# ECONOMICS ASSOCIATION OF MALAWI

# ANALYSIS OF THE 2025-2026 MID-YEAR BUDGET REVIEW OF THE GOVERNMENT OF MALAWI

NOVEMBER 2025

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# 1. EXECUTIVE SUMMARY

This report presents an analysis of the Mid-Year Budget Review presented by the Minister of Finance, Economic Planning and Decentralisation on 21st November 2025. The analysis examined how the proposed measures will affect both households and businesses. The Mid-Year Budget Review has been presented at a time when the country is facing macroeconomic challenges characterised by subdued economic growth, high inflation and persistent foreign exchange challenges. The country also continues to experience high fiscal deficits, resulting in a growing debt burden.

The review examined the performance of the 2025/26 budget compared to subsequent years and noted general underperformance in grants and revenues of 12% and 43%, respectively, due to implementation challenges.

The analysis also noted an increase in recurrent expenditure to MK602.47 billion and a reduction in development expenditure by MK89.9 billion, resulting in a net growth in expenditure of MK512.56 billion. Key drivers of the increased recurrent expenditure include employment pensions and gratuities and Farm Input Subsidy Programme (FISP) which take up to 32.5% and 21.5% of the total additional allocation of the total recurrent expenditure, respectively. Other notable drivers include interest payments on public debt (16.6%), wages and salaries (16.3%) and maize purchases (3.3%).

The Mid-Year Budget analysis also revealed widening fiscal imbalances evidenced by fiscal deficits which have persistently been above the recommended average of 3% of GDP. Further, it is noted that debt servicing is expected to consume about 50% of all domestic revenues collected, posing a threat to fiscal space and diverting resources away from productive sectors.

Finally, the budget review has discussed the potential implications of the proposed tax and non-tax measures on the general economy, businesses and households. In general, while the proposed tax and non-tax measures are expected to increase revenue collection, the measures have potential of bringing in unintended negative impacts on the economy and hence caution must be exercised when implementing them.

# 2. THE MACROECONOMIC CONTEXT

The 2025/2026 budget is being implemented in a challenging macroeconomic environment. Economic growth has remained subdued over time and the country has been unable to meet even half of the MIP-1 target of 6.4%. The economy continues to face elevated inflationary pressures, emanating from failure of the agriculture sector to produce enough food, trade vulnerabilities and foreign exchange (forex) shortages. Fiscal deficits have persistently been high and are financed through costly domestic borrowing, crowding out the private sector. Consequently, public debt has become unsustainably high and monetary policy has remained persistently tight.

# 3. OVERALL REVISED 2025/26 BUDGET

***Table 1*** shows the revised estimates of revenues and grants, expenditure, and the deficit for the 2025/26 year, alongside historical budget performance.[1]

## 3.1. Revenue and grants

Domestic revenue and grants are projected at MK5.46 trillion, down from MK5.78 trillion, amid revenues underperforming by 43% and grants by 12% by the middle of the year. Notably, the composition of these two revenue sources has shifted from 79.5% and 20.5% at the start of the financial year, respectively, to 80% and 18% by the middle of the year. The declining outlook for grants aligns with global trends in official development assistance.

**Table 1- Budget performance (MK million)**

| | 2022/23 outturn | 2023/24 outturn | 2024/25 outturn | 2025/26 approved | 2025/26 revised |
|---|---|---|---|---|---|
| **Revenue and grants** | **2,075,411** | **2,992,756** | **4,351,510** | **5,578,446** | **5,460,830** |
| **Domestic revenue** | **1,661,409** | **2,407,430** | **3,111,121** | **4,435,707** | **4,477,828** |
| Tax revenue | 1,572,891 | 2,198,090 | 2,985,992 | 4,329,689 | 4,328,318 |
| Non-tax revenue | 88,518 | 209,340 | 125,129 | 106,018 | 149,510 |
| **Grants** | **414,002** | **585,326** | **1,240,389** | **1,142,739** | **983,002** |
| **Expenditure** | 3,357,507 | **4,447,808** | **6,144,153** | **8,076,668** | **8,589,232** |
| Recurrent | 2,355,478 | 3,224,503 | 4,519,782 | 6,060,516 | 6,662,986 |
| Development | 1,002,029 | 1,223,305 | 1,624,371 | 2,016,152 | 1,926,246 |
| **Deficit** | **-1,282,096** | **-1,455,052** | **-1,792,643** | **-2,498,222** | **-3,128,402** |

