



2012/13 BUDGET STATEMENT

Delivered in the

NATIONAL ASSEMBLY OF THE REPUBLIC OF MALAWI

By

**THE MINISTER OF FINANCE
HONOURABLE DR. KEN LIPENGA, MP**

At

**THE PARLIAMENT BUILDING
LILONGWE**

Friday, 8th June, 2012

TABLE OF CONTENTS

MOTION	5
INTRODUCTION	5
CHALLENGES DURING THE IMPLEMENTATION OF THE 2011/12 BUDGET	10
The Real Sector	10
<i>Depressed Economic Growth</i>	10
Inter-linkages with and effects on the real sector	10
International Reserves and Shortages	10
Intermittent Power Supply	11
The External Sector	12
The Fiscal and Monetary Sectors	13
2011/12 BUDGET PERFORMANCE	14
Revenues and Grants	14
Total Expenditure and Net Lending	16
Overall Balance	16
Domestic Debt and Arrears	17
MEASURES ALREADY TAKEN TO RESUSCITATE THE ECONOMY	18
Fiscal Policy Measures	18
Monetary and Exchange Policy Measures	19
Restoration of Donor Confidence	21
Energy	21
<i>Tariffs</i>	21
Interconnector and Millennium Challenge Corporation (MCC) Resources	22
ASSUMPTIONS UNDERLYING THE 2012/13 BUDGET	23
Global Economic Outlook	23
Outlook for Sub-Saharan Africa Region	24
The Malawi Economy	25

MAIN THRUST OF THE 2012/13 BUDGET	26
Transitional and Recovery Based Budget	26
Medium Term Policy Objectives	27
Fiscal Policy Anchor: No Net Domestic Financing	29
Prioritization of Expenditure	29
Monetary Policy Anchor	30
Adjustment of fuel and utility prices to reflect full cost recovery	30
Enhanced Governance and strengthened public financial management	31
THE 2012/13 BUDGET FRAMEWORK	32
Resource Envelope	32
Total Expenditure and Net Lending	32
Overall Balance and Financing	33
KEY ALLOCATIONS IN THE 2012/13 BUDGET	33
Civil Servants Wages and Salaries	33
Pensions and Gratuities.....	34
Interest Payments	34
Agriculture and Food Security	35
Education, Science and Technology	36
Transport and Public Infrastructure	38
Integrated Rural Development.....	39
Public Health, Sanitation and HIV/AIDS Management.....	40
Subvented Organizations.....	41
Local Councils	41
Safety Net Programmes.....	42
REVENUE POLICY MEASURES FOR THE 2012/13 BUDGET	43
Tax Measures.....	44

Income Tax Measures	44
<i>Minimum Tax Based on Turn Over</i>	44
<i>Capital Gains from the Sale of Shares</i>	45
<i>Initial Investment Allowance</i>	45
<i>Export Allowance</i>	46
<i>Social Contributions</i>	46
<i>Pay As You Earn (PAYE) and Withholding Tax on Casual Labour</i>	47
<i>Taxation of Pensions</i>	47
<i>Corporate Tax on Cell Phone Operators</i>	48
VALUE ADDED TAX MEASURES	48
<i>VAT on Machinery</i>	48
<i>VAT on Financial Services</i>	49
<i>VAT on Newspapers and internet services</i>	49
<i>VAT on Bread</i>	49
Customs and Excise Tax Measures	50
<i>Excise Tax Regime</i>	50
Excise Duty on Alcohol in Sachets and Plastic Bottles	50
Customs Procedure Codes	51
<i>Taxation of Large Buses</i>	52
<i>Industrial Rebate Scheme</i>	52
<i>Foreign Travel Allowance</i>	53
Regional Trade Agreements.....	54
<i>COMESA and SADC Tariff Alignment</i>	54
<i>Simplified Trade Regime (STR)</i>	54
Administrative Measures.....	55
Non Tax Measures.....	55
<i>Motor Vehicle Licence Fees</i>	55
CONCLUSION	56
Vote of Thanks	57

MOTION

1. Mr. Speaker, Sir, I beg to move that the Estimates on Recurrent and Development Accounts for the 2012/13 Budget be referred to the Committee of the Whole House, be considered Vote by Vote, and that thereafter, be adopted.

INTRODUCTION

2. Mr. Speaker, Sir, I am honoured to stand here as part of history to deliver the first Budget Statement of the People's Party Administration led by Her Excellency, Mrs Joyce Banda.
3. It is with utmost humility that I want to register my sincere gratitude to Her Excellency the President for her belief in me to lead the Ministry of Finance at a time when we are facing serious economic challenges.
4. Mr. Speaker, Sir, I recognise the importance of consultations to improve the quality of the Budget. The Deputy Minister of Finance and I consulted a wide range of stakeholders across the country in May in order to reflect the priorities and concerns of Malawians in the National Budget.

5. Mr. Speaker, Sir, we face serious economic challenges. These were articulated by Her Excellency the President, Mrs Joyce Banda, in the State of the Nation Address delivered in this August House on 18th May, 2012 when she officially opened this Budget Session. This Budget is designed to address these challenges and put the economy onto a path of sustained recovery.

6. The 2012/13 Budget aims to provide a consistent and coherent economic policy framework to underpin our development objectives. The emphasis will be on enhancing the sustainability of growth and development through policies that consolidate macro-economic stability, reinforce resilience to shocks, improve governance in public financial management, strengthen financial oversight, and support private-sector led growth and export diversification.

7. Mr. Speaker, Sir, the key objective of this budget is to restore macro-economic balance and a market based economy that will provide the foundation for sustainable economic growth in future. The Budget will consolidate the bold economic reforms that Government has implemented since Her Excellency the President took over leadership of this country on April 7, 2012.

8. Some of the key economic reforms have included liberalizing Malawi's foreign exchange regime and the removal of price controls on fuel and utilities. The removal of price controls is necessary to move to a market based economy and to reduce the burden of subsidies on the Budget. Other key anchors include No Net Domestic Financing, careful expenditure control and

prioritization together with the implementation of reforms to strengthen governance systems for public financial management.

9. Mr. Speaker, Sir, this is an austerity Budget. Some of the reforms will be painful. But we have been living beyond our means and have to take the difficult decisions that are necessary to stabilize the economy. This will lay the foundation for sustainable economic growth in future.

10. Mr. Speaker, Sir, and Honourable Members, it is clear that the economic reforms which have already been implemented are beginning to bear fruit. For instance, the devaluation of the Malawi Kwacha by the Reserve Bank of Malawi and the implementation of a market determined exchange rate have restored credibility to our monetary policy environment. It has also provided the policy environment to ensure that foreign exchange transactions return to the formal financial system from the parallel market.

11. Mr Speaker, Sir, before I move to the substantive proposals for the 2012/13 Budget, it is important to take stock of the progress that has been made since April, 2012. It is equally important to outline the challenges we face and how we intend to address them.

12. Mr. Speaker, Sir, as soon as she assumed office, Her Excellency expressed her strong commitment to the Rule of Law and Human Rights and started work immediately to restore confidence with the Malawian population,

our development partners and our neighbours. She has also demonstrated commitment to transparency and accountability and to fiscal austerity so that her dream of sustained improvements in the lives of Malawians can be realised.

