National Budget Brief 2023/24

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Investing in human capital in Malawi

Key messages and recommendations

1

Government has budgeted MK3.87 trillion (24.9% of GDP) against MK2.55 trillion (16.8% of GDP) in revenues and grants, translating to MK1.23 trillion (8.1% of GDP) of fiscal deficit for the 2023/24 fiscal year (FY).

Recommendation: Government is encouraged to protect spending for social sectors in line with the general change in the size of the total government budget in the medium-term expenditure framework (MTEF).

2

Allocations to public debt interest charges have significantly increased, from 15% of the total government budget in 2019/20 to 24% in 2023/24. These expenses are largely connected to servicing of expensive domestic debt, which is adding pressure to an already unsustainable public debt, worth MK7.9 trillion (69% of GDP) in 2023/24.

Recommendation: The Government should leverage on the implementation of the Debt Management Strategy (DMS) to resolve the unsustainable domestic public debt portfolio.

3

The combined allocation to key social sectors (education, health and social protection) has gradually reduced as a share of the total government expenditure (TGE) from 35% in 2019/20 to hit a five-year low of 29% in 2023/24.

Recommendation: Government is recommended to allocate a minimum of 30% of the approved TGE to key social sectors (education, health, and social protection) in 2024/25 and gradually increase allocations to 35% of TGE in the MTEF.

4

There are significant budget credibility challenges across most social sector programmes, particularly for development projects. For example, the health sector capital budget registered an average execution rate of as low as 46% between 2016 and 2019 while social sector budget lines such as child protection and early childhood development (ECD) suffer consistent mid-year cuts of over 20%.

Recommendation: The Ministry of Finance and Economic Affairs (MoFEA) should support social sector ministries to strengthen measures to improve the execution of capital projects including through strengthening planning of capital projects, procurement systems and contract management.

5

Government has made a provision of MK542 billion for intergovernmental fiscal transfers (IGFTs) to Local Government Authorities (LGAs) in 2023/24, which is equivalent to 14% of the total National Budget and 3.6% of GDP. The increased allocations reflect more devolution of resources to LGAs for the delivery of devolved social services.

Recommendation: The Treasury should consistently increase the size of transfers to LGAs and ensure they are aligned to service delivery needs in the medium-to-long term. In parallel, the National Local Government Finance Committee (NLGFC) is encouraged to continue strengthening district expenditure and financing frameworks, including the IGFT mechanisms, as it works towards developing a Financing and Fiscal Decentralization Strategy (FFDS) for Malawi.

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Introduction

This budget brief explores trends in key macro-fiscal developments and social sector spending aggregates in the framework of the 2023/24 national budget. The brief also offers insights into the efficiency, effectiveness, equity, and adequacy of past spending. The brief isolates a set of recommendations on how the Government of Malawi (GoM) can increase and improve the quality of public spending on social sectors.

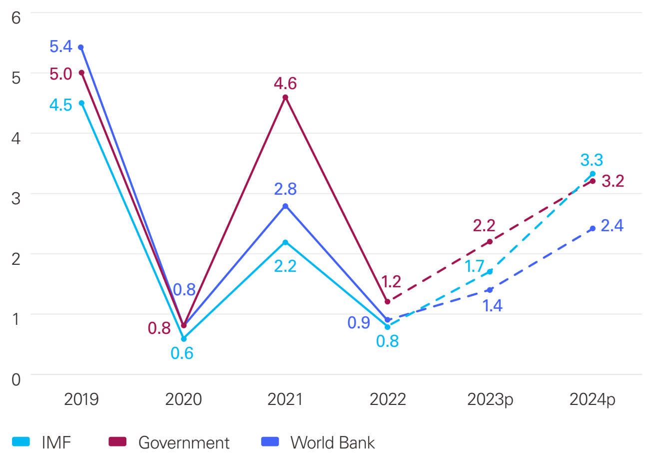
Macroeconomic and Socio-Economic Context

The 2023/24 National Budget was developed to accelerate Malawi's economic rebound towards pre-covid-19 pandemic levels, under the theme "Sacrificing today for a better tomorrow: Regaining macroeconomic stability and growth through collective responsibility for our shared future". The budget was developed under four major assumptions, namely: (i) an expected real growth rate of 2.7% in 2023 and 3.2% in 2024; (ii) average inflation rate of 17.9% (iii) a policy rate of 18% and (iv) tax refunds of 3.0% of total tax collection.

Some of the assumptions underpinning the national budget have since changed. For instance, the Government has revised downwards the projection for 2023 GDP growth rate from 2.7% to 2.2% following the significant downside risks caused by Tropical Cyclone Freddy. This is consistent with latest downgrades from the IMF[1] and World Bank[2], which projects Malawi's economy to grow by only 1.4% and 1.7% in 2023, respectively from 0.9% and 0.8% in 2022 (Figure 1). According to the Reserve Bank of Malawi (RBM), the prolonged electricity power cuts experienced at the beginning of 2023 as well as persistent foreign exchange shortages are contributing to weighing down Malawi's growth prospects in 2023.

Additionally, the RBM increased the policy rate from 18% to 22% as of 27th April 2023 to help curb inflation, whose expectations have been elevated to an annual average of 24.5%. These changes will likely affect budget execution by further shrinking the fiscal space and might result into significant budget cuts during the mid-year budget review (MYBR).

