

2019/2020 MID-YEAR BUDGET REVIEW STATEMENT

MOTION

1. Madam Speaker, I beg to move that the Mid-term revised estimates on the Recurrent and Development Accounts for the 2019/2020 Budget of the Malawi Government be reviewed by the Committee of the Whole House, to be considered vote by vote, and that thereafter it be adopted.

INTRODUCTION

2. Madam Speaker, as Minister of Finance, Economic Planning and Development, I am mandated by His Excellency the President, Professor Arthur Peter Mutharika to submit to this August House, a report on budget implementation during the first half of 2019/2020 fiscal year and Government proposal on how the resources can be mobilized and utilized during the second half. It gives me pleasure and honour that, the President has again entrusted me with this task.

3. Madam Speaker, this Honourable House has therefore reconvened to review and examine the budget. Furthermore, this August House is expected to approve how the resources that will be mobilised during the second half of the year should effectively and efficiently be utilised for the country's economic growth and uplifting the welfare of all Malawians.

4. Madam Speaker, let me reiterate that Government's overarching objective in the 2019/2020 budget is to leverage on the macroeconomic stability to tackle five key issues namely: **economic growth; job creation; economic empowerment; sustainable debt management and infrastructure development.** Alongside this objective, Government will continue to focus on macroeconomic stability as it is a necessary condition for the attainment of inclusive, resilient and sustainable growth.

5. Madam Speaker, allow me to highlight the current macroeconomic performance of this country. I can say without doubt that the strong fiscal and monetary policies that the DPP Government has consistently implemented,

reinforced by the IMF supported program have succeeded and results are conspicuous for all to acknowledge.

6. This country, Madam Speaker has attained and maintained macroeconomic stability characterised by low inflation, interest rates and stable exchange rate among other indicators. Consequently, Malawi has developed economic resilience such that the country is able to withstand external shocks. For instance, despite being hit by Tropical Cyclone Idai in March 2019, the economy remained stable and recorded a GDP growth rate of around 5.0 percent.

7. Furthermore, Madam Speaker, the economy has remained on course even after the 2019 Tripartite General elections which were followed by the post elections demonstrations that led to loss of life and property as well as disruption of business in both the public and the private sector.

8. Madam Speaker, at the time of the 2019/2020 budget formulation, Honourable Members may wish to recall

that Government assumed that policy measures by the Treasury and strategies put in place by the Malawi Revenue Authority and other Ministries, Departments and Agencies, including State Owned Enterprises (SOEs) would increase domestic revenue collection by approximately 40 percent from the previous fiscal year's outturn. This increase, Madam Speaker was largely on account of Treasury projections which showed that the revenue collecting body has the potential to collect more revenue.

9. I am pleased to inform the Honourable Members that indeed, the revenue projections as provided in the approved 2019/2020 budget were realistic and correspond to the outcome of the 2017 GDP rebasing exercise by the National Statistics Office which has revised the country's GDP figure upwards by 37.0 percent.

10. Madam Speaker, beside the favourable nominal GDP growth assumption, Government also assumed a timely rollout of the Integrated Tax Administration System and full implementation of the turnaround strategy by the Malawi Revenue Authority. These two initiatives, Madam Speaker,

were expected to enhance tax administration, efficiency and compliance.

11. However, Madam Speaker, domestic revenue mobilisation encountered a number of challenges leading to lower than expected performance during the first half of the current fiscal year. Madam Speaker and Honourable members, these challenges included post-election demonstrations which disrupted business both in the public and private sector, resulting into subdued economic growth. This coupled with delayed implementation of some tax policy measures and other tax administration reforms led to low tax revenue collection.

12. Furthermore, Madam Speaker, Government assumed full implementation of revised user fees and charges by MDAs. However, as at 31st December, 2019, some of the proposed revisions had not yet been implemented. I also wish to report to this August House that in some cases, the revisions were delayed by this House as Members demanded extensive engagement before implementation. In addition, Madam Speaker, some SOEs faced cashflow

problems which affected their capacity to remit dividends and surpluses to the Government. These factors resulted into lower than programmed collection of non-tax revenue.