13. Mr. Speaker, Sir, Her Excellency also directed me to work towards restoring the programme with the International Monetary Fund so that our valued Development Partners could release Budget Support to the 2012/13 Budget. I am pleased to report that substantial progress has been made. We have concluded negotiations with the IMF which will lead to the resumption of the Extended Credit Facility. We have also worked with the World Bank to develop a Comprehensive Programme for Competitiveness, Growth and Poverty Reduction. This proposal is for an additional US\$50 million which will focus on i) regaining macro-balance and a market based economy to help accelerate the normalization of the economy and growth rebound, ii) and protect the poor and vulnerable in the short term while improving the transparency of economic management systems. This programme will be complemented by an extension of two existing grants: US\$50 million for MASAF to improve the livelihoods of the poor and US\$50 million for the Irrigation, Rural Livelihoods and Agricultural Development Programme to increase agricultural productivity of poor households.

14. I invite this honourable house to join me in expressing our profound appreciation to the International Monetary Fund, the World Bank and indeed all our Development Partners for their pledges of increased support to this year's

Budget. I appeal to Development Partners to release additional resources as early as possible because we have limited reserves and additional external resources are required in order to build reserves and help stabilize the system and allow the momentum of reform to continue.

15. Mr. Speaker, Sir, we have also made significant progress in terms of restoring normal relations with the United Kingdom. This culminated in the visit of the Secretary of State for International Development, The Right Honourable Andrew Mitchell to Malawi last week. During his discussions with Her Excellency the State President, he announced an immediate aid package of over 30 million pounds for the 2012/13 Budget.

16. We have restarted negotiations with the Millennium Challenge Corporation to release the US\$350 million for the power sector that was suspended due to economic and human rights concerns.

17. Mr. Speaker, Sir, I am committed to the implementation of substantive reforms to strengthen the accuracy of data that is presented to Parliament and to promote a culture of enhanced transparency and accountability in the management and reporting of public finances in order to ensure that such failures are not repeated. These include strengthened oversight to prevent over-expenditure and the build-up of arrears, strengthened audit function across Government, and the requirement to publish key economic data to Parliament on a quarterly basis and in the public media.

CHALLENGES DURING THE IMPLEMENTATION OF THE 2011/12 BUDGET

The Real Sector

Depressed Economic Growth

18. Mr. Speaker, Sir, our economy faced challenges last year due to the shortage of foreign exchange leading to the shortage of fuel, pharmaceuticals and fertilizer. Economic growth was also constrained by dry spells which led to below average crop production in the South. These challenges, both macroeconomic and structural in nature, caused a contraction in real output to the extent that GDP growth in 2012 was revised downwards from the initially projected 6.9 percent to 4.3 percent.

Inter-linkages with and effects on the real sector

International Reserves and Shortages

19. Mr. Speaker Sir, allow me to provide context for the subdued growth in 2012 by highlighting some of the causes of the contraction and lay the foundation for our new policy framework in the 2012/13 Budget.

20. Over the past three years, we have persistently had a severe shortage of foreign exchange in the context of an overvalued exchange rate and tight administrative regulations that forced economic agents to trade at excessively devalued rates in the parallel market, while the few that had access to the limited hard currency in the official market traded at heavily subsidized rates.

21. Overvaluation of the exchange rate was very costly as the country's international reserves remained consistently at frighteningly low levels, thereby crippling the country's ability to deal with major external shocks and emergencies. Moreover, fuel queues became the order of the day and the country ran short of a number of basic necessities. Companies too suffered as foreign currency unavailability affected their ability to import raw materials and pay import suppliers.

Intermittent Power Supply

22. Mr. Speaker, Sir, power supply remained erratic and inadequate to support industry. We have long recognised that increased investment in the power sector is essential to promote economic development in Malawi. Inadequate power is consistently identified as a key constraint and barrier to economic growth in Malawi. The lack of reliable power significantly lowers social returns and deters new investment in manufacturing, mining and other productive sectors. The lack of rural power additionally accelerates

deforestation which has an impact on the availability and quality of water resources.

23. Malawi's total installed generated capacity is less than 300 Megawatts with formal demand closer to 400 Megawatts today and a projected demand of around 700 Megawatts by 2020. Most of our power comes from hydro-electric power generation with 98 percent generated in the Lower Shire Valley. These statistics demonstrate the need to make progress on interconnecting to the Mozambique Grid and the need to conclude negotiations with the Millennium Challenge Corporation. There has been limited private sector investment in power because electricity tariffs have been set too low. The adjustment of electricity tariffs to full cost-recovery levels will generate the resources to pay for inter-connection with the Mozambique grid and also create incentives for private sector investment in power generation and distribution.

The External Sector

24. Mr. Speaker, Sir, from a Balance of Payments (BOP) perspective, it will also be important for me to highlight why our exchange rate regime negatively affected the external sector. As most of us now know, an overvalued currency has implications on our propensity to import and export.

25. In our particular case, overvaluation of the Kwacha against major currencies especially the US Dollar meant that imports including those of non-

essential items were cheaper and excessively subsidized than would have been the case if the exchange rate was market determined. This caused an upsurge in import demand. With a shallow export base and declining volumes and price for our tobacco over the years, among others, realizations from exports have progressively worsened and consistently been lower than our import bill thus increasing our trade deficit and threatening the sustainability of our current account. That is why our current account sharply deteriorated between 2009 and 2012 from negative \$548.6 million to negative \$845.5 million and had we continued on that path, the country was heading towards a BOP crisis more severe than has hitherto been experienced.

26. Mr. Speaker, Sir, in the medium to long term, the deterioration in the balance of payments must be addressed by clear policies to promote export diversification and import substitution by addressing other structural constraints. This will require a comprehensive set of reforms to create the enabling environment for investment and export diversification. The Ministry of Industry and Trade through the National Export Strategy have addressed other structural constraints and I want to commend them for the excellent work.

27. Mr. Speaker Sir, this Budget is designed to start addressing the context for Doing Business to promote private sector investment and export diversification in order to stabilize the Balance of Payments.

The Fiscal and Monetary Sectors

28. Mr. Speaker, Sir, and Honourable Members, from a fiscal perspective, not only did the Zero Deficit Budget fail to realize revenues as planned, but there was also substantial slippage in terms of expenditures, and as a result, the projected fiscal deficit was missed by a wide margin.

29. Instead of taking corrective measures, what was then chosen was the soft option of funding the widening fiscal gap by printing money and sharply increasing domestic borrowing. To allow us to do that, interest rates on government borrowing were kept artificially low.

30. This loose fiscal situation coupled with an accommodating monetary policy stance created an optical illusion for cheaper monetization of our deficit. These factors, plus an insatiable spending appetite contributed to significant growth of the domestic debt stock to 5.75 percent from an initial planned repayment equivalent of 1.5 percent of GDP.

2011/12 BUDGET PERFORMANCE

Revenues and Grants

31. Mr. Speaker, Sir, the 2011/12 Budget did not perform as anticipated. It left us with major challenges that have to be addressed in this Year's Budget. As we may recall, the Budget had originally forecasted an overall resource

envelope of K307.71 billion consisting of K242.48 billion from domestic sources and K65.23 billion in grants. This provision was revised at mid-year to K287.47 billion of which revenues from domestic sources and grants were estimated at K242.48 billion and K44.99 billion, respectively.

32. We now project that Total Revenues and Grants at the end of this fiscal year will amount to approximately K260.20 billion consisting of K207.53 billion in domestic revenues and K52.68 billion in grants. This underperformance is largely on account of non-tax revenues which we now estimate to be at K26.62 billion against the originally approved amount of K38.97 billion, and taxes on goods and services and international trade taxes which were, among others, subdued due to foreign exchange shortages and intermittent fuel supply, and are now expected to underperform by K23 billion and K4.3 billion, respectively, in comparison to approved estimates.