Figure 1: Trends in GDP Growth (Actuals and Projections)



Source: Government (2023/24 Budget Statement), IMF (July 2023) and World Bank (MEM, July 2023)[3]

The 2022/23 National Budget was drafted under a challenging global and local economic context. The IMF[4] projects a weakening of global and Sub-Saharan Africa (SSA) real economic growth for 2023 and 2024 due to spillover effects of the Russian-Ukraine conflict. Global growth is projected to reach 2.8% in 2023 and rebound to 3.0% in 2024 compared to 3.6% and 4.2% for SSA over the same period. These projections are consistent with World Bank's – which projects a sharp slowdown of the global economic growth by 1.7% in 2023 and 2.7% in 2024. The war and other localized geopolitical tensions have resulted in most countries tightening their monetary policies to contain rising inflation. These developments are further hampering the global economic recovery from the significant effects of COVID-19.

1 Malawi: First Review Under the Staff-Monitored Program with Executive Board Involvement-Press Release; Staff Report; and Statement by the Executive Director for Malawi (imf.org)

2 World Bank, July 2023: Malawi Economic Monitor - Powering Malawi's Growth: Rapidly and Sustainably Increasing Energy Access (English). Washington, D.C. Malawi Economic Monitor (worldbank.org)

3 https://documents1.worldbank.org/en/publication/documents-reports/documentdetail/099071423121539304

4 https://www.imf.org/en/Countries/MWI

Malawi continues to face elevated exchange rate pressures. The exchange rate spread[5] remains wide, averaging over 40% during the first half of the year, above the pre-devaluation, above the pre-devaluation level of 25%. While the formal exchange rate has remained relatively stable averaging around USD1:MWK1,035 as at end of May 2023 (Figure 3), the rate of the MWK on the black market averaged roughly USD1:MWK1,500, implying elevated exchange rate pressures. Gross official reserves remain extremely low, at 0.7 months (USD185.5 million) of import cover as at end of May 2023. This is increasingly reflected in the shortage of imported goods, including essential medicines, medical supplies, and petroleum products.

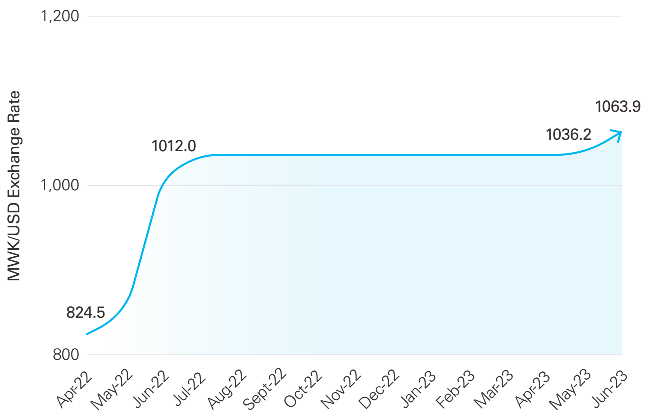
Malawi is expected to continue experiencing elevated inflationary pressures due to second-round effects of Cyclone Freddy and continued fiscal and exchange rate risks. According to the latest Monetary Policy Committee (MPC) Report published by the Reserve Bank of Malawi (RBM), inflation is projected to remain elevated in 2023, estimated to average 24.5%, which is higher than the earlier projections of 18.2% and the average of 20.9% registered in 2022. However, the 2023 average inflation is expected to be higher than projected, averaging 27.5% during the first half of 2023 as shown in Figure 3. These trends are largely influenced by rising food prices, especially during the lean season, with food inflation rising from 25.8% in January 2023 to 38.8% in May 2023. Non-food declined from 20.4% in January 2023 to 18.4% in May 2023, linked to stabilization of fuel cost and recovery of global supply chains.

Malawi's poverty incidence has remained stagnant since 2010/11 and stands at 50.7% as of 2019/20 (Figure 4). One in five Malawians (20.5%) live in ultra-poverty – a statistic that has remained unchanged since 2016/17. The incidence of multidimensional poverty among children is 60.5% as of 2018[6].

5 The difference between official Malawi Kwacha/US Dollar TT exchange rate and less strictly controlled rates on cash purchases at foreign exchange bureaus

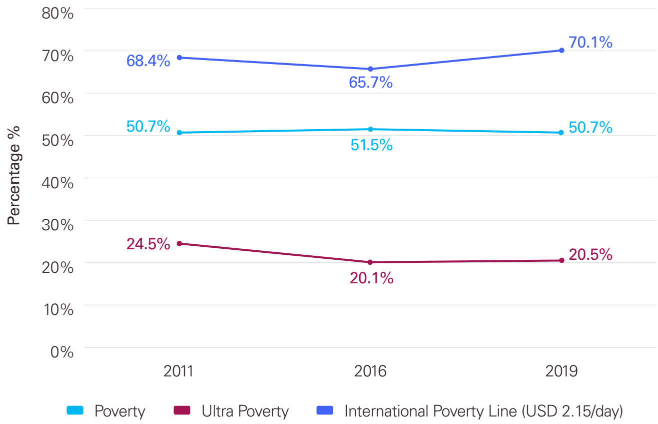
6 The National Statistical Office (NSO) is in the process of updating the child poverty analysis based on the fifth integrated household survey (IHS5) and new figures are expected by the end of 2023.