13. Madam Speaker, on the expenditure side, the Honourable Members are invited to note that during the first six months of the fiscal year, Treasury contained expenses within projected amounts despite pressures on statutory budget lines such as personal emoluments, pensions and gratuities. Out of first half projected expenditure of K842.8 billion, only K780.0 billion was spent, representing 92.6 percent. This was achieved as Treasury followed the principle of spending within budgeted resources. Further fiscal pressures emanated from security institutions and the road sector.

14. Madam Speaker, in the first half, a total of K548.6 billion was collected as domestic revenue representing a performance of 83.7 percent. Honourable Members will note from Annex II of Mid-Year budget document that the approved revenue and grants inflow estimate at K1.58 trillion has been revised downwards to K1.53 trillion while the

approved expenditure of K1.74 trillion has been revised upwards to K1.84 trillion. With these revisions, Madam Speaker, net domestic borrowing has been revised from 0.6 percent to 2.3 percent of the rebased GDP.

15. However, Madam Speaker, despite this upward revision, the projected net domestic borrowing requirement at 2.3 percent of GDP in the current fiscal budget is remarkably lower compared to the borrowing requirement incurred during the previous fiscal year at 4.7 percent of GDP. This Madam Speaker, is a clear indication of Government's commitment to reduce public debt.

WORLD AND REGIONAL ECONOMIC OUTLOOK

16. Madam Speaker, this proposed revised budget has been designed in the context of international, regional and domestic economic developments. At this juncture therefore, before I delve into the mid-year budget performance, let me briefly outline these economic developments which have a significant bearing on the achievement of the budget's objectives.

17. Madam Speaker, according to the January 2020 World Economic Outlook Report by the International Monetary Fund, global economic growth has softened and downside risks to growth have increased. The global economy grew by 3.7 percent and 3.5 percent in 2018 and 2019, respectively and it is estimated to grow by 3.6 percent in 2020.

18. Growth in the United States of America declined to 2.5 percent in 2019 and is estimated to soften further to 1.8 percent in 2020 due to the continued unwinding of fiscal stimulus. In the Euro area, Madam Speaker, growth moderated from 1.8 percent in 2018 to 1.6 percent in 2019 and is estimated at 1.7 percent in 2020.

19. Global crude oil prices have been volatile since August 2019, reflecting supply influences and more recently, fears of softening global demand. Madam Speaker, as of early January 2020, crude oil prices stood at around US\$55 a barrel, and average crude oil prices are projected at just below US\$60 per barrel in 2020.

20. In Sub-Saharan Africa, Madam Speaker, growth picked up from 2.9 percent in 2018 to 3.5 percent in 2019, and the region is projected to grow by 3.6 percent in 2020. However, over one-third of Sub-Saharan economies are expected to grow above 5 percent during the 2019 to 2020 period. On the other hand, big economies such as South Africa and Nigeria grew by 0.4 percent and 2.1 percent in 2019 and are projected to grow by 0.8 percent and 2.3 percent, respectively in 2020.

ECONOMIC DEVELOPMENTS IN MALAWI

21. Madam Speaker, now let me turn to the domestic economy. I am delighted, Madam Speaker that the Malawi economy has been growing above Africa's average growth rate. While Sub-Saharan Africa grew by 2.9 percent and 3.5 percent in 2018 and 2019, respectively, Malawi grew by 4.0 percent in 2018 and 5.0 percent in 2019. With the normal to above normal rains that this country has received so far during the current agriculture season, higher GDP growth rate is expected for 2020.

22. Madam Speaker, the enhanced growth prospects are also buttressed by the many on-going infrastructure development projects by Government in the energy and agriculture sectors, most of which are growth enablers. However, the downside risk to this country's economic performance remain the continued post-election demonstrations that seriously affected economic activities during the first half of the current fiscal year.

23. On average, headline inflation was registered at 9.4 percent in 2019 from 9.2 percent in 2018. However, Honourable Members may wish to know that headline inflation remained elevated for most part of 2019, increasing to 11.5 percent in December from 10.4 percent in November. Food inflation continued to dictate developments in headline inflation, increasing to 19.3 percent in December from 17.2 percent in November. The acceleration in food inflation reflected the elevated maize prices despite a bumper harvest registered in 2018/2019 agricultural season.

