

# Balancing Fiscal Discipline and Development Aspirations

***‘Transforming Malawi into a Middle-income  
Economy’***

Economics Association of Malawi Annual  
Economic Conference 2025

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30-09-25



# The Vision



# The Vision

**Inclusively wealthy and self-reliant industrialized upper-middle-income country** by the year 2063,

so we can fund our development needs primarily by ourselves.

Robust and enduring manufacturing industry

...shall not allow any state or non-state actor to derail us

# The Vision

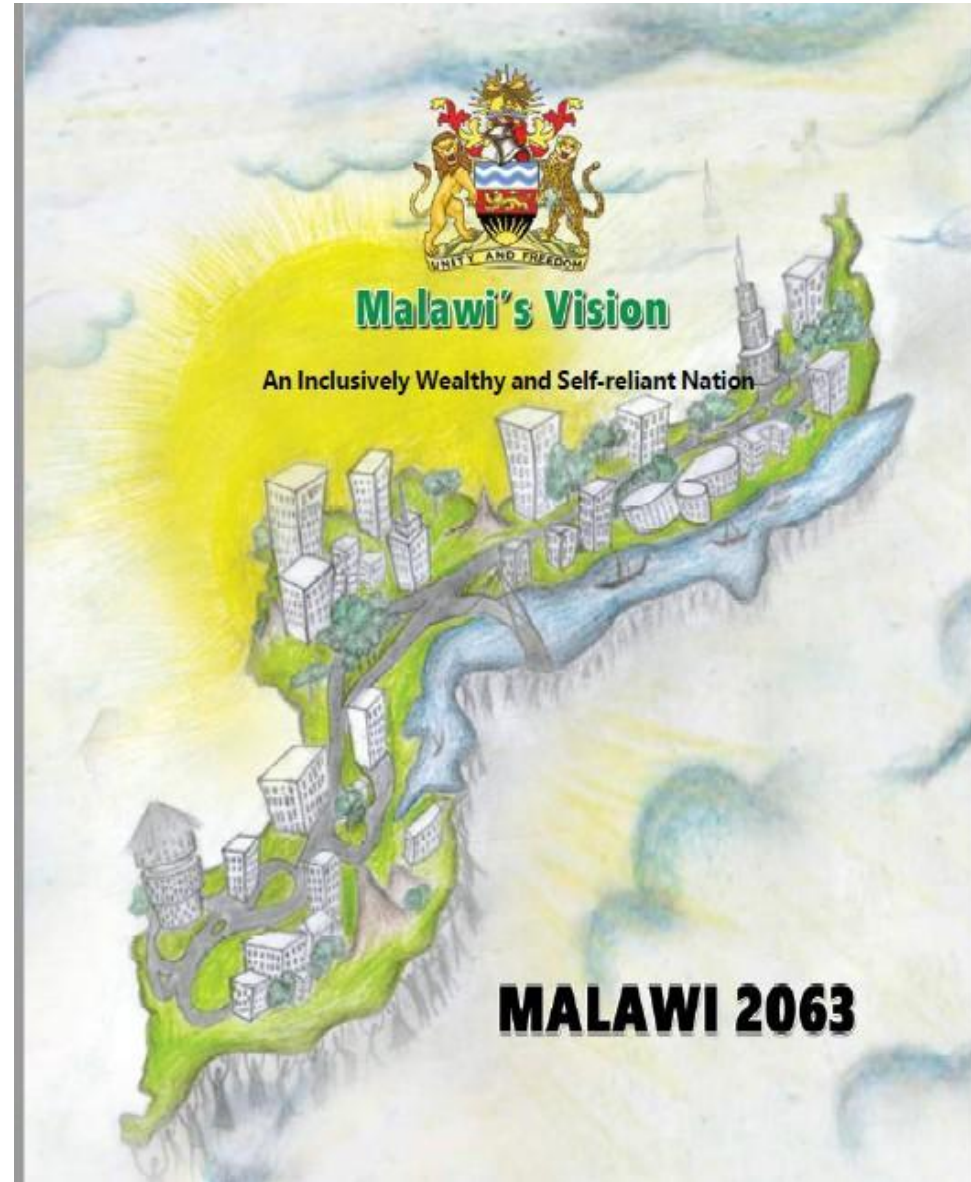
## Three Pillars

1. Agriculture Productivity and Commercialization
2. Industrialization
3. Urbanization

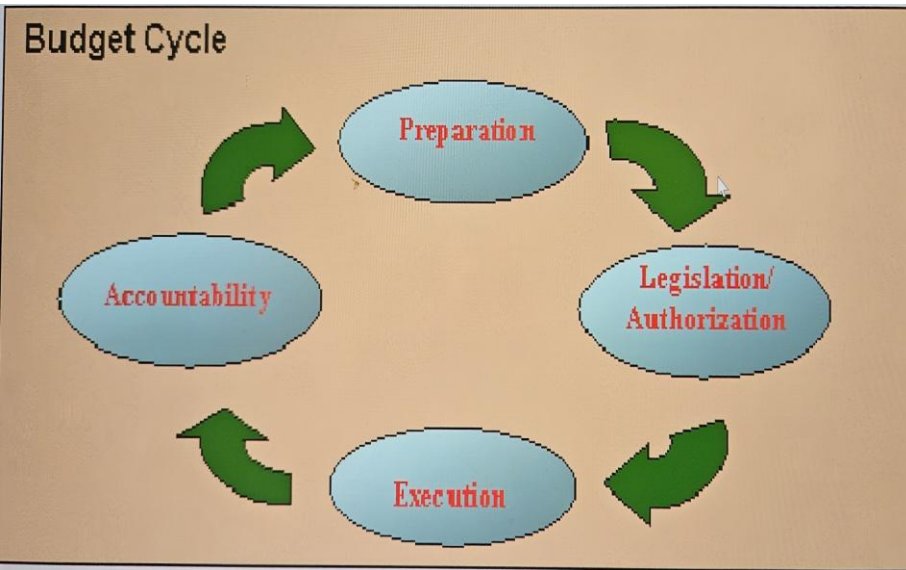


## Seven Enablers

1. Mindset Change
2. Effective Governance System
3. Public Sector Performance
4. Private Sector Dynamism
5. Human Capital Development
6. Economic Infrastructure
7. Environmental Sustainability