Figure 2: Trends in Exchange Rate, MWK/USD



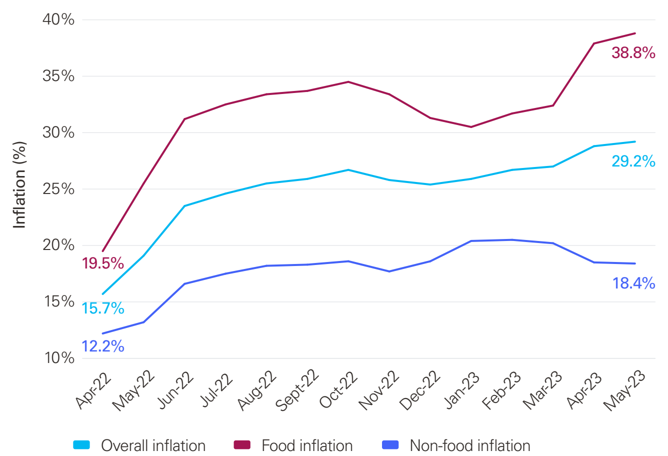
Source: RBM, https://www.rbm.mw/Statistics/MajorRates

Figure 4: Trends in poverty (national and international poverty lines) and ultra-poverty



Source: NSO, 2011-2020 and World Bank Poverty Statistics, 2022

Figure 3: Trends in Inflation



Source: Reserve Bank of Malawi, accessed from https://www.rbm.mw/Statistics/MajorRates

Shocks are driving more people into poverty. Latest evidence from UNICEF has shown that both the exposure and the frequency of shocks has increased between 2019 and 2023, resulting in almost every household (99%) experiencing shocks in 2023, compared to only 75% of the households in 2019/20. A poverty assessment report published by the World Bank (2022)[7] revealed that for every three Malawians that moved out of poverty between 2010 and 2019, four fell back in due to the impact of weather shocks. Since the advent of COVID-19, Malawi has experienced frequent shocks, including the recent Tropical Cyclone Freddy (March 2023), preceded by Tropical Storm Ana and Cyclone Gombe in 2022. These climatic-related shocks have been compounded by economic shocks (such as devaluation and rising inflation) and several health emergencies, including a outbreak of cholera in 2022. These are just the latest of a significant number of shocks that Malawi has experienced over the past twenty years.

7 World Bank (2022): Malawi Poverty Assessment Report, Poverty Persistence in Malawi: climate shocks, low agricultural productivity and slow structural transformation. Available at: Malawi Poverty Assessment : Poverty Persistence in Malawi - Climate Shocks, Low Agricultural Productivity, and Slow Structural Transformation (worldbank.org)

KEY TAKEAWAYS

- The difficult macro-fiscal situation has triggered fiscal consolidation measures which can potentially affect spending on social sectors.
- Economic and climatic shocks will likely push more people into poverty.
- The recurrence of shocks and macro-fiscal risks and vulnerabilities worsening poverty have elevated the role of social protection.

Aggregate Spending Trends and Priorities

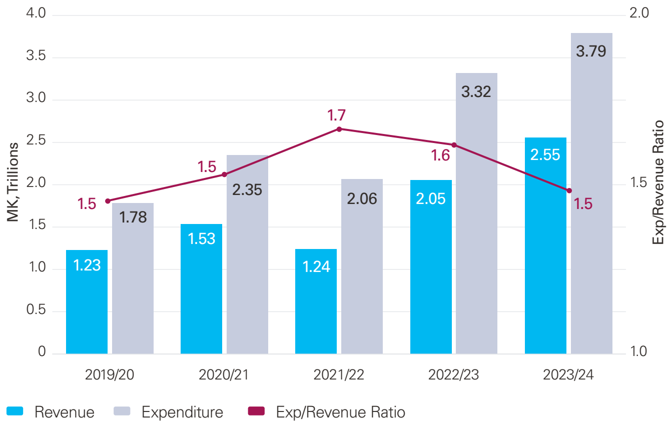
In the current fiscal year, Government has budgeted MK3.87 trillion (24.9% of GDP) against MK2.55 trillion (16.8% of GDP) in revenues and grants, translating to MK1.23 trillion (8.1% of GDP) of fiscal deficit. This will continue adding pressure on an already high stock of public debt worth MK7.9 trillion as of December 2022. Compared to 2022/23, total government expenditure (TGE) and total revenue have increased from MK3.04 trillion and MK2.6 trillion, respectively, which translated to a fiscal deficit of MK1 trillion (8.8% of GDP).

Government spending has consistently outpaced revenue growth, resulting in persisting fiscal deficits that have averaged 8% over the past five fiscal years (Figure 6). As a share of GDP, Government spending has averaged 23.6% against an average revenue ratio of 15.4%. Considering Malawi's medium-term growth prospects, this trend is likely to continue in the medium-term expenditure framework – 2024/25 to 2026/27.

KEY TAKEAWAY

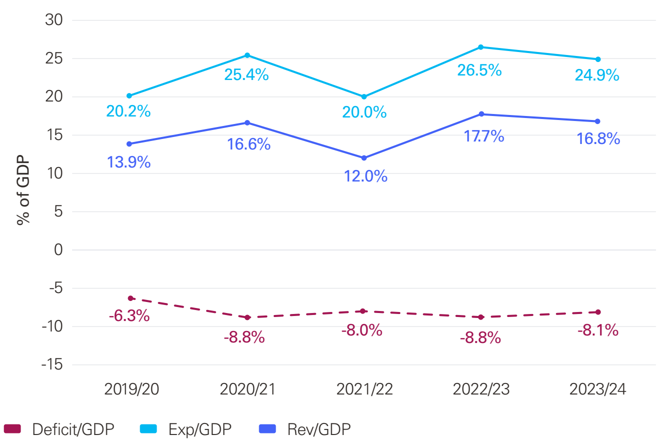
- Considering Malawi's economic growth prospects, the capacity of Government to generate sufficient revenues to adequately fund social sectors is likely to remain constrained. This will require strategic prioritization and efficient utilization of the limited available public resources.

