

MACROECONOMIC STABILITY: A PRECONDITION FOR ECONOMIC GROWTH AND POVERTY REDUCTION IN MALAWI

MOTION

1. Mr. Speaker, Sir, Honourable Members, I beg to move that the Estimates on the Recurrent Account and Development Account for the 2003/04 financial year be referred to the Committee of the whole Assembly to consider them by Vote and Head and, thereafter, that they be adopted.

INTRODUCTION

2. Mr. Speaker, Sir, before I present the 2003/04 Budget, allow me to first and foremost, express my sincere gratitude to His Excellency the President, Dr Bakili Muluzi, for his support and wise guidance during the preparation of the budget that I am presenting today. The task of preparing the budget was made easier by the fact that I was able to call upon His Excellency at any time for his direction on very crucial and challenging matters. I would also like to express gratitude to my Cabinet Colleagues who provided objective input in the formulation of the budget.

3. Mr. Speaker, Sir, Honourable Members, this is the second time I am standing in this Honourable House to present a Budget Statement. The just ended fiscal year was the most challenging for me considering the difficult times the economy went through. Fortunately for me, my Cabinet Colleagues and most Malawians were very supportive and understanding. This, Mr Speaker, Sir, made my work easier. In the year ahead, I will continue to serve His Excellency the President, the Government and the people of Malawi to the best of my ability in our fight against poverty and to ensure that Malawi turns around and attains stable and sustainable economic growth.

4. Mr Speaker, Sir, in keeping with the spirit of popular participation, I am pleased to inform this Honourable House that the preparation of this budget has also benefited from contributions by various stakeholders such as the Private Sector, Civil Society, Non-Governmental Organisations (NGOs), the academia and the donor community. The Pre-Budget consultations, which have become an integral part of the budget preparation process, solicited numerous ideas on issues that can assist in turning this economy around. Whilst it is not possible to include all the suggestions in this particular budget, I wish to assure the stakeholders that most of their ideas guided us in the preparation of this budget.

5. Mr Speaker, Sir, the theme of the 2003/04 Budget is **MACROECONOMIC STABILITY: A PRECONDITION FOR ECONOMIC GROWTH AND POVERTY REDUCTION IN MALAWI**. Mr. Speaker, Sir, a little bit of macroeconomic theory should help to explain this theme. Macroeconomics is a public policy science that explains economic events in aggregate as they concern employment, output and inflation. Mr. Speaker, Sir, when the growth of GDP slows down, it is reflected in increasing unemployment. This is a serious problem because we want people to be gainfully employed so that they can support themselves and feel that they are contributing members of the society. Therefore, increasing total production through economic growth should be a major preoccupation of Government. On the other hand, inflation is a continuance rise in general prices of goods and services which could be caused by a number of reasons including more money in circulation than goods and services produced by a country at any one point in time.

6. Mr. Speaker, Sir, high inflation is demoralizing to the society and interferes with the conduct of economic activity. For instance, it is difficult under such circumstances to develop contracts between borrowers and lenders that do not represent a serious disadvantage to the lender. And if confidence in the purchasing power of the monetary unit vanishes, production and exchange will be impaired because in that case exchange cannot be conducted except by barter. Inflation is also said to penalize creditors at the expense of debtors, encourages speculative rather than productive activity, and harm those who live on relatively low and fixed incomes, such as pensioners and the elderly.

7. Mr. Speaker, Sir, our worry within Government is always the fear of what unemployment, too much inflation and too little growth would mean to the country's development agenda. In the case of Malawi, high interest rates have mainly been attributed to the Government's appetite to spend more than available resources. The resulting high interest rates have made it impossible to nurture meaningful economic activity. As a nation, we now are faced with an economy that is failing to grow, people whose abject poverty has unbelievably become part of their life. It is for this reason Mr. Speaker, Sir, that the theme of this Budget Statement is **Macroeconomic Stability: A Precondition For Economic Growth Poverty Reduction In Malawi**. We need low and stable interest rates, low and stable inflation and low and stable exchange rate. This would help to create an enabling investment environment necessary for sustainable economic growth and development.

8. Mr. Speaker, Sir, the Government is fully aware that high interest rates, which arise from high levels of domestic borrowing, are a deterrent to private sector participation. The Government is also aware that the poor are the ones who are hurt most during inflationary periods. Government, therefore, will limit expenditures to available resources without recourse to domestic borrowing. This will imply a strict enforcement of the cash budget system. The 2003/04 budget is, therefore, built on the principle of spending only what is available.

9. Mr. Speaker, Sir, I take comfort in the fact that the implementation of the 2003/04 budget will be made easier by the Public Finance Management Act, the Public Audit Act and the Public Procurement Act which were passed by this August House during the last sitting of Parliament. These pieces of legislation provide a legal framework for instilling fiscal discipline, strengthening accountability and transparency. Further, these Acts provide the legal basis for taking action against Controlling Officers and Chief Executives of parastatal organisations who contravene financial management regulations.

10. Mr. Speaker, Sir, the Public Finance Management Act signals a change in emphasis from the previous narrower notion of dealing with public money to a wider and more comprehensive notion of the economic, fiscal and financial management of public finances. This wider emphasis includes the requirement for the Treasury to produce detailed economic, fiscal and financial information to provide Government with enhanced decision making capacity. The Act establishes and sets out more clearly the authority, roles and responsibilities of the Minister of Finance, other Ministers, Controlling Officers and other persons in the management of finances of the state. Further the Act deals with the Government relationships with statutory bodies, and stipulates the financial accountability and reporting requirements.

11. Mr. Speaker, Sir the Act has provisions of penalties for the misuse of public money or public property. A Controlling Officer or a Chief Executive commits an offence when he authorises expenditure or commitment of funds in excess of what is authorised by Parliament, he/she is liable on conviction to a fine of K100,000 and to imprisonment for five years. Where the person is from a statutory body, a fine of K500,000 will be charged. What this means Mr. Speaker, Sir is that a Controlling Officer or a Chief Executive who overspends under cover of a Minister or a Chairman of the Board still commits an offence. In fact, Mr. Speaker, Sir, the Act clearly identifies the roles and responsibilities of Ministers and specifies the responsibility of overseeing the performance of Controlling Officers of their ministries. Ministers are charged with the responsibility for ensuring that the annual budgets of their Ministries are realistic and reasonable and that their objectives and outputs are achieved.