# The Fiscal Discipline (FD)



- Things can go wrong on the 4 nodes
- Importance of FD:
- Debt sustainability, investor & donor confidence,
- Economic Growth etc
- Current Situation: Instability
- Instability always. Why??



# The Fiscal Discipline; The Script



# The Fiscal Discipline; The Script

 **TikTok** Lite  
@tedkukada

**Ted kukada TV**

Mlaliki **Shadreck  
Wame**

"Mbuli za ma (Science)  
Zaononga dziko"

# The Fiscal Discipline; The Script



- Wame's Prophecy Beats the Time
- People without a Vision Perish
- What vision do we have
- Is our vision good enough for a better future?
- Are we weaponizing economics for good?
- Or we are weaponizing it for bad
- Greatest Fiscal Indiscipline happens here

# The FD: The Script

**TOP SECRET**

**PROGRAM to Prevent Germany from Starting a World War III**

- Demilitarization of Germany.**  
It should be the aim of the Allied Forces to accomplish the complete demilitarization of Germany in the shortest possible period of time after surrender. This means completely disarming the German Army and people (including the removal or destruction of all war material), the total destruction of the whole German armament industry, and the removal or destruction of other key industries which are basic to military strength.
- New Boundaries of Germany.**  
(a) Poland should get that part of East Prussia which doesn't go to the U.S.S.R. and the southern portion of Silesia. (See map in 12 Appendix.)  
(b) France should get the Saar and the adjacent territories bounded by the Rhine and the Moselle Rivers.  
(c) As indicated in 4 below an International Zone should be created containing the Ruhr and the surrounding industrial areas.
- Partitioning of New Germany.**  
The remaining portion of Germany should be divided into two autonomous, independent states, (1) a South German state comprising Bavaria, Westphalia, Baden and some smaller areas and (2) a North German state comprising a large part of the old state of Prussia, Saxony, Thuringia and several smaller states.  
There shall be a custom union between the new South German state and Austria, which will be restored to her pre-1938 political borders.
- The Ruhr Area.** (The Ruhr, surrounding industrial areas, as shown on the map, including the Rhineland, the Kell Canal, and all German territory north of the Kell Canal).  
Here lies the heart of German industrial power. This area should not only be stripped of all presently existing industries but so weakened and controlled that it can not in the foreseeable future become an industrial area. The following steps will accomplish this:  
(a) Within a short period, if possible not longer than 6 months after the cessation of hostilities, all industrial plants and equipment not destroyed by military action shall be completely dismantled and transported to Allied Nations as restitution. All equipment shall be removed from the mines and the mines closed.  
(b) The area should be made an international zone to be governed by an international security organization to be established by the United Nations. In governing the area the international organization should be guided by policies designed to further the above stated objective.

[PUBLIC LAW 473]  
[CHAPTER 222]

S. 2202

Eighty-sixth Congress of the United States of America  
At the Second Session

Began and held at the City of Washington on Tuesday, the sixth day of January, one thousand nine hundred and forty-eight

**AN ACT**  
To promote world peace and the general welfare, national interest, and foreign policy of the United States through economic, financial, and other measures necessary to the maintenance of conditions aimed to which free institutions may survive and consistent with the maintenance of the strength and stability of the United States.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That this Act may be cited as the "Warren Act," section 104 of 1947.

**TITLE I**  
SEC. 101. This title may be cited as the "Economic Cooperation Act of 1947."

**ENFORCEMENT AND DECLARATION OF POLICY**  
SEC. 102. (a) Recognizing the intimate economic and other relationships between the United States and the nations of Europe, and recognizing that disruption following in the wake of war is not condoned by national tradition, the Congress feels that the existing situation in Europe endorses the establishment of a lasting peace, the general welfare and national interest of the United States, and the attainment of the objectives of the United Nations. The restoration or maintenance in European countries of principles of individual liberty, free institutions, and general independence may require upon the establishment of sound economic conditions, while international economic relationships and the achievement by the countries of Europe of a healthy economy independent of extraordinary outside assistance. The accomplishment of these objectives calls for a plan of European recovery, open to all such nations which cooperate to reach this goal upon a strong production effort, the expansion of foreign trade, the creation and maintenance of sound financial stability, and the development of economic cooperation, including all possible steps to establish and maintain equitable rates of exchange and to bring about the progressive elimination of trade barriers. Manifest of the advantages which the United States has enjoyed through the existence of a large domestic market with an internal trade barrier, and believing that similar advantages are accord to the countries of Europe, it is declared to be the policy of the people of the United States to encourage these

- 22<sup>nd</sup> Century Understanding
- Economic War Strategy
- Weaponizing Economics for development: From Rubbles to 1<sup>st</sup> World
- Weaponizing Economics to burn development: From Super power to Grazing land
- What is the Malawi that we want? Singapore ?
- Singapore. Possible 100%



