK6 million at 35 percent; and
- v. Above MK6 million at 40 percent.

118. Madam Speaker, where interest is charged at zero or no interest is charged by a lender to another person; for tax purposes, interest is deemed to have accrued and hence subjected to income tax. To determine the interest for foreign loans, the deemed interest

rate is the prevailing London Interbank Offered Rate (LIBOR) plus 5 percent. However, with effect from January 2022, the LIBOR was phased out. Government will therefore amend Section 27 (9) (b) to change the deemed interest for the foreign loans to be 6 percent on the United States Dollar equivalent of the loan.

119. Madam Speaker, the withholding tax (WHT) rate for payment of fees is 10 percent while the withholding tax rate for payment for services is 20 percent. The different withholding tax rates for fees and services has brought confusion and disputes between taxpayers and the tax administration. To resolve this challenge, the withholding tax rate for both fees and services will be aligned at 20 percent.

120. Madam Speaker, some tobacco farmers do not meet the threshold for paying income taxes. Because of that, they travel a long distance to go to Malawi Revenue Authority (MRA) offices to claim a tax refund. The refund arises from the 3 percent withholding tax that they are deducted at the auction floors when they sale more than 10 bales of tobacco. To ease the burden of travelling and the amount of tax that tobacco farmers pay, Government has decided to reduce the withholding tax rate from 3 percent to 1 percent and make the tax final. To slightly compensate for the revenue loss due to this measure, the exemption of the first 10 bales from the withholding tax will be

removed. This means farmers will be taxed 1 percent on all their tobacco sales and it will be a final tax.

121. Similarly, **Madam Speaker**, there are numerous insurance and banking agents that travel long distances to claim small amounts of tax refund on the withholding tax they are deducted on their payment. The insurance and banking agents will also be charged 1 percent final tax instead of the 20 percent withholding tax.

122. Madam Speaker, in an effort to ensure that all businesses and individuals pay taxes, Government introduced the requirement for a Tax Clearance Certificate (TCC) for some transactions to be completed. The additional transactions to require TCC are:

- i. Export and import license;
- ii. Renewal of customs clearing and forwarding agency license;
- iii. Gaming license;
- iv. Suppliers to the government agencies;
- v. Suppliers to the private businesses;
- vi. Duty free clearance except for Government departments and agencies; and
- vii. Any other transaction as may be defined and gazetted from time to time.

123. Madam Speaker, my Ministry received requests from both the Gaming Board and the Gaming and Betting operators for a review of the taxation regime of the sector, whereby withholding tax is

applied on the winnings. Following a review of the various proposals we have made the following amendments:

- i. The withholding tax on gaming and gambling winnings is being reduced from 20 percent to 5 percent;
- ii. The withholding tax rate of 5 percent will be final; and
- iii. The minimum threshold of MK100,000 from which the withholding tax was applying will be replaced by a rebate of MK100,000 in the betting industry and MK500,000 in the gambling industry for each winning, after which, the 5 percent final withholding tax will apply.

124. Madam Speaker, allow me to give an example. If you win MK100,000 or less in a bet, no withholding tax will be applicable. You will be given all the money you have won. But if you win MK150,000 in a bet, for instance, the withholding tax will apply only on the amount above MK100,000, which is MK50,000 in this example.

125. Similarly, **Madam Speaker,** if you win anything less than MK500,000 in a casino or wherever you gamble, the 5 percent withholding tax will not apply. But if you win MK600,000, for instance, the withholding tax will apply only on the amount above MK500,000, which is MK100,000 in this example.

126. Madam Speaker, in the 2021/22 fiscal year, Government introduced presumptive taxes applicable to businesses whose

turnover is less than MK12.5 million. In the 2022/23 fiscal year, Government intends to introduce a requirement for taxpayers under presumptive tax to file their tax return by 30th April for the end of the tax year. Honourable Members should understand that this is a simplified return specifically designed for small businesses and will be easily completed independently or with the assistance of MRA customer care staff. This will assist MRA to identify the presumptive tax bracket or category the taxpayers belong to.