12. Mr. Speaker, Sir, Honourable members you may be aware that about 75.0 percent of the budget is spent on procurement of goods and services. It is, therefore, critical to ensure that procurement is well controlled. The Public Procurement Act, therefore, provides for basic principles and procedures to be applied in and regulate the public procurement of goods, works and services in order to promote transparency, accountability and efficient use of public resources. The Act provides for the establishment of the office of the Director of Public Procurement (DPP) and the establishment of Internal Procurement

Committees (IPC) in ministries, departments and parastatal organisations. May I take this opportunity to appeal to all IPC's to adhere to the provisions of the Act. All parastatal organisations that do not have IPCs should form them by the 15th of July 2003.

13. Finally, Mr. Speaker, Sir, the Public Audit Act deals with the public audit practice, the functions and duties of the Auditor General and the National Audit Office. The Act confirms Government's position that the role of the Auditor General is critical to the efficient and effective monitoring of public revenues and expenditures and the management of public resources. In this regard, the Act empowers the Auditor General to summon persons to produce documents or supply information required for audit purposes. Failure to comply may result in criminal sanctions.

14. Mr. Speaker, Sir, macroeconomic stability, by itself, cannot guarantee an improved quality of life unless every Malawian participates in productive activities. We cannot expect this country to achieve growth only by the benevolent interventions of external assistance. Just as every man should be able to fend for himself and his family, we need to ensure that we as a nation are able to fend for ourselves. This can only be achieved if, and only if, every Malawian takes his/her part in improving the productivity of our nation. It is disheartening to note that our culture of working hard is deteriorating. For instance, why should we expect Malawians to feed on tomatoes, onions, cabbages and

potatoes from neighbouring countries when we have equally fertile soils and water to produce for ourselves. I wish, therefore, Mr. Speaker Sir, to appeal to all Malawians to take up the challenge of improving the productive capacity by working hard. At the end of every month, for example, one should ask oneself what he/she has contributed to the economy of Malawi. Just as John F. Kennedy said, ***“Don’t just ask what Government has done for you but rather what you have done for your Government.”***

15. Mr. Speaker, Sir, most people will agree with me that we have experimented enough in this democratic dispensation. We have freedom of expression, everyone is free to sue anybody, injunctions can be obtained willy nilly, we are free to demonstrate and you name it. In fact, we have gained a lot of mileage in human rights and freedom of association. We have NGOs in this country that have very well articulated the fundamental principles of human rights. What the NGOs have failed to do is sensitise the masses to the fact that rights go with responsibilities. Everyman or woman has the responsibility to fend for himself and for one’s family. The same NGOs that have ably articulated the fundamental human rights to the masses, should articulate the fact that human beings have the responsibility to fend for themselves.

16. As for the faith community, let me remind them that they have the responsibility of preaching the same Gospel of hard work to their congregations. May I refer them to the wise words of Saint Paul in his second letter to the Thessalonians in which he wrote:

“For while we were with you, we gave you this charge, ‘if anyone does not want to work then he should not eat either’. For we are hearing that some of you are living in idleness, not working but busy in other people’s affairs. Such persons we direct and charge in the Lord Jesus Christ that, by doing their work quietly, they earn own their own living (II Thessalonians 3:10-12)

17. Mr Speaker, Sir, allow me, to appeal to the Honourable Members of this august House to assist me in preaching the gospel of togetherness in the fight against poverty. All stakeholders, including Members of Parliament, my Cabinet Colleagues, Civil Servants, civil society, Non-Governmental Organisations and the private sector have a role to play in the implementation of this budget. It is only when all of us are pulling in the same direction that the underlying objectives of this budget can be attained: ***United we stand, divided we fall.***

18. Mr. Speaker, Sir, Honourable Members, let me briefly outline the major economic developments in the rest of the world and how these have impacted on our economic performance. My emphasis will be on highlighting those areas that may have affected the design of the 2003/04 budget.

WORLD ECONOMIC OUTLOOK

Global Outlook

19. It is estimated that the world economy grew by 3.0 percent in 2002, compared to 2.3 percent in 2001. The Global growth in 2003 is currently estimated at 3.2 percent, although the uncertainty generated by the build up to the war in Iraq caused a temporary slowdown in the recovery.

Industrialised Countries

20. In industrial countries, the United States of America is expected to grow by 2.2 percent. The dollar depreciated by 14.0 percent by March 2003 due to both geopolitical concerns and America's continued reliance on foreign capital inflows. However, the dollar has appreciated against most major currencies after the Iraq war. The recovery in the Euro zone has been much slower to materialize with growth in 2002 of just 0.8 percent. This is largely, due to weak domestic demand and tight fiscal policy, particularly, in Germany, the largest single economy. Outside of the Euro zone domestic demand has helped to sustain growth with estimated growth of 1.6 percent in the United Kingdom in 2002 and is expected to increase to 2.0 percent in 2003. In the Far East, Japan continues to experience deflation and economic prospects remain weak.

Developing Countries

21. In Latin America, after the deep recession of 2001-02, economic recovery is underway. However, significant vulnerabilities remain in the

major economies of Argentina, Brazil and Venezuela. Economic performance in the Asia-Pacific region, excluding Japan, has been impressive, with real Gross Domestic Product, increasing by 6.0 percent in 2002. China has led the way with a growth of 8.0 percent.

Africa

22. Among the poorest countries, GDP growth in Africa remained relatively resilient to the global downturn, reflecting improved macroeconomic policies and stability, progress in resolving regional conflicts and rising commodity prices. However, this was tempered with serious famine in Southern Africa and the Horn of Africa caused by poor weather conditions and exacerbated by governance problems and the HIV/AIDS pandemic. Oil prices rose sharply in 2002 and early 2003 due to expectations of war in Iraq and to supply disruptions from Venezuela and Nigeria. However, non-fuel commodity prices also rose significantly in 2002, particularly for food and agricultural raw materials although they remain low by historical standards.

23. As a result growth for the continent was 3.4 percent in 2002, with only minor improvements expected in the current year. South Africa, Malawi's largest trading partner, continues to enjoy moderately strong growth aided by an appreciating Rand and a lower than expected fiscal deficit.