24. Meanwhile, Madam Speaker, non-food inflation has been oscillating around 5.0 percent since the beginning of 2019, and recorded at 4.9 percent in December, thereby averaging 5.4 percent in 2019, lower than 9.0 percent registered in 2018. Developments in non-food inflation largely reflect the relative stability of the Kwacha. Going forward, annual average headline inflation for 2020 is projected at 8.8 percent, with a December 2020 inflation projection of around 7.0 percent.

25. Madam Speaker, international foreign exchange reserves increased significantly on account of purchases from the domestic market by the Reserve Bank of Malawi. As at end December 2019, Gross Official Reserves stood at US\$846.6 million, representing 4.1 months of imports. Such a healthy position of reserves has generally resulted into a stable Malawi Kwacha exchange rate against major currencies. This in turn has significantly helped to ease non – food inflationary pressures and is expected to continue anchoring inflation expectations going forward.

26. Madam Speaker, I wish to remind this August House that the Reserve Bank of Malawi conducts monetary policy to achieve price stability and is committed to a 5.0 percent inflation objective by end of 2021. In 2019, the Reserve Bank reduced the policy rate from 16.0 percent to 14.5 percent and subsequently to a further 13.5 percent, thereby allowing reduction in interest rates charged by commercial banks.

MID-YEAR BUDGET PERFORMANCE

27. Madam Speaker, the Honourable Members will recall that for the 2019/2020 financial year, total expenditure and net lending of K1.74 trillion was approved, while inflows of revenues and grants were approved at K1.58 trillion, giving a total financing requirement of K162.1 billion. Of this financing, K52.3 billion was planned as net domestic borrowing, while the balance, amounting to K109.7 billion was the projected net foreign financing.

Revenue and Grants

28. Of the total annual approved revenue and grants of K1.58 trillion, it was projected that by the end of the first half of the current fiscal year, a total of K729.5 billion would be

realised, of which total domestic revenue was K655.2 billion while grants were K74.3 billion. Madam Speaker, these projections were based on seasonal pattern in domestic revenue collection, economic prospects and commitments by development partners on the part of grants.

Performance of Domestic Revenue

29. Madam Speaker, mid-year domestic revenue target of K655.2 billion comprised K629.9 billion in tax revenue and K25.2 billion in non-tax revenue. However, as at December 2019, a total of K548.6 billion was collected representing a performance of 83.7 percent.

Tax Revenue performance

30. Out of a target of K629.9 billion for the first half, K525.6 billion was realized, representing a tax revenue collection performance of 83.4 percent. Under performance in tax collection was recorded in; income and profit, capital gains and goods and services taxes. Madam Speaker, subdued performance in international trade taxes was also recorded largely on account of low import volumes. For

instance, trade volumes between South Africa and Malawi were affected by the truck drivers' demonstrations. Furthermore, post-elections demonstrations resulted into closure of some border posts and MRA offices.

Non Tax Revenue performance

31. Madam Speaker, mid-year target for non-tax revenue was K25.2 billion. The outturn at K23.7 billion represented revenue collection performance of 94.0 percent. The slight underperformance was mainly due to slow performance in Treasury Funds and parastatal dividends.

Performance in Grants

32. During the first half of the current fiscal year, Madam Speaker, grants registered lower than budgeted disbursements by about 31.6 percent. Of the total projected grants at K74.3 billion, only K50.9 billion was received by end December 2019. The shortfall in grants was mainly on account of non-disbursement by some development partners due to slow progress in project implementation.

Performance of Expenditure

33. Now, let me turn to the expenditure side of the budget. Madam Speaker, major assumptions that underpinned projected first half expenditure included the consideration of seasonal patterns of some activities such as the Farm Input Subsidy Program, slow start of new projects during the first half of the year, recruitment of personnel in the health sector as well as the need to balance revenue inflows against expenditure outlays.

34. Madam Speaker, Honourable Members may wish to note that out of the K1.74 trillion of planned expenditure and net lending for the current financial year, K842.8 billion was projected to be spent during the first half. This comprised K624.8 billion of recurrent expenditure and K218.0 billion in development expenditure.

