ANALYSIS AND RESPONSE TO THE 2025/2026 NATIONAL BUDGET

BY

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1.1 Background

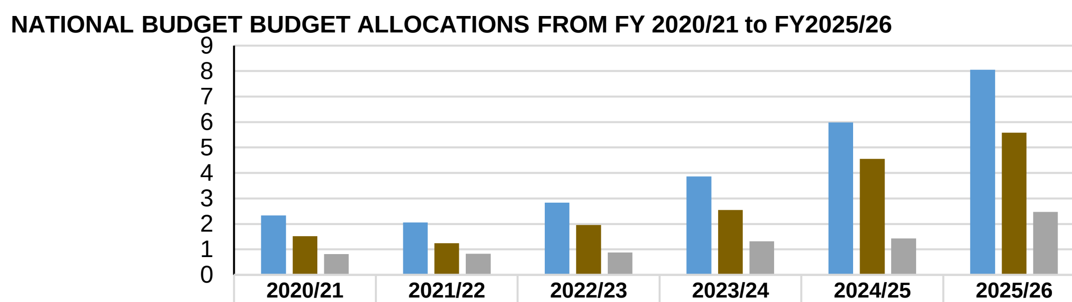
On February 28, 2025, Malawi's Minister of Finance and Economic Affairs presented the FY2025/2026 budget, themed "**Consolidating Gains, Strengthening Resilience, and Inclusivity for Accelerated Socio-Economic Transformation**."

The budget comes at a time where Malawi's economy is struggling to recover from post-COVID-19 imbalances, resulting in a significant trade deficit of $391.3 million by Q3 2024, declining purchasing power, and economic stagnation. The private sector faces persistent challenges, including high taxes, foreign exchange shortages, high production costs, limited access to credit, and fuel supply disruptions, with 2024 Malawi Business Climate survey indicating that 82.8% of businesses operate below 75% capacity. This underperformance threatens the country's economic goals, including a recommended target of 6% GDP growth.

The National Budget is therefore crucial for outlining strategic measures to stimulate recovery, enhance local production, and create a more favorable environment for business growth and investment. The analysis of the budget reflects serves to tease the 2025/26 budget along these lines

1.2 General outlook of the economy over the past five years and overview of 2025/2026 budget

The 2025/26 National budget, themed “Consolidating Gains, Strengthening Resilience, and Inclusivity for Accelerated Socio-Economic Transformation,” aims to stabilize the economy, enhance resilience, and foster inclusive growth. It is based on two key macroeconomic assumptions: real GDP growth is projected at 3.4%, reflecting cautious optimism in economic recovery, while the average inflation rate is expected to decline to 22.3% in 2025.



	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
Total budget expenditure (MWK trillion)	2.335	2.064	2.84	3.87	5.98	8.05
Total Revenue and grants (MWK trillion)	1.523	1.24	1.956	2.55	4.55	5.58
Defecit(MWK trillion)		0.825	0.884	1.32	1.43	2.47

Figure 1:Trend of overall national budgets
Source: Compiled by MCCCI using data from Ministry of Finance and Economic Planning

The overall budget for the 2025/2026 fiscal year is estimated at K8.05 trillion, representing 31.1% of GDP, a notable nominal increase from the K6.14 trillion (32.8% of GDP) projected for 2024/2025. Of the total expenditure, recurrent expenses are estimated at

K6.04 trillion (23.3% of GDP), accounting for 75% of total spending, while development expenditure is allocated K2.01 trillion to drive infrastructure development and economic growth. On the revenue side, total revenue is projected at K5.58 trillion (21.5% of GDP), a nominal increasing from K4.35 trillion (23.2% of GDP) in 2024/2025.

The overall fiscal deficit is estimated at K2.47 trillion (9.5% of GDP), reflecting continued fiscal pressures. To finance this deficit, the government plans to rely heavily on domestic borrowing, amounting to K2.33 trillion (9.0% of GDP), raising concerns about rising public debt levels. Additionally, foreign borrowing is projected at K145.78 billion.
Figure 2: Trends of expenditure allocation.