THE MALAWI ECONOMY

Macroeconomic Performance

24. Mr. Speaker, Sir, Honourable Members, the Malawi economy grew by 1.8 percent in 2002 compared to negative 4.1 percent in 2001. In 2003, it is expected that the economy will grow by 3.4 percent and increasing further to 4.3 percent in 2004 due to significant improvements in the agricultural sector.

25. Mr. Speaker, Sir, I am pleased to report that inflation as measured by the Consumer Price Index (CPI) has declined. Members may wish to note that inflation which was at 15.5 percent in January, 2002, declined to 11.5 percent in December, 2002 and to 9.0 percent in May 2003. This downward trend in inflation is largely attributed to availability of large quantities of maize on the market due to imports by government, donors and the private sector.

26. Prospects for 2003 are that inflation will continue to decline. Main contributing factors include expected low maize prices this year following a bumper crop, a relatively stable exchange rate and an oversupply of petroleum on the international markets which is expected to bring down oil prices on our domestic market. It is, therefore, expected that by December, 2003 inflation will decline to 7.5 percent.

27. Mr Speaker, Sir, although inflation is declining, interest rates have remained high. The base-lending rate, for example, has remained above 40 percent resulting in high lending rates in the banking sector. These high interest rates continue to stifle private sector investment. Government is therefore committed to implementing tight fiscal and monetary policies aimed at reducing inflation and lowering interest rates.

Fiscal Performance In 2002/03

28. Mr. Speaker, Sir, Honourable Members will recall that in June, 2002 this august House approved a budget with total revenue and grants of K43.15 billion. This comprised total domestic revenue of K27.14 billion and grants of K16.01 billion of which balance of payments support was estimated at K9.10 billion and K3.40 billion for HIPC. On the other hand, total expenditures were at K45.26 billion comprising recurrent and development expenditures estimated at K32.82 billion and K12.44 billion, respectively.

29. Mr. Speaker, Sir, Honourable Members will further recall that as a result of expenditure pressures in wages and salaries, the need to finance the importation of maize, overruns on other recurrent transactions (ORT) in a number of votes, and the high interest payment bill, it became necessary to present a supplementary budget. In the supplementary budget, total revenue and grants were at K39.47 billion. This was due to a downward revision in donor budget support.

However, domestic revenue collection performed better than projected from K27.14 billion to K32.47 billion of tax and non-tax revenue. Of this amount tax revenue and non-tax revenue collections exceeded targets by K2.95 and K2.41 billion respectively. The non-tax revenue included collections from measures that were instituted in the course of the financial year. The measures included remittance of dividends from some parastatals, revision of motor vehicle license fees and road levy.

30. Mr. Speaker, Sir, the outturn on expenditure for 2002/03 is estimated at K53.94 billion. Out of this amount, K 10.60 billion was spent on wages and salaries while K 17.80 billion was spent on ORT. Interest on debt for the year amounted to K 10.90 billion, out of which K8.90 billion was on domestic debt servicing.

31. Mr. Speaker, Sir, despite the pressures that were experienced during the year, Government ensured that expenditures on pro-poor activities were protected. This House approved an allocation of K10.30 billion for PPE's for 2002/03, representing 6.4 percent of GDP. I am pleased to report, Mr. Speaker, Sir, that the outturn for the year shows that the actual expenditure was K 11.40 billion, representing 6.8 percent of GDP.

32. Mr. Speaker, Sir, the expenditure in the 2002/03 followed priorities set by the MPRS. Allow me, Mr. Speaker, Sir, to highlight some of the major expenditures undertaken during the year. In order to address the

problem of insecurity in this country, the Government bought one hundred and thirty vehicles for the Malawi Police Service. These vehicles will assist to improve mobility of the Police in responding to crime. I wish to appeal to the Police Service to take good care of these vehicles.

33. Mr. Speaker, Sir, the 2002/03 budget allocated K 70.90 million for mainstreaming HIV/AIDS in all ministries and departments. This amount was meant to be used for mitigation measures in Government departments as a way of redressing the manpower losses brought about by the scourge. The Government is working closely with the National Aids Commission (NAC) to develop work place mitigation mechanisms. It is hoped that these efforts will help in reducing the infection rate and safeguard the lives of the much-needed labour force. The Commission will continue to provide technical support to all the ministries to ensure that all planned activities are implemented efficiently and effectively.

34. The 2002/03 budget, Mr. Speaker, Sir, also initiated the decentralization process through fiscal transfers to the District Assemblies. The budget provided for K 298.60 million to be transferred to the assemblies through the Local Government Finance Committee. In line with the principle of transparency and accountability, the transferred amounts were published in the print media on a quarterly basis. The outturn for the year shows that K229.30 million has been transferred to the Assemblies.

Monetary Performance In 2002/03

35. Mr. Speaker, Sir, Honourable Members let me now turn to the monetary sector. Despite a tight monetary policy stance, money supply has been growing during the course of the year. Money supply grew from K23.90 billion in June 2002 to K28.50 billion in April 2003. The main reason for this growth is the increase in Government domestic borrowing from the banking system.

36. Mr. Speaker, Sir, international reserves as measured by months of import cover fell from 3.1 months of imports in June, 2002 to 1.8 months of imports in April 2003. Reserves fell due to the need to finance maize imports. Further, the Reserve Bank of Malawi sold some of its foreign exchange to the market in order to reduce pressures on the exchange rate.

37. Following these developments, the exchange rate moved from K75.60 to the United States Dollar in July, 2002 to K90.47 to the United States Dollar in April, 2003.

Aid Coordination And Cooperation

38. Mr. Speaker, Sir, allow me to sincerely thank our cooperating donor partners for the continued assistance they render to Malawi. Although there was a suspension of donor budgetary support, Government received a lot of support in a number of important projects

and programs. Just to mention a few examples, the European Union has played a major role in infrastructure development. A total of 780 boreholes have been drilled with resources from World Bank, Japan and Germany, whereas USAID, DFID, NORAD and the World Bank assisted the Government in the procurement and distribution of free maize and the starter pack scheme. The Canadians through CIDA, the Swedish through SIDA, NORAD, DFID, World Bank, UNDP and all other UN agencies and USAID have committed to providing resources to combat the HIV/AIDS pandemic. Mr. Speaker, Sir, these plus many other donors are still supporting various activities that will make positive contribution to the development of our nation.