35. As at end December 2019, Madam Speaker, the expenditure outturn was K780.0 billion consisting of K648.6 billion in recurrent expenditure and K131.4 billion in

development expenditure. Total expenditure at mid-year registered an underspending amounting to K62.8 billion when compared to its half year target. This underspending largely emanated from the development budget, especially on foreign financed projects as well as Treasury efforts to spend within available resources.

Performance of Recurrent Expenditure

36. Madam Speaker, recurrent expenditure amounted to K648.6 billion against a target of K624.8 billion, representing a 3.8 percent over expenditure. This was mainly on account of; increased spending on wages and salaries, public debt interest, and pensions and gratuities. Honourable Members are invited to note that these budget lines are mandatory and therefore protected. They cannot be reduced or deferred in the event of revenue shortfalls.

Performance of Development Expenditure

37. Madam Speaker, development spending during the first half of the fiscal year was lower than planned expenditure by K86.6 billion with K24.9 billion emanating from the domestically financed component and K61.7 billion from

foreign financed component.

38. Donor-funded development expenditure amounted to K90.8 billion against a planned expenditure of K152.5 billion. Madam Speaker, the under-performance on some donor financed projects was on account of low disbursement of grants and project loans as a result of low absorption rate.

39. Madam Speaker, locally funded development expenditure at K40.6 billion was also lower than planned first half target of K65.5 billion. Honourable Members may wish to note that project implementation is often slow during preparatory phase especially on new projects. Implementation is however expected to pick up during the second half.

Overall Balance and Domestic Borrowing

33. Madam Speaker, as a result of developments outlined above, the overall balance in the first half of the financial year was recorded at negative 2.1 percent of GDP. This was

financed by a net domestic borrowing of 1.8 percent of GDP and a net foreign borrowing of 0.3 percent of GDP.

HIGHLIGHTS ON KEY EXPENDITURE CATEGORIES

Wages and Salaries

34. Madam Speaker, Honourable Members will recall that in the budget, Government planned an average general salary adjustment of 12 percent including annual increment. However, after discussion with Civil Servants Trade Union, it was agreed that the average salary increase of 15 percent should be effected. In addition, Madam Speaker, there were once off payment on salary arrears and leave grant for teachers. As a result, by end December 2019, outturn on wages and salaries amounted to K226.2 billion, which was 10.3 percent higher than mid-year target of K204.9 billion.

Interest Payments

35. Madam Speaker, the mid-year target for interest payments on public debt was K116.7 billion. However, actual

expenditure amounted to K118.5 billion, of which interest on external debt was K7.7 billion while that on domestic debt was K110.7 billion.

Farm Input Subsidy Program

36. Madam Speaker, on the Farm Input Subsidy Program, K6.8 billion was spent against a mid-year target of K10.5 billion. It is expected that the remaining FISP payments will be processed during the third quarter.

Maize Purchase

37. Madam Speaker, despite having adequate resources for maize purchase, NFRA and ADMARC faced challenges in sourcing maize within the country due to price speculation and hoarding by traders. As a result, only K3.0 billion was spent by the end of the first half of the current fiscal year.

Social Benefits

38. Madam Speaker, Pensions and Gratuities were projected at K39.6 billion in the first half of the year. However, the mid-year outturn recorded a total of K41.3 billion. The higher than planned expenditure was mainly on account of clearing backlog of gratuities in order to reduce the waiting time for retirees to access their benefits.

Medical Drugs

39. Madam Speaker, the annual approved provision for medical drugs was K26.7 billion for the 2019/2020 financial year. Of this amount, K15.6 billion was for district hospitals and health centres, while K11.1 billion was for central hospitals. The mid-year outturn for this budget line was K13.8 billion of which K7.5 billion was spent on district hospitals and health centres, while the balance was spent on central hospitals. This represents 51.7 percent of the total allocation, and remains within expected levels.

40. However, Madam Speaker, Honourable members may wish to note that despite consistent funding for medical drugs from both Government and Development Partners,

drug shortage is still persistent in some health facilities due to management deficiencies and pilferages.

41. Honourable Members may wish to note that Government has put in place mechanisms to curb such malpractices to ensure that drugs reach the intended beneficiaries. As we speak, Madam Speaker, Government is implementing an end-to-end tracking system that will significantly reduce loss of drugs in transit. Government is also working on improving drug stores management and record keeping at all health facilities.

