



MALAWI GOVERNMENT

2021/22 BUDGET PERFORMANCE QUARTERLY REPORT (Q1)

Ministry of Finance

P.O. Box 30049

Lilongwe 3

Malawi

September 2021

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Foreword

This Quarterly Budget Performance Report aims at highlighting how the National Budget has fared during implementation in the First Quarter of the 2021/22 Fiscal Year. This report thus provides the analysis of all the budget categories prepared and formulated at the planning stage. These categories include; Revenue that was collected during the quarter, status of Grants and Loans and the subsequent Expenditures that Government has incurred in the quarter under review. These are viewed in light of the approved figures.

The Ministry of Finance hopes that the information provided in this report will be valuable and informative to all the Stakeholders and thus provide a good picture on how the national Budget has performed during the first quarter on 2021/2022 financial year.

Abbreviations and Acronyms

FY	Financial Year
IFMIS	Intergrated Financial Management Information System
IMF	International Monetary Fund
LDF	Local Development Fund
MoFEPD	Ministry of Finance, Economic Planning and Development
NTRs	Non-tax Revenues
ORT	Other Recurrent Transactions
Part I	Donor supported projects
Part II	Projects financed by domestically generated resources
PE	Personnel Emoluments

Executive Summary

Revenue Performance

In the 2021/22 Financial Year, Government planned to collect a total of K1,239.91 billion in revenues of which Taxes, Grants and Other Revenues (Non-Tax Revenues) are K1,100.95 billion, K170.31 billion and K56.89 billion respectively. In the first quarter of the financial year, it was projected that total revenues will be K418.31 billion. The outturn however, was K380.27 billion. Thus revenue underperformed during the period under review by K38.04 billion. This is mainly on account of lower than anticipated inflows from all categories of revenues. Taxes underperformed by K14.80 billion whereas Grants and other revenues underperformed by K16.58 billion and by K6.66 billion respectively.

Expenditures Performance

In the 2021/22 Financial Year, Government planned to spend K1,995.10 billion, including net lending. Out of this sum, K1,424.26 billion was planned for Recurrent Expenditure and K570.84 billion for Development Budget Expenditure with a net lending/borrowing of K723.84 billion. During the Quarter under review, Government planned to spend K578.45 billion, of which, K456.08 billion was for Recurrent Expenditure and K122.34 billion was for Development Budget Expenditure. However, total Government expenditure amounted to K593.73 billion reflecting an overexpenditure of K15.27 billion against the target for the quarter.

Fiscal Balance

Government planned an overall fiscal balance of K160.14 billion in the quarter under review. The outturn, however, showed that the overall fiscal balance was K213.44 billion, higher than the anticipated balance by K53.31 billion.

INTRODUCTION

1.1 Background to the Report

In June 2021, the National Assembly approved a Budget of K1,995.10 billion for the 2021/22 Financial Year (FY). This Budget is expected to be financed by Domestic Resources amounting to K1,100.95 billion and Grants amounting to K170.31 billion.

In order to assess the performance of the National Budget from time to time, a report is produced on a quarterly basis to provide insight into the performance of all the relevant components of the budget.

This report therefore, examines performance of Government Budget in meeting the set targets in the First Quarter (July to September, 2021) of the Financial Year. It highlights where discrepancies between the projected and the outturn figures have occurred and also provide a possible explanation for such discrepancies.

1.2 Key Objectives of the Report

The main objective of this report is to present the performance of Government in implementing the National Budget in the First Quarter of the 2021/22 Financial Year. Specific objectives of the report include:

- (i) To present the performance of Domestic Revenues;
- (ii) To report on performance of Grants and Loans from Development Partners;

- (iii) To present the details of the performance of Expenditures of Government; and
- (iv) To present the overall financing

1.3 Methodology

The review and assessment of receipts and expenditures for the First Quarter of the 2021/22 Financial Year was done in October, 2021. The work involved analysis of data from the Reserve Bank of Malawi, Spending Agencies, Intergrated Financial Management Information System (IFMIS) and consultations with relevant Stakeholders.