39. Mr. Speaker, Sir, some of the donors have, however, expressed concerns on the accountability and transparency in the use of public and donor funds. They have also expressed concerns over the lack of provision for counterpart funds. Mr. Speaker, Sir, I would like to assure our development partners that donor funds and indeed all Government resources will be used in an accountable and transparent manner. I already mentioned the enactment of the Procurement Act which provides procedures for regulating the Public Procurement of goods and services in order to prevent fraud, promote transparency and accountability. Controlling Officers that will misappropriate public funds will be severely disciplined. Public Finance Management and the Public Audit Acts will also help to ensure that public resources are used effectively and efficiently.

40. Mr. Speaker, Sir, distinguished colleagues, I would like to inform the House that Government has been holding talks with cooperating donor partners to exchange views on economic and social development challenges facing Malawi. The talks also aim at reviewing Government strategies for development and overall direction of development cooperation between Government and donors.

41. Mr. Speaker, Sir, Malawi is striving to achieve the Millennium Development Goals (MDGs) which were endorsed by the Heads of State of the United Nations member countries. In line with the MDGs, Malawi aims at reducing by half the incidence of poverty by 2015. For the country to attain this goal, as well as other MDGs, there is need for substantial financial resources. The UNDP estimates that Malawi needs at least US\$ 4.0 billion if we are to attain the MDGs by 2015. Unfortunately, the way donor resources have been flowing-in will make it difficult to attain the MDGs and yet on our own we cannot achieve them. I would like, therefore, to appeal to our cooperating partners to increase the level of assistance to the country to enable us attain these goals.

Parastatal Sector Performance

42. Mr Speaker, Sir, Parastatals continue to play an important role in the development of this country. Parastatals were established by Government to provide critical services which the private sector could

not provide because of the nature of investment which required huge capital outlays. Although parastatals are public investments, Government's intention has remained one of ensuring that the parastatals are run and managed in a commercial manner in order to effectively and efficiently deliver services to the citizens of this country. It is for this reason that I always take time in my Budget Statement to give a brief on the performance of these public investments.

43. Mr. Speaker, Sir, I reported to the House last year that my Ministry created a Public Enterprise Reform and Monitoring Unit (PERMU) to critically examine and monitor financial activities of ten major parastatals namely: Agricultural Development and Marketing Corporation (ADMARC), Air Malawi Limited, Malawi Development Corporation (MDC), Malawi Housing Corporation (MHC), Malawi Telecommunication Limited (MTL), Electricity Supply Corporation of Malawi (ESCOM), Southern Region Water Board, Central Region Water Board, Northern Region Water Board and Malawi Posts Corporation (MPC).

44. Mr. Speaker, Sir, out of the ten parastatals I have mentioned only Air Malawi Limited, ESCOM, MTL and Southern Region Water Board made profits last year. It is understandable that part of the reason many parastatals are not doing well is because of the hostile economic environment. Just like any private company, parastatals can also face demand and supply constraints that can affect their operations. It is

also understandable that their financial operations have been frustrated by non-settlement of bills by their clients including Government. However, the other contributing factor in some parastatals has been the quality of management and the people sitting on the boards. Most of them have very little knowledge of the operations of the institution they are serving and yet are required to make critical policy and operational decisions.

45. Mr. Speaker, Sir, in order to ensure that parastatals are being run and managed as intended, Government will ensure that the general business environment is friendly by containing expenditures in line with available resources so that interest rates and inflation are abated. Government will also ensure that bills for services consumed by Government institutions are paid and on time. The selection of Board Members for the parastatals will be carefully done this time around so that only those that have relevant education qualifications and skills sit on Boards. The performance of Chief Executives of the parastatals will be strengthened by the provisions of the new Public Finance Management Act, Public Audit Act and Public Procurement Act.

46. Mr Speaker, Sir, to ensure that Government gets a return on its investment, a Dividend Policy has been formulated. Government will be getting a share of profits earned by parastatals. I am pleased to report that already a number of our parastatals have remitted dividends to Government and these are ESCOM, MTL, MACRA, Blantyre Water Board

and DAIRIBORD. Allow me Mr. Speaker, Sir, to sincerely congratulate the management and entire staff of these parastatals for a job well done.

47. Lastly on parastatals, Mr. Speaker, Sir, allow me to comment on the Government's privatisation program. The main objective of the privatisation exercise is to encourage private sector development in areas where Government cannot perform efficiently. As I mentioned earlier, Government invested in these enterprises because at that time private sector financial capacity was lacking. We are, therefore, saying as Government, if there are other private sector players who can better deliver these services than Government, then let them buy these enterprises. The country now is attracting investors that can efficiently run these enterprises. Government should, therefore, concentrate on provision of regulatory framework and invest in infrastructure to improve the investment environment.

Structural Reforms

48. Mr Speaker, Sir, Honourable Members, Government is committed to implementing structural reforms. These reforms are aimed at laying the basis for generating growth by supporting macroeconomic stabilization. There have been reforms in the agriculture sector, public expenditure management and parastatal management.

49. Mr Speaker Sir, Government is currently discussing with the World Bank on a Structural Adjustment Credit (SAC). The credit will support specific reforms in agriculture, parastatal management and public expenditure management, consolidating and building on the progress made in earlier structural reforms.

50. Mr Speaker, Sir, the reforms in the agriculture sector are aimed at contributing to economic growth through increasing the returns to smallholder farmers by creating an efficient tobacco and maize market as well as functioning land market. Some of the areas to be reviewed include rent on leased land to a level which discourages farmers from keeping leased land idle. There will also be a review of tobacco marketing including reduction of levies charged on tobacco farmers and improvements in tobacco marketing channels. In addition, Government will review institutions involved in production and marketing of tobacco with a view to rationalising them. On maize marketing, Mr Speaker, Sir, the reforms will cover the restructuring of ADMARC.

51. Mr Speaker, Sir, parastatal reforms are aimed at reducing the burden of parastatals on the budget. The reforms will continue to focus on the process of privatising state owned enterprises which could be better managed by the private sector.

52. Mr Speaker, Sir, the reforms in public expenditure management are aimed at strengthening the Government capacity to meet macroeconomic stabilisation targets. Strengthening fiscal decentralisation to district assemblies and the control of arrears are some of the major areas of focus in the reform program.

PRIVATE SECTOR DEVELOPMENT

53. Mr. Speaker, Sir, this year has also been difficult for the private sector. The general poor economic conditions that prevailed made it difficult for most businesses to perform as planned. Key challenges continued to be macroeconomic instability, high transport and infrastructure costs, lack of quality management skills and globalisation.

