

# **Malawi budget statement 2004/05**

Ministry of Finance

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## **2004/2005 BUDGET STATEMENT**

### ***Motion***

1. Mr. Speaker, Sir, and Honourable Members of the House, I beg to move that the Estimates on the Recurrent Account and Development Account for the 2004/05 fiscal year be referred to the Committee of the whole House to consider them by Vote and Head and, thereafter, that they be adopted.

### ***Introduction***

2. Mr. Speaker Sir, before I present the Budget, allow me, in all humility, to express my profound gratitude to His Excellency the State President, Dr. Bingu Wa Mutharika, for including me in his team of Ministers. I cannot imagine a higher honour and, like my colleagues, I would like to pledge my loyalty to my country and His Excellency's Government, which is dedicated to the resumption of a faster and sustained economic development of our country. As a public servant throughout my life, I consider this to be the most challenging and noble responsibility I have had to confront. Simultaneous with my sentiments of gratitude to His Excellency, allow me, Mr. Speaker, Sir, to thank his predecessor, Dr. Bakili Muluzi, for having given me an opportunity to re-enter the public service of my country so soon after my retirement from the IMF. With support from colleagues in the Treasury, I learnt a great deal about the mechanics of our economic system.

3. Mr. Speaker, Sir and Honourable Members, again allow me to pay my tribute to former Ministers of Finance present in this noble House, together with colleagues who served past Governments at senior levels in economic

management. Among these, let me recognize the Hon. J.Z.U. Tembo, our first Minister of Finance at independence, and then Hon. Aleke K. Banda, the second one after Hon. Tembo and the first under our democratic system of Government. And there is Honourable Chimango over there who, probably, has been the longest serving Minister of Finance. Let me also pay my respect to Hon. Justin Malewezi who also shouldered the responsibility of Minister of Finance at the same time as he discharged duties of the Vice President of the Republic. Mr. Speaker, Sir, I am comforted that among this group of former Ministers of Finance, on this side of the House, are the Right Hon. Cassim Chilumpha, Vice President of the Republic of Malawi and the Hon. Friday Jumbe.

4. Mr. Speaker, Sir, His Excellency the President has assured me that Honourable Members from both sides of the House are fully aware of my inexperience and will candidly guide me through the difficult task of managing the financial affairs of the country at this critical moment in the economic history of our country. With these words of assurance, I am ready to join you, Mr. Speaker, Sir, and Honourable Members of the House, in tackling this arduous responsibility before us, which I regard to be the cornerstone of our economic programme over the coming five years.

### ***National Perspectives of the Budget***

5. Mr. Speaker, Sir, at the outset, I wish to declare that the Budget that I am presenting should be considered a transitional Budget to those that will follow during the five-year life period of this Parliament. This is so, Mr. Speaker, because this budget does not yet have all the key features of future budgets which will be dedicated to the anchoring of economic growth

strategies of the Government. These future budgets will be distinguished by far lower recurrent expenditure accounts relative to the investment expenditure account. Our future budgets, in the medium term, will focus on the generation of public savings rather than emphasizing consumption as has hitherto been the case. In fact, Mr. Speaker, it is the intention of the Government that future budgets should act as a central instrument for economic development. In contrast, this year's budget has an excessively large recurrent expenditure account for the reasons that I will explain later.

6. Mr. Speaker, Sir, there is another reason why the 2004/2005 budget is considered transitional. This is because it provides a framework within which an attempt will be made to eliminate practices, habits and mindsets that have proved to be obstacles to the exercise of fiscal discipline and good governance. But as His Excellency the President emphasized in his budget speech, the capital expenditure of the budget will also initiate some important policy initiatives of the Government which I also intend to highlight in due course.

7. Mr. Speaker, Sir, and Honourable Members, it is because of the need to establish a track record of sound fiscal management that the Government has decided to operate the first half of the budget under an IMF Staff Monitored Programme which, by definition, does not involve the disbursement of that institution's resources. Such programmes are intended to provide frameworks within which Governments can deal with obstacles that impede sound fiscal management. In our case, the Staff Monitored Programme will help us to re-establish expenditure control which has been elusive for a long time. Because of this, Mr. Speaker, Sir, a consensus has emerged, throughout the country, behind the conviction that fiscal laxity and

negligence have been the root causes of our economic problems. There is a demand by everybody in Malawi, Sir, that Government must establish a track record of good stewardship of public finances. Civil Society in Malawi as well as the international community require this of the Government. The achievement of this objective is therefore a basic goal of this budget.

8. Honourable Members, I will not hide that in view of the task ahead and the fact that for a long time to come we will need the international community, my Ministry and the Reserve Bank of Malawi have had to consult closely with the International Monetary Fund and the World Bank in the design of the budget whose main objective, as I said, is to provide a framework for the economic development of this country.

9. Mr. Speaker, Sir, I am aware that there will be a number of critics, inside and outside this chamber who will be unhappy that the budget does not achieve such goals as the reduction of the debt and that under it inflation could even rise. This is a well founded criticism. But Honourable Members, you will recall that apart from a brief period in 1996 and 1997, these objectives have not been achieved in the past despite the claim that budgets were designed to achieve macro-economic stability. This Government strongly believes that without tackling resolutely, some systemic rigidities in the economy that continue to prevent economic remedies to work, we will never succeed to achieve sustained macro-economic stability and meaningful economic growth rates.

10. This budget and the IMF Staff Monitored Programme, as I said, provide the opportunity for the Government and the international community to monitor the results of our efforts to eradicate obstacles to good fiscal

management and economic governance. Other countries that are now considered star performers have had to pass through this stage. Although the budget is likely to end the year with a slightly increased borrowing, if we succeed, we will have set the stage for a sustained good economic performance that will usher in macro-economic stability and sustained and high economic growth rates. This will be due to the changes that will have taken place under this budget. If these changes work out, we could permanently be in an envious position where planned macro-economic outcomes of the budget will become closely related to actual outturns. In other words, we will have succeeded to remove the underlying budgetary malfeasances which I outline later in this statement as part of the expenditure control measures to be adopted.

11. Mr. Speaker, Sir, and Honourable Members of the House, having described the goals of the budget and its transitional nature, allow me to highlight some topical issues of the 2004/2005 budget which I feel should be presented to the House, upfront.