33. Mr. Speaker, Sir, the poor performance particularly of indirect tax revenue was caused by the decline in economic activity and reduction in economic growth due to the causes outlined earlier. It is also clear that the Budget Framework was over-reliant on generating domestic resources to finance all recurrent transactions. The Budget required significant tax increases on an already overstressed private sector. Several of these taxes proved counter-productive. We have learned that attempts to over-tax the private sector and consumers are ultimately self-defeating as they reduce overall tax revenue. As I will announce later in my statement, tax and non-tax policy measures in the

2012/13 Budget will focus on promoting domestic production through value addition and encouraging investment in the economy.

Total Expenditure and Net Lending

34. In terms of expenditures, Mr. Speaker, Sir, we now project that Total Expenditure and Net Lending at the end of the 2011/12 fiscal year will be around K328.11 billion, an upward adjustment of K24.40 billion over the approved amount. Of the total expenditure, K 250.679 billion is for recurrent costs and K77.42 billion is for development expenditure.

35. Chief among the culprits that contributed to over-expenditure and accumulation of arrears are State Residences and Malawi Police Service, who accumulated arrears of over K 10 billion. I have provided these details in Documents number 4 and 5.

Overall Balance

36. Mr. Speaker, Sir, we now estimate the Overall Balance to post a substantial fiscal deficit of about K70.05 billion, a nominal deviation of about K74 billion from the initially planned repayment of K3.97 billion which is equivalent to 1.5 percent of GDP. At 7.3 percent of GDP, this deficit, which was largely financed from domestic sources, is the largest in recent history.

Domestic Debt and Arrears

37. Mr. Speaker, Sir, subject to further audit and verification which I have already asked the Auditor General to conduct, we estimate that we have accumulated arrears in excess of K72 billion. The arrears are mainly on account of Parastatal Organizations where loans and overdrafts accounted for about K37 billion; Government Departments have accumulated arrears of around K28.6 billion and arrears accumulated on pension contributions, salaries, utilities and subscriptions are estimated at K6.1 billion.

38. I believe that in the interest of transparency, it is important to elaborate further on these arrears. Arrears from Parastatals include SFFRFM (K16.2 billion), Air Malawi (K5 billion), Malawi Broadcasting Corporation (K5 billion), ADMARC (K4.9 billion) with the National Food Reserve Agency, Malawi Rural Finance Company, Malawi Posts and Telecommunications and Small and Medium Enterprise Development Board accounting for the balance. Government Departments include the Malawi Police Service (K10 billion), Road Sector Projects (K8.3 billion), Central Medical Stores (K2 billion), Malawi Housing Corporation (K2.1 billion), Malawi Defence Force (K1.3 billion), Malawi Prison Service (K1.3 billion), Immigration Department (K1.2 billion), Rentals (K1.4 billion), Office of the President and Cabinet (K590 million) and Malawi Electoral Commission (K407 million). The balance of arrears is for Pensions

(K3.9 Billion) Mzuzu University (K590 million), Utilities Arrears (K600 million), Subscription Arrears (K620 million), Ministry of Education Salary Arrears (K612 Million) and Compensation Fund (K627 Million).

39. The stock of our domestic debt is therefore expected to reach K 192.37 billion at year end, representing 16 percent of GDP, just 9 percentage points below the prudentially accepted limit.

MEASURES ALREADY TAKEN TO RESUSCITATE THE ECONOMY

40. Mr. Speaker, Sir, let me now highlight some of the important measures that the new administration has already put in place to address the economic problems that have been inherited.

Fiscal Policy Measures

41. On the fiscal side, Mr. Speaker, Sir, consolidation and tightening already commenced in the last quarter of the financial year by restricting our spending to important areas in order to limit the monetization of budget shortfalls. This has decelerated the growth in the level of the fiscal deficit.

Monetary and Exchange Policy Measures

42. Mr. Speaker, Sir, I am also pleased to report that Her Excellency the President has decided to allow the Reserve Bank of Malawi increased independence in monetary policy operations and decisions. This has already had the effect of tremendously boosting the credibility of the monetary policy implementation process. This credibility is important in providing the correct signal to the market and anchoring inflation expectations especially at a time when a pass-through of a significant currency adjustment has to be contained to avoid prices spiralling out of control.

43. Mr. Speaker, Sir, in order to address one of the long-outstanding issues , the Reserve Bank effected a substantial currency adjustment by moving the nominal exchange rate from around K167 to K250 to a Dollar and announced the floatation of the Kwacha exchange rate. To further ensure credibility and an early return to normality in the foreign exchange markets, the devaluation was accompanied by the elimination of a number of exchange restrictions so that market participants can freely determine the Kwacha exchange rate. At the same time, foreign exchange bureaux were freed to determine their exchange rates.

44. In addition to stopping the pre-screening of import invoices in excess of USD 50,000, the Reserve Bank of Malawi also rescinded the surrender requirement for US Dollars earned from the sale of tobacco at the auction

floors, allowing tobacco growers to receive their US Dollar sale proceeds through their respective commercial banks at market rates. This has increased substantially the Kwacha earnings of tobacco growers, effectively cushioning them from the negative effects of the devaluation. At the same time, elimination of the surrender requirement had the immediate effect of improving the availability of foreign exchange in the banking system, thereby ensuring equitable access to the available foreign exchange, in sharp contrast with the system whereby the Reserve Bank allocated foreign exchange to selected banks and the privileged few.

45. Mr Speaker, Sir, with deregulation of the foreign exchange market and our strong commitment to a market determined exchange rate regime, the exchange rate misalignment and distortions in the foreign exchange market have been eliminated. Moreover, this establishes a more sustainable exchange rate policy framework for fostering production for exports and import substitution.

46. Mr. Speaker, Sir, to ensure that the devaluation and the floatation of the currency does not result in fuelling inflationary expectations, and a return to a persistently over-valued exchange rate, it is important that we institutionalize a combination of fiscal and monetary policies that foster price stability in the medium- to long-term. Thus, recognizing the liquidity overhang that was in our monetary system, the Reserve Bank of Malawi adjusted interest rates upwards from 13 percent to 16 percent to allow mopping up the excess liquidity.

47. While it is tempting to be complacent, risks still remain until this August House passes a Budget that is needed to underpin monetary stability. I am pleased to report, Mr. Speaker, Sir, that the monetary and exchange rate policy actions undertaken to-date are starting to have their desired effects.

48. However, our reserves remain at a low level. While there are improved prospects for accumulating reserves overtime, I invite this House to join me in urging the donor community to live up to their word and disburse funds as early as possible.

Restoration of Donor Confidence

49. Mr. Speaker, Sir, as already noted, we have gone a long way to normalize relations with our Development Partners. They have demonstrated their confidence in the new Administration by significantly increasing pledges to the 2012/13 Budget.

Energy

Tariffs

50. Mr. Speaker, Sir, because energy is the lifeblood of industry, immediate reforms were needed to create a conducive environment for scaling up

capacity. In pursuit of this goal, we have increased electricity tariffs by 63.52 percent so that revenues in the sector are closer to covering the costs of production. This measure is a move towards a more market determined tariff structure in the electricity sector. It is our intention to have a pricing structure that reflects the long run average cost of producing electricity in order to allow the private sector to invest in further generation capacity.

Interconnector and Millennium Challenge Corporation (MCC) Resources

51. Mr. Speaker, Sir, as an immediate option, we shall expedite interconnection with Mozambique which will cause a reduction in power outages and begin to support industry. For the medium and long term, it is our hope that Millennium Challenge Corporation resources that were withheld by the US Government will be released following progress in addressing outstanding issues of governance including the repeal of the bad laws and our demonstrated commitment to economic reforms and human rights.