1.4 Layout of the Report

The First Chapter introduces the report, its objectives and methodology in assessing performance. The Second and Third Chapters discuss the performance of Revenues and Grants respectively. The Fourth Chapter focuses on the discussion of Expenditures while Chapter Five looks at financing. Chapter 6 concludes the Report.

Performance of Domestic Revenues

2.1 Introduction

In the 2021/22 Financial Year, Government projected to collect total Domestic Revenues to the tune of K1,100.95 billion, of which, K1,044.05 billion were projected to be Tax Revenues and K56.89 billion from Other Revenue sources. This Chapter therefore discusses the performance of Government in Revenue collection during the first quarter of the Financial Year by comparing the Revenue Outturn for the quarter against the set targets; and discussing some of the underlying factors to explain the variances.

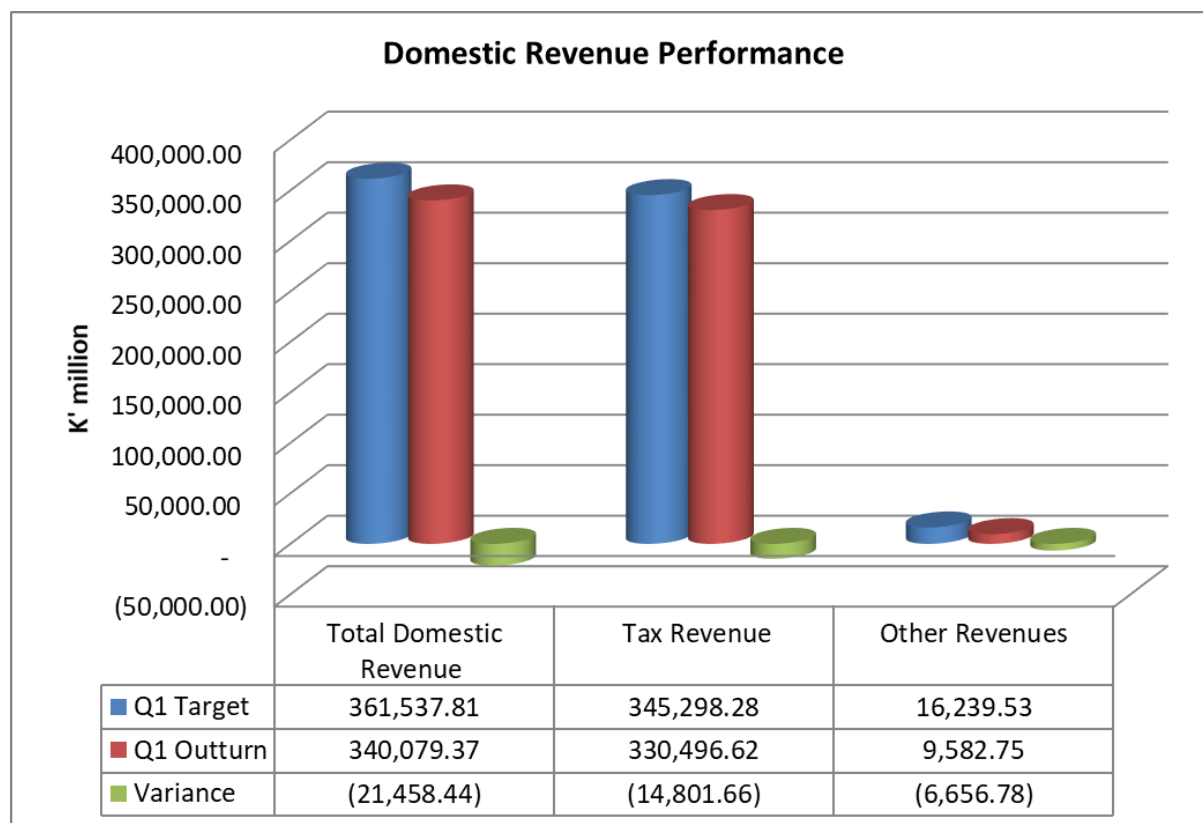
2.2 Overall Performance in Revenue Collection

In the first quarter of the Financial Year, the Domestic Revenues were projected to amount to K361.54 billion of which, K345.29 billion was expected to be Tax Revenues while Other Revenues were projected at K16.24 billion. The performance is such that, during the quarter under review, total actual domestic revenue outturn was K340.08 billion of which Taxes were K330.49 billion and Other Revenues was K9.58 billion.