Figure 5: Revenue and Expenditure Trends (2019/20 - 2023/24)



Source: MoF – Budget and Financial Documents, 2019-23

Figure 6: Revenue, Expenditure and Budget Deficit as a Share of GDP



Source: MoF – Budget and Financial Documents, 2019-23

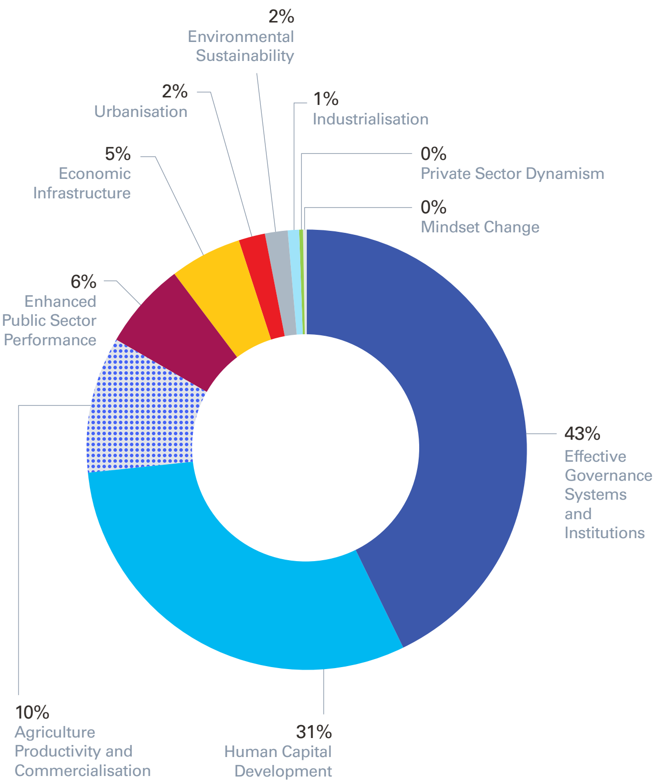
Composition of Government Budgets

The Government has restructured the programme-based budget (PBB) to align with the Malawi first-ten-year implementation plan (MIP-1) and the Malawi Vision 2063 (MW2063). The human capital development pillar has been allocated 30.7% of the total budget, the second largest after the allocation to support effective governance systems and institutions of 46%. Approximately 13% has been allocated to the three pillars of MW2063 – namely agricultural productivity (10%), urbanization (1.9%) and industrialization (0.9%) as shown in Figure 7.

The combined allocation to social sectors has gradually declined from 35% of total government budget in 2019/20 to 29.3% in 2023/24 (Figure 8). Among the four major sectors education continues to receive the largest share, averaging 16% over the last three financial years, although showing a declining trend, followed by agriculture (11%), health (8.5%) and transport and public works (6%). Amongst social sectors, social protection and WASH budgets show irregular trends which are linked to donor funding patterns.

Allocations to other social sector areas such as child protection and disability remain minimal at 0.03% and 0.2% of the 2023/24 total budget, respectively. In nominal terms, allocations to direct child protection programmes are worth MK1.2 billion or roughly MK130 per child per year.

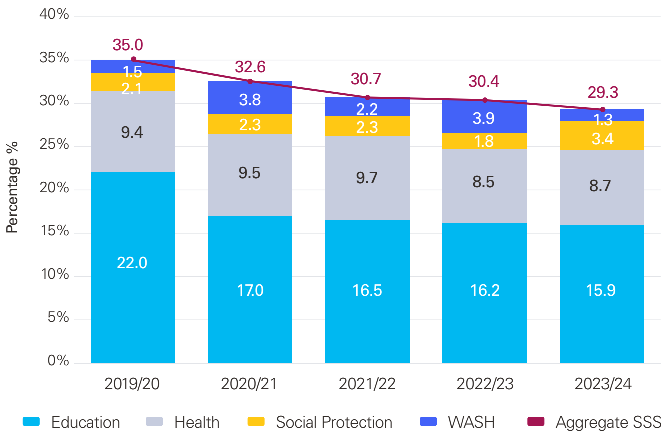
Figure 7: Composition of the 2023/24 Budget per MW2063 Pillar/Enabler



Source: MoF – Financial Statement, 2023/24

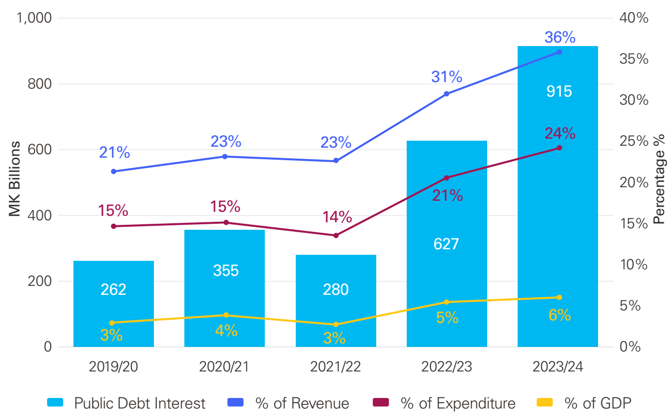
Increasing debt servicing allocations, worth 24% of the total budget in 2023/24, are the largest portion in the national budget for the second consecutive year. Government has provided a total of MK915 billion for public debt charges in 2023/24, which is more than triple the expenditure incurred in 2019/20 of MK262 billion. Figure 9 shows that over a third of budgeted revenues are directed towards servicing public debt between 2022/23 and 2023/24. As a share of GDP, debt servicing allocations are worth 6% in 2023/24. These trends are contributing to further shrinking an already constrained fiscal space to allow adequate investments in social sectors.