12. The first of these, Mr. Speaker, Sir, relates to our strategy for dealing with the large domestic debt. As a result of increased public sector financing through borrowing from the domestic market, the domestic debt stock has grown from K12.4 billion in December 2000 to K54.0 billion as at end June, 2004. The interest payments on this debt is increasingly dominating the budget and more generally the economy at large. In this respect, Mr. Speaker, Sir, I would like to bring the attention of the House to the excessively large recurrent expenditure account of the budget which is estimated at 30.7 per cent of GDP or approximately 78 per cent of the total expenditure of the budget. Mr. Speaker, Sir, approximately 30 per cent of this recurrent account

of the budget is in the form of interest payments that will amount to K19.7 billion. Admittedly, this size of the current account of the budget is also due to the expenditures that are related to food shortages and the fertilizer subsidy. But, Mr. Speaker, Sir, the cost of these items is only slightly more than 2 per cent of GDP.

13. The Government's short term policy must therefore focus on ways of neutralising the detrimental effects of the domestic debt. Mr. Speaker, Sir, this debt is particularly worrisome because most of it is of a short term nature in the form of Treasury Bills. Therefore, Mr. Speaker, Sir, simultaneous with taking measures aimed at reducing the size of the debt, we also intend, particularly, to take measures that will seek to convince the domestic capital market to take a long term view of our economy and to make Government long term debt attractive again.

14. It is our view, Mr. Speaker, Sir, and that of the Governor of the Reserve Bank of Malawi and our international partners, with whom we have maintained close contact, that the establishment of a track record of sound fiscal management is the best and probably the only way of achieving this objective. We are confident that this objective along with a deceleration of interest rates can be achieved in the short term. Indeed, Mr. Speaker, Sir, this probably is the most pressing issue of the budget. Reducing interest rate further downwards remains one of the most immediate objective of this year.

15. The second issue, Mr. Speaker, relates to the wage policy of the Government that was announced prior to the general elections. The policy was formulated with the assistance of an international expert on issues of public sector remuneration. I wish to thank the World Bank for providing the



services of this expert for this task. In summary, the expert found that apart from the salaries under the Performance Contract Scheme, the Malawi Civil Service salaries were generally low relative to those of neighbouring countries. He went on to say that even if account is taken of the relatively small size of the Malawi economy, the salary disparity was so large that it could not be addressed at once. He therefore recommended that because of the acute financial constraint that is facing the country, the “catch-up exercise” should be phased for a period of 3-5 years. The Government has accepted this recommendation and therefore the salary adjustment of this year is the first one in a series of reviews to be made over the coming five years when and if our financial position allows. This will start with the general salary adjustment of the Public Service of about 25.5 percent across the board. Within this general increase, salary increases range from a grand fathering of the current conditions of service of senior officials in the Performance Contract Scheme to 90 per cent for some grades. The minimum wage in Government has increased from K2,729 per month to K4,500.

16. Secondly, the consultant noted with concern the huge number of allowances that form part of an individual’s remuneration package in Malawi, particularly for those in senior positions of Government. In particular, he advised strongly against the continuation of deeming fuel allowance as part of salary packages. This is because allowances complicate the administration of wages and mask the transparency of the system. The fuel allowance, in particular, is subject to changes in petroleum prices such that it is difficult to accurately budget for it. Parenthetically, I must point out that such changes have been one of the causes of our inability to observe targets of financial programmes. The Government therefore has embarked on the consolidation of all allowances with basic salaries. One advantage of

such a consolidation is that, correspondingly, pensions will increase considerably. Therefore, it is expected that a new pension scheme can be worked out in the course of this financial year, the objective of which will be to align pensions with the increased basic salaries.

17. Thirdly, Mr. Speaker, Sir, the consultant strongly recommended against the practice that has emerged and which is gaining ground, whereby conditions of service, particularly salaries, are determined by those to whom they apply. The consultant observed that the rampant distortions of the remuneration system of the public service, across the board, have been largely due to this practice. He therefore suggested that an independent Public Service Remuneration Board be established to take over this function and that it be responsible for the determination and periodic reviews of the conditions of service for all those whose remuneration is paid from the Government Consolidated Fund. Draft legislation establishing such a Board will, therefore, be tabled for the consideration of this House soon.

18. Mr. Speaker, Sir, since a vast majority of Malawians live in rural areas, rural development is a key component of the Government's poverty reduction strategy. Moreover, the rural sector in Malawi contributes a significant share of GDP, employment and exports. The Government intends to strengthen economic growth centres in districts, which will form a nucleus of growth through integrated rural development programmes. It will embark on a number of pilot integrated multi-sectoral projects in many parts of the country in order to address rural sector development in a coordinated and comprehensive manner. Issues to be addressed will include access to land, farm inputs, environment, nutrition and empowerment. These centres will be fully serviced and supported by an infrastructure of rural road networks,

water, electricity and telephones. NASFAM, ADMARC and micro-finance institutions are expected to feature prominently in these centres.

19. As His Excellency the President announced in his speech, the Government will make available funds amounting to K800 million during the 2004/2005 fiscal year through a Rural Credit Facility that will be part of this integrated rural development programme. The facility will be administered through a network of existing micro-finance institutions that have branches and agencies around the country. These funds will be made available to the micro-finance institutions by transferring them from the Government dormant accounts at the Reserve Bank to its accounts that will be opened at the micro-finance institutions which will administer the scheme. Honourable Members will, therefore, not see this as an item of the budget as it merely represents a movement of funds from one bank to another. Mr. Speaker, Sir, since funds for this Facility are now available, we are working hard to launch the Facility quickly before the end of the year.

20. Mr. Speaker, Sir, Members can help to dampen the prevailing impression countrywide that the money will be available to everybody who needs it. This is a project that will lend according to banking principles which will be explained and publicised widely. Above all, there will be means of ensuring that the money is being used productively so that loans can be serviced and repaid. As we all know, recent similar facilities have been destroyed by the mismanagement of institutions and the unwillingness of borrowers to repay their loans. As for this Facility, borrowing will be restricted to those who are likely to repay their loans.

21. Mr. Speaker, Sir, one additional large expenditure this year relates to the Government's decision to subsidize the price of fertilizers for a targeted majority that live below the poverty line. It is estimated that the scheme could apply to some two million families, that is, approximately eight million people. As His Excellency the President gave a detailed account of how the scheme will work, I do not intend to cover the same ground in detail. In any case, my colleague, the Minister of Agriculture, is likely to give the operational details of the scheme. I only wish to confirm that the amount that Government expects to spend on this initiative is estimated at K2.5 billion which, like all subsidies, will be administered by the Accountant General. Let me take this opportunity to publicly thank the Department for International Development (DFID) of the United Kingdom, which is contributing to this effort by funding the procurement of seeds and providing funding for the logistics of the scheme.