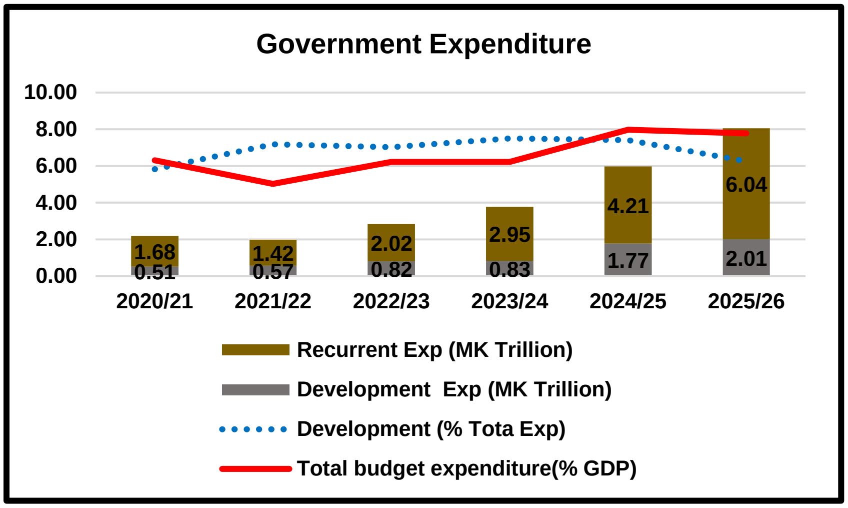


Figure 2: Government expenditure
Source: Compiled by MCCCI using data from Ministry of Finance and Economic Planning

Despite a decline in overall development expenditure, the government has increased funding for key sectors: Agriculture, Mining, and Tourism. For the 2025/26 fiscal year, Agriculture's allocation rose to MK 693.3 billion from MK 497.75 billion, while Tourism funding increased to MK 13.9 billion from MK 4.8 billion, aiming to enhance Malawi's competitiveness as a tourist destination, though infrastructure and marketing improvements are still needed. Additionally, the Mining sector's budget grew from MK 5.5 billion to MK 14.2 billion, focusing on establishing a mineral laboratory and supporting cooperatives. While these funding increases are positive, effective implementation, transparency, and supportive policies are essential for achieving meaningful economic transformation, particularly in mining.

2.0 IMPLICATIONS ON THE PRIVATE SECTOR- MCCCI RESPONSE TOWARDS THE 2025/2026 NATIONAL BUDGET

The Malawi Confederation of Chambers of Commerce and Industry (MCCCI) has reviewed the 2025/2026 National Budget. The following budget responses and observations are presented from a private sector perspective, hinging on private sector dynamism as a master key in fostering economic growth and sustainability for the betterment of the economy.

i. Statement on allocations in reflection of the private sector

Given the current economic landscape, the Confederation expected government expenditure in the 2025/26 National Budget to be realistically aligned with the prevailing revenue outlook. This approach is instrumental in reducing the budget deficit, ensuring fiscal and macroeconomic stability. Furthermore, the Confederation anticipated a strategic and targeted allocation of resources aimed at creating a conducive environment to stimulate economic growth, boost productivity, and attract both foreign and domestic investment.

However, the 2025/26 National Budget is consumption-driven, with a share of development expenditure declining to 25%, down from 29.6% in the previous fiscal year. This shift has raised concerns about the government's commitment to infrastructure development, industrialization, and investment in key growth sectors, which are critical for job creation, economic diversification, and sustainable development.

ii. Revenue Collection

The Confederation acknowledges Malawi's revenue constraints, primarily dependent on a narrow tax base that relies heavily on a few formal sector businesses, which places an unfair burden on compliant enterprises. The Malawi Chamber of Commerce and Industry (MCCCI) has noted a projected increase in domestic revenue to K4.35 trillion for 2025/2026, up from K3.11 trillion, but is concerned about the lack of clear strategies to expand the tax base. This is particularly troubling given the economy's underperformance. MCCCI emphasizes the need for comprehensive tax mobilisation to integrate the informal sector, which would enhance government revenue and promote fairness by alleviating the tax burden on the formal sector.

iii. Economic Stabilization Measures

The government has outlined several economic stabilization measures aimed at ensuring price stability and foreign exchange availability. On price stability, the Confederation commends the government for its proposal to engage the private sector in formulating a stabilization policy, as failing to do so could lead to market distortions. However, the confederation encourage government to keep these measures short term to encourage investment and innovation.

Additionally, the Confederation understands the underpinning reasons to the proposed initiatives to enhance forex availability. However, MCCCI has noted that the government has not provided clarity on how it intends to allocate or inject the foreign exchange being acquired under the new forex regulations, raising concerns about the accessibility, effectiveness and transparency of the policy.

iv. Rising Public Debt and Fiscal Sustainability

The fiscal deficit for the 2025/2026 financial year is projected at K2.47 trillion, which is 9.5% of GDP. This deficit is primarily financed through domestic borrowing of K2.33 trillion (9.0% of GDP) and foreign borrowing of K145.78 billion. The heavy reliance on domestic borrowing poses risks such as crowding out private sector credit, increasing interest rates, and limiting investment opportunities. As of December 2024, public sector debt to the banking system stands at K6.0 trillion, accounting for 78.9% of total domestic credit. Public debt has reached K16.19 trillion (86.4% of GDP) as of September 2024, marking a 29% increase from December 2023.