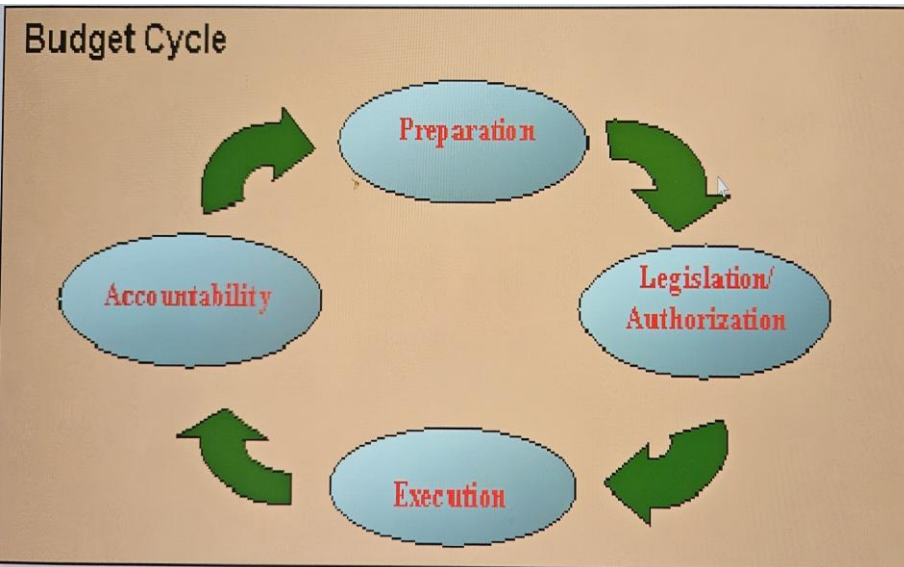
# The Fiscal Discipline; The Yards



- Measuring What Matter:
- What do we measure
- When do we Measure
- Before budget, what sectors?
- What value chains within a sector
- Don't conflate statistics for data
- ICOR Values? Fiscal efficiency
- Wrong choice of sectors/value chains:  
Fiscal Indiscipline of capital proportions



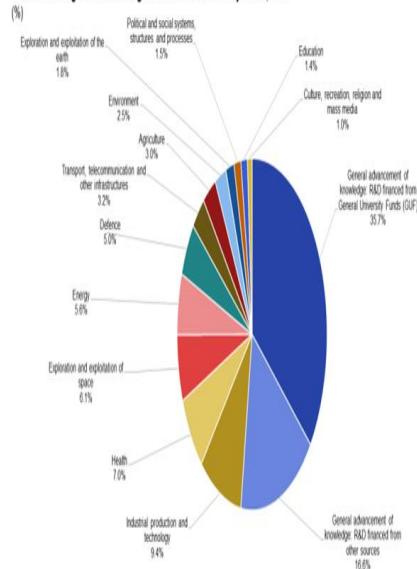
# The FD: Binary or Paradox



- The Basics That Have Failed:
- Budgets Prep, Budget Legislation, Spending & Accountability
- The cycle repeats YaY
- People and government change
- **The Cycle remains. And so has poverty.**
- **Is it adequate for development?**



Distribution of government budget allocations for R&D by NABS, 2024



Note: all data are estimated  
Source: Eurostat (online data code: GBA\_NABSFIN01)

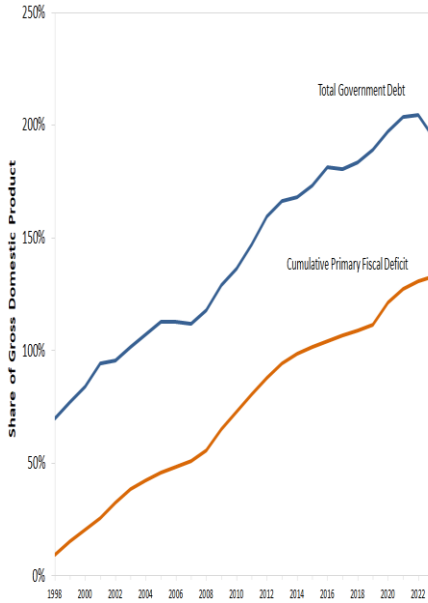
# Good Fiscal Indiscipline; OPM Script



- Fiscal Discipline & Developmental Agenda
- Not a Binary Choice
- A paradox at best
- FD not austerity but prioritization
- Inverse the Directional of Influence
- Development ➡ Stability



# Good Fiscal Indiscipline; OPM Script



- Japan debt to GDP ratio was very high
- But used debt for transformational development & reconstruction
- So did South Korea, Singapore, USA, China
- Other Peoples' money (OPM): Loans, Grants, Blended Financing, PPPs,
- Key is what you use it for
- How you use it



# The Fiscal Discipline; The Execution



# The Fiscal Discipline; The Action



- DPs & MDAs
- Efficiency & Effectiveness
- How we execute the budget
- Committees, Subcommittees, Working Groups & teams
- No harmonization of DPs activities stretching MDAs Human Capital
- Supporting Value chains already active;
- The Cobra Effect