This shows that on the overall, domestic revenue underperformed by K21.46 billion mainly on account of poor tax performance which underperformed by K14.80 billion representing an overperformance of 4.3 percent. The other revenues also underperformed by 40.9 per cent.

Figure 2.1 below compares the Outturn in Domestic Revenues in the first quarter of the Financial Year against their corresponding targets.

Figure 2.1 Total Domestic Revenues Performance



2.3 Tax Revenue Performance

Table 2.1 shows the performance of tax revenue for the first quarter of the Financial Year against the projections. As the table illustrates, overall, Tax Revenues underperformed by K21.46 billion. The outturn of Tax revenue was K330.49 billion against a target of K345.29 billion. The underperformance on the Tax revenue is attributed to lower than expected in Income profits and tax on goods and services which underperformed by 0.6 percent and 7.8 percent respectively.

Table 2.1 Tax Revenue Performance

GFS Code	Revenue	Q1 Projections	Q1 Actual	Variance
		K'million		
11	Taxes	345,298.28	330,496.62	(14,801.66)
111	Taxes on income, profits and capital gains	148,169.02	147,202.57	(966.46)
1111	Payable by individuals	93,269.31	79,025.43	(14,243.88)
1112	Payable by corporations and other enterprises	54,899.71	68,177.14	13,277.43
114	Taxes on goods and services	166,986.36	153,832.11	(13,154.24)
1141	General taxes on goods and services	104,670.79	98,152.61	(6,518.18)
1142	Excise	59,557.99	53,405.92	(6,152.07)
1145	Taxes on use of goods and on permission to use goods or perform activities	2,757.58	2,273.58	(484.00)
115	Taxes on international trade and transaction	29,935.45	29,259.19	(676.26)
116	Other taxes	207.46	202.76	(4.70)
1161	Payable solely by business	207.46	202.76	(4.70)

2.4 Performance of Other Revenues in the First Quarter

Table 2.2 presents the outturn in Other Revenues (non tax) during the first quarter of the 2021/22 Financial Year against their set targets. As indicated in the table, actuals under this category amounted to K9.66 billion compared to a target of K16.24 billion, thus an undercollection of K6.66 billion. This performance is mainly attributed to the underperformance of parastatal dividends which was projected at K8.83 billion for the quarter, but only K515.02 million was collected. On the other hand, sales of goods and services overperformed by K1.14 billion.

Table 2.2 Non – Other Revenues Performance in the first quarter

GFS Code	Revenue	Q1 Projections	Q1 Actual	Variance
		K'million		
14	OTHER REVENUE	16,239.53	9,582.75	(6,656.79)
141	Property income	8,833.33	515.02	(8,318.32)
1412	Dividends	8,833.33	515.02	(8,318.32)
142	sales of goods and services	6,873.42	8,011.79	1,138.37
14231	Departmental receipts	6,873.42	7,411.45	538.03
14232	Treasury Funds	-	600.34	600.34
143	Fines, Penalties and Forfeits	532.77	1,055.94	523.16
1431	Penalties	532.77	1,055.94	523.16

2.5 Conclusion

In aggregate terms, the performance of revenue collection in the first quarter of the financial year was below the set targets for both the tax revenues and other revenues. There is need therefore, to encourage revenue collectors to enhance the revenue collection methods in subsequent quarters to avoid missing the annual targets.