Concerns are raised regarding the government's borrowing for consumption, with recurrent expenditure comprising 75% of total spending, leaving only 25% for development projects. Increased borrowing also exacerbates inflation risks, with monetary supply (M2) growing by 44.9% in 2024, while GDP growth was only 1.8%, creating potential for "stagflation." Additionally, K2.41 trillion is allocated for public debt interest payments, representing 29.96% of the total budget, 8.4% of GDP, and 35.9% of recurrent expenditure. This substantial debt servicing burden limits fiscal flexibility for essential investments in infrastructure and economic growth.

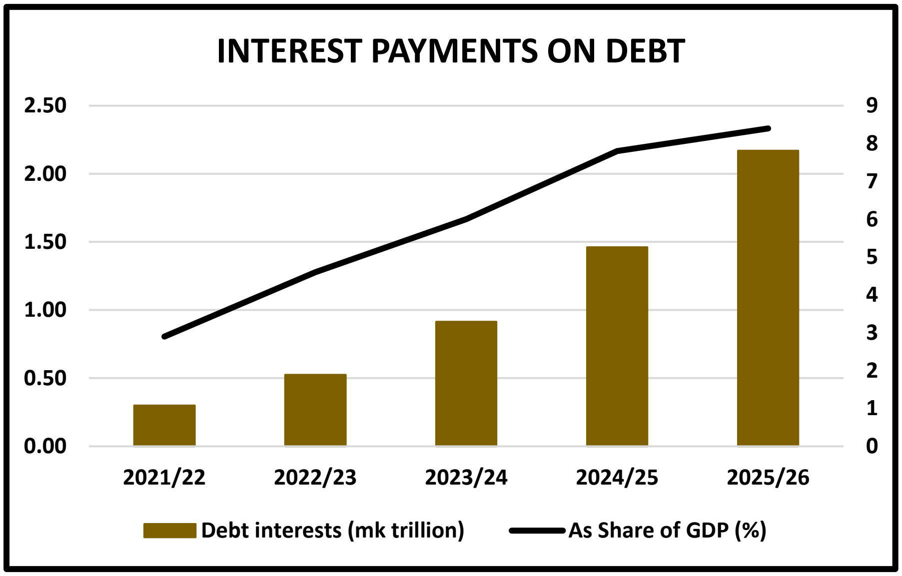


Figure 3: Interest payment on debt
Source: Compiled by MCCCI using data from Ministry of Finance and Economic Planning

v. Private Sector Support

The Confederation has acknowledged the increased budget allocation to agriculture, mining, and tourism as key sectors for economic growth, highlighting their potential for job creation, foreign exchange generation, and overall economic expansion. The confederation particularly welcomes the government's plan for a nationwide survey to assess gold mining sites, which aims to enable strategic resource allocation and attract investments. Additionally, the Confederation commends the reduction of import duty and excise tax on construction materials for amusement parks and the amendment for duty-free clearance of irrigation items, including pump engines, which are expected to stimulate investments and enhance sectoral development.

However, the Confederation expresses concern that the 2025/2026 fiscal budget lack sufficient measures to support existing businesses. While attracting new investors is essential, revitalizing the current private sector and supporting emerging industries is equally important to address immediate economic challenges

3.0 RECOMMENDATIONS/PROPOSALS FROM THE CONFEDERATION

The Confederation is calling on the government to use realistic budget assumptions in the national budget noting that GDP growth has often been overestimated and inflation underestimated, resulting in significant discrepancies in economic performance. These inaccuracies can impact revenue planning, as revenue relies on economic growth projections. There is need for urgent action to address the rising public debt which is taking a substantial amount of the cake through interest payments (i.e. over 90% of resource allocated for domestic debt servicing) and ensure its long-term sustainability. To achieve this, the government must Adopt a dual approach that combines fiscal discipline and debt restructuring with initiatives to increase revenue generation through private sector growth and incentivizing formalization of the informal sector.