Figure 8: Trends in Social Sector Spending (SSS)[8]



Source: Government Budget Documents, 2017/18-2022/23

Figure 9: Evolution of Public Debt Interest (Charges)



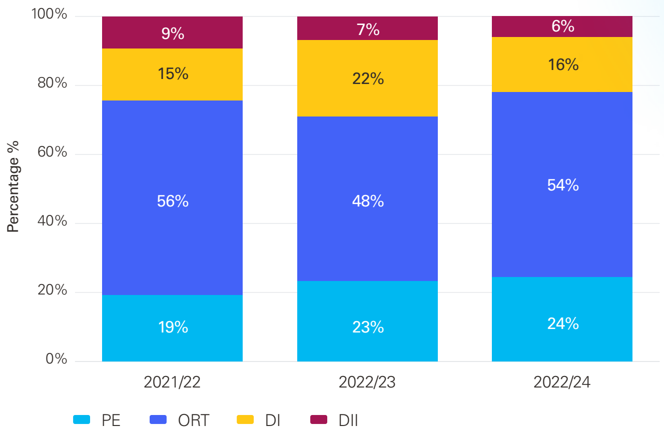
Source: MoFEA – Government Financial Statements 2020-23

The combined allocation to social sectors has gradually declined as a share of the total government budget.

8 Figure 8 tracks allocations to four key social sectors and does not include other social sector areas such as child protection and disability, whose allocations are consistently below 0.5% of the total budget.

The proportion of the total budget allocated to ORT and PE has remained relatively the same as compared to 2022/23 (Figure 10). In absolute terms, both ORT and PE budgets have increased significantly from MK1.5 trillion in 2022/23 to MK2 trillion in 2023/24 and from MK688.7 billion to MK926.8 billion, respectively. Over the same period, allocations to the development budget have reduced from 29% of the total budget to 22% as the contribution of donor funding has shrunk from MK731.4 billion to MK600 billion or 4% of GDP. Government's own contribution to development spending has been maintained at around MK230 billion or 2% of GDP.

Figure 10: Trends in the Total Expenditure Composition by Economic Classification



Source: MOFEA – Budget and Financial Documents, 2022-23

KEY TAKEAWAYS

- To avoid losing ground on achieved social sector outcomes, the Government is encouraged to safeguard social sector spending and ensure allocations are protected from in-year cuts while it addresses the currently prevailing macro-fiscal imbalances in the short-to-medium term.
- The alignment of the national budgeting framework with the MIP-1 and the MW2063 is an important step in supporting strategic resources allocation for effective, efficient and transparency use of public spending.

Government is encouraged to protect social sector spending to safeguard the gains achieved to date.

Budget Credibility and Execution

The outturn in revenue collections has generally been in line Government's projections over the past three years. This trend is linked to strong tax revenue performance as shown in Table 1. In 2022/23, for instance, actual tax revenue collections are estimated to have amounted MK1.57 trillion, 2.3% over the projected level of 1.53 trillion. On average, actual receipts from grants have generally exceeded their projected values since 2018/19. However, non-tax revenue collections have consistently fallen short of their targets by an average of over 15%, on account of poor performance of dividends from State Owned Enterprises (SEOs).

Table 1: Trends in Revenue Performance, MK billions

Revenue and Grants		2018/19	2019/20	2020/21	2021/22	2022/23
Total Revenue	Approved	1,249	1,575	1,435	1,271	1,956
	Revised	**1,174**	**1,527**	**1,523**		**2,008**
	Actual	**1,121**	**1,279**	**1,507**	**1,209**	**2,036**
Tax Revenue	Approved	976	1,369	1,116	1,044	1,535
	Revised	979	1,281	1,116		1,534
	Actual	969	1,045	1,129	1,022	1,572
Non-Tax Revenue	Approved	77	56	63	57	101
	Revised	58	70	70		94
	Actual	37	59	41	48	88
Grants	Approved	197	150	256	170	320
	Revised	137	175	338		379
	Actual	115	175	338	139	379

Source: MoFEA – Financial Reports, 2019-23

The average variance between actual and approved total expenditure has exceeded 5% between 2021/22 (-7%) and 2022/23 (+16%) (Table 2), a deviation outside the ±5% variance recommended by the Public Expenditure and Financial Accountability (PEFA) framework. As shown in Table 2, the actual outturns for PE, ORT and DI exceeded their approved levels in 2022/23, while DII was slightly below its approved level. Rising inflation following the devaluation of May 2022 contributed to expenditure overruns in 2022/23.

There are significant budget credibility challenges across most social sector programmes, particularly for development projects. In the health sector, for example, capital projects, which involve high value capital procurements, show significantly low execution rates, averaging 46% between 2016 and 2019. On the other hand, social sector budget lines such as child protection and early childhood development (ECD) suffer consistent mid-year cuts of over 20%. These significant variations, over the +/- 5% variance recommended by PEFA for a budget to be deemed credible, undermine the credibility of social sector budgets.

Most capital projects face significant budget credibility challenges.

Table 2: Trends in Expenditure Performance, MK billions

	2021/22			2022/23		
Budget Category	**Approved**	**Revised**	**Actual**	**Approved**	**Revised**	**Actual**
PE	555	450	493	689	702	772
ORT	1,163	1,326	1,352	1,332	1,520	1,583
DI	511	351	320	581	508	731
DII	103	220	220	238	123	230
Total	**2,332**	**2,347**	**2,165**	**2,839**	**2,852**	**3,317**

Source: MoFEA - Government Financial Statements, 2022-23

KEY TAKEAWAYS

- Given limited resources, it is important that approved budgets are efficiently and effectively implemented to achieve intended objectives in the short to medium term.
- The Government is encouraged to strengthen measures to improve the execution of capital projects in social sectors, through for instance, strengthening planning of capital projects, procurement systems and contract management.