Performance of Grants

3.1 Introduction

For the 2021/22 Financial Year, the projected resource inflows from Grants amounts to K170.31 billion, of which, K58.43 billion was from foreign governments and K111.88 billion from international organisations. These were in form of program grants and dedicated grants in support of both recurrent and capital expenses.

In the first quarter of the 2021/22 Financial Year, Government expected to receive K56.77 billion as Grants from international organisations (multilateral donors). This Chapter therefore, examines the performance of these Grants for the quarter under review.

3.2 Grants Performance in the First Quarter

Table 3.1 presents the performance of Grants in the first quarter of the financial year against the set targets. As indicated in the Table, overall, Grants underperformed by K16.58 billion largely due to lower than anticipated disbursement from the multilateral development partners resulting from reduced activities due to COVID 19 pandemic.

Table 3.1 Performance of Grants in the First Quarter

GFS Code	Revenue	Q1 Projections	Q1 Actual	Variance
		K'million		
13	Grants	56,771.49	40,194.91	(16,576.58)
131	From Foreign Governments	-	-	-
1311	Current	-	-	-
1312	Capital	-	-	-
132	From International Organisations	56,771.49	40,194.91	(16,576.58)
1321	Current	-	-	-
1322	Capital	56,771.49	40,194.91	(16,576.58)

3.3 Conclusion

As indicated above, disbursement of donor resources under Grants category underperformed in the first quarter of the financial year. There is need to revisit the assumptions made on grants visavis the projects as this will directly affect the public sector investment program implementation.

Expenditure Performance

4.1 Introduction

This chapter highlights the performance of expenditures during the first quarter of the 2021/22 Financial Year and explains the factors underlying the observed expenditure trends.

In the 2021/22 Financial Year, Government is expected to spend K1,995.10 billion including net lending. Of this sum, K1,424.36 billion is projected to be Recurrent Expenditures and K570.84 billion is projected to be Development Budget Expenditures. In the quarter under review, total expenditure was projected at K578.45 billion broken down as K456.08 billion recurrent expenditure and K122.37 billion development expenditure.

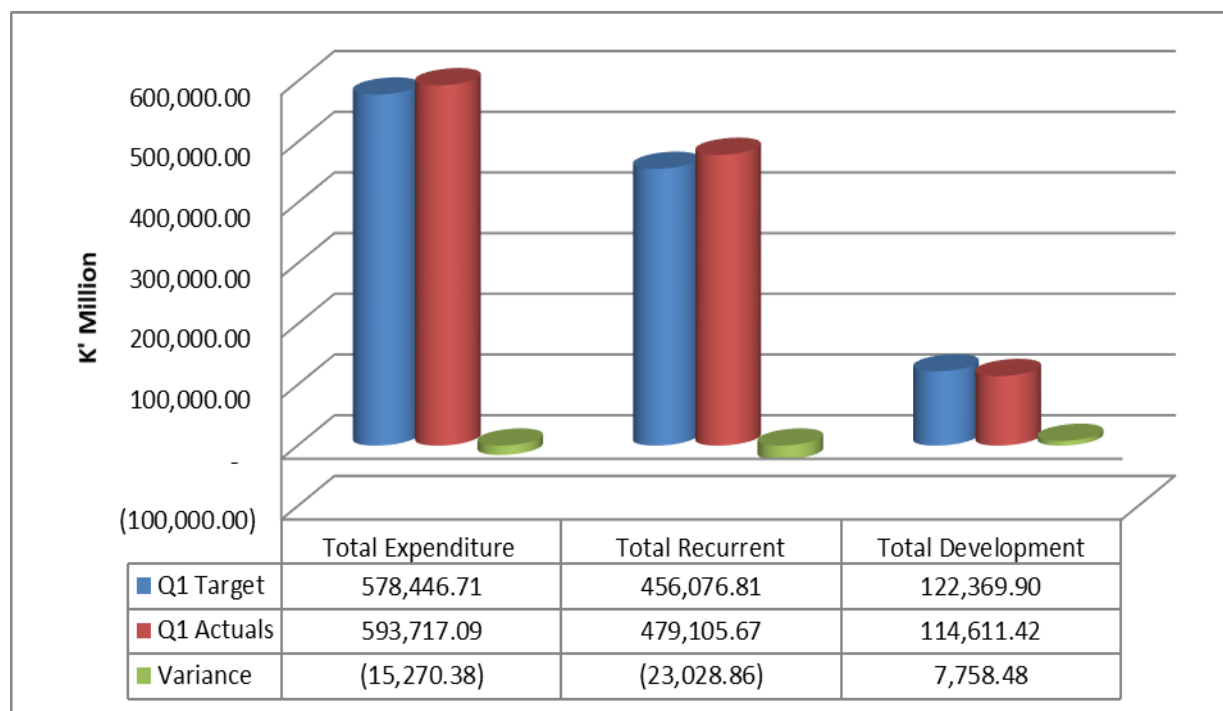
Out of the projected recurrent expenditure for the quarter, wages and salaries were projected at K143.41 billion; Interest Payments K70.43 billion while other current expenditures including Goods and Services; and Subsidies and Transfers were projected at K242.24 billion. On the other hand, expenditures on Development budget were projected at K122.37 billion broken down as K65.59 billion domestically financed projects and K56.77 billion foreign financed projects.