***Data Source****: Ministry of Finance, Economic Planning and Decentralisation*

## 3.2. Expenditure

Total expenditure in 2025/26 is projected at MK8.59 trillion, about 6.3% more than the approved estimate at the beginning of the fiscal year. The recurrent budget increased by MK602.47 billion, while the development budget decreased by MK89.9 billion, resulting in a net growth of MK512.56 billion in the total budget. Top gainers within the recurrent budget include pensions and gratuities (32.5%) and FISP (21.5%). Another significant share has been allocated to interest payments on total public debt (16.6%) and wages and salaries (16.3%).

Elections (8.3%) is another category taking up a significant share of the revised portion of the recurrent budget. This is followed by maize purchases at 3.3%, with other miscellaneous accounting for the remaining 1.4%.

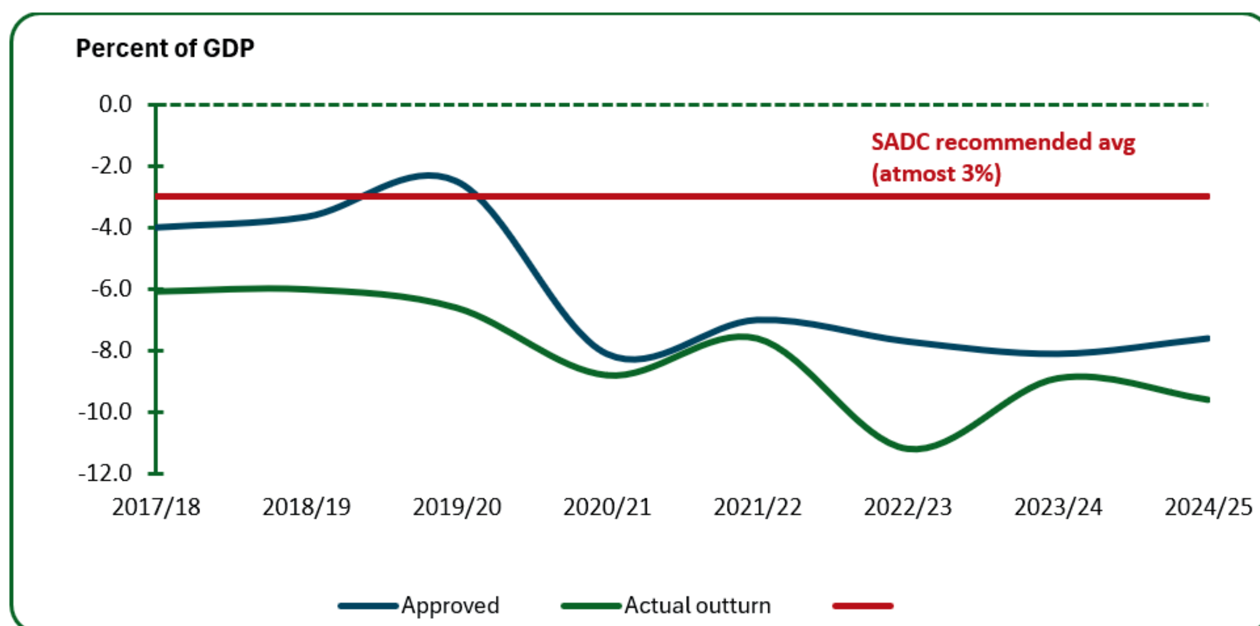
[1]The outturn for the FY 2024/25 is preliminary.