54. Mr Speaker, Sir, Government is fully aware of the importance of supporting the private sector so that as partners we both develop this country. In this budget, Government is, therefore, taking necessary measures to improve business environment. These measures will include, firstly, the reduction of domestic debt which will assist in bringing down the high interest rates. Secondly, increased budgetary allocations to the Ministries of Commerce and Industry, Economic Planning and Development and Tourism Parks and Wildlife and Department of Mines which will enhance facilitation of private sector growth. In addition, Government is increasingly engaging the private

sector in consultations to share information necessary to improve the partnership. The House may wish to note that already there is dialogue between Government and the private sector through the National Action Group (NAG) on the country's growth strategy which is currently under preparation. It is hoped that these discussions will make a difference for Malawi.

55. Mr. Speaker, Sir, let me, appeal to the private sector to take the challenge and opportunities offered by globalisation and other trade agreements such as Africa Growth Opportunities Act (AGOA) and Everything But Arms (EBA). To achieve this, the sector must address issues of quality and competition. On its part, Government is prepared to facilitate the development of the private sector. Commercial banks and financial institutions have a responsibility to offer affordable interest rates. On its part Government undertakes to reduce domestic borrowing to reduce interest rates.

56. Mr. Speaker, Sir, Honourable members one of the Government roles is to facilitate the development of the private sector in Malawi in order for it to take a leading role in developing this nation. Mr. Speaker, Sir, for us to achieve this, it requires a number of strategies. It is with this view, Mr. Speaker, Sir, that Government embarked on a privatisation programme in order to increase private sector participation in economic development of this country.

57. Mr. Speaker, Sir, Honourable members, I am pleased to inform the august House that Government is still pursuing privatisation of some of entities including Smallholder Tea Authority and Malawi Tea factory company; Malawi Savings Bank; Malawi Rural Finance company, Malawi Telecommunication Limited, Grain and Milling, David Whitehead and Sons Limited and Air Malawi Limited, among others. It is our hope that the divestiture of these firms will be concluded in the nearest foreseeable future.

THE 2003/2004 ECONOMIC PROGRAM

58. Mr Speaker, Sir, the objective of the economic programme for the 2003/2004 fiscal year is to continue pursuing our medium term development strategy which seeks to reduce the incidence of poverty by consolidating the progress achieved so far under the MPRSP.

59. Consistent with this objective, the 2003/2004 programme aims to achieve real Gross Domestic Product (GDP) growth of 3.4 percent in 2003 and 4.5 in 2004; containing inflation at 7.5 percent; and increasing international reserves to about 3 months of import cover of goods and non factory services by year end. To improve macroeconomic stability, the budget aims to attain the domestic fiscal deficit of about 3.0 percent of GDP.

60. Mr. Speaker, Sir, Honourable Members, the Reserve Bank of Malawi will maintain its tight monetary policy stance in order to attain the inflation target of 7.5 percent by December 2003.

GUIDING PRINCIPLES AND CHALLENGES FOR THE 2003/04 BUDGET

61. Mr Speaker, Sir, in formulating the budget we have been guided by mainly six principles. The first guiding principle is the emphasis on economic empowerment as articulated in the Malawi Poverty Reduction Strategy (MPRS). The MPRS overarches on four main pillars. The first pillar aims at promoting pro-poor growth, the second enhances human development, whilst the third aims at improving the quality of life for the poor and the fourth advocates good governance. It is through these strategic pillars that the budget develops its various activities for implementation. Mr. Speaker, Sir, Honourable members will recall that the full MPRS has been implemented during the fiscal year that we have just concluded. The first annual review process concluded in March 2003, has shown that allocation of resources using MPRS is more comprehensive than the budget which excludes personal emoluments and administrative costs surrounding any specific major activity. Further, it has shown that all activities funded by donors should be included in the budget if the full impact of the MPRS is going to be assessed. The MPRS finally assists the budget to rationally allocate resources between the productive and social sectors to achieve a particular balance.

62. Second, related to MPRS, is the Public Sector Investment Programme (PSIP) which is a list of all on-going projects under implementation and in the pipeline. Basis for entry of projects into the PSIP is that they should be pro-poor. The PSIP ensures that projects conform to national economic growth and development priorities. With the launch of the MPRS, PSIP is the only appropriate mechanism that ensures that the development budget contains only programmes and projects that are consistent with the MPRS. The PSIP coordinates and directs the development efforts of the donors. This helps to reduce cases of development projects financed outside the budget and enhances ownership of the budget formulation process. It provides the framework for determining the balance between the other recurrent transactions (ORT), priorities for achieving sustainable economic growth, poverty reduction and redirecting scarce resources in key activities to facilitate private sector growth and lasting development. This concept has also been stipulated in the draft Growth Strategy.

63. Third, related to the MPRS, is the Medium Term Expenditure Framework (MTEF). The philosophy behind the MTEF is that one has to prioritise the little available resources in such a way that those activities that have direct impact on poverty should be given adequate resources within the medium term perspective.

64. Fourth, this budget, Mr. Speaker, Sir, aims at drastically reducing the level of domestic debt to sustainable levels by ensuring that recurrent expenditures plus the domestically financed development projects are within the domestically generated budget revenues. The architecture of the budget has, therefore, been guided by the fact that domestic debt has to be retired. This together with other policy instruments will help to achieve the much-needed reduction in interest rates. Such an outcome will also assist to augment foreign reserves and stabilize the currency.

65. Fifth, Mr. Speaker, Sir, the 2003/04 budget formulation has been guided by the Growth Strategy which has just been formulated by Government. The Growth Strategy stemming from Pillar 1 of the MPRS, which promotes pro-poor growth, ensures that the poor are the key participants and beneficiaries of growth.

66. Finally, the 2003/04 budget will not have any significant reductions in tax rates. However, Government undertakes to carry out a tax reduction program in the next three fiscal years. The tax burden will be reducing as the economy stabilises and as people become more tax compliant.

THE 2003/04 BUDGET FRAMEWORK

67. Mr. Speaker, Sir, Honourable Members, presented before you are the relevant Budget Documents as follows: 2003/04 Budget Statement as Budget Document No 1, 2003 Economic Report as Budget Document No. 2. Financial Statement 2003/04 as Budget Document No. 3, and Draft Estimates of Expenditure on Recurrent and Capital Accounts for the financial year 2003/04 (output based) as Budget Document No. 4.