**Financing Agenda 2030**  
Are donors missing the mark on  
the Sustainable Development Goals?

September 2023  
Bryan Burgess, John Custer, Samantha Custer

# The Fiscal Discipline; The Action

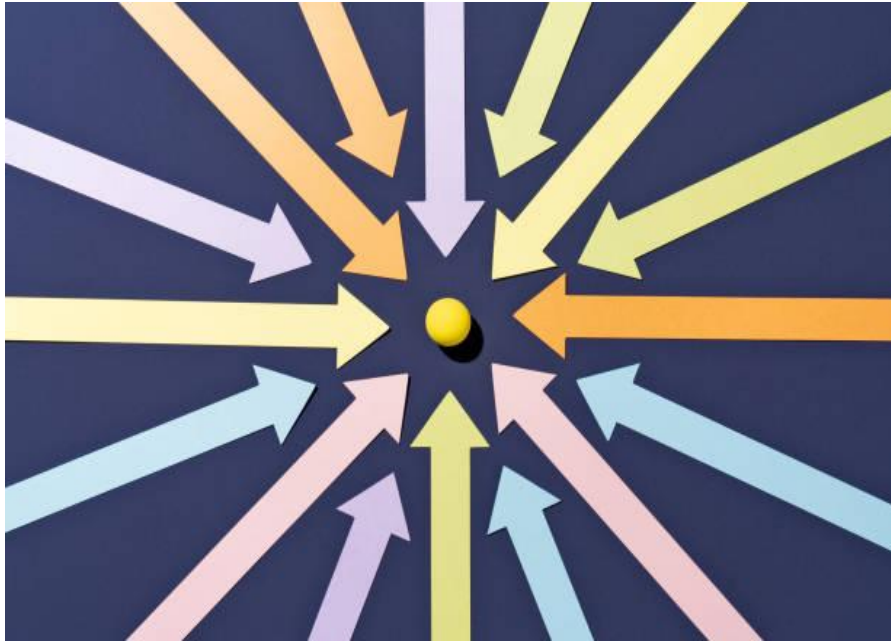
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- Development partners
- What Support: Cobra Effect??
- Unintended adverse effects

# The Fiscal Indiscipline: Home level



# The Fiscal Discipline: Mw's Development



- Call to Action
- MT & LT Dvp Plans Intentional:
- What agriculture? Maize V Vanilla
- How to activate the mining sector
- Breaking down Planning barriers



# The Fiscal Discipline: Mw's Development



- Call to Action
- Governance:
- The biggest elephant in the room?
- PFMA 2022? Audit Act? PPDA?
- Application??
- Sophistication of regulatory authorities
- Political & Economic Institutions?



# The Fiscal Discipline: Mw's Development



- Call to Action:
- SWAT Approach to development
- Economists and other professionals
- Economists re-skilling
- Economists multi skilling
- Multidisciplinary cross functional teams
- Multi-Dpt Task Force



# The Fiscal Discipline: Mw's Development



- Achieving sustainable growth and macroeconomic stability will require:
- Structural transformation,
- Stronger fiscal and monetary coordination,
- And policy focus on tradable sector competitiveness.
- Our Future Our Way: UN's way; Better Together??