A key observation within the agriculture sector is the increase in the allocation to FISP and maize purchases simultaneously. The 2025/26 budget approved a total of MK 667.75 billion for the Ministry of Agriculture, of which 17% was allocated to the FISP (formerly known as the Affordable Inputs Program, AIP), and 9% to the purchase of maize. The mid-term (revised) budget has seen an increase in the allocation towards FISP by 116%, from MK111.45 billion to 241.07 billion, and from 17% to 26% of the revised estimates. In contrast, maize purchases have increased from MK60 billion to MK80 billion, reflecting a 33% increase. These represent an increase in social support, signalling both significant challenges facing the agricultural sector that require immediate attention and preparation for the next agricultural season.

## 3.3. Fiscal Deficit

One of the indicators of fiscal discipline is the ability to meet planned deficit targets. The deficit trends in ***Table 1*** reflect that efforts to reduce the deficit have slowed in recent years. ***Figure 1*** shows that the Government of Malawi also struggles to stay within these planned deficits. Persistent lack of fiscal discipline is strongly correlated with public debt and inflationary pressures.

**Figure 1- Trends in Fiscal Deficit Outcomes**




***Data source***: *Ministry of Finance, Economic Planning and Decentralisation*

# 4. RESOURCE MOBILISATION

The 2025/2026 Budget Review Statement includes various tax and non-tax measures aimed at enhancing the government's resource mobilisation drive. This section discusses the proposed measures.

## 4.1. Tax measures

1. Introduction of a bank transfer levy at 0.05% on all bank transfers to be incurred by the sender.
2. Introduction of a mobile money transfer levy at 0.05% on transactions above MK100,000, paid by the sender.
3. PAYE schedule adjustment: up to MK170,000 – 0%; between MK170,000 and MK1,570,000 – 30%; between MK1,570,000 and MK10,000,000 – 35%, above MK10,000,000 – 40% a month.
4. Supernormal profits threshold adjustment: below MK5 billion – 30%; above MK5 billion – 40%.
5. Removal of thresholds on withholding tax on gambling winnings. Adjustment of the WHT from 10% to 15% on all gambling winnings.
6. Exercise tax on lotteries – 15% on gross revenues, enforced on radios/TVs.
7. Minimum Alternate Tax (MAT) - 0.5% of turnover for companies with a turnover greater than MK5 billion and operating for more than 3 years.
8. Capital gains standard tax of 30% on all share disposals regardless of time held.
9. Withholding tax of 20% on all residential rental income from property owners in cities.
10. Adjustment of VAT rate from 16.5% to 17.5%.
11. Surcharge of 20% on importation of cement.

## 4.2. Non-tax measures

1. 2% levy on motor vehicle insurance to provide additional financing for the Ministry of Health (MoH).
2. Revocation of visa-free access to Malawi. Visa application fees will be applied on a reciprocity basis.
3. Strict enforcement of remittance of revenue collected by Ministries, Departments, and Agencies (MDAs).
4. Strict enforcement of remittance of dividend and surplus from State-Owned Enterprises (SOEs).

### 4.2.1. Implication of tax measures on the general economy

The increase in the zero-PAYE bracket may lead to a reduction in revenue collected. The 2024/25 MRA Annual Report shows that PAYE collections only reached 96% of the target, resulting in a shortfall of MK22.7 billion. The report highlighted the expansion of the zero-PAYE bracket as one of the primary reasons for this loss. Increasing the threshold from MK150,000 to MK170,000 may therefore worsen the situation. However, the higher PAYE rates for middle- and high-income earners may help cover part of the deficit and potentially increase total PAYE revenue.

Ceteris paribus, the increase in VAT from 16.5% to 17.5% is expected to increase VAT revenues by 6% from MK 902.9 billion to MK 957.7 billion. However, the increase may also create inflationary pressures if firms pass the tax increase on to consumers. This would reduce households' purchasing power and could eventually result in lower-than-expected VAT collections.