22. Mr. Speaker, Sir, it is now common knowledge that, yet again, there will be a shortage of maize in many parts of the country this year. In fact, in some areas, these shortages have already manifested themselves. Acting on the explicit directive of His Excellency the State President, the Government has already started the purchase of maize for the areas where shortages have already started to occur. Again, the Minister of Agriculture will no doubt give details on issues relating to food shortages.

23. Last, but not least, as far as this House is concerned, Mr. Speaker, Sir, is the issue concerning the decision to commence a phased construction of a Parliamentary Building. The design and construction of a purpose-built building are expected to commence and completed during this financial year for the immediate use of Parliament. As the decision came after the Budget

documents had been printed, Members will not immediately see a corresponding budgetary item in these documents. However, I wish to confirm that we will have enough resources for this very important project by re-allocating our domestically funded development programmes of the budget and a revision will be tabled for approval before Parliament rises.

24. On the revenue side, the perception by many is that Malawi is over-taxed. During the coming financial year, it is proposed that Government conduct a comprehensive tax review that will involve the civil society, the business community and international experts on tax policy to see whether there are changes that have to be made. Mr. Speaker, Sir, meanwhile, it must be stated that such a review should under no circumstances lead to a reduction in our domestic revenue as this will be contradictory, at a time when we seriously need resources for our recurrent expenditure as well as to reduce the domestic debt. It is also important that, as part of the tax review exercise, we should compare our tax system and rates with those of our neighbouring countries. For now, I will circulate the results of an international study on taxation in these neighbouring countries.

25. Mr. Speaker, Sir, and Honourable Members, I thought I should put all these issues to the House upfront so that they are not buried in the details that I am about to delve into.

### ***Macro-Economic Performance during 2003/04***

26. Now, Mr. Speaker, Sir, I am ready to deal with the mundane issues of the budget. I know that the House is familiar with our economic performance during the past year, but the law says that I ought to give you a summary

report of the developments at this juncture. And so, Mr. Speaker, Sir, at the risk of boring the House, let me summarise the economic outturn during the past year.

27. The Malawi economy grew by 4.4 per cent in 2003, up from 1.8 per cent in 2002. Much of this growth emanated from mining and quarrying, and small-scale agricultural activities. However, as His Excellency the President indicated in his opening statement, the growth rate was regrettably below the 6.0 per cent required to make an impact on poverty reduction. Current estimates suggest that the economy will grow by 3.7 per cent in 2004 and 4.2 per cent in 2005.

28. Mr. Speaker, Sir, in the year 2003, output in the agricultural sector increased by 6.8 per cent compared to 2.4 per cent in 2002. In 2004, the sector is expected to grow by 4.1 percent and the slowdown is partly due to reduced maize output compared to last year largely due to poor weather. This is also reflected in the expected decline of 10.3 per cent of the small-scale agriculture, while the large-scale sub-sector is expected to grow by 9.4 per cent in 2004. Mr. Speaker, Sir, as we all know, Malawi's record of self-sufficiency in food has not been impressive in recent years and has been adversely affected by the below average rainfall in most parts of the country. In this respect, this year's maize production is estimated to have dropped by 515,800 metric tonnes from 1,983 million metric tonnes in 2003. This will require Government to import some maize to address the shortfall in production and His Excellency the President has already informed the House what measures the Government is taking to mitigate the situation.

29. Mr. Speaker, Sir, in 2004, the national production of tobacco, the country's major foreign exchange earner, is estimated to have increased by 28.1 per cent to 154.9 million kilograms from the 120.9 million kilograms produced in 2003. This development is largely due to increased campaigns to grow more tobacco and the benefits from contract farming. As at August 24, 2004, 118.4 million kilograms of tobacco had been sold at an average price of US\$1.23/kg giving total revenue of about US\$146.0 million. At this point in time, tobacco prices were 4.0 per cent higher compared to last year. However, prices this year have been adversely affected by the inclusion of plastics in tobacco bales which reduced its quality and price. This trend of events shows that we need to diversify our export base to strengthen our economy.

30. Mr. Speaker, Sir, the performance of the economy, according to trade statistics, remains unimpressive. In 2003, total exports (fob) amounted to K43.3 billion, representing 26.5 per cent of GDP while total imports (cif) stood at K68.3 billion, accounting for 41.4 per cent of GDP, resulting into a trade deficit of about K25.0 billion or 15.1 per cent of GDP. As for the year 2004, estimates indicate that growth in imports continues to exceed that of exports, and, as at end June 2004, total imports (cif) were estimated at K45.5 billion while exports (fob) were estimated at K21.6 billion. The fact that our imports exceed our exports by such big margins underlines the need for us to expand our export base as a means of stabilising the Malawi Kwacha against other major currencies.

31. Consequently, Mr. Speaker, Sir, the overall performance of the external sector, as measured by foreign exchange reserves, continues to be a matter of concern as reserves of the Reserve Bank of Malawi are building up

very slowly in spite of the tobacco-marketing season. As you all know, traditionally, the reserve improvement should have been more robust than they have been during this season. Gross international reserves of the Reserve Bank dropped to K10.5 billion (US\$96.0 million) on August 20, 2004 from K12.5 billion (US\$115.6 million) in December, 2003. Of course, this drop was against the background of non-receipt of programmed donor inflows.

32. This notwithstanding, Mr. Speaker, Sir, the Kwacha has remained relatively stable, moving from K108.6 per US dollar at end December 2003 to K109.0 per US dollar on September 1, 2004, representing a slight depreciation of 0.3 per cent. This stability of the Kwacha was achieved through sales of foreign exchange to the market by the Reserve Bank. This stability is unlikely to continue in the next few months unless we receive donor support especially for balance of payments.

33. As Honourable Members are aware, the downward trend of inflation that was being achieved up to the early part of this year is being reversed as inflation has recently moved back to double digits. In response, the Reserve Bank of Malawi has tightened its monetary policy by intensifying its open market operations. Liquidity mop-up rose from K2.9 billion in December 2003 to K5.7 billion by August 20, 2004. However, regardless of these actions, growth in money supply remained high at 25.3 per cent in July 2004 compared with 26.4 per cent in December 2003. This was due to the monetisation of the budget deficit, as reflected by an unplanned large increase in the Reserve Bank credit to the Government since June 2003.