Fiscal Decentralization and Sub-National Spending

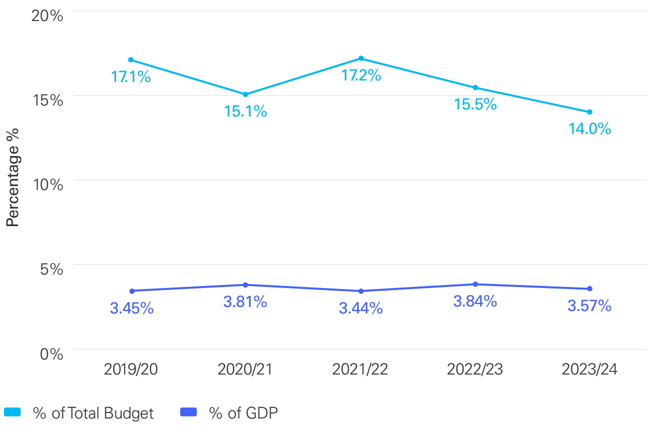
Government has made a provision of MK542 billion for intergovernmental fiscal transfers (IGFTs) to Local Government Authorities (LGAs) in 2023/24, which is worth 14% of the total National Budget and 3.6% of GDP (Figure 11). Between 2019/20 and 2023/24, an average of 15% of the Government budget has been transferred to LGAs for implementation of devolved functions across eighteen sectors, including education, health and agriculture. The transfers have averaged 3.5% of GDP over the same period.

The growth in the size of IGFTs has been largely driven by steady increases in PE and capital budgets since 2021/22 (Figure 12). The World Bank has tripled its provision for the governance to enable service delivery (GESD) project from MK11 billion in 2022/23 to MK36 billion in 2023/24. The increase in the GESD budget combined with the significant allocation for the constituency development fund (CDF), which was doubled in 2022/23 have resulted in the transfers for capital projects almost doubling from MK50.7 billion in 2022/23 to MK96.7 billion in 2023/24.

Over the same period, the ORT budget has nominally increased by 23% from MK40 billion to MK60 billion while the PE budget has grown by around 14% from MK334 billion to MK379 billion, following the increase in civil servants' salaries.

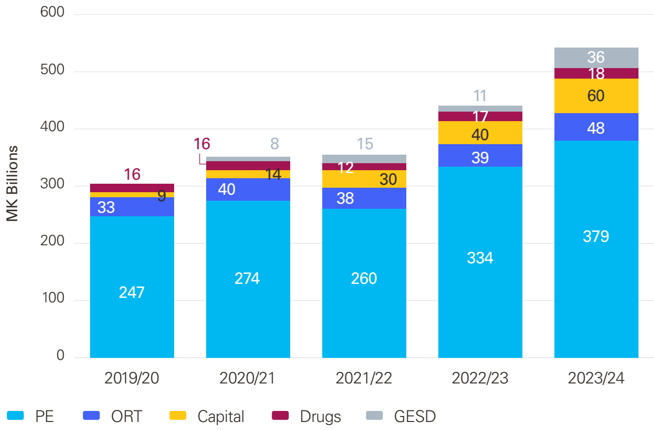
The Government has devolved more resources to Local Councils for health and nutrition functions in 2023/24. A total of MK 13.6 billion has been provided to seven selected districts for the maintenance and rehabilitation of district hospitals as shown in Figure 13. The Treasury has also devolved a total of MK209 million for the implementation of nutrition interventions across the country. This development is an important step towards deepening fiscal decentralization in Malawi.

Figure 11: Evolution of Intergovernmental Fiscal Transfers to LGAs



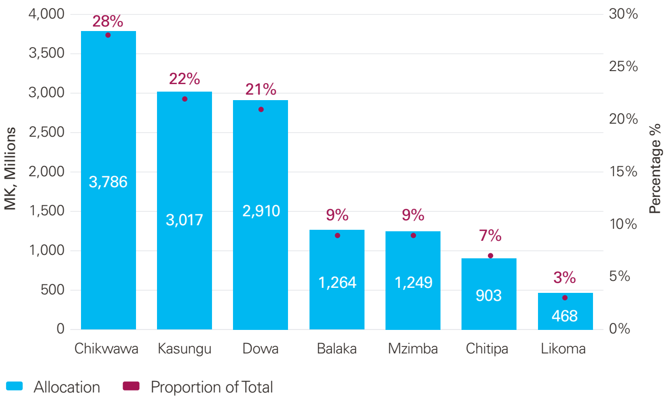
Source: NLGFC Financial Statements, 2020-23

Figure 12: Trends in Fiscal Transfers to LGAs by Economic Classification



Source: Government Budget Documents, 2018/19-2023/24

Figure 13: Budget for Rehabilitation of the Health Facilities by District



Source: NLGFC MTEF Ceilings, 2023

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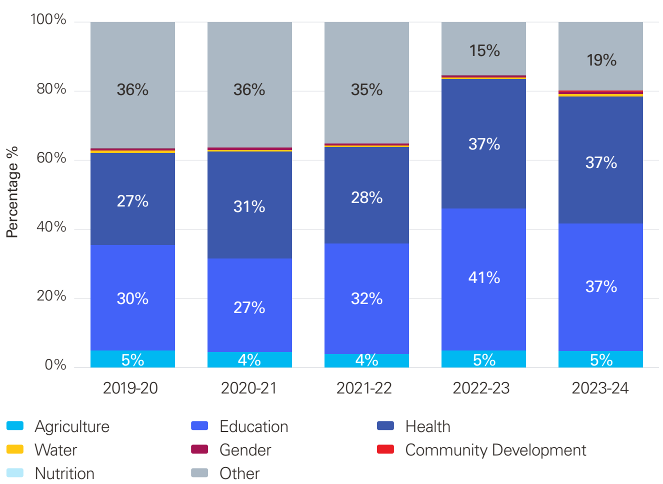
Amongst the devolved sectors, ORT allocations to education, health and agriculture account for an average of 80% of the total between 2022/23 and 2023/24 (Figure 14). The ORT share allocated to the health sector has matched that of education, at 37%, following the additional devolution of health sector resources.