68. Mr. Speaker, Sir, allow me to highlight the main aggregates in the budget documents. Total revenue and grants amount to K59.97 billion. In terms of domestic resources K36.01 billion is projected to be collected.

69. The budget has a total grants of K23.45 billion including budgetary support of K10.80 billion, project grants of K4.92 billion, HIPC resources of K5.30 billion and a contribution from the donors for the general elections of K480 million.

70. Mr Speaker, Sir, the total recurrent expenditures for 2003/04 are estimated at K41.69 billion. Of this amount, personal emolument (PE) is estimated at K11.44 billion while Other Recurrent Transactions (ORT) are estimated at K16.56 billion. Development expenditures are estimated at K14.84 billion of which K12.32 billion will be foreign financed while K2.52 billion will be financed from local resources.

71. Mr Speaker, Sir, the 2003/04 budget has a provision of K1.54 billion for the General Elections. The expenditures allocated to the General elections will be centralised under the Special Activities Vote and transferred to the Electoral Commission. This has been done to enhance the management of these expenditures following lessons learnt in the 1999 General Elections. This centralization will enable Government to closely monitor and control expenditure at one point and the duplication of expenditure spread in other line ministries.

72. Mr. Speaker, Sir, the General Elections should not undermine the economic gains that we have achieved so far. All of us, Honourable members, are aspiring to maintaining our positions whilst others are aspiring for higher offices. We also have different party ideologies, but when it comes to the economy, we all have a common objective of developing this country and fighting a common enemy which is poverty. Let us therefore, bury our party differences and fight poverty together.

73. Mr Speaker, Sir, in line with the MPRS priorities, the allocations have been skewed towards pro-poor areas. Out of the total budget of K44.2 billion, the shares of priority ministries are as follows: 15.3 percent for Education, Science and Technology; 9.0 percent for Health and Population; 3.8 percent for Agriculture,; 3.9 percent for Water; and 4.6 percent for Roads.

74. Mr. Speaker, Sir, pro-poor expenditures have also been protected in the 2003/04 budget. A total of K 12.18 billion has been allocated to PPE's which is about 7.0 percent of GDP. This compares favourably to the 2002/03 allocation of 6.4 percent of GDP. Mr. Speaker, Sir the government will ensure that these amounts are protected even in circumstances where there is a shortfall in revenues. When such shortfalls are experienced, other low priority activities will be scaled down or stopped altogether.

75. Mr. Speaker, Sir, the Government would like to provide as much resources as it can to the pro-poor sectors. There is, however, a delicate balance that needs to be achieved amongst other equally important needs. For instance, Mr. Speaker, Sir, if we are to meet all the demands in the education and health sectors, the entire budget would go to these sectors. At the same time, there are equally pressing demands in other sectors such as security and other administrative arms of the Government. It is a challenge, therefore, to balance the requirements from the different sectors within the tight resource envelop.

76. Mr. Speaker, Sir, the 2003/04 budget has made a provision of K6.8 billion to the Ministry of Education, Science and Technology. The 2003/04 allocation, Mr. Speaker, Sir, is aimed at improving the quality of education. As a way of addressing the issue of quality, K400 million has been provided for the purchase of teaching and learning materials.

There is also an allocation of K80 million for the construction of teachers houses. The construction of teachers houses is in line with the Government's objective of improving the working conditions of teachers in order to improve their morale.

77. Mr. Speaker, Sir an amount of K4.0 billion has been allocated for the Ministry of Health and Population. The main focus in the health sector is to ensure the provision of Essential Health Package (EHP). In line with the EHP K1.28 billion has been provided for purchase of drugs and K299 million is meant for training of nurses and other medical workers. The allocation for drugs is in line with World Health Organisation recommended expenditure of at least \$1.25 per capita.

78. In Agriculture, Mr. Speaker, Sir, a provision of K1.70 billion has been made. The focus of the ministry in 2003/04 will be to address food security problems in this country. Mr. Speaker, Sir, the Government will, within its powers, do what it can to avoid the hunger situation that was experienced last year. In this light, this budget has made a provision of K115 million for small scale irrigation. This amount will be used to expand the utilisation of low cost irrigation technologies in order to increase the productive capacity of smallholder farmers. Another allocation of K342 million has been made to expand Agriculture extension services.

79. Mr Speaker, Sir, special consideration has been made for ministries and departments whose activities are pro-growth. The Ministry of Commerce and Industry has an allocation of K270.00 million, an increase of 140 percent over the 2002/03 allocation. With this allocation, the Ministry is expected to carry out activities that will promote private sector growth. The Department of Mines has been given an allocation of K70.00 million, an increase of 100 percent over the 2002/03 allocation. This allocation is meant to promote mining activities in this country. Mr. Speaker, Sir, the Ministry of Tourism Parks and Wildlife is another ministry that has been given an increased allocation. The Ministry has an allocation of K169.5 million to enable them promote tourism activities.

80. Mr. Speaker, Sir, apart from increasing the allocation to the Ministry of Tourism, substantial resources have been earmarked for construction and maintenance of roads as a way of promoting tourism. Among the roads to be constructed this year is the Masasa – Golomoti Road. This road, Mr. Speaker, Sir, will reduce the distance between the Capital City and Mangochi as one of the main tourist lake resorts. Other roads on the 2003/04 program include Naminga – Chiponde – Mangochi Road; Msulira – Nkhotakota Road, Jenda – Embangweni – Euthini Road and Karonga – Chitipa Road, among others. The road construction programme will also assist in improving market access for agricultural products from the rural areas.

81. Mr. Speaker, Sir, subvented parastatal organisations have an allocation of K1.82 billion. The University of Malawi has the largest allocation at K952.80 million. Other organisations with significantly higher allocations include the Malawi National Examinations Board (MANEB) with K185 million, and Mzuzu University at K105.00 million. Despite its allocation to the University of Malawi, indications from the Administrators are that the resources are inadequate. Education planners should openly engage other stakeholders to carefully study the challenges posed in tertiary education in Malawi. There is need to come up with policies that should ensure a pragmatic and realist way of financing tertiary education and therefore, the need to introduce rapid reforms in this sector is more relevant now than ever before.