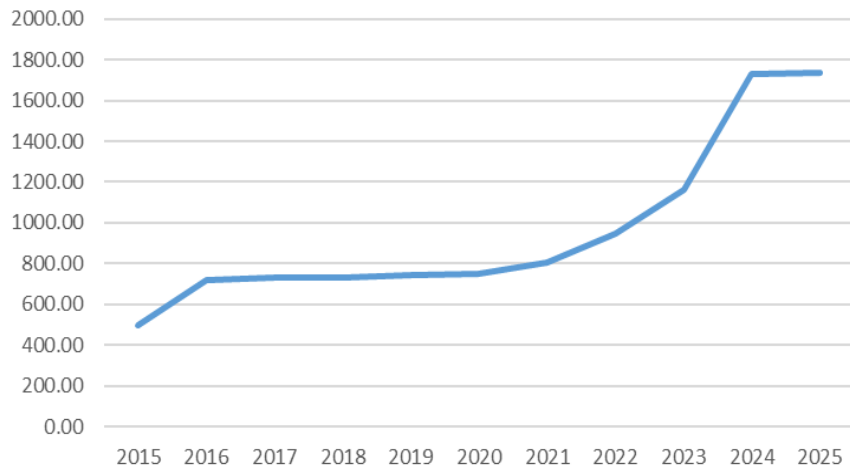


**THANK YOU**

# The Appendices & Workings

# The Challenge

Exchange Rate



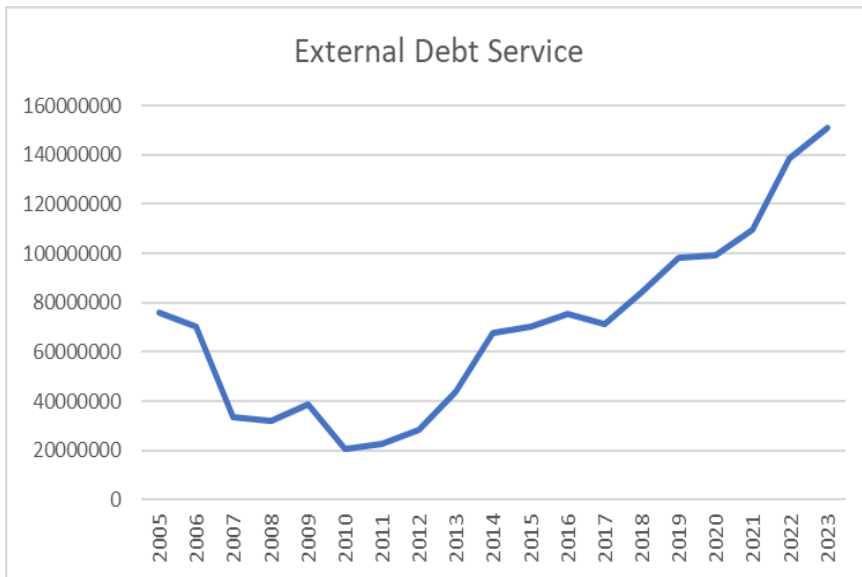
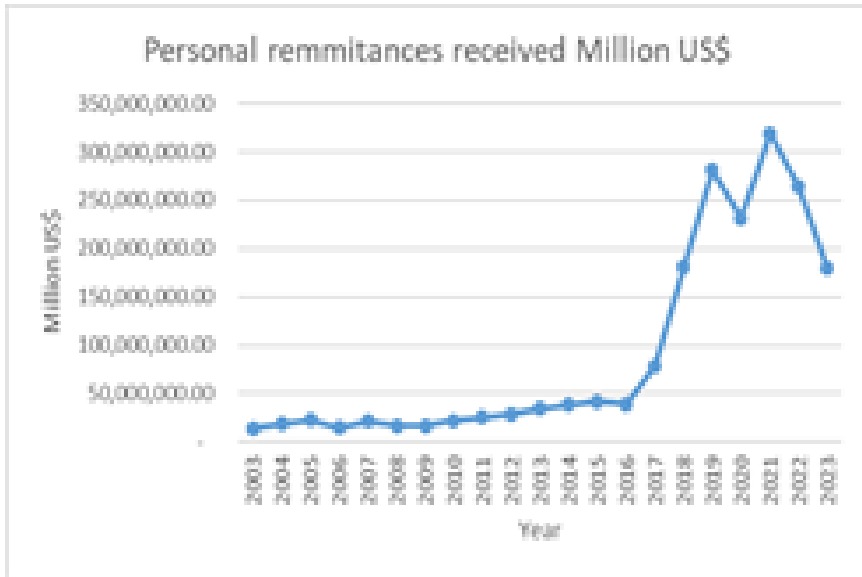
- The Kwacha has been losing value over the past 10 years due to devaluations and depreciation.
- This has, in part, driven general prices up. The Kwacha is now pegged (managed). Will this remain?

CA Balance



- The growing negative current account is mainly driven by a combination of structural trade deficit, growing debt servicing cost, exchange rate and inflation pressures, climate shocks, and high import dependence
- The deficit deepened sharply in 2017 (around -17.4%) and again after 2021, reaching nearly -17.9% in 2023 — among the highest in the decade.

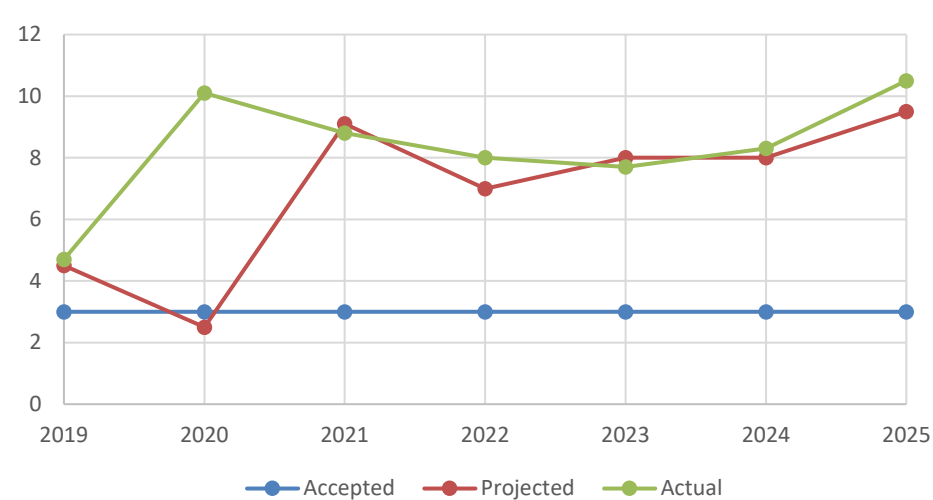
# The Challenge



- Most likely, the graph depicts a shift from the formal to the black market and not a decrease in remittances because of the widening spread-the rationality of consumers.
- Additionally, trade mis invoicing may also contribute to the development.
- Since the advent of the MDRI & HIPC OF 2005 and 2006 respectively, Malawi external debt service dropped massively, only to start growing steadily again 4 years later.
- Malawi's debt to GDP ratio was 86.4% as at September 2024. Interest on domestic debt alone makes 35% of total government expenditure.

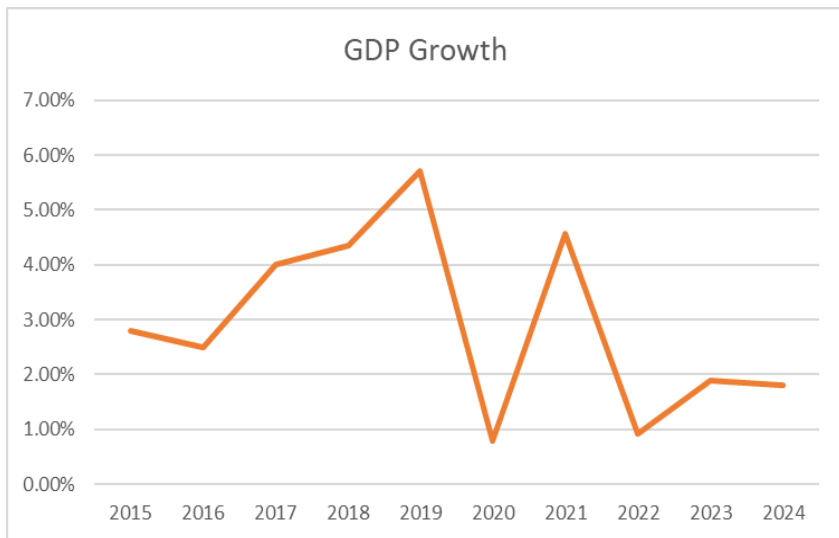
# The Challenge

Projected vs Actual Fiscal Deficit (% of GDP)