PROGRESS ON GOVERNMENT PROGRAMS AND PROJECTS

42. Madam Speaker, I am now duty bound to inform this August House the progress achieved this far on a number of Government programs and projects which were approved by this House.

Extended Credit Facility with the IMF

43. Madam Speaker, the Board of the International Monetary Fund approved the second and third reviews of this country's performance under the Extended Credit

Facility. I am pleased, to inform Honourable Members that this led to disbursement of resources to the tune of US\$43.3 million in December 2019. Madam Speaker, let me invite the Honourable Members to note that this program is on track as the targets for end December 2019 were all met. The IMF team is expected to conduct the fourth review in March 2020 and Government is confident that this review will be successful.

World Bank Supported Programs

44. Madam Speaker, Government finalised the roadmap for economic growth and job creation for Malawi. This roadmap is aimed at demonstrating commitment to reforms and crowding in support from non-governmental stakeholders into sectors with high growth potential.

45. Furthermore, Madam Speaker, Government signed Loan Financing Agreements with the World Bank for two projects namely; the Malawi Electricity Access Project and

the Malawi – Mozambique Interconnector Project amounting to US\$150 million and SDR11.0 million, respectively.

Houses for Security Institutions

46. Madam Speaker, Government completed the designs of the houses for security institutions. Procurement process for the contractors is currently underway and construction works are expected to commence soon. The sites for these houses were agreed with the relevant authorities in the security service. Let me remind the Honourable Members that Government will be raising resources from the domestic market through the Reserve Bank of Malawi for the construction of these houses.

Youth Development and Women Empowerment

47. Madam Speaker, I am pleased to inform the August House that during the first half of the fiscal year, 3,854 young men and women were hired into the public service as interns under the Youth Internship Program. In sports, Government through the responsible Ministry has completed the designs for the construction of two stadia for Nyasa Big Bullets and Be Forward Wanderers. Procurement of contractors to

commence actual works is at an advanced stage. Furthermore, Honourable Members may wish to note that procurement of contractors for the Mzuzu Youth Centre and the state of the art Indoor Netball Complex is also underway.

Empowerment of Persons with Disabilities and Albinism

48. Madam Speaker, in an effort to empower persons with disabilities, Government disbursed K200.0 million that was allocated in the 2019/2020 budget to operationalise the Disability Trust Fund as provided for in the Disability Act (2012). This Fund, Madam Speaker, is aimed at assisting persons with disabilities access seed money to start small scale businesses.

49. I am pleased to inform the August House that currently Government is developing guidelines and regulations for management of the Trust Fund. Once this process is finalised, the intended beneficiaries will start accessing the resources.

50. Madam Speaker, Honourable Members will further recall that in the 2019/2020 fiscal year, K400.0 million was

allocated for the implementation of the National Action Plan for the Protection of Persons with Albinism.

51. Madam Speaker, during the first half of the fiscal year, 89 learners with albinism were supported with school fees. These learners were those that were moved from community day secondary schools to boarding schools to enhance their security. Furthermore, about 5,000 security gadgets were procured and distributed to persons with albinism across the country. Government, through the Association of Persons with Albinism also trained 64 persons with albinism in human rights monitoring and advocacy skills.

52. Madam Speaker, Government also allocated K600.0 million under the Malata and Cement Subsidy Program for the construction of houses for persons with albinism. As we speak, Madam Speaker, 193 beneficiaries, one per constituency, have been identified to benefit from this initiative and construction works are expected to commence soon.

Infrastructure Development

53. Madam Speaker, in terms of development expenditure, the 2019/2020 budget allocated a substantial amount of resources for infrastructure development in high growth potential sectors of agriculture, transport and energy as well as in the social sectors of health and education.

54. In terms of resource mobilisation, I am pleased Madam Speaker, to inform this August House that Government finalised financing agreements totaling K140 billion with the European Investment Bank and the European Union for the rehabilitation of the M1 road from Kamuzu International Airport turn-off to Mzimba turn-off and from Kacheche to Chiweta. Works on this road are expected to commence anytime soon as procurement of the contractor is at an advanced stage.