Outside education health and agriculture, ORT transfers to other devolved social sector functions remain far inadequate to support effective service delivery in local communities. In 2023/24, for example, the gender and water sectors were allocated MK326 million and MK291 million, respectively. This translates to an average allocation per each of the 28 LGAs of MK11 million and MK10 million per year or MK900,000 and MK800,000 per month, for delivering devolved gender and water functions, respectively. The allocation to social welfare is further divided amongst several sub-programmes such as child protection, early childhood development and disability mainstreaming.

Figure 14: Sectoral Composition of the Total District ORT Budget



Source: NLGFC, MTEF Ceilings, 2020-23

Latest evidence has revealed gaps in the devolution framework as well as significant funding gaps for devolved functions. Local Councils are implementing some functions that were not formally devolved such as secondary healthcare and ECD. This is mostly because most of the sectoral devolution plans were not updated since their development in around 2002/3.

The costing exercise also highlighted significant funding gaps, averaging over 70%, for delivering devolved social services at local level (Table 3). For instance, the average annual operational cost (excluding salaries and wages) of delivering the identified minimum package of social welfare services at local level was estimated at MK9.5 billion (~US$9 million). Yet, the annual allocation averaged MK394 million between 2017-21, resulting in a significant funding gap of about MK9.1 billion (96%).

Table 3: Funding Gap per Sector, Average Sectoral Funding Gaps for Period 2017-21 (MK millions)

Sector	Funding	Requirement	Funding Gap	Funding Gap (%)
Education	9,206	35,778	(26, 572)	-74%
Gender and Social Welfare	394	9,521	(9,128)	-96%
Water	2,324	4,263	(1, 939)	-45%
Agriculture	1,674	18,683	(17,009)	-91%
Health	9,243	36,771	(27, 528)	-75%

Source: NLGFC and UNICEF (2022): Costing of Social Service Delivery at Local Level in Malawi, UNICEF Lilongwe

KEY TAKEAWAYS

- The devolution of more resources to Local Councils should be accompanied by efforts to strengthen district PFM systems, including financing, reporting and expenditure frameworks, especially IGFT mechanisms.
- The ongoing decentralization reform process is an opportunity for line Ministries to review their devolution frameworks and expenditure assignments at local level to facilitate effective implementation of devolved functions.

Financing of the National Budget

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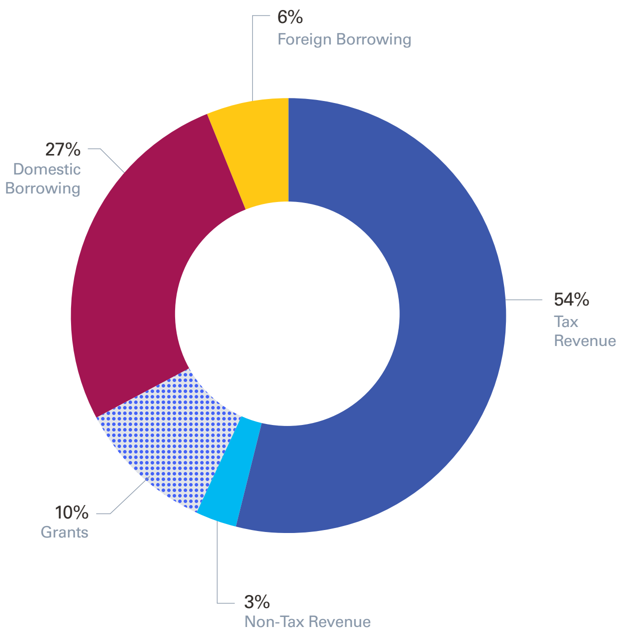
Tax revenue is the largest source of funding for the national budget, contributing an average of 54% to total financing between 2019/20 and 2023/24. Over the same period, grants and non-tax revenue have contributed an average of 10% and 3% of total financing, respectively. Given persistent revenue shortfall, an average of over 30% of the national budget is financed through borrowing, divided between domestic (27%) and external (6%).

Government projects the tax revenue to increase from MWK1.5 trillion in 2022/23 to MK 2.1 trillion (14% of GDP) in 2023/24, while grants are estimated to reduce from MK388 billion to MK311 billion (2% of GDP). Domestic borrowing is estimated to slightly increase from the year end value of MK1 trillion in 2022/23 to MK1.1 trillion (7% of GDP) while the level of foreign borrowing is projected to reduce from MK253 billion to MK131 billion (1% of GDP) (Figure 16).