The revised corporate income tax for companies earning supernormal profits, lowering the threshold from MK10 billion to MK5 billion, will result in increased revenues collected. For instance, between 2023 and 2024, corporate tax revenue grew from 10.2% to 19.16% of total tax revenue. However, while the measure may raise more revenue in the short term, it may also reduce companies' ability to reinvest profits, slowing business expansion, reducing competitiveness, and investor confidence.

### 4.2.2. Implications of the proposed non-tax measures

Revoking visa-free access to Malawi is likely to reduce the short-term tourist arrivals and consequently, foreign exchange inflows from tourism which are important to consider given that Malawi is in dire need of foreign exchange. The earlier move to remove visa requirements was specifically framed to increase arrivals and position tourism as a growth catalyst. Therefore, the proposal and its likely impacts do not align with the strategy of catalyzing growth and economic recovery through key sectors (the ATMM) of which tourism is one.

Enforcing remittance of MDAs' revenue and dividends and surpluses from SOEs improves cash flow predictability and is likely to provide an immediate revenue boost. This could help to reduce off-budget spending and curb revenue leakages in the near term. However, there is a risk to the sustainability of SOEs if those that are loss-making or undercapitalised also face aggressive remittance demands that could weaken their operations and end up shifting contingent liabilities back to the Government.

These measures are practical steps toward closing fiscal gaps and promoting transparency in revenue collection but require careful implementation that will mitigate short-term negative effects.

## 4.1. Implications for fiscal policy, businesses and households

### 4.3.1. Fiscal policy

The 2025/26 budget execution occurs within a challenging macroeconomic environment characterised by elevated inflation, foreign exchange shortages, underperforming revenue streams and grants, high interest rates, sluggish economic growth, and unsustainable public debt levels. Consequently, the government must carefully balance resource mobilisation to fulfil increasing fiscal obligations with the imperative of maintaining macroeconomic stability. This necessitates critical trade-offs during budget implementation. The proposed tax and non-tax reforms, if effectively executed, are poised to augment government revenues. However, these measures may also engender unintended consequences, requiring diligent oversight. Therefore, the government must rigorously implement these reforms and exercise prudent management of public resources.

### 4.3.2. Businesses

The bank transfer and mobile money transfer levies will introduce marginal but significant cumulative costs on routine financial operations for firms with higher transaction volumes.

The VAT rate adjustment by 1.0 percentage point has the potential to raise consumer prices through a pass-through effect, given that VAT is a consumption tax. In price-sensitive sectors such as food, retail and transport, VAT changes could dampen demand, particularly given the high inflation environment. Hence, firms will need to assess price elasticities before making significant price adjustments.

The surcharge on cement imports will likely affect construction costs and cement prices domestically, resulting into slow growth in the construction sector.

### 4.3.2. Households

The introduction of a 0.05% bank transfer levy, which the sender will pay, may increase the cost of using formal banking systems for people who depend on banks for major transactions. While the extra cost may be small for minor transactions, it will be felt more by those who make frequent or large transfers.

The revision in PAYE protects low-income earners by keeping them in lower tax brackets, while high-income earners will pay more tax. This helps reduce inequality, but it also reduces the disposable income of high earners and may affect their ability to afford other services and needs, thereby affecting demand for some goods and services.

The inclusion of capital gains tax on all shares, regardless of how long they were held, may discourage people from saving and investing in financial markets. This can reduce investment returns for companies and limit funds available for further investments.

In the long run, individuals and households may face the opportunity cost of not investing in the stock market. This may also negatively affect the growth of the capital market.

Although withholding tax affects all property owners, people living in rented houses may also feel the impact if landlords increase rent to recover part of the money lost so they can maintain their desired income levels.