55. Madam Speaker, under the Nacala Corridor project, Government signed a 27.2 million Unit of Accounts loan agreement with the African Development Bank for the Liwonde – Nsipe Road Project. Procurement of the contractor for this road is underway and at an advanced stage.

Furthermore, Madam Speaker, Government signed a loan agreement of US\$90.0 million with the World Bank for the Equity with Quality and Learning at Secondary Schools Project. The project has already commenced.

56. Madam Speaker, in the approved budget, Honourable Members will recall that Government allocated K47.9 billion to the Roads Fund Administration for completion of various road projects. I wish to emphasise that the focus of Government is to provide resources to finish existing projects rather than embarking on new ones. I wish to report to this August House that significant progress has been registered on:

- i. **Njakwa – Livingstonia road:** completion of the first phase is expected by end of June 2020;
- ii. **Ntcheu – Tsangano – Neno – Mwanza road:** completion of the first phase is expected by October 2020;
- iii. **Nkhotakota – Dwangwa road:** rehabilitation is expected to be completed by September 2020.

57. Honourable Members are further invited to note that in addition to the above mentioned road infrastructure projects, Government is in discussion with a number of donors for the financing of the Salima – Nkhotakota road, Jenda – Edingeni road, Mangochi – Makanjira road, the Lirangwe – Chingale – Machinga – Liwonde road, the Nambazo – Nasiyaya - Mswang’oma road, the Nkando – Mulomba – Phalombe road, and the Balaka – Chilipa – Mangochi road, among others.

Other Projects

58. Madam Speaker, let me turn to other projects that Government has also embarked on. As I reported during the last sitting of Parliament, Malawi signed a Memorandum of Understanding with Afrexim bank to finance the country’s economic transformation agenda more specifically in the area of tourism and value addition. Madam Speaker, the MoU that Government signed is worth USD1.4 billion and has several components. The two major projects in this basket are the Nankumba Peninsula Development and the Industrial Parks.

59. On the Nankumba Peninsula Development Project, Madam Speaker, the Honourable Members are invited to note that Government has embarked on the development of this peninsula into a tourist destination. Government will construct an international airport and processing centre at Namiyasi and an integrated holiday resort in Mangochi.

60. Madam Speaker, with regards to the Industrial Parks Project, Government will establish two Industrial Parks in Lilongwe and Blantyre. The objective of this project is to promote the export sector through industrialisation that will bring about value addition.

PROJECTIONS FOR SECOND HALF OF THE FINANCIAL YEAR

61. Madam Speaker, I now move on to present to this August House the projected budget for the second half of the 2019/2020 fiscal year.

62. Madam Speaker, the projected budget for the second half of the 2019/2020 financial year has been drawn with full consideration of developments during the first half,

remaining Government payment obligations and expected improvement in revenue inflows.

63. Madam Speaker, during the second half of the current fiscal year, Government will focus on enhancement of domestic revenue collection to achieve set targets for smooth budget implementation. In this regard, Honourable Members may wish to note that the Malawi Revenue Authority has intensified its monitoring and enforcement activities. The revenue collecting body will continue with its implementation of the turnaround strategies aimed at achieving efficiency and enhanced tax payer compliance.

64. Madam Speaker, some of the strategies that the tax administration will undertake shall include:

- i. strengthening compliance of consumption taxes such as Excise and VAT;
- ii. improving tax administration efficiency through tax audits and use of ICT including implementation of ITAS;
- iii. widening the tax base by ensuring that the tax payer register captures active and potential tax payers;

- iv.intensification of efforts to address integrity issues in MRA and improvement of tax payer morale through the adoption of customer focused approach; and
- v. opening of voluntary tax compliance window where tax payers will be allowed to settle their outstanding tax liabilities without penalties.

65. On the policy front, Madam Speaker, I wish to inform the Honourable Members that Government will endeavour to widen the tax base through promotion of business cooperatives to bring the informal sector into the tax base. Furthermore, Government through the Reserve Bank of Malawi will intensify efforts to entrench use of digital payment systems which reduce cash transactions that are prone to tax evasion.

66. Madam Speaker, I am further pleased to inform the House that Treasury has enhanced its oversight role over revenue collecting institutions. All revenue collecting MDAs including the Immigration, Civil Aviation, Registrar General and Lands, Housing and Urban Development have been

engaged to intensify their revenue collection efforts.