82. Mr. Speaker, Sir, K14.80 billion has been provided for financing development projects. Of this amount, K12.30 billion will be financed by loans and grants from our cooperating partners, while the rest will be from local resources. Mr. Speaker, Sir among the major projects to be implemented is the third Malawi Social Action Fund (MASAF III). One of the important aspects of MASAF III is that it will promote a savings culture among the people of Malawi. The savings component will compliment other economic empowerment initiatives that Government is promoting. This, Mr. Speaker, Sir, is an important aspect of poverty alleviation, as it will go a long way in improving the credit worthiness of our people.

83. Mr. Speaker, Sir, among the projects entirely financed from local resources are the Limbe Police Station, which is expected to be completed this fiscal year; the Regional Government offices in Blantyre; and the construction of Teachers Houses. At this point, allow me, Mr. Speaker, Sir, to thank the various donors that have continued to provide support to the Government by providing resources for the various development projects in this country. We do not take this assistance for granted. I pledge to do everything in my powers to ensure that these resources are used for the intended purpose.

TAX AND NON-TAX POLICY MEASURES FOR THE 2003/2004 BUDGET

84. Mr. Speaker, Sir, Honourable Members, I now turn to tax and non-tax policy measures.

85. But before I present the measures, please allow me to once again underscore Government's overall goal on tax reform exercise. The reform exercise which Government started in early 1990's has been aimed at ensuring simplicity and equity of the tax system. Most importantly, Government has been reducing taxes to promote economic activities and trying to keep the policies stable in order not to frustrate business planning. Mr. Speaker, Sir, Jean Baptist Corbert, a Pre-Revolutionary French Finance Minister said **"The art of taxation consists of plucking the goose as to obtain the largest possible amount of feathers with the smallest amount of hissing"**. The tax reform program is aimed at increasing the revenue base whilst reducing the burden on individual tax payers.

86. Mr. Speaker, Sir, in achieving these objectives, Government has strived to expand the tax base so that the high tax rates which people have been complaining about get reduced to moderate levels that guarantee a balance between Government revenues and good investment climate. Government has further taken necessary reforms in the Malawi Revenue Authority to improve its capacity to curb tax evasion. The Malawi Revenue Authority itself has and continues to undertake tax awareness campaigns so that people understand their rights and obligations as respectable citizens of Malawi. And yet Mr. Speaker, Sir, when Government extended surtax from the manufacturing stage to wholesale and retail stages as a way of expanding the tax base in order to continue reducing the general tax rates, there was an outcry when the Malawi Revenue Authority stepped up its enforcement drive just to collect that revenue which rightfully belongs to Government, there have been accusations levelled against it. How then, Mr. Speaker, Sir, does Government continue with its tax reform exercise meant to improve the tax structure. How can Government be expected to keep on reducing taxes without expanding the tax base to ensure that government programs and activities do not suffer.

87. Mr. Speaker, Sir, I would, therefore, like to appeal to the respectable citizens of this country to first of all understand the overall Government objective on tax reform and the public finance program

Government has to deliver. Tax reform has to be commensurate with Government's obligation to deliver important services to the citizens, particularly the less privileged of our society. Tax reform has to take into consideration the growth objectives of the country. Tax reform cannot just be done in one year. Taxes affect so many variables that need careful consideration.

88. Mr. Speaker, Sir, the House will recall that Government in the past three fiscal years implemented tax policy measures whose effect was a reduction of tax revenue by an average of 1.3 per cent of the past GDPs. Income tax rates were reduced and tax brackets expanded to stimulate the demand of goods and services by increasing peoples disposable incomes. Import duty rates on productive machinery were reduced with an aim of promoting economic activity through the reduction of cost of production.

89. This objective was not achieved as no encouraging supply and demand responses was registered in the general economy. In fact, the resultant revenue loss from the measures worsened the already difficult macroeconomic environment when government was forced to borrow from the domestic market an amount equivalent to the loss in revenues. This action has resulted in the country experiencing high interest rates and unstable exchange rate. The major lesson that has been learnt, Mr. Speaker, Sir, is that we need proper policy mixing and sequencing. For instance, in 1993 the maximum duty rate was 90 per cent whilst the

Malawi Kwacha was converting at K4.00 to a dollar. Today maximum duty rate has reduced all the way down to 25 percent, but Kwacha is now converting at K92 to a dollar. In 1993 a US\$ 100 CIF import bill would pay import duty of K360 whilst the same import bill today would pay import duty of K2,330. In this example, duty has been substantially reduced but other parameters have gone up. It is therefore clear that tax policies alone cannot take the country out of the serious problems it faces.

90. Mr. Speaker, Sir, turning back to this year's budget, I did indicate during pre-budget consultations we had with various stakeholders that there will not be significant tax policy changes due to the tight financial position Government is in at the moment. Government, however, intends to continue reviewing the tax structure in the coming fiscal years paying special attention to the areas highlighted by stakeholders. Our focus will be on regularising tax policy measures introduced in the previous budgets, rationalising the tax structure and making some adjustments in consumption taxes in order to reduce the cost of goods and services.

Tax Policy Measures

91. Mr. Speaker, Sir, in order to achieve the above mentioned objectives, the following tax policy measures will be implemented:

Income Tax Measures

92. Withholding tax rate on supplies of goods and services will be reduced from 10% to 4%. Simultaneously, Government will withdraw exemption tax certificates. Mr. Speaker, Sir, as we continue with our tax reform exercise, we want to ensure that serious revenue loopholes are addressed so that all pay their fair share of the tax. We have noticed that some contractors and suppliers have been taking advantage of the withholding tax exemptions certificates and denying Government its rightful revenue. Government recognises the fact that the rate of 10.0 percent could have created cashflow problems to some businesses, therefore, the reason for the increased application of exemption certificates. To ensure that the abuse associated with the exemption certificates is curbed, withholding tax exemption certificates will be withdrawn with immediate effect. The reduced rate of 4.0 percent will, therefore, minimise cashflow problems.

Customs Duty Measures

93. Mr. Speaker, Sir, I now announce the Customs and Excise measures which will be effective from mid-night tonight.

- (a) Import duty and excise duty on Hessian sacks imported by Tobacco Association of Malawi (TAMA) meant for packing tobacco for export will be reduced from 5 per cent and 20 per cent to zero

per cent respectively. This measure is aimed at increasing tobacco farmers income, which has over the years been eroding due to high cost of inputs, declining tobacco auction prices and numerous levies on tobacco. May I, therefore, call upon the institutions involved in the processing and marketing of tobacco to make a similar gesture by reducing or removing their various levies on tobacco so that the important tobacco industry gets the support it requires.