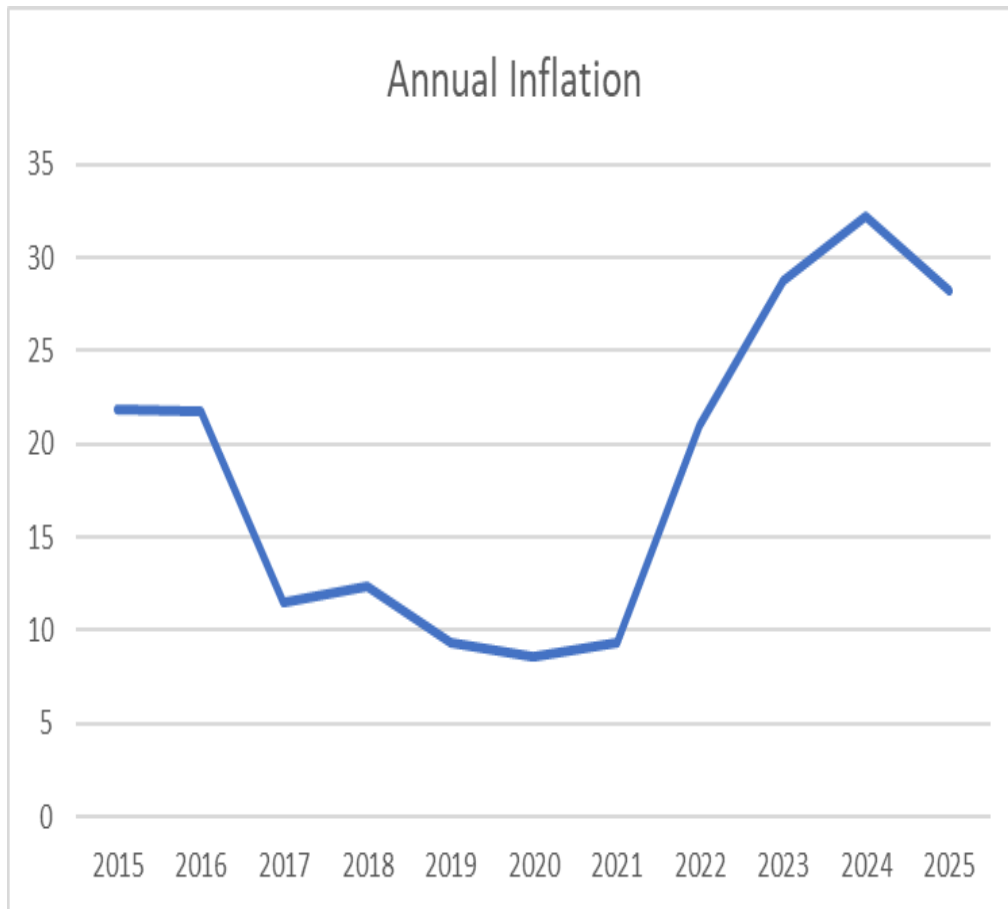


- The 2020 pre-pandemic projection of 3 % deficit was a great attempt at reducing fiscal deficit, but the pandemic but was violated due to Covid.
- Fueled by the relief expenditure driven by climatic shocks, the deficit has continued to grow wider from the acceptable levels of 3%.
- Reeling from the post pandemic shocks, GDP growth is yet to make a full recovery from a combination of climatic shocks and rising international prices.

GDP Growth



# The Challenge



- Malawi is **highly import dependent**: fuel, fertilizer, pharmaceuticals, machinery, food stuffs etc.
- These imports feed into domestic prices.
- Currency depreciation and devaluation drives prices up.
- However, inflation seems to be easing in 2025

# Imported-Cost-Push inflation?

- **Agricultural supply shocks:** Droughts, floods, and low irrigation capacity reduce food supply (maize = 50%+ of CPI basket).
- **Input price shocks:** Fertilizer and fuel price hikes (often linked to global markets, but worsened by weak kwacha).
- **Structural bottlenecks:** Poor infrastructure, low productivity, and high transport costs amplify inflationary pressures.
- **Fiscal pressures:** Heavy domestic borrowing can raise money supply and demand-side inflation.

# Why Fiscal Discipline Matters

- Prevents inflationary financing-**Stability**
- Ensures debt sustainability- **Forex & Pvt Investment**
- Builds donor and investor confidence-**Forex & Growth**
- Preserves macroeconomic stability-**Growth Path**