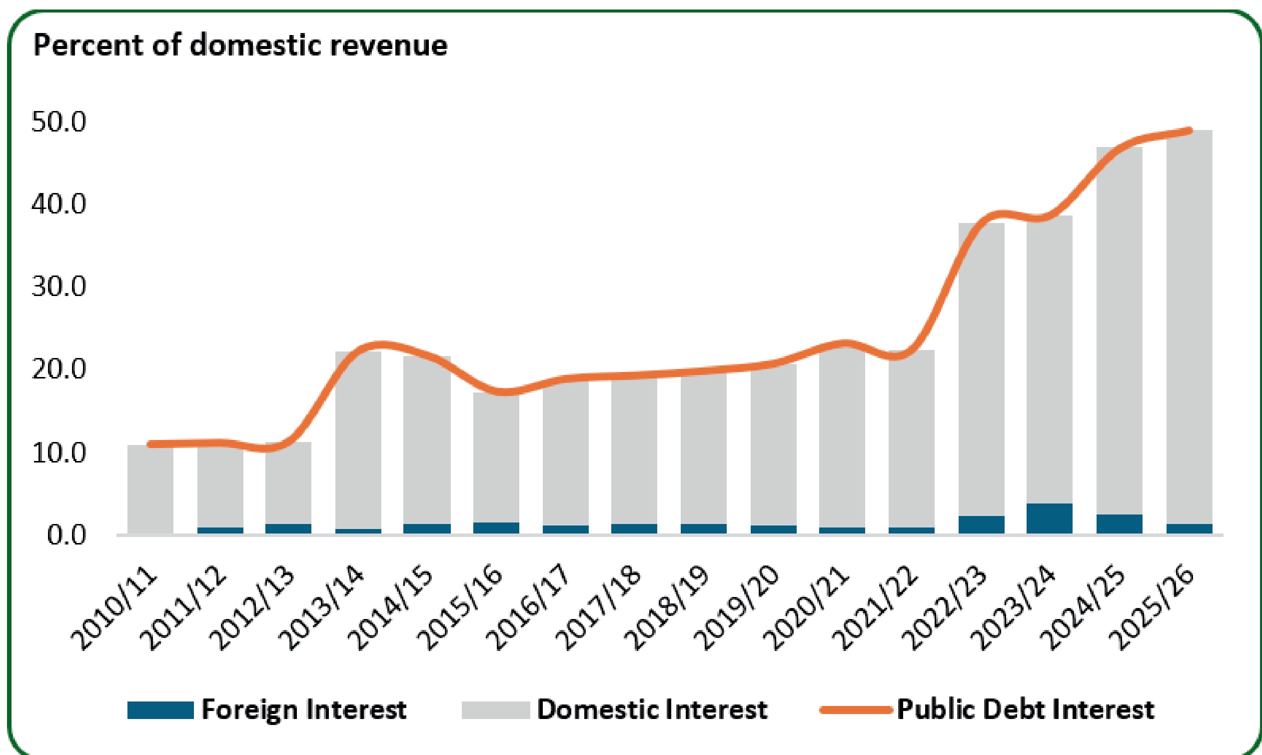
The increase in VAT from 16.5% to 17.5% will raise the prices of many goods, as firms are likely to pass the tax burden to consumers. This may lead to inflationary pressures and reduce disposable incomes. As a result, households may cut back on some commodities and focus their spending on more essential needs.

The surcharge on cement may increase cement prices domestically. This added cost can have ripple effects, such as higher construction costs, which may eventually lead to increased rental charges.

# 5. DEBT SUSTAINABILITY

Malawi's public debt stock is estimated at K21.6 trillion, representing approximately 86 percent of GDP. This increase is driven by ongoing fiscal deficits and statutory expenditures, exacerbated by high domestic borrowing costs that have rendered debt servicing progressively less affordable. Debt interest payments are projected to absorb nearly 50 percent of domestic revenue in the 2025/26 fiscal year. **Figure 2** shows that debt service obligations have increased sharply since 2021, with domestic interest consistently accounting for a large share of the fiscal burden. The rising interest payments entail a significant opportunity cost. Resources freed up from debt interest payments could form an important source of investment in critical domestic investments required to support economic growth. This underscores the need for the government to strive to return to fiscal consolidation path.

**Figure 2-Debt interest payments**




***Data source***: *Ministry of Finance, Economic Planning and Decentralisation*