4.2 Performance of Overall Expenditures

The Outturn for the first quarter of the financial year indicates that total expenditure was K593.72 billion, broken down as K479.11 billion Recurrent

Expenditures and K114.61 billion development budget expenditures. Chart 4.1 below illustrates the projected expenditures against the outturn.

Chart 4.1 Total Government expenditure in the first quarter of the 2021/22 FY



As can be shown in Chart 4.1, total expenditures in the quarter were above the projected amount of K578.45 billion by K15.27 billion. This is mainly attributed to the salary adjustments that took place in the quarter under review..

4.2.1 Performance of Recurrent Budget

In general, Government projected to spend K456.08 billion on recurrent expenses during the quarter under review. The outturn however shows that expenditures were above the target by K23.03 billion as shown in Table 4.1 below. The higher than expected expenditure is attributed to an adjustment in compensation of employees and an increase in use of goods and services.

Table 4.1 Recurrent Expenditure Breakdown

GFS Code	Expenses	Q1 Projections	Q1 Actual	Variance
		K'million		
2	EXPENSE	456,076.81	479,105.67	23,028.86
21	Compensation of employees	147,840.88	159,788.86	11,947.98
22	Use of Goods and Services	108,979.73	116,245.99	7,266.26
24	Interest	70,429.56	70,388.50	(41.06)
26	Grants	56,244.15	54,999.45	(1,244.70)
27	Social benefits	58,379.47	58,718.79	339.31
28	Other expenses	14,203.00	18,964.07	4,761.07

4.2.1.1 Expenditures under Personal Emoluments (PE)

In 2021/22 Financial Year, Government is expected to spend K449.62 billion on compensation to employees which includes wages and salaries and employer contribution to pension. In the period under review and as indicated in Table 4.1, this expenditure was projected at K147.84 billion, however the expenditure was above the projection by K11.95 billion. This is mainly due to salary adjustment effected in July 2021.