34. Mr. Speaker, Sir, as I said, inflation prospects in the coming months look less encouraging due to several factors. First food prices are expected to increase following a shortfall in maize production this year. Second, the liquidity overhang from the first half of the year will certainly put pressure on prices in the latter part of the year. During the first seven months of 2004, inflation averaged 10.9 per cent compared to 9.6 per cent during a comparable period last year. The price acceleration was also largely due to increases in the prices of petroleum products. It is projected that inflation could rise to 20 per cent towards the end of the year and move downwards again thereafter.

### ***Fiscal Performance***

35. Mr. Speaker, Sir, the budget that the House approved last year amounted to K59.5 billion and was framed to achieve macroeconomic stability as a precondition for sustainable economic growth and poverty reduction.

36. Mr. Speaker, Sir, the House also approved an appropriation of domestic revenue amounting to K36.01 billion and external grants were estimated at K23.45 billion. It was planned to achieve a budgetary surplus of K2.93 billion so as to begin to reduce the huge stock of domestic debt.

37. But, Mr. Speaker, Sir, and Honourable Members, it became clear quite early that the budget would be under considerable pressure. First, as negotiations with the IMF took longer to complete than had been envisaged, donors continued to withhold the pledged Balance of Payments support that was expected to be disbursed much earlier. In fact, Mr. Speaker, Sir,

throughout the year, donor support was elusive and unpredictable because of the uncertainty of our relations with the IMF.

38. And second, on the expenditure side, pressure on the budget was largely due to the escalated payments of domestic debt interest, which was more than double the amount of K8 billion that was originally projected. This escalation, coupled with pressure arising from extra-budgetary expenditures by the Office of the President and Cabinet, the Ministry of Foreign Affairs, security-related ministries, the National Assembly, the Special Activities Account and other core recurrent activities, compelled the Government to borrow heavily from the domestic market. Mr. Speaker, Sir, let me remind the House that all these expenditures were factored into the Supplementary budget, which this august House approved in March, 2004.

39. Mr. Speaker, Sir, as a result of all these budgetary pressures, the final budgetary outturn at the end of the financial year on 30<sup>th</sup> June 2004 was far from what was originally budgeted. Total expenditure which was budgeted to be K56.8 billion escalated by K22 billion or by 39.0 per cent to K78.5 billion. As indicated earlier, the dominating, and single extra-budgetary, expenditure was domestic interest payment that increased from an approved budget of K8.0 billion to K17.3 billion. This represented 10.1 per cent of GDP and 40.3 per cent of the total domestic revenue of K42.7 billion.

40. Notwithstanding the implementation problems, the revenue outturn for the 2003/04 fiscal year was better than programmed, with total revenue at K65.4 billion, of which K22.6 billion were grants. Domestic revenue collection, in particular, performed better than projected, that is, from K36.0 billion to K42.7 billion. Of this amount, tax revenue stood at K36.9 billion.

41. In the event, therefore, Mr. Speaker, Sir, Honourable Members, instead of achieving a K2.9 billion budgetary surplus, and corresponding debt repayment, the budgetary outturn for the 2003/04 fiscal year was a large deficit of K13.2 billion, and a consequent huge increase of domestic debt of K14.5 billion, representing 8.0 per cent of GDP. This result continues to be costly on the economy and, among others, it is reversing the downward trend of inflation that had been established.

42. Mr. Speaker, Sir and Honourable Members, I would like to inform the House that despite these setbacks, there were some notable silver linings during the 2003/04 fiscal year. These include the 100 percent funding of protected pro-poor expenditures such as for teaching and learning materials; the training of nurses and the procurement of drugs; and completion of construction works of a number of roads, secondary schools and teachers' houses. We also managed to reduce interest rates by 20 percentage points, from 45 percent to 25 percent, by June 2004.

### ***Macro-Economic Conditions During 2004/05***

43. And now, Mr. Speaker, Sir, let me turn to the outlook for the current financial year. Having provided a summary of macroeconomic developments during the 2003/04 financial year, let me quickly outline the economic outlook for the 2004/05 financial year.

44. Malawi's GDP is expected to grow by 4.2 percent in 2005 on account of expected output growth in agriculture, tourism and mining. As His Excellency the President indicated in his speech to this House, in agriculture,

the Government has prioritised cotton growing, tourism and mining in the Malawi Economic Growth Strategy. These sectors are expected to contribute to the GDP over time.

45. Inflation is projected to decelerate to 10 per cent by June 2005. National savings are projected to increase from 1.9 percent of GDP in 2004 to 2.4 percent. These savings ratios are dismally small and in the medium term efforts must be made to increase them as they determine the pace of a country's economic development. Gross investment as a proportion of GDP is expected to fall marginally from 11.2 per cent in 2004 to 10.4 per cent in 2005. Gross official reserves, measured in months of import cover, are expected to improve to an average of 1.7 months in 2005, from 1.4 months this year.

### ***World Economic Outlook***

46. Mr. Speaker, Sir, on the global economy, GDP growth for 2004 is projected at 4.6 per cent compared to 3.9 per cent in 2003 and, in 2005, GDP growth is expected to slow down slightly to about 4.4 per cent. Improved growth prospects are due to several factors including a sharp rise in global trade and a rebound in the US economy. However, the global economy will still have to contend with geopolitical risks, including terrorist attacks and the recent rise in oil prices.

47. The GDP growth rate of industrialized countries is projected at 3.5 per cent in 2004 compared to 2.1 per cent in 2003. This impressive growth is largely on account of the United States whose growth is projected at 4.6 percent in 2004 compared to 3.1 per cent in 2003. Much of this growth will

be buoyed by strong investment and a sustained rise in employment. For 2005, output in advanced economies is projected to slow down to 3.1 percent. In the Euro area, growth is projected at 1.7 per cent compared to 0.4 per cent in 2003. In the Far East, Japan's economy is projected to grow by 3.4 per cent in 2004. That economy is expected to benefit from strong external demand, notably from China, accompanied by rising investment and an improvement in consumption.

48. Economic trends in developing countries point to a rebound in economic activity. Growth has been particularly strong in Asia, with the GDP growth rate projected at 7.4 percent in 2004. While macroeconomic policies have generally been accommodative, the region has benefited to a large extent from the vibrant growth in the Chinese economy that is underpinned by rapid increases in investment and exports. GDP growth for the group of Latin America countries is expected to recover in 2004 due to the strengthening of domestic demand, the global recovery and higher commodity prices. For this group of countries, GDP is estimated to grow by 3.5 per cent in 2004.