67. In addition, Madam Speaker, Government expects more revenues as a result of implementation of revised user fees and charges. Furthermore, Government will automate most revenue collecting systems in all MDAs to enhance accountability and management of public resources. Madam Speaker, during the second half, Government expects improved remittance of dividends and surpluses following the approval of the new Dividend and Surplus Policy.

68. In this regard therefore, Madam Speaker, during the second half of the current fiscal year, total revenue and grants are projected at K926.9 billion of which K802.9 billion is domestic revenue and K124.0 billion are grants. Total expenditure and net lending is projected at K1.06 trillion of which K722.1 billion is recurrent expenditure and K339.3 billion is development expenditure.

69. Of the K722.1 billion for recurrent expenditure, K239.5 billion is for wages and salaries, K125.5 billion is for interest payment, K189.2 billion for goods and services, K84.3 billion for transfers to subvented organisations and K74.7 billion for social benefits. Madam Speaker, under development expenditure, a total of K339.3 billion is projected to be spent during the second half, comprising K242.5 billion foreign financed expenditures and K96.8 billion locally financed expenditures.

70. Madam Speaker, as a result of the above projected developments on both the revenue and expenditure sides, overall balance for the second half of the financial year amounts to a deficit of K134.3 billion, representing 1.6 percent of GDP. It is expected that foreign borrowing will amount to K88.6 billion and net domestic borrowing will amount to K45.7 billion.

71. Madam Speaker, the planned deficit of K134.3 billion for the second half is markedly lower than a deficit of K180.5 billion that was incurred during the first half of the fiscal year. Consequently, net domestic borrowing is reduced from

K157.5 billion during the first half to only K45.7 billion in the second half of the 2019/2020 fiscal year.

PROJECTIONS TO THE END OF THE FISCAL YEAR

72. Madam Speaker, this August House is invited to note that, *ceteris paribus*, the budget in the current fiscal year is revised based on the following major assumptions:

- i. A projected GDP growth rate of 5.0 percent in 2019 and 7.0 percent in 2020;
- ii. An average inflation rate of 8.0 percent during the fiscal year;
- iii. A stable exchange rate of about K750/US dollar;
- iv. A Policy rate of 13.5 percent; and
- v. Upward review of user fees and charges.

73. Furthermore, Madam Speaker, the revised budget has also assumed that most of the domestic revenue strategies will be fully operationalised, leading to enhanced domestic revenue mobilisation. On the expenditure side, in order to be prudent, the budget has also taken into account the possibility of fresh presidential elections. However, Madam Speaker, actual expenditure on this budget line will

depend on the outcome of the appeal case at the Supreme Court.

74. Madam Speaker, taking into account first half budget developments, emerging fiscal pressures due to lower than expected performance in domestic revenues and expected higher than planned expenditures in some budget lines, the 2019/2020 financial year's approved budget has been revised.

75. Madam Speaker, I refer Honourable Members to Annex II in the Budget document which presents the 2019/2020 Revised Budget framework alongside the 2019/2020 Approved Budget framework. As Honourable Members will note, total revenues and grants have been revised downwards from K1.58 trillion to K1.53 trillion, representing 17.7 percent of the rebased GDP. Total expenditure and net lending has been revised upwards from K1.74 trillion to K1.84 trillion. The vote-by-vote adjustments are presented in Annex III.

Domestic Revenue Projection

76. Madam Speaker, based on first half domestic revenue performance and future outlook, there has been a downward revision of domestic revenues to the end of the fiscal year. Domestic revenue is projected at K1.35 trillion from K1.43 trillion. Honourable Members will note that of the total domestic revenue, taxes will account for K1.28 trillion while non tax revenue will amount to K70.4 billion. The downward revision in tax revenue is mainly on account of the current political environment and delayed implementation of some revenue measures.

Projection of Grants

77. Madam Speaker, grants are projected to increase from K150.1 billion to K174.9 billion by the end of the financial year. This is on account of the inclusion of new donor-funded projects which were not taken on board in the approved budget. Grants from foreign governments are expected to be maintained at K42.7 billion while grants from International Organizations are expected to increase by K24.8 billion.

