COMMENTARY ON THE PROVISIONAL NATIONAL BUDGET FOR FY2020-21

By

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Parliament has approved the Provisional Budget of K722.4 billion which was delivered by the new Minister of Finance, Mr. Felix Mlusu on 30th June 2020. The Provisional Budget will run for a period of four months, from 1st July 2020 to 31st October, 2020 or until the Appropriation Act, 2020 comes into force, whichever is earlier. This brief provides a review of this budget whilst highlighting the key messages and recommendations.

The Provisional Budget was brought in a context of relatively stable macroeconomic environment.

KEY ASSUMPTIONS

- Inflation is projected to average 9.4 percent during the period of the budget's implementation.
- The exchange rate is estimated to remain stable at about K750 per United States dollar
- The policy rate to remain constant at 13.5 percent.

Wages and Salaries are projected at K166.7 billion whereas development expenditure has a total provision of K169.8 billion of which K119.8 billion is foreign financed while K50.0 billion is domestically financed. However, the K50.0 billion development expenditure is for ongoing projects only.

Budget Financing

- The Provisional Budget has a Net Domestic Borrowing of about K209.5 billion
- Total revenue and grants amounts to K459.1 billion of which K407.3 billion is domestic revenues and K51.9 billion are grants.

The major highlights in the Provisional Budget are as follows:

1. The budget has increased the tax-free band from K45,000 to K100,000.

   This is a welcome development since it is welfare enhancing. Initiative would see most low-income earners have more disposable income through increased take-home pay. In the short-run, this may boost demand as these earners effectively have more disposable income and lead to an improvement in the welfare of majority of the people. This has very little likelihood to trigger inflation. Money has simply exchanged hands from the Government to the people.

2. Proposal to revise the minimum wage from the current rate of K35,000 per month to a proposed K50,000 per month, representing about 43 percent increment in the minimum wage.

   This would ensure that low-wage workers, who constitute a large portion of workforce, share the benefits of economic growth by a relatively improved living standards through a raise in their pay. Businesses may benefit from such a measure through increased worker productivity, reduction in turnover as well as absenteeism. However, minimum wage increases have a potential to bring about substantial negative consequences on employment due to increases in lay-offs of low-wage workers if employers find it difficult to meet up with such a rise in minimum wages against their constant income. For domestic workers, this may cause a shift from preference for full time workers to part time workers paid on daily basis.

Moving forward, the MCTU and ECAM needs to consider a move towards sector specific minimum wages to ensure employers comply.

3. To ensure food security in Malawi, the Government will implement the Affordable Inputs Programme (AIP) whereby all smallholder farmers, estimated at 3.5 million, will access fertilizer at K4,495/50kg bag four times less than the current price. In addition, each smallholder farmer will be able to purchase two bags of fertilizer and enough seed for maize and legumes proportionate with their land holding size.

   This is a welcome move aimed at increasing agricultural yield and productivity as well as household's income. It is important to note that the estimated targeted smallholder farmers is significantly higher than the previous years who averaged about 1 million.

   We commend Government for taking steps towards improving management of the programme and curbing fraud through the use of National Identity Cards, which will be linked to an electronic tracking system in order to purchase the fertilizer and other farm inputs. Government will also tighten border security to control cross border smuggling of the cheap farm inputs. Overall, when the program is efficiently implemented, it will be an important tool for increasing maize productivity and improving poor household income.

4. The Provisional Budget maintains the Government's commitment to support the youth and women by
   a) Increasing the Malawi Enterprise Development Fund (MEDF) Youth loans provision from the current K15.0 billion to K40.0 billion. It has been indicated that this amount will gradually be increased to reach K75.0 billion. More importantly, with the increased allocation, Government is expected to support creation of 200,000 enterprises run by the youths and women. These enterprises in turn are expected to create over 600,000 jobs which will result in increased tax base, creation of more jobs and improved welfare of our people, especially the youths and women.

      MEDF appears to be an ideal way attempting to kick-start growth and employment through 'start-ups'. However, there is need to improve the management of these loans and ensure due diligence is done. The recovery of these loans has been very poor and this needs to be improved to enhance sustainability of the programme.
      There is need to ensure independence of the institution to act professionally without too much interference from the Executive arm of Government and ensure there is effective management of the fund.

   b) Expanding the Youth Internship Programme and incentivizing the private sector to give internship opportunities to the youth. This is aimed at creating more jobs for the youths.

c) Introducing the National Youth Service Programme through the Expanded Internship Programme. National Youth Service Programs potentially have a way of improving inclusive and sustainable economic development to Malawi.

Overall, the budget is inclusive. However, the Government should also aim to manage debt which has been on the rise. As at end March 2019, total debt stock was estimated at around MK3, 649.1 billion (equivalent to 61.0 percent of GDP). Of this, domestic debt was recorded at MK2, 044.6 billion (56.0 percent of total debt), equivalent to 34.0 percent of GDP and higher than the maximum domestic debt threshold of 20.0 percent of GDP. On the other hand, foreign debt stood at MK1, 604.4 billion (44.0 percent of total debt), representing 27.0 percent of GDP which is slightly below maximum foreign debt threshold of 30 percent of GDP. This outturn implies that Malawi continues to be at risk of debt stress, especially on the domestic market. The FY2019/20 borrowing is projected at MK161.2 billion and projected to increase to MK269.5 billion in FY2020/21. If savings can be made, they will go a long way in improving the lives of Malawians. More importantly, the budget will be implemented amidst Covid-19 pandemic economic impacts. However, the budget seems silent on provisions for managing Covid-19 and safeguarding people's welfare due to this.