3.1 Key specific recommendations in comparison to MCCCI submission during budget consultations

- In the current budget of FY2025/26 the Confederation urges the government to reconsider these key interventions

Sector	**What the Confederation recommended during budget consultations**	**Outcome in the 2025/26 budget**	**Confederation recommendations to be considered by parliamentary committees**
Agriculture (agricultural productivity and commercialization)	The government introduced incentives to promote irrigation farming through zero import duty, import excise, and import VAT on essential equipment The confederation submitted a proposal to adopt balanced approach by also incentivizing the domestic pipe companies' industry to ensure that they are competitive	Substantial amounts have been allocated to AIP (K131.6 billion.) Irrigation (MK99.5 billion) Maize purchase (MK60billion to ADMARC(MK53billion) Mega farms (38.3 billion) Maize purchase (60 billion) The irrigation section has been significantly supported but will need more materials to import	○ In order prudently use the limited forex and generate even more, ensure a balanced approach that protects the domestic pipe manufacturing industry. ○ The government should incentivize investments in MEGA farms through PPPs *Otherwise the current allocations in the Agriculture sector remain more of consuming than investing boost production*
Tourism	○ As the country seeks to capitalize on its tourism industry, it is essential to prioritize the development of infrastructure, particularly in improving roads leading to key tourist destinations	○ The budget allocation for the tourism has increased by 189% change from the FY2024/25 to FY2025/26 to enhance Malawi's competitiveness as a tourist destination, though infrastructure and marketing improvements are still needed.	○ The confederation recommends the as these interventions will eventually generate forex for the county including creating jobs within the sector. ○ The confederation welcomes government's plan for a nationwide survey to assess gold mining sites, which aims to enable strategic resource allocation and attract beneficial investments.
Manufacturing	○ Reduction of the excise rate on local fruit wines from 95% to support the growth of this emerging industry and bolster the livelihoods of domestic small-scale fruit suppliers.	The government has allocated MK14 billion to the Ministry of Trade and Industry to promote industrialization, support Small and Medium Enterprises, and expand export markets.	○ While the government acknowledges the importance of trade and industrial development in driving economic growth and job creation, the financial allocation required to transition to a manufacturing and industrialized economy falls short of the necessary investment target. ○ This is further against the aspirations of Economic stabilization measures outlined in the budget statement in ensuring forex availability

	○ Considering the devaluation of the Kwacha and the inflation experienced since its introduction, the Confederation proposes that the threshold be raised from K10 billion to K30 billion	○ The current budget has still maintained an additional 10% corporate income tax on business profits exceeding MK10 billion in all sectors. This is against attracting and promoting investment from foreign and local respectively barrier	○ Considering the devaluation of the Kwacha and the inflation experienced since its introduction, the Confederation proposes that the threshold be raised from K10 billion to K30 billion
	○ Review of the digital tax stamps initiative regarding pricing. The confederation proposed that the government engage in extensive consultations with all affected businesses and stakeholders to ensure the system is both fair and effective.	The current budget statement has not considered the submission by MCCCI	○ The confederation proposes a means to proportionately allocating value of tax stamp to price in consultation with key stakeholders ○ The application of a uniform stamp price on products with varying selling prices, creates disparities and imposes an undue financial burden on businesses, particularly those with lower-priced products. ○ These inconsistencies undermine the initiative's effectiveness and may affect business performance. ○
	Reduce the excise rate on local fruit wines from 95% to 10% to support the growth of this emerging industry and bolster the livelihoods of domestic small-scale fruit suppliers. Additionally, ensure strict monitoring of imported wines while maintaining the excise rate on these imports at 95% to protect local producers.	The current budget statement has not considered the submission by MCCCI	Promotion of local manufacturing industries through waiving of local fruit wines compliments government efforts for import substitution, job creation and ultimately reducing the pressure on forex demand. It is in the same spirit that MCCCI suggests a reduction of excise rate from 95% to 10% while tightening monitoring measures on imported wines.
	To align our tax policies with those of the region and effectively combat smuggling, we recommend reducing the excise tax to 60% from 110% in Malawi. The current excise tax rate of 110% on spirits is driving an increase in smuggling activities involving lower-cost spirits from neighboring countries.	In the current budget statement, the excise tax has remained at 110% but has has indicated combating illegal trade, the Ministry of Industry and Trade, in collaboration with the Malawi Revenue Authority, Malawi Police Service, and the Malawi Bureau of Standards, will launch a nationwide anti-smuggling initiative.	The confederation recommends the government to combat illegal trade but this should simultaneously with revising the excise downwards to promote exports and voluntary compliance
Mining	○ Malawi should undertake a comprehensive review of its mining sector to ensure it delivers maximum benefits to the country. Strengthening legal and regulatory frameworks is essential to secure fair revenue-sharing mechanisms, increase government royalties, and enforce environmental and social safeguards. Additionally, mining contracts should be reviewed to align with national development priorities, while corporate social responsibility (CSR) obligations should be reinforced to support local communities.	○ The government intends to operationalize the Malawi Mining Company Ban importation of all nonessential commodities which are producible in Malawi;	○ The confederation commends the government for the steps taken to operationalize the Malawi mining company and to facilitate formation of cooperatives to participate the mining value chain. This should be done in the transparent and most accountable manner with the interest of benefiting the country's economy and livelihoods of cooperative members

