

**A BUDGET OF MYSTIC HOPE: HOW WILL THE 2011/12 ‘ ZERO DEFICIT NATIONAL BUDGET’ IMPACT THE MALAWIAN HOUSEHOLDS?**

The achievement of 6% economic growth rate in Malawi by the end of 2010 is commendable as long as socio-economic conditions continue to improve. CFSC commends the government for increased allocations in the social sector that mainly include public health which has been allocated 43 billion kwachas (14 % of total budget), the education sector allocated 54 billion kwachas (18% of total budget). The Zero budget deficit national budget will be pro-poor only and only if the increased allocation in the social sector (health & education) can translate into timely availability of medicines and equipment in hospitals, teaching materials in schools and highly motivated civil servants to deliver high quality health and education services to the common person. Too often, access to basic social services becomes a reality to the poorest only when all other socio economic groups get access to them. As such, government ought to consider putting in place motivational mechanisms to boost up the morale of the civil servants that are key players in public service delivery. While we commend the government for a monetary reward such as 7% civil servants salary increase, K5, 000 rural teacher hardship allowance and the increased tax free threshold from K10, 000 to K12, 000, there is need to call for other non monetary motivational rewards. It is worthy noting indeed that government has set aside 50 million for public management course for senior officers in the civil service and 500 million for human development scholarship for university of Malawi and Mzuzu. It will be important that candidates are selected in a free and fair manner without nepotism and should be gender sensitive. In addition, junior staff that form also majority of civil service needs to be motivated just as their counter parts. Why a universal rate of salary increases when mostly juniors have meagre salaries? It would be better for government to consider a higher percentage increase than their seniors who already have other fringe benefits such as higher subsistence allowances.

The joy of the 7% civil servants salary increase and the increase of tax-free threshold from K10, 000 to K12, 000 is short lived because of the 16.5% value added tax (VAT) of food items such as salt, eggs, and edible meat offals. While we acknowledge that government is necessitated by among other reasons the need to find alternative ways of financing the 2011/12 Zero deficit budget in light of the difficult revenue situation faced by Malawi following economic meltdown due to mixed challenges (crises of tobacco, forex, fuel, youth unemployment, difficult relations with donors and high rates of economic growth which induced increased imports without corresponding exports). However, such kind of policy will come with trade-offs despite the good will the government had intended for. Obviously, notwithstanding the elasticity of demand and supply, a VAT is likely to increase prices of consumer goods and services as suppliers shift the tax on consumers. Low-income households will suffer the most because they usually spend a large share of their income on food. Of course, medium to

high-income households will also be affected but their effect may be negligible given that they have degrees of freedom to adjust their consumption patterns in response to VAT. These households usually have productive assets and also are able to take consumption loans from financial institutions unlike the low-income households.

The success of the Zero budget deficit budget is not only measured by how well it will improve the Malawi economy but also how responsive it will be to the household economy. Economic growth should be treated as a means to an end. That is: the end of stagnation of incomes for most malawians, the subsequent of insecurity and instability into the lives of the malawian people which are the root causes of many problems that we are grappling with today. There is crisis of the rising cost of housing, food, transport and even energy crisis. The strength of the recently presented 2011/12 Zero deficit budget lies in how well it aligns itself to the objectives of the country's second Malawi Growth Development Strategy Paper (MGDS II) as well as other important international commitments such as the Millenium Development Goals (MGDs).

Furthermore, the ever-rising cost of living within cities and other towns in Malawi presents to the country an extremely serious challenge upon which all efforts must be concentrated. For example, the CFSC Basic Needs Basket, a survey of the cost of living for an average household with six members showed an increase in the cost of basic food and essential non-food items. In Lilongwe, the total cost of basic food items and essential non-food items such as housing, water and electricity for the month of May 2011 was K53, 731 up from K52, 825 in April 2011. This upward adjustment was largely as a result of price increases in food basket such as the dry fish, vegetables (tomatoes & onions), cooking oil, and sugar. The total cost of basic food items was K26, 239 signifying a nominal increase of K878 when compared to the April cost of food amounting to K25, 361. The trend is the same for Blantyre city; total cost of basic needs items was at K53, 621 in May 2011 from K52, 723 in April 2011.

In Zomba, the total cost of basic food items and essential non-food items for the month of May 2011 was K45, 200 up from K44, 241 in April 2011. This upward adjustment was as a result of price increases of non-food items such as charcoal, Boom washing soap, clere body lotion apart from the increases in the food items such as dry fish, vegetables (tomatoes & onions), cooking oil, and sugar. The total cost of basic food items was K27, 039 signifying a nominal increase of K749 when compared to the April cost of food amounting to K26, 290. As for Mzuzu, registered decreases in the prices of dry fish, eggs, beef cassava and while prices for bread, sugar, salt, boom washing soap remained constant. This triggered a nominal reduction of K2, 199 in the total cost of the basic needs from K46, 492 in April 2011 to K44, 293 in May 2011.

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