49. The GDP growth rate for the sub-Saharan region (excluding South Africa) in 2003 was estimated at 4.4 percent, with Nigerian oil production contributing the most to this outturn. In 2004, GDP growth is expected to strengthen further reflecting improved macroeconomic fundamentals, higher commodity prices, better weather conditions and the expected rising oil and gas production in several countries. However, Mr Speaker, Sir, growth prospects of the region can easily be overshadowed by unanticipated political instability and natural disasters.

50. In the SADC region, economic growth is projected to pick up in most countries. For other economies in the region, dependence on foreign donor support and weather conditions will dictate the pace of economic growth, while political conflicts in some parts of the continent and the HIV/AIDS pandemic, pose a major risk to economic growth prospects.

### ***The Budget Framework for 2004/05***

51. Mr. Speaker, Sir, and Honourable Members, I have submitted to this House a number of relevant Budget Documents. These include the following: the 2004/05 Budget Document No. 1 (Budget Statement); Budget Document No.2 (Economic Report); Budget Document No.3 (Financial Statement 2004/05); and Budget Document No. 4 (Draft Estimates of Expenditure and Recurrent and Capital Accounts for the financial year 2004/05 – output based).

52. Mr. Speaker, Sir, having described our fiscal and economic performance last financial year, allow me, Sir, to put to the House the substance of my budget proposals that I am asking the House to consider and approve as tabled. Honourable Members will note that the total expenditure for the year 2004/05 is estimated at K85.6 billion. This represents an increase of 8.5 per cent over the expenditure outcome of last financial year and 35.5 per cent over the originally budgeted total expenditure of that year. Of this total expenditure, recurrent expenditure is estimated at K65.9 billion. As I said earlier, this represents 30.7 percent of GDP and is extremely large by international standards. Therefore, Mr. Speaker, Sir, let me repeat that the Government is determined to pursue policies that will reduce the recurrent expenditure so that we can balance the recurrent budget with our own

domestic resources in the medium term. This is one of our most important budgeting goals. The amount that is estimated to be spent on development is K19.8 billion, of which K3.4 billion will be funded from domestic resources. As a percentage ratio of GDP, total development expenditure will be approximately 8.8 percent. Although this is higher than the average development expenditure percentage ratio of the past 10 years or more, it is quite low for the investment needs of the country. As I said earlier, future budgets will attempt to boost development expenditures relative to recurrent expenditures as a way of increasing our investment in capital formation for economic growth and development purposes. It is therefore expected that as the recurrent expenditure account is reduced progressively in the medium term, budgetary expenditures will correspondingly shift to boost investments. At the same time public savings also will grow thereby stimulating sustainable economic growth processes.

53. Mr. Speaker, Sir, against this estimated total expenditure; total revenue and grants are estimated at approximately K77.2 billion of which K52.0 billion will be total domestic revenue and K25.2 billion represents total grants that are expected from the donor community.

54. Including grants, the Government is therefore budgeting for a deficit of K8.4 billion, Mr. Speaker, Sir, or 3.9 per cent of GDP. This compares with an outturn deficit of K13.2 billion or 7.3 per cent of GDP last year. Excluding the grants, the deficit is estimated at K33.6 billion or 15.5 per cent of GDP and excluding grants the deficit last year turned out to be K35.8 billion or 19.8 percent of GDP. Taking into account foreign inflows of funds that will partly finance the deficit we expect to end the year with a domestic borrowing of K4.3 billion if things progress as budgeted. However, as

pointed out above, there are indications that if our fiscal performance establishes the needed track record at the end of the first half of the year, and a formal IMF-supported programme is agreed, further disbursements of donor funds could become available. If this were to happen, Mr. Speaker, Sir, our financial situation could improve and the planned domestic borrowing may not be necessary. Regardless of the outcome of the budgetary balance, this year, the most important achievement will be the elimination of the rigidities that impede sound fiscal management and the establishment of a track record of good public finance management.

### *The 2004/2005 Expenditure Estimates*

55. Mr. Speaker, Sir, let me now turn to the traditional voted expenditures of Ministries which are clearly described in Budget Document 4.

56. As has been the case over the past 10 years, the largest budgetary allocation to Ministries will be to the Ministry of Education. The total allocation to that Ministry amounts to approximately K11.0 billion. Of this amount, about K8.0 billion will be devoted to the recurrent operations of the ministry and the rest will be devoted to development expenditure. In other words, 12.8 percent of total expenditure will be devoted to education. Honourable Members will also note that over and above this expenditure, within the education sector, K2.2 billion has been allocated as a subvention to the two universities. Furthermore, Mr. Speaker, Sir, in the course of the year, we hope to conclude with the World Bank a loan of approximately US\$32 million that will largely go towards the improvement of the quality of education, including an increase in the number of teacher training institutions and the rehabilitation of old boarding secondary schools around the country.



57. Mr. Speaker, Sir, and Honourable Members, let me divert a little and comment on the resource requirement of the two universities. The Government has concluded that regardless of the doubling of the Government contribution towards the operation and development of the two universities, the financial resources that will become available to them will still remain sub-optimal. It is therefore quite clear that, that we try as we have done this year to augment the subvention by doubling the resources of each institution, yet again, it has not been possible to fully satisfy their needs.

58. I must, in all honesty, Mr. Speaker, Sir, repeat what my two recent predecessors strongly emphasized that there is a strong need for the University to be more enterprising in finding other sources of funds to supplement the Government subvention. Very few universities these days rely on a mere Government subvention. I have discussed this issue at length with the authorities of the two universities and I have no doubt that in the course of this year, a solution to their financial problems can be found. I hope that Honourable Members, as leaders of our community, can help in this effort, at least to ensure that the public understands that our universities cannot continue to depend entirely upon the Government if they are to deliver quality university education to our children.

59. Mr. Speaker, Sir, should the authorities decide to charge an appropriate amount of fees as the College of Medicine has done, the Government is ready to take measures that will ensure that genuinely needy and deserving students are not deprived the privilege of higher education.

60. Mr. Speaker, Sir, regarding the Ministry of Health, which has the second largest vote, it is projected that about K9.1 billion will be allocated to that vote compared with a total amount of K5.6 billion last year. This represents approximately 11 per cent of the total expenditure. Half of this amount will be spent on capital expenditures and the rest will be used to fund its recurrent activities. As can be seen, this is a huge expenditure in contrast with the amount that was spent last year. My honourable friend, the Minister of Health, has assured me that he will be happy to give the House a description of how he intends to utilise these resources. In particular, it is expected that a significant amount will be spent on HIV/AIDS that continues to be the vexing disease in this country and the world over.