52. Mr. Speaker, Sir, the measures taken so far are beginning to have their intended effect. The supply of petroleum products is starting to normalize, the excess liquidity in the system has been mopped up and smallholder tobacco farmers and all exporters are being paid at market determined exchange rates thus increasing their incomes.

ASSUMPTIONS UNDERLYING THE 2012/13 BUDGET

53. Mr. Speaker, Sir, our National Budget will operate within the context of a Globalized Economy. Allow me to turn to major assumptions about the performance of the global economy that will impact on Malawi's economy.

Global Economic Outlook

54. According to the recent World Economic Outlook (WEO) by the IMF published in April 2012, it is expected that Advanced Economies will experience weak recovery whereas activity in Emerging and Developing Economies will be relatively solid. Global growth is projected to drop from about 4 percent in 2011 to about 3.5 percent in 2012 because of weak activity during the second half of 2011 and the first half of 2012.

55. Mr. Speaker, Sir, the euro zone is still projected to go into a mild recession in 2012 as a result of the sovereign debt crisis and a general loss of confidence. On account of the problems in Europe, the current projections are that growth for the advanced economies as a group will expand by only about 1.5 percent in 2012 and by 2 percent in 2013.

56. For emerging and developing economies, real GDP growth is projected to slow from 6.25 percent in 2011 to 5.75 percent in 2012 but then to rebound to 6 percent in 2013, helped by easier macroeconomic policies and strengthening foreign demand.

57. Mr. Speaker, Sir, projected growth rates may decline if the crisis in the euro zone deepens or if there is a significant increase in oil prices.

Outlook for Sub-Saharan Africa Region

58. Mr. Speaker, Sir, looking at Sub Saharan Africa (SSA), the region performed remarkably well in 2012, expanding by about 5 percent despite a slowdown in South Africa due in part to the slowdown in the euro zone, adverse supply shocks from drought in both eastern and western Africa, and civil conflict in Côte d'Ivoire.

59. The region's resilience is mainly a reflection of its limited financial linkages with the global financial system and specifically Europe in this instance. South Africa is the only notable exception where strong linkages with the global financial system led to rand depreciation and stock price volatility.

60. The second reason for the resilience is the diversification of exports toward fast-growing emerging markets which has reduced the region's trade exposure to Europe.

61. Mr. Speaker, Sir, reflecting its resilience, growth in Sub Saharan Africa is expected to pick up somewhat in 2012 to 5.5 percent, from 5 percent in 2011, buoyed by the coming on-stream of new mineral and oil production and the reversal of the adverse supply shocks experienced in 2011.

62. Mr. Speaker, Sir, growth in Oil-exporting economies is expected to accelerate to 7.25 percent in 2012 from 6.25 percent last year, mainly on account of new oil fields coming on-stream in Angola which are expected to boost GDP growth there to 9.75 percent this year. In Nigeria, non-oil GDP growth is projected to ease somewhat this year, reflecting tighter fiscal and monetary policies, but overall GDP growth will remain at about 7 percent.

The Malawi Economy

63. Mr. Speaker Sir, turning to the domestic economy, growth in 2012 is now expected to slow down to 4.3 percent because of weaker agricultural performance than in the previous year, intermittent power supply and low levels of reserves that affected key imports such as fuel and raw materials. In 2013,

the economy is expected to rebound and we project growth to be around 5.7 percent.

64. Mr. Speaker Sir, inflationary pressures in 2012 continued to rise, reflecting a loose fiscal and monetary stance. Coupled with the pass-through from currency adjustment, we now estimate inflation in 2012 at 18.4 percent with the prospects of decelerating to 16.1 percent in 2013 as full recovery begins.

MAIN THRUST OF THE 2012/13 BUDGET

Transitional and Recovery Based Budget

65. Mr. Speaker, Sir, the key objective of this budget is to restore macro-economic balance and a market-based economy that will provide the foundation for sustainable economic growth in future. This Budget will consolidate the bold economic reforms that the new Administration has started implementing since Her Excellency the President assumed office on April 7, 2012.

66. The removal of price controls is necessary to move to a market-based economy and to reduce the burden of subsidies on fuel and utilities in the budget. Other key anchors include a commitment to No Net Domestic Financing, and careful expenditure control and prioritization, together with

reforms to strengthen governance systems for public financial management to prevent the build-up of domestic debt and arrears in future. This is an austerity budget and some of the reforms implemented will be painful – but these are required to put the economy onto a path of sustainable growth.

67. Mr. Speaker, Sir, the Budget presents the proposed estimates for the 2012/13 fiscal year as well as estimates for 2013/14 and 2014/15 fiscal years. This follows the principles of the Medium Term Expenditure Framework (MTEF). The MTEF is an approach in which expenditures are projected on a three-year time horizon. It ensures that Budget Allocations are aligned with the medium term goals that are outlined in the Malawi Growth and Development Strategy II.

Medium Term Policy Objectives

68. Mr. Speaker, Sir, the Medium Term Policy Objectives of the Budget are:

1. Increasing and maintaining sustainable economic growth over the medium term within a stable macroeconomic environment consistent with Malawi's Growth and Development Strategy II and the Millennium Development Goals;
2. Promoting internal equilibrium by pursuing prudent fiscal and monetary policies, designed to contain aggregate demand pressures and limit the

pass through of the devaluation of the Malawi Kwacha to the prices of non-tradable goods;

3. Continuing reforms in public financial management and tax administration, designed to enhance capacity and strengthen expenditure control and revenue performance;
4. Pursuing wide ranging reforms to deepen the financial sector and promote greater financial inclusion;
5. Improving the business climate through investments in infrastructure and regulatory reform; and
6. Promoting exports and import substitution to address the growing gap in the Balance of Payments.

69. Mr Speaker, Sir, to achieve the above objectives, it is imperative that there be enhanced control of Government expenditure. Any additional expenditure over and above the approved Budget must be matched by a corresponding cut elsewhere in the Budget – and this must be approved by Cabinet. Failure to adhere to the approved framework will negate the reforms that the Reserve Bank of Malawi is implementing.

Fiscal Policy Anchor: No Net Domestic Financing

70. Mr. Speaker, Sir, building on the likely outturn of the 2011/12 Fiscal Year, we aim to consolidate fiscal policy and implement supportive monetary policies which will aim at restoring and supporting macro-economic recovery. The Fiscal Anchor for 2012/13 shall be “No Net Domestic Financing” (NNDF) implying that at end June, 2013, Net Domestic Borrowing shall be Zero. To this end, the 2012/13 budget intends to improve both domestic and foreign resource mobilization whilst at the same time containing expenditures.

Prioritization of Expenditure

71. Mr. Speaker Sir, in order to ensure that a tighter fiscal stance does not affect essential social services and provisions that spur growth, this Budget has been strongly embedded in the principle of expenditure prioritization. In this regard, I am pleased to report that we have managed to identify and provide for programmes and activities that are vital to the recovery process without militating against our growth objectives.

72. Expenditure prioritization also requires a commitment to austerity. Reforms will include reducing internal travel, reducing the size of delegations abroad and reviewing allowances to make sure that they are not abused.

Monetary Policy Anchor

73. On the monetary side, Mr. Speaker, Sir, the Budget will be supported by a prudent and tight monetary policy stance designed to contain broad money growth and anchor inflation expectations.

Adjustment of fuel and utility prices to reflect full cost recovery

74. Mr. Speaker Sir, we have taken the bold step of increasing fuel and electricity tariffs and Government is committed to an automatic adjustment of fuel and utility prices to reflect full cost recovery. This is necessary in order to reduce the burden of fuel and electricity subsidies on the Budget.