- (b) Import duty on bovine, animals, textiles, raw skins, sacks, bags and cartons will be eliminated under the Southern Africa Development Community's (SADC) Malawi, Mozambique, Tanzania, Zambia and Botswana, Lesotho, Namibia, Swaziland trading arrangement, referred to as MMTZ-BLNS trading arrangement. The arrangement seeks to improve the regional market access of the contracting parties. This measure however will be effective from 1st January, 2004 to coincide with SADC Calendar of programs.

Surtax Measures

94. Mr. Speaker, Sir, the following Surtax measures will become effective from mid-night tonight.

- (a) The rate of surtax will be reduced from 20 percent to 17.5 percent. This measure is aimed at giving relief to consumers by reducing the cost of goods and services. Mr. Speaker, Sir, let me express my disappointment with the manner in which both taxpayers and traders have been abusing the surtax system. Traders who are not registered for surtax have illegally been collecting surtax in so doing cheating both Government and the poor customers. Traders have been asking customers whether they want to pay with or without surtax with an aim of evading surtax. This is a serious offence punishable by law.

Mr. Speaker, Sir, in order to ensure that registered traders are complying with the law by collecting and remitting surtax to the Malawi Revenue Authority, MRA will place officers in strategic shops to verify compliance. Should taxpayers continue to be compliant and that there is evidence that more revenue is being collected, Government will be willing to reduce the rate further.

- (b) Hessian sacks imported by (farmers association) meant for packing tobacco for export will be exempt from surtax.

Administrative Tax Measures

95. Mr. Speaker, Sir, in addition to the tax policy measures I have outlined above, there will be other measures which Government will implement as follows:

- (a) Processing fees charged on Customs and Excise documentation will be increased from MK200 to MK600. This adjustment is being made because of the high cost of producing and processing the documents.

- (b) The Government service charge on hotel, motel, lodge accommodation, or similar accommodation in the tourism industry will be reduced from 10 percent to 5 percent. The remaining 5 percent will cover 4 percent payable to hotel staff and 1 percent given to the Malawi Institute of Tourism as training levy. This measure, Mr. Speaker, Sir, confirms Government's commitment to support key sectors like tourism as growth sectors that will help develop this country. May I, therefore, urge the Tourism Industry to visibly pass on this benefit to consumers.

CONCLUDING REMARKS

96. Mr. Speaker, Sir, let me express my sincere gratitude to all those who contributed so selflessly in compiling the Budget and the Budget Statement, in particular.

- i. His Excellency the President, Dr. Bakili Muluzi, for his wise leadership and counsel in the course of preparing the Budget;

- ii. My Cabinet Colleagues for their support and constructive inputs throughout the entire Budget process;
- iii. All our development partners for the technical and financial support to Malawi in implementing her economic and development programme;
- iv. Men and women in the Ministry of Finance for their hard work, commitment and dedication to duty in preparing the Budget and the Budget Statement;
- v. The Ministry of Economic Planning and Development and the Reserve Bank of Malawi who are part of the economic management team; and lastly;
- vi. All various stakeholders in the Private Sector, Civil Society, Non-Governmental Organisations, Government and academia who provided their input to the Budget during the pre-budget consultations.

97. Mr Speaker, Sir, in concluding the presentation of the 2003/2004 Budget Statement, let me emphasise the point that Malawi, as a country, is in a race with the rest of the world. A race for better markets for our products, a race for donor resources to see us out of the poverty trap we are in, indeed a race for political and economic freedom so that

external influence does not work to the detriment of our cultural values. Mr. Speaker, Sir, there is, however, a price Malawians must pay to ensure that Malawi is a better living place for us all. I emphasised in my statement that we must work together as Malawians. We should not allow petty politicking to detract our attention from the main goal of developing our nation. It is said that **'A hunter in pursuit of an elephant does not stop to throw stones at birds'**

98. Mr. Speaker, Sir, I emphasised the need to leave within our means by only spending the resources that are available so that fiscal deficit which is a key source of our difficulties is brought to check. This is the reason the theme of this statement is **Macroeconomic Stability: A Precondition for Growth and Poverty Reduction in Malawi**. Government borrowing to meet ballooning expenditures has resulted in unfriendly interest rates and taxing inflation. Walking in Shoprite with a thousand Kwacha today will see one walk out almost as empty handed as one walked in. Let us desist spending more than we have in order to improve the macroeconomic environment of this country.

99. Mr. Speaker, Sir, I have also lamented on the biggest disease which has creped into our homes these days – laziness. In this part of the world Malawi was known for its resilient and hard working people. Where are they? Are they all dead Mr. Speaker, Sir?. It is a shame to be eating vegetables from our neighbouring countries produced by our

own brothers and sisters just across the borders meanwhile as Malawians we wait for Government to give us food to survive so that we beg again in the following year. Mr. Speaker, Sir, a popular west African proverb from the Bakusu's says that '**The jaws have nothing to chew if the feet do not walk**'

100. Mr. Speaker, Sir, I have also emphasised the need to support our private sector so that it can produce and compete with other countries effectively. To do this, Government will ensure that the investment climate is conducive. The huge domestic debt has been singled out in my statement as a serious problem that has contributed to the high interest rates at the same time denying the private sector resources for investment. Government will, therefore, dedicate resources to reduce the debt. Government has also increased resources to Ministries of Commerce and Industry, Tourism, Economic Planning and Development and Department of Mines to ensure that productive sectors are adequately supported to help reduce poverty.

101. Mr. Speaker, Sir, We were all born on mother Malawi soil. Malawi is our country. The responsibility for the well being of country's population is no one else's hands but our own. I know that we have the capacity, the zeal, the desire to make Malawi a better place to live for us all regardless of our differences. What we are only missing is the spirit to work and attain great heights. Mr. Speaker, Sir, '**Winners do not do different things, they do things differently**'.

Finally, I wish the 2003/2004 budget implementation a success and also a successful presidential and parliamentary election in 2004. I first of all pray and hope you all Honourable members will be re-elected.

102. I thank you for your attention. May God bless you all and bless Malawi.

103. Mr. Speaker, Sir, Honourable Members, I beg to move.