

PRESS RELEASE

Private Sector Welcomes 2005 Malawi Budget Statement

Having reviewed the additional Budget documents issued this week and having received initial feedback from the business and economics community, Economics Association of Malawi (ECAMA), Malawi Confederation of Chambers of Commerce and Industry (MCCCI) and the Society of Accountants in Malawi (SOCAM) jointly welcome the 2005 Budget Statement to Parliament delivered by Honourable Goodall Gondwe, Minister of Finance on 10th June 2005 and congratulate the Minister for developing a well-balanced Budget package within the constraints that prevail.

The above private sector organisations have worked together to participate fully in the tax review process that preceded the Budget Statement and did make a joint private sector submission containing detailed proposals for tax reform in April 2005. It is therefore gratifying to note that the proposals were taken seriously by the Honourable Minister of Finance and that many have been adopted in this Budget Statement. It is also encouraging to note that the Minister has expressly indicated that the tax reform process will continue as not all changes could be made in a single budget.

We recognise that the Minister of Finance has had a difficult task to stabilise the economy and re-establish fiscal prudence. We recognise that the restraint on expenditure exercised by Government this year has been a significant improvement over recent years and the reporting of a lower fiscal deficit for 2005 compared to the original budget projections is very good news. The further lowering of the budget deficit and the measures to address the inherited domestic debt burden and arrears for the coming fiscal year 2005-6 are both welcome and credible statements, given the achievements and discipline of this past year. Continuing this fiscal discipline by spending within the resources available will lead to other benefits for the economy, particularly the potential to lower interest rates in the coming year.

We also welcome the commitment by the Honourable Minister to make the prompt repayment of outstanding tax refunds a statutory requirement. This will remove one of the main private sector concerns about the administration of the tax system. We also give a broad welcome to the proposed retargeting of Malawi Revenue Authority (MRA) staff to widening the tax base and also to the strengthening of the appeals procedure to ensure greater fairness and balance in tax adjudication.

The change in the lowest threshold at which employees begin to have Pay as You Earn (PAYE) deducted was a measure that we, and others, urged on Government and we particularly welcome the raising of the threshold by two thirds of its value to MK5,000 per month. This will ensure that the poorest households will benefit considerably, with much of the extra incomes likely to be spent on locally produced consumer products, giving a further boost to the economy. The reduction in the highest rate of income tax to 35% is also expected to contribute to an improved savings rate which should benefit investment.

There have also been sensible changes on a number of technical issues that will assist businesses to better manage their tax affairs, such as on Provisional Tax, Withholding Tax, Capital Allowances on buildings and computer equipment and VAT exemption for Pharmaceutical and Medical Services. The reduction in vehicle excise duty is also likely to be of benefit to businesses and contribute to reducing the real cost of transportation.

Although broadly welcome, there are areas where some further clarification is sought from Government, particularly on the operation of the proposed changes to Capital Gains Tax and the removal of the Ministerial discretion on Tax Incentives. We would also like to have details of the proposed increases in charges for Government services that are proposed. However, we believe these are matters of detail that can be clarified.

We also acknowledge that some sections of the business community will be impacted by certain of the measures, but feel that overall the tax changes outlined in the Budget will be beneficial even to these businesses, especially as confidence is restored in Government's fiscal discipline and its accumulated arrears and domestic debt are reduced thereby increasing the possibility of interest rate reductions.

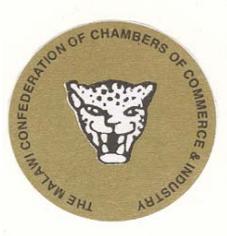
The Honourable Minister of Finance has explicitly recognised that there are other tax reform issues that still need to be dealt with. We acknowledge that it was not realistic to expect that the Minister could resolve all the tax reform issues in a single budget and we therefore look forward to continuing to work on the outstanding issues with Government over the coming year in the same co-operative spirit as has been evident in the lead up to this year's Budget Statement.

Overall, we would congratulate the Minister of Finance, the Ministry of Finance and the Government of Malawi on their budgetary performance for 2004-5 and for their plans for 2005-6. This Budget Statement is a major step forward for the business community and potential investors in Malawi. In addition to improving the climate for doing business, it will enable the Government to reach an agreement with the IMF and other donors, thereby releasing additional funds for development and budget support. We therefore welcome the 2005 Budget Statement.

ECAMA



MCCCI



SOCAM