75. Mr. Speaker, Sir, subsidies on fuel and electricity are very expensive. In the past, fuel prices did not reflect cost-recovery levels. The price build-up for fuel was based on a “deemed price” which was always significantly lower than its in-bond landed cost. In 2010, the cost of fuel subsidies was K6 billion. In 2011, the cost of fuel subsidies increased to K10.5 billion. If we had not increased fuel prices in May, the total cost of fuel subsidies by the end of the year would have been K36 billion. The example of fuel prices illustrates the impact on the Budget when Government deviates from the principle of full-cost recovery. The Budget has to accommodate ever increasing costs of subsidies. This is money that could be used to enhance the quality of education or health services for the majority of the population.

76. Mr. Speaker, Sir, the adjustment of fuel prices to import-parity prices also triggered a rapid response from the private sector leading to the normalization of fuel imports and supplies. In a similar manner, it is the expectation of Malawians that the upward adjustment of the electricity price will allow ESCOM to do the required maintenance work and also create incentives for private sector investment in electricity generation and distribution.

Enhanced Governance and strengthened public financial management

77. Mr. Speaker, Sir, Government has decided to address over-expenditure and build-up of arrears by strengthened scrutiny of all Parastatal Organizations and Government Departments and improve public financial management. This requires both political will and sound systems.

78. Government is committed to improving public financial management and has negotiated a grant to implement a comprehensive programme to improve all aspects of Public Financial Management in line with the Public Financial Management Act.

THE 2012/13 BUDGET FRAMEWORK

Resource Envelope

79. Mr. Speaker, Sir, let me now turn to the fiscal projections for the 2012/13 Budget. Total Revenues and Grants are projected at K394.47 billion made up of K270.39 billion and K124.08 billion in domestic revenues and grants, respectively. Of the total domestic revenues, tax revenues are projected at K236.46 billion based on projected nominal GDP growth, the on-going reforms in tax and customs administration, and new tax measures that I will outline later in my speech. Non-tax revenues are estimated at K33.93 billion.

80. Mr. Speaker, Sir, I wish to bring to your attention that compared to last year's amount of K52.68 billion, grants from cooperating partners have increased by 140 percent reflecting renewed confidence in the new government of Her Excellency the President, Mrs Joyce Banda who within a short time of assumption of power has not only said the right things but also done the right things.

Total Expenditure and Net Lending

81. Mr. Speaker, Sir, with recurrent and development expenditure at K328.91 billion and K77.17 billion, respectively, Total Expenditure and Net Lending is projected at K 406.08 billion.

Overall Balance and Financing

82. Mr. Speaker, Sir, the overall balance is projected to post a fiscal deficit of K13.49 billion, which will be entirely financed from foreign sources in program and project grants and loans, reflecting our main fiscal anchor of No Net Domestic Financing.

KEY ALLOCATIONS IN THE 2012/13 BUDGET

83. Mr, Speaker, Sir, allow me now to comment on the key allocations of the 2012/13 Budget.

Civil Servants Wages and Salaries

84. Wages and Salaries for Civil Servants are pegged at K86.8 billion. With this provision, Government will be able to restructure salaries for Civil Servants by an average of 21 percent which is above projected inflation. The salary restructuring will be effective 1st July, 2012. In line with our Medium Term Pay Policy which seeks to harmonize pay structures for institutions that draw from the Consolidated Fund, salary increases in Public Bodies and Parastatals will likely be at a lower percentage as would be determined by the Office of the President and Cabinet.

85. The budget has also made a provision of K4.5 billion for prioritized recruitment of different cadres of Public Servants in 2012/13 Fiscal Year including the recruitment of over 16,000 Primary, Secondary and Special Needs Education Teachers, recruitment of Health Personnel, Police Officers, Army Officers and many other Public Servants. The wages and salaries provision also includes Rural Teachers' allowances allocation amounting to K3.6 billion.

Pensions and Gratuities

86. Mr. Speaker, Sir, Pensions and Gratuities have been allocated a total of K18.6 billion up from K11 billion in 2011/12 Fiscal Year. The provision includes K14.8 billion normal Pensions and Gratuities obligations and K3.7 billion for clearing outstanding Pension Arrears.

Interest Payments

87. Mr. Speaker, Sir, a total of K28.75 billion has been allocated to service both Domestic and Foreign Interest Payments. The increase over the 2011/12 fiscal year allocation of K20 billion is mainly on account of the upward adjustment in Bank Rate and the recent devaluation of the Kwacha. The country's total Domestic and Foreign Debt are projected at K192.37 billion and K250 billion, respectively by 30th June 2012. Going forward, Government is committed to sustainably manage both its Domestic and Foreign Debts.

Agriculture and Food Security

88. Mr, Speaker, Sir, the Ministry of Agriculture and Food Security has been allocated a total of K68 billion. This represents a doubling of resources and has been done in recognition of the central role that the Agriculture sector plays in the economy. The allocation to the Agriculture Sector is second only to the Education Sector. The major allocation is for the Farm Inputs Subsidy Program (FISP) which has been allocated a total of K40.6 billion for the purchase of 150,000 metric tonnes of fertilisers comprising 75,000 metric tonnes of Urea and 75,000 metric tonnes of NPK fertilisers which will be distributed to 1.5 million farm families at a price of K500 per bag. Within the provision of the Farm Inputs Subsidy Programme, K7.6 billion has been provided for the procurement of maize and legume seeds for distribution to smallholder farmers across the country. The allocation for the Agriculture Sector also includes a sum of K1.3 billion for the purchase of maize from farmers for the Strategic Grain Reserve.

89. Mr, Speaker, Sir, the other two initiatives that have been allocated resources within the agriculture sector recurrent expenditures are the Presidential Initiative on Livestock Development and the Promotion of Special Crops for the export market. A sum of K900 million has been allocated for the promotion of production. Under the Special Crops Initiative, a total of K1.5 billion has been provided for the promotion of special crops such as Soya

Beans, Pigeon Peas, Sugar Beans, Groundnuts and Rice. The objective is to up-scale production of these crops mainly for export.

90. In the Development Budget, major projects include; the Agriculture Sector Wide Approach which has been allocated K7 billion mainly from the World Bank, the Sustainable Agricultural Production Project with an allocation of K918 million and the Livestock Development Project which has been allocated K200 million. Councils have been allocated a total sum of K517 million for running agriculture sector activities across the Country.

91. Mr. Speaker, Sir, the Green Belt Irrigation Initiative has been allocated K1.0 billion for scaling up irrigation initiatives across the Country. Construction of Multipurpose Dams has been allocated K500 million while the Malawi Irrigation Development Programme has been allocated K200 million.

Education, Science and Technology

92. Mr, Speaker, Sir, the Education, Science and Technology Sector's allocation has grown to K74.7 billion representing 22 percent of the total Budget. The Recurrent Budget of K55.6 billion includes K2.8 billion for recruitment of over 16,000 Teachers for Primary, Secondary and Special Needs

education while K1.8 billion is for the procurement of teaching and learning materials.

93. Total Development Budget for the Education sector is K10.4 billion. With these resources, Government intends to construct and rehabilitate over 4,000 Primary classroom blocks and teachers houses through the Ministry of Education and Local Development Fund (LDF); construct Girls Hostels, construct and expand CDSS's and Boarding Secondary Schools, construct Teacher Training Colleges for Primary School Teachers, rehabilitate four National Secondary Schools and complete outstanding works at Mzuzu University. Councils have been provided a total of K5.6 billion for running Primary and Secondary Schools across the country. School Meals programme has been allocated K100 million as counterpart funding to the resources that Developing Partners are providing through Mary Meals and WFP programmes.