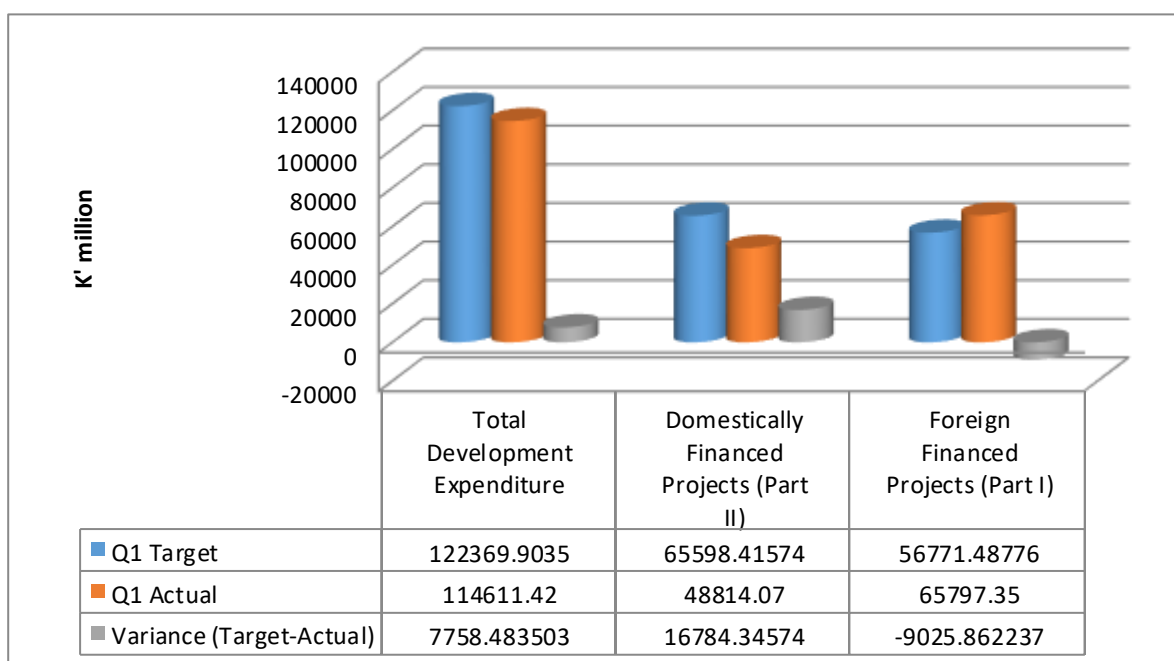
4.2.1.2 Other Recurrent Transactions (ORT)

ORT expenditure for the first quarter of the financial year was projected to amount to K308.24 billion (which is total recurrent expenditure less wages and salaries). Actual expenditures as at the end of the quarter were K319.35 billion which was above the target by K11.08 billion representing an overexpenditure of 3.6 percent. This is mainly due to enhanced expenditures in health and education sectors and also settlement of utility arrears.

4.2.2 Performance of Development Budget

On Development Budget, Government planned to spend K122.37 billion in the first quarter, of which, K65.59 billion was to be financed using domestic resources (Part II) and K56.77 billion was for Foreign Financed Projects (Part I). As depicted by Chart 4.2 below, the outturn on Development Budget was that K114.61 billion was spent broken down as K65.79 billion on Part 1 and K48.81 billion on Part II. Overall, the development expenditure was below the target by K7.76 billion.

Chart 4.2 Performance of the Development Budget



4.3 Conclusion

This Chapter focused on the performance of expenditures of Government in the first quarter of the 2021/22 Financial Year. The expenditures were broken down into various categories and the analysis was based on the deviations between the target and the actual expenditure. Generally, the outturn showed that

expenditures were contained above the set target for the recurrent budget and below the target for development activities.

Overall Fiscal Balance

5.1 Introduction

This chapter summarises performance of revenues and expenditures and determines how they translate in the overall Government's fiscal balance. The Chapter also discusses the performance of Government on debt and debt repayment against set targets. It will also look at the overall fiscal balance for the financial year elapsed.