Construction	○ The increase in the withholding tax for contractors and subcontractors in the building and construction industry from 4% to 10% has negatively impacted the sector in terms of margins, cash flow coupled with delayed payments which has limited reinvestment potential.	○ The current budget statement didn't consider the confederation's submission	○ The confederation notes that Withholding tax of 10% assumes net profit margins of 33.3%, which is unrealistic compared to the construction industry average of 10–15%. Therefore, the 10% withholding tax should be revised downward to 4% aligned 4% the average net profit margin of 12.5%.
	○ Provide incentives to potential for small-scale manufacturing of construction materials, including ceramics, cement, wall putty, glass, furniture in Malawi (e.g., doors and floor wood tiles), and bulbs. The proposed Tax Incentives for Growth of small-scale manufacturing include ▪ Duty exemptions on machinery. ▪ Reduced taxes on packaging for locally manufactured materials. ▪ Reduced tax on importation of intermediate raw materials.	○ The current budget statement didn't consider the confederation's submission	However most major construction materials and equipment are imported, depleting the much-needed limited foreign currency. In addition, Industry players prefer imports due to the high costs of locally manufactured materials caused by production taxes. As such the Confederation strongly proposes these tax incentives in the construction sector.
Finance, banking and insurance sector	○ The newly introduced Foreign Exchange Control (2024) regulation is likely to have negative impact on the availability of foreign exchange for the private sector. ○ Under this regulation, the mandated currency conversions will primarily benefit the Reserve Bank of Malawi (RBM), which will serve as the ultimate buyer of these conversions. ○ The Confederation urges the government to provide clarity on the regulation, particularly regarding the mechanisms through which private sector players can access foreign exchange, as the introduced regulations are ambiguous.	○ The current budget statement is silent on the confederation's submission	○ The Confederation urges the government to provide clarity on the regulation, particularly regarding the mechanisms through which private sector players can access foreign exchange, as the introduced regulations are ambiguous.
	○ There is a need to incentivize firms to enlist on Malawi Stock Exchange (MSE). • Introduce a preferential corporate tax of 25% for a period of up to 3 years upon listing when a company raises new capital for the business, i.e., an offer for subscription.	○ The current budget statement didn't consider the confederation's submission	○ There are currently only 16 companies that have been listed on the Malawi Stock Exchange (MSE) since its establishment in 1994. This places MSE as one of the smallest in the region in terms of the number of listed companies. ○ The confederation encourages the government to take into consideration incentivizing companies to be enlisted on the MSE
ICT Sector	○ The cost of telecommunications in Malawi continues to be high. Amongst other factors, this can be attributed to taxes in the sector, as such the confederation proposed to revise the following taxes: ○ 15% Non-resident tax charged on Internet. ○ 10% excise tax charged on data services.	○ The current budget statement didn't consider the confederation's submission	○ ICT remains key if the private sector has to the development agenda and inclusion, as such the confederation finds revising of the 15% Non-resident tax charged on Internet; and 10% excise tax charged on data services needful

CONCULUSIONS

The confederation notes that while the statement is themed *"Gains, Strengthening Resilience, and Inclusivity for Accelerated Socio-Economic Transformation"* key areas to realized this have not been integrated to the level of expectation. For instance,

- The Ministry of Trade and Industry has been allocated limited resources to champion the agenda of promoting manufacturing and industrialization of emerging and potential SMEs.
- Another notable one is the Ministry of Agriculture budget is more of consuming as more resources are allocated to maize purchases and AIP than stirring market-oriented production

As such the government should

a) Should prioritize revamping the struggling private sector by addressing an unfavorable business environment, tax regime, limited access to finance, and high operational costs. Strengthening the sector is key to economic recovery, as it drives exports, job creation, and growth. Targeted measures such as reducing regulatory bottlenecks, improving credit access, investing in infrastructure, and supporting local industries will be crucial for revitalization.

b) Malawi is in desperate need of increased production and economic diversification to reduce import dependency, stabilize foreign exchange reserves, and foster long-term economic resilience. Therefore, a well-balanced approach that combines fiscal discipline, private sector development, and sustainable economic policies is crucial to steering the country towards economic stability and growth.