94. Mr. Speaker, Sir, Public Universities and other Education Sector Subvented Organisations have been allocated a total of K13.8 billion. The institutions include the University of Malawi (UNIMA), Lilongwe University of Agriculture and Natural Resources (LUANAR), Mzuzu University and the yet to be opened Malawi University of Science and Technology (MUST). Completion works at MUST will be financed through a loan from China while K800 million has been set aside for financing construction of some teaching and learning infrastructure at Bunda College, Chancellor College and the Polytechnic.

95. Mr. Speaker, Sir, the resources allocated to the universities are far from adequate. The requirements of a quality university education are quite huge. Given the available resource envelope, it will be unrealistic for all of us to expect that we can provide a sustainable quality university education without a reasonable contribution from the beneficiaries.

96. Mr. Speaker, Sir, the cost of university education is in the ranges of K1 million to K1.5 million per student per year. The current contribution levels are K25,000 per student per year. However, institutions that offer lower qualifications than the university charge more than ten times what the university beneficiaries contribute. As a Nation, we will have to make hard decisions on this matter if we are to continue providing quality university education. To this effect, Government has set up a Committee to review and recommend appropriate levels of University Student contribution to ensure that the Colleges have reasonable resources to cover their expenses and create a conducive learning environment.

Transport and Public Infrastructure

97. Mr. Speaker, Sir, in the area of Transport and Public Infrastructure, a total of K23 billion has been allocated in the next Financial Year of which K11 billion is for road maintenance initiatives across the country. K12 billion is for road projects which are at various stages of Construction. The Projects include; Liwonde – Naminga; Chikhwawa – Nchalo; Zomba – Jali – Kamwando –

Phalombe - Chitakale; Thyolo – Thekerani – Muona – Bangula; Jenda – Embangweni – Edingeni – Euthini; Zomba – Blantyre; Lumbadzi – Dowa – Nchezi – Ntchisi Spur; Chiradzulu – Chiringa – Miseu Folo; Malowa – Goliati – Chiperoni; Msulira – Nkhotakota; Bangula – Nsanje; Mzimba - Eswazini – Mzalongwe and Mwanza – Chapananga – Chikwawa Roads.

98. Other major Infrastructure Projects Government will finance in the course of the 2012/13 Financial Year include; construction of the Commercial Court in Blantyre; construction of the Chagalume Barrack's roads; construction of Government Office Complex at Capital Hill; construction of Maximum Security Prison in Lilongwe; construction of the Malawi Bureau of Standards Office Complex; construction of Purpose – Built Archival Building, Museum and Antiquities Research Centre, and an Art Centre in the Capital City. The rehabilitation of Chileka and Kamuzu International Airports will continue in the next Fiscal Year as is construction of Chiefs' Houses. An allocation has also been made for Automation of the Airport Administration System to modernise and bring them to acceptable international standards.

Integrated Rural Development

99. Under the Integrated Rural Development priority area, Mr. Speaker, Sir, Government will continue with the construction of Rural Growth Centres and

market structures across the country. A total of K 600 million has been dedicated to this priority area.

100. Mr. Speaker, Sir, it is my prayer that very soon the Councils should be able to finance the construction of markets as these can easily repay their capital costs.

Public Health, Sanitation and HIV/AIDS Management

101. The Public Health, Sanitation and HIV/AIDS Management sector has been allocated a total of K48.7 billion. Of these resources, K27.6 billion is for the Ministry of Health of which K1.6 billion is for purchase of drugs for Central and Referral Hospitals and K1.3 billion is for training of nurses and other Medical Personnel in CHAM and the Malawi College of Health Sciences. Resources have also been provided for the procurement of hospital equipment.

102. Mr. Speaker, Sir, key projects under the development budget include: Construction of Staff Houses under the Umoyo Project, construction of Nkhata-Bay District Hospital, construction of Phalombe District Hospital, purchase of medical equipment, rehabilitation of Referral and District Hospitals, construction of lecture rooms, laboratories, and hall of residence at the College of Medicine and Kamuzu College of Nursing, construction of Central Medical

Stores Warehouse, construction of Cancer Centre, and the rehabilitation of Health Centres.

103. Councils have been allocated K 9 billion of which K 3.4 billion is for procurement of drugs for various District Hospitals and Health Centres. The National Aids Commission has an allocation of K12.9 billion for procurement of drugs and undertaking HIV/AIDS awareness programs.

Subvented Organizations

104. Mr. Speaker, Sir, subvented Organizations have been allocated a total of K16.9 billion. Key Institutions with significant allocations from these resources include the Malawi Broadcasting Corporation (MBC), the Malawi Investment and Trade Centre, the Malawi Council for the Handicapped and the Small and Medium Enterprise Development Board.

Local Councils

105. Transfers to Councils have been pegged at K18.6 billion with 48 percent going to the Health Sector, 30 percent to the Education Sector, 3 percent to the Agriculture Sector and the balance shared among all the other devolved Sectors.

Safety Net Programmes

106. The Malawi Government in partnership with the Donor Community will scale up implementation of social safety net programmes in 2012/13 Fiscal Year. These programmes are aimed at assisting the poorest in our communities to cope with life. During the 2012/13 fiscal year, however, the programmes will be scaled up to capture those that may have fallen below the poverty line due to devaluation. A total of K27.5 billion has been provided for four programmes mainly the Intensive Public Works Programme, the School Feeding Programme targeted towards 980,000 pupils in primary schools, the Schools Bursaries Programme targeting 16,480 needy students, and the Social Cash Transfer Programme which will reach over 30,000 households across the country.

107. Mr. Speaker, Sir, I would like to single out the World Bank for their contribution towards the Safety Net Programmes which they are providing through MASAF and the Irrigation, Rural Livelihoods and Agriculture Development (IRLAD) Programmes.

108. Mr. Speaker, Sir, the on-going Irrigation, Rural Livelihoods and Agricultural Development Project funded by the World Bank and IFAD will expand the social safety net “inputs for assets” programme. This programme aims at creating more community assets and building community resilience to

help cushion the rural poor. This programme will be scaled up from the original 11 districts to all the 28 Districts to benefit about 250,000 smallholder households.

109. Mr. Speaker, Sir, the public works programmes activities will be implemented during the period when beneficiaries have the most need for additional income to spend on their family needs including food and non-food expenditures and agricultural inputs.

110. Mr, Speaker, Sir, I would also like to thank the World Food Programme, Mary's Meals, the Millennium Village Programme and GIZ for their assistance towards the school feeding programme. Currently, the programme covers 980,000 pupils in 23 districts and it will be scaled up to cover more beneficiaries across the country in response to any food price shocks which may have the potential of compromising the nutrition levels of the school going children.

REVENUE POLICY MEASURES FOR THE 2012/13 BUDGET

Tax and Non Tax Policy Measures

111. Mr. Speaker, Sir, let me now turn to the tax and non-tax revenue policy measures underpinning the domestic revenues in this year's Budget. The

Customs and Excise Tax measures will be effective from midnight tonight whereas the Value Added Tax (VAT) and all other Income tax measures will become effective on 1st July, 2012.

Tax Measures

112. Mr. Speaker, Sir, allow me to present tax measures for 2012/13 fiscal year as follows:

Income Tax Measures

Minimum Tax Based on Turn Over

113. Mr. Speaker, Sir, I wish to report that in this Budget, Government has removed the Minimum Tax Based on Turn Over which was introduced in the 2011/12 Budget and was deemed to be anti-developmental.