VAT Measures

127. Madam Speaker, my Ministry received many suggestions on the taxation of cooking oil. I have also held various meetings with players in the industry and a study was conducted by my Ministry to see how best we can assist the industry to ensure that the cost of cooking oil is affordable for all Malawians.

128. The Honorable Members and all Malawians may wish to know that the key contributing factor for the high cooking oil prices is the huge increase in prices of raw materials that are used for the production of cooking oil, most of which are imported. Regardless, Government has henceforth decided to exempt cooking oil from VAT. It is my belief that this gesture will be reciprocated by the cooking oil manufacturing companies by reducing cooking oil prices hence forth.

129. Madam Speaker, as one way of ensuring that potable water is accessible to all Malawians at affordable rates, Government hence forth exempted **tap** water from Value Added Tax.

130. Madam Speaker, Government has also noted that the withholding VAT system is causing various problems to business people, mainly with regards to holding up their operational revenue. Accordingly, Government is abolishing the withholding VAT system.

131. Madam Speaker, in the 2021/22 fiscal year, Government amended the VAT Act to reduce the validity period for claiming input VAT from 12 months to 6 months. However, the same amendment was not made to the Tax Administration Act. Accordingly, Government is proposing for the same amendment to be done in the Tax Administration Act.

Non-tax Revenue

132. Madam Speaker, My Ministry is enhancing efforts to improve Non-tax revenues performance. These are revenues, which are collected by Government Ministries, Departments and Agencies, for example, through fees charged for government services. The main challenges that Government has been facing include the lack of automation of the systems and the archaic business processes in place, that are also inefficient and hence ineffective in mobilizing the non-tax revenue.

133. To address these challenges in the 2022/2023 fiscal year, Government is set to develop a clear non-tax policy and hard work to ensure that there are enabling procedures that will guide the MDA's implementation of the required reforms in their respective revenue collection processes. In this way, my Ministry will ensure that the MDAs strengthen their revenue collection function and curb the rampant revenue leakages that are hampering mobilization efforts by adopting among strategies, automation.

CONCLUSION

134. Madam Speaker, with the launch of the Malawi 2063 and the First 10-year implementation plan, our country has renewed its commitment to the attainment of the lower-middle-income status by 2030. We, therefore, need to learn from the past challenges if we have to charter the desired path to our destination.

135. Madam Speaker, as people's representatives, we must always strive to foster unity of purpose in advancing our country's agenda and the well-being of the people we serve. Let me assure this August House that our future is bright and secure under the able leadership of His Excellency, Dr. Lazurus McCarthy Chakwera, the State President of the Republic of Malawi.

136. Madam Speaker, the Government is aware that for these goals to be met, some challenges need to be overcome. This calls for every Controlling Officer to maintain fiscal discipline. Furthermore, there is need to sacrifice and raise more domestic resources to finance our development while we only borrow for projects that will enhance growth.

137. Madam Speaker, a new Malawi is possible where everyone is accountable for their actions; where the leadership governs justly, invests in its citizens and creates opportunities for all; and citizens rise to the occasion to perform their civic duties and responsibilities. Together, we can turn around this country and it is not beyond us as a people.

138. Madam Speaker, this Government has always placed national interest at the centre of its development agenda. The 2022/2023 budget provides practical measures to implement the First 10-year Implementation Plan for Malawi 2063, provide opportunities to the youth, protect the vulnerable population and reduce inequalities among our people. **Madam Speaker** I present to this House a Budget that starts to deal with our debt burden. I present to this House a budget that prioritises local manufacturing, export diversification and import substitution thereby keeping and creating new jobs. Madam Speaker, I present to this House a Budget that signals a turning point for the new Malawi.

139. Madam Speaker, I beg to move.