The 2019/20 was approved at K1.74 trillion of total expenditure and net lending with inflows of revenue and grants approved at K1.58 trillion giving a total financing requirement of K162.1 billion. Out of this financing, K53.3 billion was planned as net domestic borrowing, while the balance, amounting to K109.7 billion was the projected net foreign financing.

Revenue

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 collected with estimated total domestic revenue of K655.2 billion and K74.3 billion in grants. The mid-year outturn recorded an underperformance in both tax revenue at K548.6 billion representing 83.7 percent and non-tax revenue at K23.7 billion representing revenue collection underperformance of 94.0 percent.

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.

Expenditure Performance

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 comprising K624.8 billion of recurrent expenditure and K218.0 billion in development expenditure. As at end December 2019, the expenditure outturn was K780.0 billion consisting of K648.6 billion in recurrent expenditure and K131.4 billion in development expenditure.

Recurrent expenditure amounted to K648.6 billion against a target of K624.8 billion, representing a 3.8 percent over expenditure mainly on account of; increased spending on wages and salaries, public debt interest, and pensions and gratuities.
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. Donor-funded development expenditure amounted to K90.8 billion against a planned expenditure of K152.5 billion. Locally funded development expenditure at K40.6 billion was also lower than planned first half target of K65.5 billion.

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.

**Key Expenditure Categories**

Government effected an average general salary adjustment of 15 percent for Civil Servants as well as a once off payment on salary arrears and leave grant for teachers and as a result, the outturn on wages and salaries amounted to K226.2 billion, which was 10.3 percent higher than mid-year target of K204.9 billion.

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. 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.

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. 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 annual approved provision for medical drugs was K26.7 billion of this amount, K15.6 billion was for district hospitals and health centers, 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 centers.
hospitals and health centers, while the balance was spent on central hospitals.

Some Government Programs & Projects

The International Monetary Fund approved the second and third reviews the country’s performance under the Extended Credit Facility leading to disbursement of resources amounting to US$43.3 million in December 2019.

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.

Government is currently undertaking procurement processes for construction of houses for security institutions. Government has also completed designs for the construction of two stadia for Nyasa Big Bullets and Be Forward Wanderers and the procurement of contractors to commence actual works is at an advanced stage.

Projections for Second Half of the Financial Year

During 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 Malawi Revenue Authority has intensified its monitoring and enforcement activities.

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. Government also expects more revenues as a result of implementation of revised user fees and charges as well as improved remittance of dividends and surpluses following the approval of the new Dividend and Surplus Policy.
The budget in the current fiscal year is revised based on the following major assumptions:

1. A projected GDP growth rate of 5.0 percent in 2019 and 7.0 percent in 2020;
2. An average inflation rate of 8.0 percent during the fiscal year;
3. A stable exchange rate of about K750/US dollar;
4. A Policy rate of 13.5 percent; and
5. Upward review of user fees and charges.

In this regard, 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 are projected at K1.06 trillion of which K722.1 billion is recurrent expenditure and K339.3 billion is development expenditure.

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 subverted organizations and K74.7 billion for social benefits. 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.

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.