Capital Gains from the Sale of Shares

114. Mr. Speaker, Sir, Government remains committed to ensure that there is a vibrant stock exchange market in Malawi which will be competitive in the region. In view of this, Government has removed taxes on gains from sale of shares that are held for more than one year to encourage long term investments specifically in shares that are traded on the stock exchange market.

Initial Investment Allowance

115. Mr. Speaker, Sir, in the 2011/12 fiscal year, Government reduced the initial investment allowance on new and unused industrial buildings and plant and machinery from 100 percent to 40 percent whilst international transport allowance was reduced from 25 percent to 15percent. In order to promote investment and support private sector growth, Government has decided that the initial investment allowance be increased from 40 percent to 100 percent, whereas international transport allowance will be increased from 15 percent to 25 percent.

Export Allowance

116. Mr. Speaker, Sir, in view of the contradictions of the provisions contained in the Malawi Investment Promotion Act and the Taxation Act regarding the base for calculating export allowances, Government decided in the 2010/11 fiscal year that the correct basis for computing export allowances is to use taxable income from export proceeds. Considering the need for tax policy to encourage investment and promote exports, Government has, in this year's Budget, decided that export allowances be increased from 15 percent to 25 percent. Whilst on this point, I want to acknowledge that within Government there are other pieces of legislation other than the Taxation Act, VAT Act and the Customs and Excise Act that contain tax provisions but are contradicting the Taxation laws. In this regard, the Ministry of Finance will work with other Sectoral Ministries to ensure that all these provision are contained in the taxation law and not the Sectoral Acts. We hope this will help to resolve some of the implementation challenges that exist when the laws are conflicting.

Social Contributions

117. Mr. Speaker, Sir, Government acknowledges the social contributions that are done by some companies and other Institutions. Government would like to further encourage social contributions in key areas of Health, Education, and Youth Sports Development. In order to facilitate this process, Government has decided that all social contributions towards construction of hospitals, schools

and sponsoring school sports development activities will be tax deductible up to 50 percent.

Pay As You Earn (PAYE) and Withholding Tax on Casual Labour

118. Mr. Speaker, Sir, we acknowledge the impact of recent devaluation and its inflationary effects in our economy. In view of this, Government has increased the zero percent threshold for PAYE from MK12, 000 to MK15, 000 and also increased the 15 percent bracket from MK3, 000 to MK5, 000 whilst the excess will be taxed at 30 percent. In addition, the zero percent threshold for withholding tax on payment of casual labour has been aligned to the zero percent threshold for Pay As You Earn (PAYE). As such, the withholding tax payable on casual labour will only apply to payment for casual labour on income in excess of the zero percent threshold.

Taxation of Pensions

119. Mr. Speaker, Sir, in the 2010/11 fiscal year, the Pensions Act came into force but Section 13 of the Pensions Act which deals with taxation of pensions was differed for further review. I wish to report that Section 13 in the Pensions Act on taxation of pensions has been amended to make reference to the

Taxation Act. In view of this, Section 13 of the Pensions Act will now be made effective as amended. The Taxation Act has also been amended to introduce a new structure for taxation of pensions. The amendment has been done such that contributions by the employees will be net of taxes and contributions by the employer will be deductible up to 15 percent of the employee's annual salary while earnings from the pension investments will be taxed at a reduced rate of 15 percent.

120. Mr. Speaker, Sir, the pension benefits that accrue to the pensioner will be exempted from taxes. This has been done to ensure that pensioners have more disposable income at retirement.

Corporate Tax on Cell Phone Operators

121. Mr. Speaker, Sir, I wish to report that Government has increased the rate of corporate tax paid by cell phone operators from 30 percent to 33 percent .

VALUE ADDED TAX MEASURES

VAT on Machinery

122. Mr. Speaker, Sir, in order to attract investment, VAT on machinery has been removed.

VAT on Financial Services

123. Mr. Speaker, Sir, VAT on Financial services has been removed in line with the principle of financial inclusion with a view to promoting a savings' culture.

VAT on Newspapers and internet services

124. In addition Mr. Speaker, Sir, Government has also removed VAT on newspapers and internet services to allow Malawians access information at affordable prices.

VAT on Bread

125. Mr. Speaker, Sir, the cost of bread has substantially increased in the course of the year and this is partially on account of the taxes that were introduced on standard bread in the 2011/12 budget. I wish to indicate that Government has now removed VAT on bread. In view of this, we implore our colleagues in this sector to reduce the prices of bread in response to this policy measure.

Customs and Excise Tax Measures

Excise Tax Regime

126. Mr. Speaker, Sir, Government has reviewed the excise tax regime in Malawi in line with best practice and also aligned to regional rates in order to curb smuggling. We believe this will culminate into increased employment and production for the local and export market and the improvement of other forms of taxes. The reviewed excise tax regime entails that some products will be reduced to zero while others will be adjusted in line with the regional rates within SADC and COMESA. The details of the revised excise rates will be published in a Government Gazette Notice. Among others, Government has removed excise duty on second hand clothes and textiles.

Excise Duty on Alcohol in Sachets and Plastic Bottles

127. Mr. Speaker, Sir, in the 2011/12 Budget, Government introduced Excise duty of 150 percent on alcohol packed in sachets and plastic bottles. However, despite this increase, alcohol abuse by minors continued to increase at an alarming rate. It is in this regard, Government has increased excise duty rate to 250 percent on alcohol sold in sachets and plastic bottles.

Customs Procedure Codes

128. Mr. Speaker, Sir, Government has reviewed some of the Customs Procedure Codes (CPCs) under the Customs and Excise Tariffs Order. CPC 430 has been reviewed and returning residents will now be allowed to clear duty-free motor vehicles for personal use provided they have owned and used the motor vehicle for a period not less than 12 months whilst outside Malawi. We have noted that this provision has been abused and in order to reduce the malpractice associated with this provision, Government has decided that duty be paid on disposal of such motor vehicles and that the provision will only be enjoyed by a qualifying beneficiary once in every five years. This CPC does not cover buses, minibuses, pickups and any other commercial vehicles. In addition, Government has also included diagnostic and laboratory reagents under CPC 405 which covers goods for medical use to be imported duty free by Health Institutions.

129. Mr. Speaker, Sir, in the 2011/12 Budget, Government introduced VAT on water supply by Water Boards and this necessitated the introduction of VAT on goods imported by Water Boards under CPC 488. This was reversed but the VAT still applied on the goods imported by Water Boards. In order to align the VAT structure, Government has removed VAT on Goods imported under CPC 488. Government has also introduced a new CPC to allow duty free importation of electronic fiscal devices.

130. Mr. Speaker, Sir, Section XXII of the Customs and Excise Tariffs Order has been reviewed in order to guard against abuse when privileged persons and organizations import motor vehicles. A procedure has been developed where privileged persons and organizations will now only be allowed to import directly or purchase motor vehicles from suppliers ex-bond and not from open stock. I wish to point out that no refund of duty shall be paid on claims made by privileged persons and organizations that choose to purchase motor vehicles in Malawi on which duty has already been paid.

Taxation of Large Buses

131. Mr. Speaker, Sir, in the 2011/12 fiscal year, Government observed a deterioration in many of the large buses and high rate of accidents caused by minibuses travelling long distances. In order to sustain the development of this sector, Government has removed all taxes currently existing on big buses of a seating capacity of more than 45 passengers (including the driver).

Industrial Rebate Scheme

132. Mr. Speaker, Sir, Government introduced the Industrial Rebate Scheme in order to encourage local production. I wish to report to this August House that

Government has reviewed the Eighth Schedule under Section XXII of the Customs and Excise Tariffs Order with a view to improve the implementation of this scheme. Government has therefore removed import duty, import excise and import VAT on raw materials imported under the Industrial Rebate Scheme. However, I wish to appeal to all manufacturers under Industrial Rebate that produce excisable goods to register with Malawi Revenue Authority for purposes of administration of the domestic excise tax regime.