61. Honourable Members the large allocations to the Ministries of Education and Health mean that almost 25 per cent of the total expenditure of the budget has been allocated to these ministries. As those who are conversant with the Malawi Poverty Reduction Strategy will be quick to see, such a result is even higher than the requirement in that strategy. Hence because of this huge allocation, the Government has been able to increase the allocations to the pro-poor expenditures, the majority of which are within these two ministries. I would like to call the attention of the House, Mr. Speaker, Sir, to the effect that an amount of approximately K15 billion has been allocated to these pro-poor expenditures within the 2004/05 Budget. This represents 7 per cent of GDP and is slightly higher than the percentage allocation of last year.

62. In the Ministry of Agriculture vote, expenditure has been dominated by the provision of subsidies and the purchase of maize this year. Although as a rule the provision for fertilizer subsidy is allocated to the Accountant

General's Vote, the money is in fact deemed to have been allocated to the agriculture sector. As can be seen in the documents, the total allocation increase to this vote is enormous and constitutes more than 10 percent of the total expenditure if the subsidy is taken into account. This is in line with the directive of His Excellency the State President who has decided that the overarching priority of his Government will be food sufficiency and security. Over and above the provision of fertilizers and maize, Government has decided to intensify its investment in irrigation facilities around the country. Again, it is expected that the World Bank will, in the course of the year, provide funds through a loan, part of which will be devoted to irrigation projects. Again, I am confident that the Honourable Minister of Agriculture will be more than happy to provide details of this plan for his ministry; in particular, in so far as they relate to the medium and long term perceptions of achieving food sufficiency in the country.

63. Mr. Speaker, Sir, and Members of the House, as I said, apart from providing a framework in which a track record of sound fiscal management can be established, our economic strategies aim at transforming the economy as described by His Excellency the President in his inaugural speech and his State of the Nation Speech of June, 2004. In this regard, resources have been devoted to the development expenditure that will enable the Ministries of Information and Tourism; Trade and Private Sector Development; Industry, Science and Technology, the Ministries of Mines, Natural Resources and Environment and the Ministry of Transport and Public Works to increase productivity in their respective areas of competence.

64. Mr. Speaker, Sir, in the Ministry of Information and Tourism the Government will allocate K225 million devoted to development-related

expenditures. This is eight times the amount that was allocated last year and emphasises the decision to start tapping the potential in that sector. Government has also decided to increase development expenditure in the Ministry of Trade and Private Sector to K155 million from a mere K4.3 million during 2003/04 budget. We will also devote an increased amount of about K852 million to the Ministry of Mines and Environment Affairs for its development programme that it has embarked upon. Mr. Speaker, Sir, therefore, the key ministries that are responsible for implementing the Malawi Economic Growth Strategy are beginning to be singled out for large amounts of a capital expenditure, and this initiative is expected to continue in the five year life of this House. In other words, the budget, is increasingly prioritising economic sectors as part of Government's efforts to stimulate economic growth.

65. Mr. Speaker, Sir, it would be remiss of me to omit informing the House a problem that will linger on in the next five years. Apart from the need to reduce the domestic debt to manageable levels, the Government will have to tackle an equally important programme of eliminating arrears that have accumulated over the years. Last year, with the assistance of the European Union, a private sector firm was commissioned to audit arrears of nine large ministries. The firm has yet to finalise its report. It appears, however, that the amounts that are involved could be very large. With the advice of the IMF, and the support of the World Bank, this process will take longer than one year. It is for this reason that I request patience by those creditors who have established claims on the Government.

66. Mr. Speaker, Sir, as will be noted from the budget documents, apart from the projects that fall within the programme of economic transformation,

we do not expect to embark on new domestically financed projects because we are determined to complete the unfinished projects. Honourable Members will wish to note that among these is the Kamuzu Mausoleum which the last Government decided in principle to construct in honour of the first President of our Republic. The funds for this project have been allocated to the Ministry of Youth, Sports, and Culture. On the directive of His Excellency the President, we also have allocated resources for the maintenance, rehabilitation and painting of the Government buildings at the Capital Hill. These resources have been allocated to the Ministry of Lands and Housing. It is hoped that progressively over the next two to three years this task could be completed.

67. Mr. Speaker, Sir, and Honourable Members of the House, overall, therefore, this transitional budget particularly the capital expenditure part of the budget has began to reflect the priorities of the Government and to reflect its intention to transform the economy from one that consumes much more than it produces to an economy that progressively emphasizes production. It is expected that within the medium term, Malawi can resume recording positive domestic savings ratios rather than negative savings that have characterised the economy for so long. This will increase Government investment in the economy and supplement private investments in our quest for the transformation of the economy and accelerated high growth rates. It will possibly take more than the five year term of the present House to attain tangible results, but at the end of that period, we expect that a lot of transformation will have taken place.

### *The 2004/05 Revenue Estimates*

68. Mr. Speaker, Sir, I would now like to give the House a summarised analysis of the resource envelop for the 2004/05 fiscal year which, as I said, is estimated at K77.2 billion or 35.5 per cent of GDP. Again, as I said, of this amount, K52.0 billion or 23 per cent of GDP will be in the form of domestic revenue. This is 67.4 per cent of the total resource envelop for the year and represents an increase of 20.4 percent over the corresponding figure last year. The tax revenue is estimated at K44.7 billion which is an increase of 20.1 per cent over last year's figure. Within this total tax revenue, taxes on income and profits will amount to K19.6 billion which would be an increase of 23.5 per cent over last year's figure. Malawi's tax effort, therefore, continues to be commendable and I would like the House to join me in congratulating the Malawi Revenue Authority for its services to the Government. It is note worthy that, in comparison with similar institutions within the SADC Region, MRA stands out for its consistent admirable results. Despite the narrow tax base of the country, Malawi's tax ratio has become one of the highest in Africa.

69. However, Mr. Speaker, Sir, the non-tax revenue is not comparable with corresponding figures in other countries. This shows that the charges and levies are relatively lower than the value of the services that are being delivered. Non-tax revenue is projected to increase from K5.8 billion in 2003/04 fiscal year to K7.1 billion or 3.3 per cent of GDP in 2004/2005. The bulk of these resources will come from Departmental receipts and sales of NFRA maize of approximately K2.2 billion.