# Why MW2063 Aspirations Cannot Wait

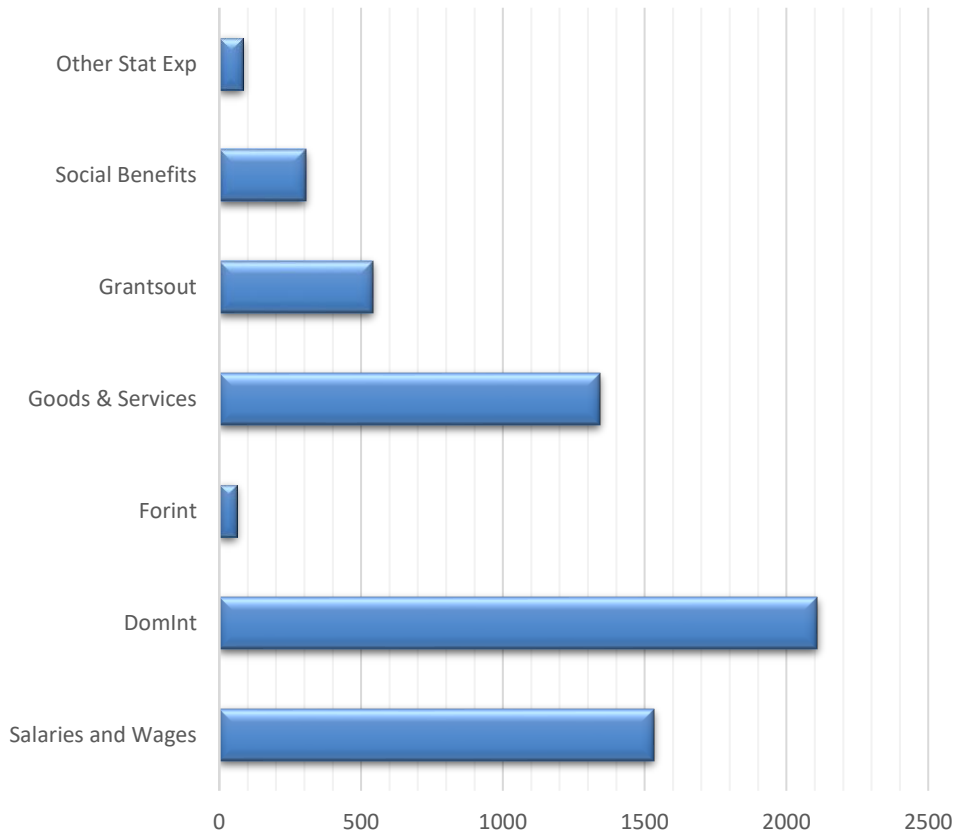
- Youth bulge and need for job creation
- Wealth creation to enhance quality of life
- Infrastructure and energy gaps
- Food security and climate shocks

# Policy Trade-offs

- Revenue constraints in the face of high recurrent expenditure.
- Subsidy/consumption pressures and the need for capital investments.
- Debt servicing crowding out development spending

# 2025-26 National Budget: Expenditure

2025/26 National Budget Expenditure



- Revenue MK5.6
- Expenses MK 8.1
- Fiscal Deficit MK2.3t
- Domestic Int MK2.1t
- Salaries MK1.5t
- Goods & Services MK1.3t

# Navigating Policy Trade-offs



- Fiscal discipline is not austerity, rather **prioritisation!**
- It has ripple effects that support monetary policy, hence macro-stability.

# Central Question

How do we induce sustainable growth without fueling the current instability?

# Immediate Action on Exchange Rate

Maintain status quo?

Devalue and float?

Devalue and fix?

Devalue and Manage?

If devalue, by how much?

# Non-diflationary Fiscal Discipline

- **Recalling:** Fiscal discipline is not austerity, but prioritisation.
- It is about redirecting resources towards productive, high-impact use.
- Maintain budgetary responsibility (avoid excess debts and deficits).
- Support long-term growth-invest in infrastructure that will lower production cost e.g. energy for mining, roads for transportation (rail roads), irrigation investment, that yield economic gains.

# Debt Restructuring and Management Reforms

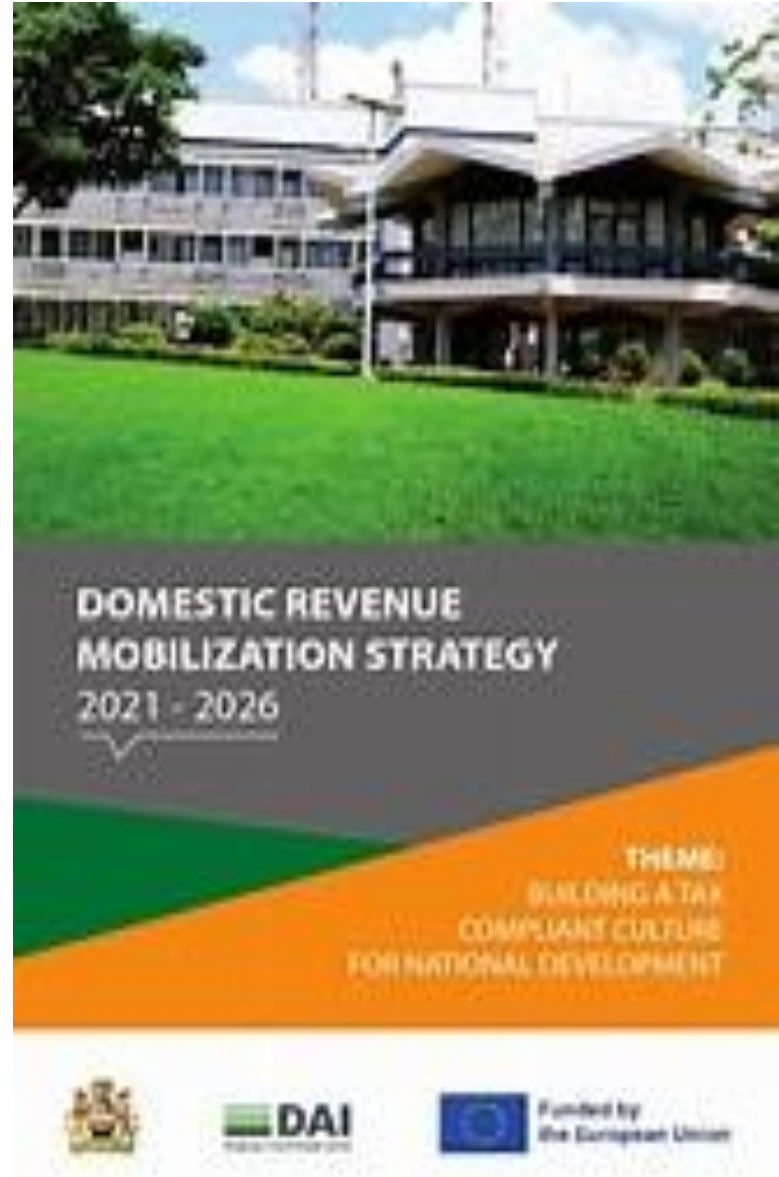
- Improve sustainability and reduce debt service burden.

