A REPORT ON THE 2018/19 BUDGET ANALYSIS WORKSHOP ORGANISED BY ECAMA AT LILONGWE SUNBIRD HOTEL, LILONWE

Introduction

Following presentation of the 2018/19 budget statement by the Minister of Finance, Economic Planning and Development on 18th May 2018, Economics Association of Malawi (ECAMA) organised the Budget Analysis workshop on 28th May 2018 at Sunbird Lilongwe Hotel, in Lilongwe. The main objective of the workshop was to provide a forum for economists, private sector and all interested parties to publicly analyse the budget with the aim of isolating the key takeaways from the proposed budget. In the end participants were expected to make objective and informed opinion on the opportunities and risks embedded in the proposed budget.

Presentation

The main presentation was done by Mr. Maleka Thula, Executive Director of ECAMA. Overall, the proposed budget is estimated at K1,504 billion (28.2 % GDP) against estimated revenue and grants of K1,261 billion (23.6 %GDP) --this is projected to result into a budget deficit of K242 billion (4.5 %GDP). Subsequently, government domestic borrowing is projected at K176 billion (3.8 %GDP) and projected to increase to K235.1 billion in 2019/20. At the current debt stock of K1.3 trillion (26.0 %GDP), Malawi is above the minimum domestic debt ratio of 20.0 percent of GDP, hence continued borrowing is a worrisome development. It was therefore observed that increased government domestic borrowing is more likely going to lead to increase in interest rates and crowd out private sector investment.

The presentation also looked at key topical programs that are proposed for implementation in 2018/19 budget:

1. Expenditure on **Farm Input Subsidy Program (FISP) and Maize Purchases** was seen to be less efficient and effective as such expenditure is unstainable and government is advised to reconsider these programs;
2. **Youth Internship and Tree Planting Program** is a good initiative by government but raises concern of sustainability beyond 2019, hence requires serious scrutiny.
3. An allocation of K11.4 billion to government **New Pension Scheme** for the Civil Servants under the age of 35 years is a positive development since this will unlock huge inflows to financial sector which could help in enhancing financial sector development especially for long term financing;

4. It was also observed that budget allocation towards **Decent and Affordable Rural Housing Project (Iron Sheet Subsidy)** is a misuse of government limited resources as such resources would be more effective if allocated to productive sectors of the economy.

   In addition, the presentation tried to link the proposed development budget allocations and priority areas in the MGDS III with the aim of assessing how the proposed budget intends to translate MGDS priority areas into implementable development activities. It was observed from the presentation that allocation at K391.7 billion to development is insignificant to make substantial impact on the country's economic growth and development. Ironically, the government has not allocated any funds to energy sector in order to respond to intermittent power outages which are impeding on private sector and country's economic growth. In fact, there is no allocation towards a 300 megawatts Kam'mwamba Coal Fired Power Plant Project despite being mentioned in the proposed budget.

   The presentation also tried to look at both upside and downside risks to the implementation of the proposed budget. It was revealed that prevailing macroeconomic stability and resumption of Extended Credit Facility Programme (ECF) will be key in successful implementation of the budget. However, it was also noted that continued power outages, negative weather shocks and increased domestic borrowing will remain key threats to the budget implementation.

<u>Panelists</u>

The panel comprised of Dr. Kisu Simwaka, Director of Economic Policy Research at the Reserve Bank of Malawi, Dr. Hannock Kumwenda, Former Director in the Ministry of Finance, Economic Planning and Development and Independent Consultant, Mr. Chancellor Kafererapanjira, Chief Executive Officer, Malawi Confederation of Chambers of Commerce and Industry (MCCCI) and Mr. Karl Chokhoto, Former President, MCCCI. The panelists observed the following:

- The 2018/19 proposed budget was formulated to consolidate macroeconomic stability achieved so far. The observation was that there is macroeconomic stability which has prevailed for the past few years. However, there is a need to consolidate gains from this favourable economic environmeny.
- It was also observed that budget is usually formulated based on higher GDP growth prospects as a result revenue projections and expenditure are higher than the actual outturns when GDP growth turns out to be lower than expected. As a result, tax collections are lower than projected in the approved budget.
- It was also noted that in case of lower tax realization than initial projection, it is development budget that is usually reduced thus affecting long term economic growth.
- The macroeconomic stability and improved economic growth may just be temporary as it is being driven by sectors that may not provide sustainable economic growth while key economic sectors are not registering meaningful growth.
- It was noted that the private sector has been ignored in the 2018/19 proposed budget. In particular, it was observed that government's projected increase in domestic borrowing has the potential to drive interest rates up and crowd out the private sector.

- Energy sector is also left out in the proposed budget despite the country going through energy crisis. It was suggested that the crisis in the sector needs to be resolved by government not Electricity Generation Company (Malawi) Limited (EGENCO) only or consumers through increased tariffs.
- Members also noted that there is misalignment of MGDSIII priorities and those of the budget. Furthermore, it is important to be clear on which priority area is key in the MGDS III and needs to be prioritsed to drive other priority areas.
- It was observed that Youth Program is a huge misallocation of resources as the funds can be put to better and more productive use. It was further observed that the youth as productive citizens do not need or require social protection programmes but rather need initiatives or interventions that would be more productive with far more economic returns.
- The panel also raised their concern regarding the proposal to raise the chiefs' honorarium arguing that the magnitude of the increase was high and should have not been prioritized.
- It was noted that the increased funding to the transport sector should practically translate into the actual construction work being done rather than ending up with poor quality roads with the funds being embezzled along the way.
- It was also noted that agriculture remains singlehandedly sector that supports growth in the country, hence there is the need to consider and support alternative sectors.
- Members also bemoaned high levels of corruption. Members noted that electricity power problems could not be only due to technical challenges in the energy sector but could also be due to corruption.

Plenary and discussions by participants

- Some participants commended government for raising chiefs' honorarium arguing that chiefs' honorarium has not been revised for a long time and also considering that allocation made to the chiefs' budget line is insignificant to negatively affect budget implementation outturn.
- Members also challenged the private sector to be proactive in seizing the opportunity given the prevailing stable macroeconomic environment.
- Members also augured with the panelists that huge government borrowing is stifling the private sector growth.
- Members also noted that continued implementation of FISP is perpetuating dependency syndrome in the country and needs serious reconsideration. The programme does not have a clear graduation strategy.
- It was also revealed that despite energy sector reforms, actual participation by private sector is held by structural and bureaucratic challenges that persist. It was revealed that government was supposed to capitalise ENGECO at the time it was being detached from Electricity Supply Corporation of Malawi (ESCOM), however it was ESCOM that capitalized EGENCO thus creating financial challenges for ESCOM. It was therefore suggested that government needs to intervene to bail out these institutions.

Conclusion

It was agreed that while economic environment is favourable for growth, several risks remain in the implementation of the budget and growth prospects. Participants noted that electricity power shortages, huge government borrowing, corruption and weather shocks to agricultural sector remain major risks in implementation of 2018/19 budget. Besides, members noted that private sector has been ignored in the proposed budget and this will also have a bearing on the economy.