70. Mr. Speaker, Sir, another component of the resource envelop consist of external grants which are estimated at K25.2 billion or 32.7 per cent of total revenue and grants, and 38.0 percent of the recurrent expenditure of the budget. If these pledged grants are all disbursed, which will be most unusual, this will be an improvement over the 2003/04 receipts of K22.6 billion. About K13.8 billion of these resources are expected to fund the development programme while K5.4 billion will be in the form of balance of payment support. Regrettably, because of the status of our relations with the IMF, the HIPC debt relief is expected to be lower than the amount that was pledged last year.

71. Therefore, Mr. Speaker, Sir, if matters were to progress as planned during the year, the resource envelop this year will be much larger than what was available to the Government last year. As I said, it has been indicated to us that if we can continue to establish a track record of good performance, towards the end of this year, there could be further donor disbursements and therefore more resources than budgeted could become available.

72. Mr. Speaker, Sir, let me repeat that the Malawi Revenue Authority is proving to be very effective, but, naturally, there are a number of taxpayers who are unhappy with its method and style of operations and certainly it will be my responsibility to ensure that the organisation is responsive to the anxiety of taxpayers, particularly the business community. The Government shares the view that a fair, simplified, transparent and predictable tax administration is important for a good investment climate. In this regard, we will request the Malawi Revenue Authority to enhance its commitment to the improvement of its public relations so as to meet genuine and realistic taxpayers' expectations.

73. Mr. Speaker, Sir, in this light and in order to enhance the effectiveness of tax administration, the following measures will be implemented during the 2004/05 fiscal year:

- (i) Processing fees charged on Customs and Excise documentation will be increased from K600 to K1,200. This adjustment is being made to accommodate fees for the service providers of the newly introduced computerised Trade Data Inputting (TDI) system.*
- (ii) An escort fee of K7,000 will be introduced to defray expenses of escorting transit goods in Malawi.*

74. Mr. Speaker, Sir and Honourable Members, I have already said that the Government wishes to devote the coming year to a review of our tax system so as to ensure its fairness and productivity and to see that it continues to be equitable. In this exercise, it will make use of experts in the field both inside and outside the country and certainly it will call upon the expertise of the Bretton Woods Institutions that probably have the best expertise on the subject. This budget, therefore, is devoid of the tax changes which the Government is aware the private sector expects. I have received a lot of suggestions for various improvements to the tax system. I am particularly grateful to the Society of Accountants of Malawi (SOCAM) which submitted a balanced and professional memorandum which should be taken seriously during the review of the tax system. This memorandum is among many that my ministry has received from organisations, companies and individuals including the contribution from Toyota Malawi junior staff and I promise that all these contributions will be reviewed.



75. Mr. Speaker, Sir, the public will no doubt appreciate that in a country which depends on other governments and institutions for approximately 40 per cent of its total budget as resources, it must be very careful in encouraging the view that the tax system should de-emphasize revenue goals and highlight its role as an economic policy instrument more. Therefore, the Government believes that a comprehensive tax review is necessary and that ad hoc changes of the tax system rates, as some stakeholders have proposed, is highly inadvisable in Malawi's circumstances. Meanwhile, as an introduction to issues that would be involved in such a tax review, it would be advisable that people become conversant with a comparison of Malawi's tax system with those of its neighbours. A table from a study from an international research group is being circulated to Members and could be published in the papers for general information and discussion.

76. Having said that, Mr. Speaker, Sir, there are a number of changes in our tax practices which could improve the efficiencies of the system.

### ***Income Tax***

77. In this respect, Mr. Speaker, Sir, Government has decided to develop criteria for granting tax incentives that will be gazetted and incorporated into the law so that they are transparent and objective. These will also eliminate the discretionary powers of the Minister in granting tax relief.

### ***Customs and Excise***

78. Mr. Speaker, Sir, in the Customs and Excise area, the following custom measures will become effective as from mid-night:

- (i) *Section 96 of the Customs and Excise Act, as well as Section 38 of the Public Finance Management Act, will be amended to restrict their applicability in granting remission or waiver of duty to only unforeseen occurrences like natural calamities and disaster. In this regard Tax incentives for businesses will only be given under relevant Acts like the Malawi Investment Act, Customs and Excise Act and the Surtax Act.*

### ***Surtax***

79. Mr. Speaker, Sir, the following Surtax measures will also become effective from mid-night:

- (i) *The credit claims of inputs in a tax period shall be limited to the cost of goods or services sold in a month. By limiting surtax tax credit to monthly stocks of goods or services turnover, no taxable person dealing in standard rated goods/services will be in excess. The objective of this measure is to reduce the under-declaration of sales or the inflation of input tax claims by tax payers.*
- (ii) *Surtax shall be renamed Value Added Tax (VAT). This is the correct term of this type of tax. Since the extension of surtax is from manufacturing to wholesale and retail stages, the Government has decided to change the name 'surtax' to VAT to avoid misinterpretation, namely. that the word 'surtax', which is*

*essentially VAT, operates on a credit mechanism whereby all elements of double taxation are removed as the final consumer pays the tax.*

- (iii) *Section 34 (4) of the Surtax Act shall be amended to change the date for submitting surtax return from the 30<sup>th</sup> day of the month to the 25<sup>th</sup>. The objective of this amendment is to provide more time for tax administrators to collect and account for the VAT revenue due in that month before the end of the month.*

### ***Non Tax Policy Measures***

80. Mr. Speaker, Sir, the Government has revised a number of fees and charges to reflect full cost recovery for all activities whose benefits are internalised to an individual, or cost sharing in areas of shared consumption with a generalized benefit to the Malawian society.

81. During the 2004/05 fiscal year, Government will review the collection of airport tax. The current practice will be discontinued and replaced by an arrangement whereby these fees are included on the cost of an air ticket.

82. Mr. Speaker, Sir, as part of Government's efforts to promote tourism as a source of economic growth, the Government has abolished the hotel service levy in an effort to streamline levies charged by our hotels. More significant measures will be outlined and implemented in the course of the year following consultations with other stakeholders.

### ***Some Structural Obstacles to Sound Fiscal Management***

83. Mr. Speaker, Sir, I now wish to outline to this House the obstacles that are negatively affecting our ability to manage the national budget. These malfeasances are also unnecessarily eating into national resources that can be invested into activities that can benefit the majority of Malawians. I also have to present to this Honourable House the necessary measures that Government will take to resolve them.