Foreign Travel Allowance

133. Mr. Speaker, Sir, in the 2011/12 fiscal year, Government increased travel allowance for non-commercial goods bought by residents from MK20, 000 to MK50, 000. In view of the adjustment of the values for calculating import duty on these small consignments as a result of the devaluation of the Kwacha against the US dollar, Government has decided that the travel allowance for non-commercial goods bought by residents when they travel outside Malawi be increased from MK50,000 to MK150,000.

Regional Trade Agreements

COMESA and SADC Tariff Alignment

134. Mr. Speaker, Sir, Malawi is a member of both SADC and COMESA. Under the Treaties establishing these Regional Integration Organizations, Member States are under obligation to adhere to commitments which have been agreed and endorsed. In view of this, there is need for Malawi to align herself with the SADC and COMESA harmonized tariff structure and other regional initiatives. Under the COMESA and SADC tariff phase-down, Malawi has adjusted its tariff rates to meet the SADC and COMESA thresholds as Member States prepare to implement deeper levels of integration. This is a progressive continuation of the alignment program which started in 2000.

Simplified Trade Regime (STR)

135. Mr. Speaker, Sir, in order to promote small cross-border trade amongst countries within the COMESA region, it was resolved that the threshold of consignments under the Simplified Trade Regime should be increased from \$500 to \$1000. In order to conform to the STR requirements, Government has adopted the proposal to adjust the threshold for the STR to be increased accordingly.

Administrative Measures

136. Mr. Speaker, Sir, I wish to indicate that the MRA will leverage the use of ICT to enhance its operations by implementing the use of electronic fiscal devices in collection of VAT, automated self-assessment system for management of tax returns, web-based ASYCUDA system, and the customs data processing centre. In addition, Government has devised a mechanism to improve the refund management system so that the problems that were being experienced in the past should be mitigated. Government will also undertake to review all the tax laws to ensure that they reflect the current operating environment.

Non Tax Measures

Motor Vehicle Licence Fees

137. Mr. Speaker, Sir, in order to ensure that all vehicles using the public roads in Malawi are paying their fair contribution to road maintenance and construction, the motor vehicle license fee will now be collected through the fuel pump price. This user-fee should not be viewed as an additional levy on fuel as it is only a change of the collection point.

CONCLUSION

138. In conclusion, Mr. Speaker, Sir, let me reiterate the fact that the budget I have presented today is designed to promote sustainable economic growth. This Budget is, in my view, fiscally responsible; it is also socially progressive and it provides important safety nets and safeguards that will mitigate the adverse impacts of our recent currency adjustment on the most vulnerable segments of our population.

139. Mr. Speaker, Sir, we have made efforts to learn lessons from the poor performance in the 2011/12 Financial Year. This Budget Statement focuses on strengthening the structures governing public financial management in order to promote transparency and accountability in the use of public finances. I have outlined where progress has already been made since April when Her Excellency Mrs. Joyce Banda assumed the Office of President. I have also been honest about where public financial management fell below acceptable standards last year. I am committed to addressing these issues and will implement the necessary reforms to promote full transparency and accountability to Cabinet, Parliament and the Malawian people. I am focused on the medium term to deliver a conducive environment for economic growth and poverty alleviation so that all Malawians can reach their full human potential.

Vote of Thanks

140. For the many Malawians who contributed to the budget making process, I sincerely thank them for their patriotism. Through the budget consultation meetings that my Ministry organised, we were able to consolidate and translate those views into the budget. In particular, I would like to thank the Malawi Confederation of Chambers of Commerce and Industry, the Society of Accountants, the Economics Association of Malawi, the Young Professionals Forum, the Malawi Economic Justice Network, Civil Society Organizations and members of the public. In subsequent budgets, we plan to extend the process of consultation further to include social media and the views of as many individuals as possible.

141. Mr. Speaker, Sir, I express my profound gratitude to Her Excellency the President, Mrs. Joyce Banda, the Deputy Minister of Finance and my cabinet colleagues, members of the Budget and Finance Committee of Parliament, other relevant Parliamentary Committees and indeed all Honourable Members of this August House for your valuable and constructive input and for the support they have accorded my Ministry and I in the process of crafting this budget.

142. Mr. Speaker Sir, I must restate my thanks to our Development Partners for their unfailing support to Malawi. I thank them, not just for their generous

financial support and the significant increase in resources that have been programmed in support of this year's Budget. I also thank them for their technical support. They have been generous with their time, their ideas, the constructive analysis and help in designing programmes. I would also like to thank them for their tolerance and willingness to support Malawi even where there were significant problems with human rights, governance and economic management. Many reprogrammed Budget Support into the Farm Inputs Subsidy Programme and others went back to Headquarters for additional support when fuel constraints threatened to derail the Subsidy Programme. While the Ministry of Health was reformulating the Health Sector Strategic Plan, Development Partners supporting the Health sector reprogrammed support towards the Essential Drugs Programme. I know that many friends in the Development Community play a significant role behind the scenes in dialogue with Principal Secretaries to agree on how to address outstanding issues so that resources can be released on time.

143. The willingness of our Development Partners to respond immediately to programme additional resources in support of this Budget demonstrates their commitment to the economic reform programme and your concern that the poor are not adversely affected by the impact of the devaluation of the Malawi Kwacha.

144. The World Bank, the African Development Bank and the European Union are planning to proceed with their respective (sector) budget support as soon as possible. DfID, the United States, Norway and Ireland are also moving ahead quickly. DfID has accelerated support of 30 million pounds. The first tranche of the EU Sector Budget Support is anticipated as soon as the IMF issues a Letter of Assessment. The African Development Bank has used accelerated procedures to disburse US\$45 million in Budget Support with a first tranche of US\$30 million to be disbursed in July. The IMF plans to present its programme to the Board in mid-July and following the Board's approval, we anticipate that the other Development Partners will release Budget Support.

145. Our Development Partners have demonstrated that they are true friends of Malawi. Once again I invite my honourable colleagues to join me in thanking them all including the United Kingdom, the African Development Bank, the European Union, the United Nations family, the United States Norway, Germany, Japan, the Peoples' Republic of China, Ireland, Flanders, Iceland, Canada and the International Fund for Agricultural Development.

146. I would also like to thank international and local Non-Governmental Organizations, Voluntary and Faith Based Agencies, and International Research Organizations that also play a significant role in promoting development often in the remotest rural communities.

147. In a special way, I wish to thank South Africa, Zambia and Mozambique for offering assistance at a crucial time of need. On behalf of Her Excellency the President and the Government and people of Malawi, I thank them all sincerely for their generosity.

148. Finally, Mr. Speaker, Sir, allow me to thank the people that are often the unsung heroes in this important process: the team at the Ministry of Finance for their dedication and commitment that has produced a National Budget in record time under exceptional circumstances. I would also like to extend my gratitude to all dedicated public servants from every Ministry that serve the people of Malawi. It is a privilege to be in public service and we must all take our responsibilities seriously and serve the nation with dedication, professionalism and integrity.

149. Mr. Speaker, Sir, this is a moment of optimism and hope; it is also a moment to strengthen our resolve and courage to see through this reform programme. We recognize the challenges that we face and that this will not be an easy journey. We will face challenges along the way – these challenges must be faced and overcome.

150. As we move forward, we should also recognize that the Almighty has been good to this Nation and that we need His continued guidance as we work together towards a better future.

151. On this note, Mr. Speaker, Sir, I beg to move.