**Restructure existing domestic debt:** Negotiate with local creditors to lengthen maturities and lower interest costs.

- **Adopt an integrated debt management strategy:** Use medium-term debt strategies (MTDS) to balance domestic vs. external borrowing.
- **Issue long-term instruments:** Shift from short-term Treasury bills to longer-term bonds to reduce rollover risk.

# Navigating Policy Trade-offs

- Implement the DRMS religiously!
- Start with quick wins for immediate impact.
- Packed with workable strategies that await full operationalization.

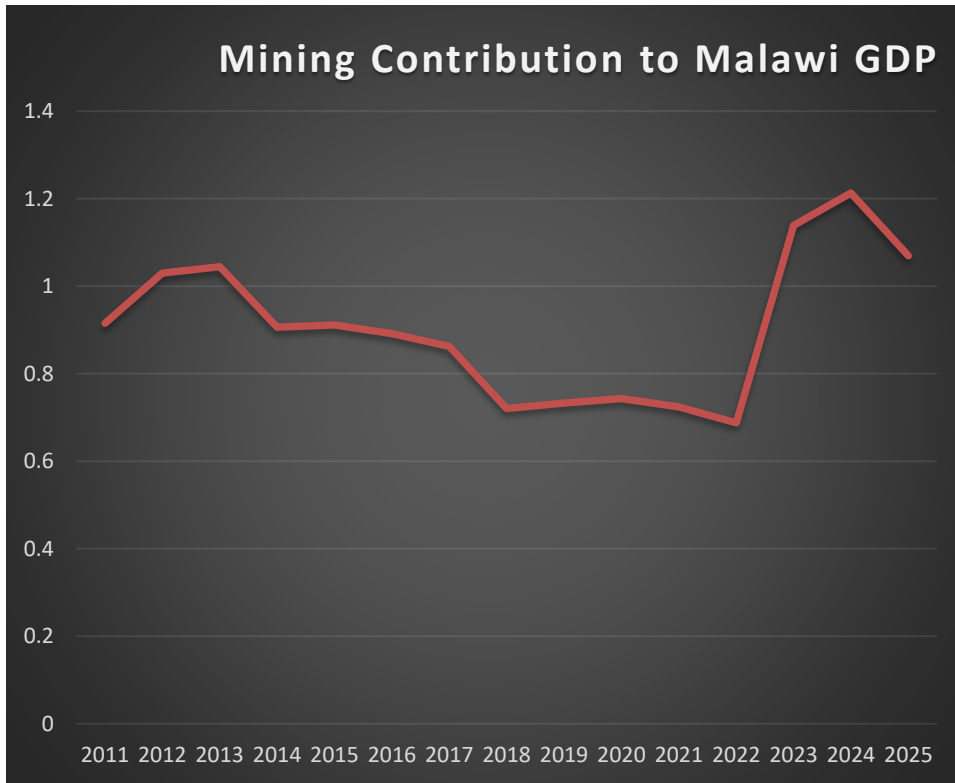


# Managing Debt

- Surplus / balanced budget
- Seek Debt forgiveness
- Debt restructuring
- Borrow Concessional
- Finance Projects with faster payback

# Mining GDP

## Historical Contribution



## Projected MIP-1 Target 2025

**2.5%**

# Augmenting Mining Revenue

- Raise capacity for strong National presence in the sector.
- Fully operationalize MAMICO to be taking up more shares in ALL major mining operations.
- Implement a national security project securing all the country's resources.
- Strengthen Mining Governance and PFM.

# Agriculture GDP

**Historical Contribution**

**Projected MIP-1 Target 2025**

# Import Substitution

- What is the practicality of IS in Malawi at the current production levels?
- Practical and realistic assessment of the items that will be implemented under IS in Malawi?
- Roll out the strategy will clear quantifiable targets in specific value chains.

# Regional Lessons

## Ghana: Debt Distress and Macro Instability

- Inflation 27%
- Debt to GDP ratio 78%
- Thriving Black Market
- Currency Depreciation 55%
- Declining Import cover: Dec 21- 4.3mo;  
Dec 22- 2.7mo

# Regional Lessons

## Ethiopia: Growth through infrastructure

- Active catalytic State led Development
- Massive infrastructure development (Transport, Energy, Telecoms etc)
- Moved from energy deficient to energy exporter
- Has attracted production outsourcing by big brands.
- The Hawasa Industrial park employs thousands of people & generates millions of dollars in exports.
- They are replicating this in 30 other locations!

# Final Thought

Achieving sustainable growth and macroeconomic stability will require structural transformation, stronger fiscal and monetary coordination, and policy focus on tradable sector competitiveness.

# Call to Action

- Fiscal discipline is not austerity; it is prioritization
- Malawi must do more with less work to change the macro indicators.
- Build fiscal space through reforms and partnerships
- Keep focus on long-term transformation agenda-