Figure 15: Composition of Total Government Revenue, Average, 2019-2023



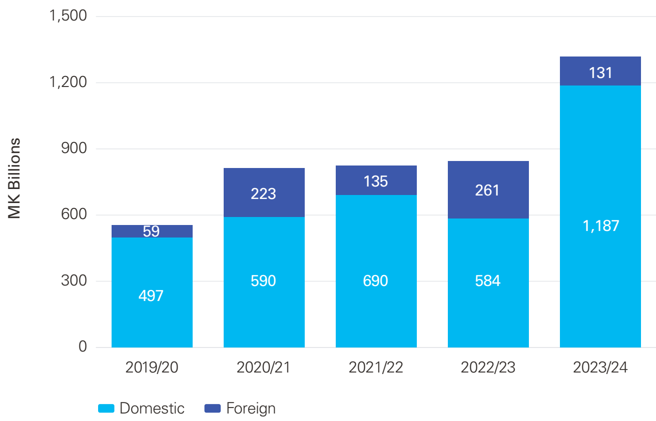
Source: Government Budget Documents, 2018/19-2023/24

Increasing deficit financing, especially from costlier domestic sources, is adding pressure to an already unsustainable public debt, as highlighted in the latest joint World Bank-IMF Debt Sustainability Analysis (DSA)[9]. According to Government, total public debt stock is estimated to have increased from MK6.4 trillion in 2022/23 to MK7.9 trillion in 2023/24 (Figure 17).

The composition of the debt portfolio has significantly changed over the past five years, in favor of domestic debt (Figure 18). As of 2022, domestic debt constituted 53% of the total public debt (TPD) compared to 38.6% of TPD. As shown in Figure 18, the value of domestic debt is estimated to have increased from 17.5% of GDP in 2019 to 40.8% in 2023 and projected to further increase to 44.3% by 2024.

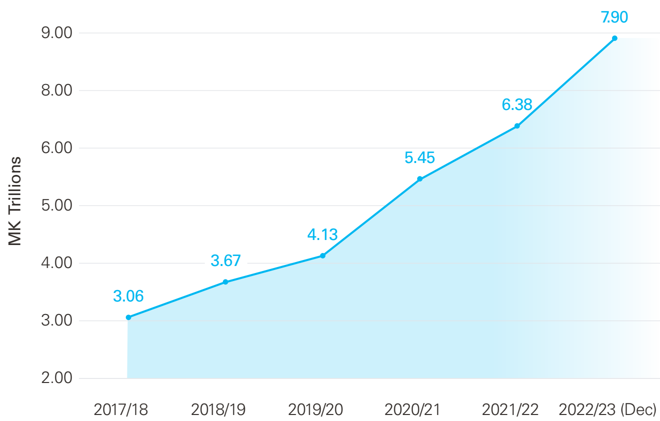
9 Malawi - Joint World Bank-IMF Debt Sustainability Analysis

Figure 16: Trends in Net Borrowing – Deficit Financing



Source: MoFEA – Budget and Financial Statements, 2020-23

Figure 17: Trends in Public Debt Stock, in MK Trillions



Source: Malawi - Joint World Bank-IMF Debt Sustainability Analysis https://documents.worldbank.org/en/publication/documents-reports/documentdetail/807901607563376948/malawi-joint-world-bank-imf-debt-sustainability-analysis

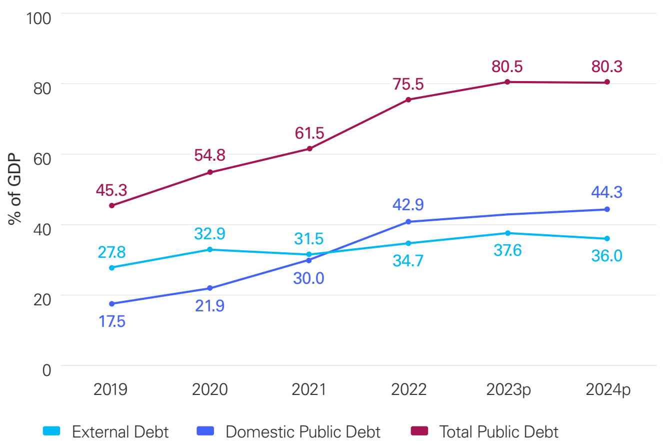
As of the publication of this brief, the Government was implementing a Staff-Monitored Program (SMP) with Executive Board Involvement (PMB) under the Rapid Credit Facility (RCF) agreed in November 2022 to the tune of US$88.3 million. The PMB review, which was approved by the IMF Management on July 13, 2023, revealed mixed performance in Government's progress in meeting PMB targets[10]. This is connected to a series of shocks facing Malawi, compounded by Tropical Cyclone Freddy. Despite these shock-induced setbacks, the IMF acknowledged that Government is taking corrective actions to achieve the objectives of the PMB, critical to establish a track record of policy implementation and possibly paving the way to an ECF arrangement.

The progress on the PMB is key to determine movement towards an Extended Credit Facility (ECF)[11], which will also inform the resumption of on-budget support from some development partners. For reference, the PMB comprises a set of public administration reforms, particularly around public finance management (PFM) and requires careful prioritization of expenditures to ensure available resources are spent in the most impactful way. The Government is also in the process of debt restructuring as part of implementation of its Debt Management Strategy which underpinned the PMB request.

10 Malawi: First Review Under the Staff-Monitored Program with Executive Board Involvement-Press Release; Staff Report; and Statement by the Executive Director for Malawi (imf.org)

11 The Extended Credit Facility (ECF) (imf.org)

Figure 18: Trends in the Composition of Public Debt Stock as a Share of GDP



Source: World Bank, Malawi Economic Monitor, July 2023, page 61

KEY TAKEAWAYS

- High debt stock and rising inflation, in the context of overlapping macro-fiscal and socioeconomic crises, will likely limit the fiscal space available for public investment in social sectors in the short-to-medium-term outlook.
- Against this background, UNICEF strongly backs the protection of key spending aggregates in social sectors strengthening human capital creation and in which recent gains should not be lost.

Against the challenging macro-fiscal environment, UNICEF encourages the Government to protect social sector spending to safeguard recent gains in social sector outcomes.

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