Expenditure Projections

78. On the expenditure side Madam Speaker, Honourable Members will note that total expenditure has been revised upwards from K1.74 trillion to K1.84 trillion due to; **the increase in wages and salaries, security related expenditures, court case expenditures and probable fresh presidential elections.** This notwithstanding, total expenditure as a ratio to the rebased GDP is estimated at 21.3 percent, compared to 23.1 percent recorded during the 2018/2019 fiscal year.

79. Madam Speaker, I also wish to invite the Honourable Members to note that it will be very difficult to finance the proposed fresh presidential elections as the budget is under extreme pressure, especially from mandatory expenditures which constitute about 60.0 percent of total expenditure. These cannot be deducted or deferred to accommodate the elections budget.

80. Madam Speaker, it therefore remains for Government to either increase borrowing or cut the budget

significantly, which can cripple Government operations and service delivery, including spending in the social sectors such as health and education. In this regard, Government has engaged donors for financial support towards these elections. Though the response is favourable, it will require time to get tangible commitments.

81. Madam Speaker, development expenditure has also been increased from an approved provision of K438.2 billion to K470.7 billion. This is on account of foreign financed projects budget line which has been increased due to inclusion of new donor funded projects. Domestically financed projects have increased from K131.8 billion to K137.4 billion on account of increased allocation to road projects to clear some outstanding payment obligations.

HIGHLIGHTS ON KEY EXPENDITURE CATEGORIES

Wages and Salaries

82. Madam Speaker, the provision for wages and salaries has been revised upwards from its approved amount of K443.4 billion to K465.7 billion. As already highlighted, the increase is on account of higher than planned salary adjustment for civil servants.

Interest Payments

83. The provision for interest payment on debt has been maintained at the approved budget of K243.9 billion as its mid-year expenditure is in line with the expected levels to the end of the financial year.

Goods and Services

84. Madam Speaker, the provision for Goods and Services is being revised upwards from the approved amount of K296.8 billion to K345.9 billion.

Farm Input Subsidy Program

85. The provision for the Farm Inputs Subsidy Program has been maintained at K35.5 billion as no expenditure overruns are expected on this budget line.

Maize purchase

86. Madam Speaker and Honourable Members, resources for maize purchase have been maintained at K10.0 billion of which K3.0 billion was spent during the first half. A total of K9.2 billion has been earmarked for maize purchase during the second half comprising K7.0 billion budget balance and K2.2 billion realised from ADMARC maize sales. These funds Madam Speaker, will be used to start early purchasing of maize from smallholder farmers.

87. Going forward, Government will promote structured markets through commodity exchanges, warehousing systems and establishment of cooperatives. Furthermore, Government through Ministries responsible for Finance, Agriculture and Trade has put in place mechanisms to curb pilferage and illegal exportation of the country's farm produce including maize and pulses.

Probable Fresh Presidential Elections

88. Madam Speaker, Honourable Members are invited to note that MEC has submitted a provisional budget amounting to K32.8 billion for the probable fresh presidential elections. However, the revised budget has provided K29.1 billion for that purpose. Government is still discussing with development partners for financing of the difference and possible run-off elections.

89. Madam Speaker, the Honourable House may wish to know that it will be extremely difficult for Government to finance this election due to the fiscal pressures that have been highlighted above. Should we not get positive response from the donors, Government will have no option but to either increase borrowing or drastically cut expenditure which will likely affect service delivery in all sectors.

Revised Fiscal Balance

90. Madam Speaker, as a result of the proposed revisions in revenues and expenditures outlined above, fiscal

deficit has been revised upwards from 1.9 percent to 3.7 percent of GDP which is lower than what was recorded in 2018/2019 at 5.1 percent and is within acceptable levels. This deficit will be financed by domestic borrowing of K203.3 billion, representing 2.4 percent of GDP and the balance will be financed by foreign borrowing.

CONCLUSION

91. Madam Speaker, Parliament is hereby invited to note the mid-year performance of the 2019/2020 Budget, as well as to consider and deliberate on the proposed Revised Budget estimates for the 2019/2020 financial year as presented in the Annexes II and III. The August House is also requested to approve the changes in some votes.

92. Madam Speaker, I beg to move.