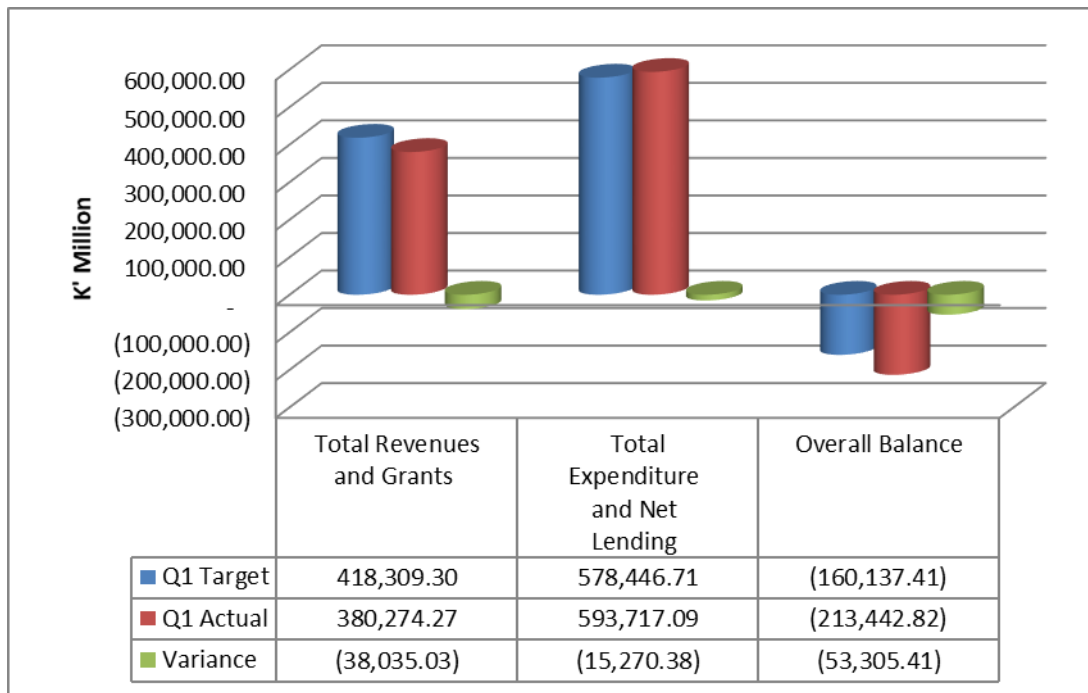
5.2 Quarterly Outturn on Fiscal Balance

Chart 5.1 presents the net fiscal position as at the end of the quarter under review. As shown on the chart, total revenues and grants were K380.27 billion against a target of K418.31 billion resulting in underperformance of K38.04 billion. The underperformance was mainly on taxes with unfavourable variance of K14.80 billion while Grants underperformed by K16.58 billion and Other Revenues underperformed by K6.66 billion.

Total expenditure, on the other hand, was K593.7 billion against a target of K578.45 billion. Operational expenses (Recurrent expenditure) registered K479.11 billion against a target of K456.08 billion while Acquisition of Fixed Assets (Development expenditure) was K114.61 billion against a target of K122.37 billion. Domestically financed development expenditure recorded

K48.81 billion against a target of K65.59 billion while foreign financed development components recorded K65.79 billion against a projected expenditure of K56.77 billion.