### ***Accounting for Public Funds***

84. Mr. Speaker, Sir, recent audit reports prepared by the Auditor General's office show that accounting for public funds is extremely poor. This is particularly so in relation to accounting for funds advanced as travel allowances, air tickets and fuel coupons. There is, for instance, no way of confirming that travel took place and that funds were used as designated. Government is losing a lot of money in the form of travel allowances that are advanced to a cross section of public servants, including the political leadership in the House and the Government. The same applies to fuel coupons, air tickets and many other payments. The rules for accounting for these funds have long been ignored and a practice has emerged and has become the norm that no evidence of travel is necessary. The audit reports have consistently called attention to this malaise.

85. In line with the various provisions made in long standing financial rules and regulations and the newly enacted Public Finance Management Act to guard against these malpractices, the Government will enforce measures to ensure that everybody accounts for the funds advanced to them for official

purposes. Controlling Officers will demand and verify statements or returns on advanced public funds as a condition for further sums that could be required by someone who has not satisfied this condition.

### *Special Accounts*

86. Mr. Speaker, Sir, as this House is aware, the Government has been running special votes or sub-votes within which typically, large extra-budgetary expenditures occurred. One such vote was the “Special Activities” vote which we abolished as suggested by the House in June. I wish also to announce that His Excellency the President has decided to also eliminate the so-called “VVIP” budgetary item. This decision came after budgetary documents were being printed and therefore Members will see that item still appearing. But we have decided to abolish it. In many ways, maintaining these accounts contributed significantly to government overspending because several ministries and departments and other public institutions used these accounts even when there was no need to do so.

87. To ensure that there is strict control of public expenditure, these accounts will be discontinued in the 2004/05 budget. Therefore, all ministries will have to adhere to what has been provided for under their votes and I am happy with His Excellency’s decision. No additional funding will be provided to any ministry or government institution once its budget is exhausted and unless there is crisis or a catastrophe extra-budgetary expenditures will no longer be allowed and the Public Finance Management Act will be applied strictly.

### ***Procurement and Contracts***

88. As this august House is aware, Mr. Speaker, Sir, the Public Procurement Act was passed by this august House last year. Its purpose is to protect public resources against abuse in procurement processes. According to the Act, public procurement has been decentralized to Internal Procurement Committees of government ministries and departments and other public institutions. Under this system, we have come across serious problems of over-pricing of goods and services procured by the Government. Similarly, contracts have been awarded to several middlemen who over-price their goods and services and in some cases no evidence of deliveries is provided.

89. In view of the above problems, the Government will review the current procurement arrangements as part of reducing its expenditure. Prior to a review of the procurement system, Government will eliminate the use of middlemen unless a ministry can prove to the Treasury the necessity of middlemen.

### ***The Fleet of Government Vehicles***

90. Mr. Speaker, Sir, one of the major areas of wastage in the national budget is the purchase, running and maintenance of Government vehicles. A recent study of the costs associated with these vehicles has revealed that the Government has an excess number of vehicles. The study has indicated that the Government can get rid of about 56 percent of its fleet of vehicles without adversely affecting its operations. Most of these vehicles are being abused on operations that have no strategic value to this country. In addition,

much of Government's recurrent expenditure goes into running and maintaining these vehicles which are grossly abused. There is also a tendency for commercial garages to over-charge for the servicing of government vehicles.

91. In view of the above problems, the Government will suspend procuring vehicles without proper justification and any exceptionally - approved purchases of new vehicles will have to be charged to the votes of the ministries or other institutions concerned. Furthermore, the Government will rationalize the use of its fleet of vehicles with a view to getting rid of the excess ones. This exercise will commence during the 2004/05 financial year. Before any new car can be purchased, the re-allocation of existing government cars will be considered seriously.

92. Mr. Speaker, Sir, these and other obstacles to the proper management of public finances will be implemented under this budget.

### ***Concluding Remarks***

93. Mr. Speaker Sir, and Honourable Members, the Budget I am presenting to you today is a shared vision of all Malawians who want to see a turnaround in the economy and in the management of the Budget. It comes at a time when the Government's relations with our development partners are very weak. The 2004/05 fiscal year will entail a lot of sacrifices. Jobs may be lost in the public sector and the consequences on families can be significant. The delivery of some services which we all enjoyed in the past without pausing a moment to find out who was paying for them, and at what cost, will have to be rationalized. The Government needs to put its house in

order and demonstrate that it can deal with these issues decisively. A bipartisan approach by both sides of the House in scrutinizing the budget and guiding the Government will be more important this year than ever before. Together, we need to establish a credible track record of economic management and turn our economy around. Stakeholders will be watching us and will hold us accountable for any slippages. We owe it to the millions of Malawians suffering silently in poverty to succeed.

94. Mr. Speaker Sir, let us not assess our performance in terms of whether the donors disburse funds or not. We must achieve our goals because we believe they are necessary for our country. The Government's goal, during the five-year term of this Parliament is to balance the recurrent budget and, if possible, achieve a surplus, while maintaining the public debt at low and sustainable levels. Therefore, the centrepiece of our economic programme emphasizes the strict implementation of measures and compliance with provisions of the newly enacted Public Finance Management Act regarding expenditure control and revenue collection.

95. Mr. Speaker, Sir, and Honourable Members, we must succeed in this endeavour or continue to slide backwards. This will require a change of the mindset of the leadership within this House and all of us in Government. We need to have a mindset that does not seek to maximize private benefits but one that singularly pursues those policies and decisions that are good and desirable for the country regardless of their effects on the welfare of leadership. Whether we be political leaders or senior civil servants in positions of leadership, let us be guided by the need to spend little relative to our output. Let us not equate the level of expenditure with the effectiveness of ourselves and institutions.



96. The macroeconomic policy framework that I have presented today establishes fiscal stability based on the principles of transparency, responsibility and accountability. We can only succeed to develop this country if the Government remains transparent and fully accountable to the public for all the resources appropriated by this august Assembly. The most successful leader is one who achieves the most at the least financial cost possible. Let us not look for ways of spending but let us spend less on more. This will be the key to our success and this should be the mindset of a manager in Government.

97. I realise that our programme of what we have to achieve this year is heavy and requires courage, conviction and resolution. But Mr. Speaker, Sir, I believe we can do it, for what must be done is not new, because all it requires us to do is to go back to the basics of the principles of financial management as defined in our own financial Rules and Regulations and the Malawi Public Service Regulations. Therefore, provided there is co-operation and single mindedness in pursuit of the goals that have been defined for us by Malawians country-wide, we can turn round the economy quickly. Mr. Speaker, Sir, let us do it, it can be done.

98. Mr. Speaker, Sir, I beg to move.