Chart 5.1 Overall Balance including Grants



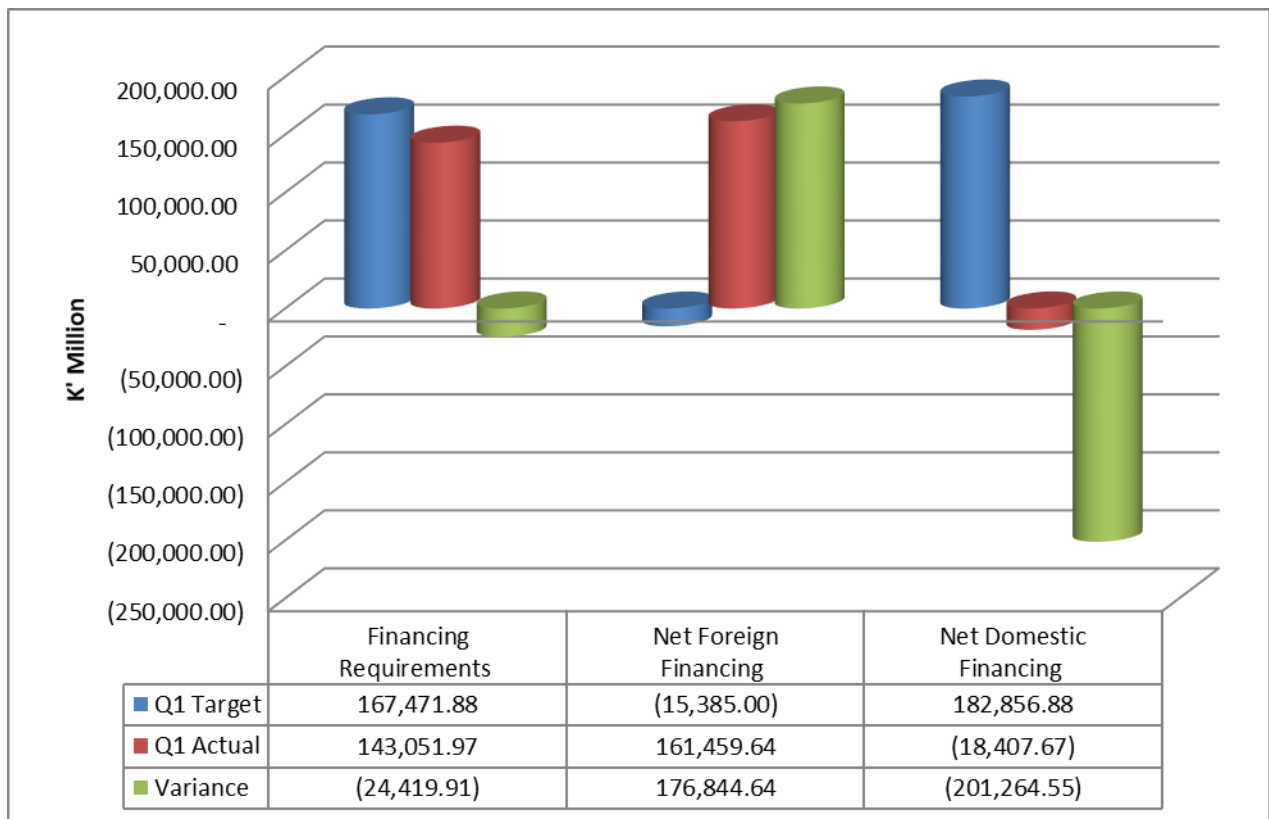
The overall fiscal balance was therefore, K213.4 billion which is lower than the anticipated fiscal balance of K160.14 billion. This was mainly due to higher expenditures that could not be matched with corresponding revenues.

5.3 Outturn on the Financing Position

Chart 5.2 presents the outturn on debt financing in the first quarter of the 2021/22 Financial Year. As indicated in Chart 5.2, the Quarterly outturn on total revenue and grants as well as total expenditure and net lending resulted into an

overall fiscal deficit of K213.44 billion against a target of K160.14 billion. The outturn translated into an overall borrowing position of K143.51 billion against an expectation of a K167.47 billion position in both domestic and foreign markets. Consequently, the financing requirement was not met by K24.42 billion.

Chart 5.2 Financing



Conclusion and Recommendations

The report has shown that domestic revenue collection in the first quarter of the 2021/22 Financial Year was below the target in most categories except for non-tax revenues. It is therefore recommended that revenue collection institutions should continue to prioritise revenue collection activities.

Disbursement of resources under Grants underperformed in the quarter under review in all categories. It is recommended that Government should continue engaging the development partners for a turn-around of the status quo.

On the expenditure side, Government expenditure was above the target for the Quarter. The recurrent budget overspent mainly on salaries and also on generic goods and services.

The development budget underspent and progress is minimal in most of the projects. This is mainly due to lower than anticipated disbursements on Part I projects and also lower than expected return from domestic revenues. It is therefore recommended that Government should continue engaging development partners on Part I financing and also enhance its revenue collection efforts to meet its obligations in Part II. This sets out to ensure adherence to set targets to avoid accumulation of arrears to contractors and also for smooth completion of some of the projects.