

2026/2027 NATIONAL BUDGET ANALYSIS REPORT

Accelerating towards 2030 MIP-1 Milestones

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ACRONYMNS

ADMARC	Agricultural Development and Marketing Corporation
AfDB	African Development Bank
AIP	Affordable Inputs Programme
ATMM	Agriculture, Tourism, Mining and Manufacturing
CDF	Constituency Development Fund
COMESA	Common Market for Eastern and Southern Africa
COVID-19	Coronavirus Disease 2019
DRMS	Domestic Revenue Mobilisation Strategy
ECAMA	Economics Association of Malawi
EP&D	Economic Planning and Development
FISP	Farm Input Subsidy Programme
GDP	Gross Domestic Product
GoM	Government of Malawi
HCD	Human Capital Development
ICT	Information and Communications Technology
IDA	International Development Association
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
IPDC	Internal Procurement and Disposal Committee
MAMICO	Malawi Mining Investment Company
MDAs	Ministries, Departments and Agencies
MDCHL	Malawi Development Corporation Holdings Limited
MIP-1	Malawi 2063 First Ten-Year Implementation Plan
MK	Malawi Kwacha
MoF	Ministry of Finance
MoLGRD	Ministry of Local Government and Rural Development
MRA	Malawi Revenue Authority
MTR	Mid-Term Review

MW2063	Malawi 2063 Vision
NES	National Export Strategy
NGO	Non-Governmental Organisation
NGORA NGO	Regulatory Authority
NLGFC	National Local Government Finance Committee
NPC	National Planning Commission
NSO	National Statistical Office
OPC	Office of the President and Cabinet
ORT	Other Recurrent Transactions
PBB	Programme-Based Budgeting
PE	Personal Emoluments
PECG	Pillar and Enabler Coordination Group
PFM	Public Finance Management
PFMA	Public Finance Management Act
PPP	Public-Private Partnership
PSIP	Public Sector Investment Programme
RBM	Reserve Bank of Malawi
RTA	Regional Trade Agreement
SADC	Southern African Development Community
SCTP	Social Cash Transfer Programme
SDG	Sustainable Development Goal
SEZ	Special Economic Zone
SME	Small and Medium Enterprise
SONA	State of the Nation Address
SVTP	Shire Valley Transformation Project
Treasury	Ministry of Finance, Economic Planning and Decentralisation
USAID	United States Agency for International Development
VAT	Value Added Tax
WB	World Bank
WASH	Water, Sanitation, and Hygiene

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EXECUTIVE SUMMARY

The 2026/27 national budget is the fifth to be fully formulated under the Malawi 2063 First Ten-Year Implementation Plan (MIP-1). With only four years remaining to achieve the 2030 milestones of graduating to lower-middle-income status and attaining most Sustainable Development Goals (SDGs), this budget represents a critical opportunity to course-correct the trajectory in the second half of MIP-1. This analysis, jointly conducted by the National Planning Commission (NPC) and the Economics Association of Malawi (ECAMA), assesses the extent to which the 2026/27 budget aligns with MIP-1 priorities, addresses emerging macroeconomic challenges, and advances the inclusive wealth creation agenda of Malawi 2063.

The 2026/27 budget is formulated against a challenging macroeconomic backdrop. Growth has averaged only 2.3 percent over the past five years against the MIP-1 target of 6.4 percent, creating a cumulative GDP gap of approximately 12 percent. Inflation, while declining from its 32.3 percent peak in 2024, remains elevated at 28.4 percent in 2025. Foreign exchange reserves remain critically low at 2.2 months of import cover, constraining productive sectors. Public debt has reached 91 percent of GDP, with debt service consuming over 51 percent of domestic revenue in 2025/26, severely crowding out development spending.

The budget's macroeconomic assumptions of 4.1 percent growth, 15 percent inflation, and an 18 percent policy rate are ambitious but achievable if planned investments materialise and structural reforms are sustained. However, optimistic bias in past projections calls for caution and realism.

The 2026/27 budget proposes total revenue and grants of MK8.126 trillion (25.8 percent of GDP) and total expenditure of MK10.978 trillion (34.9 percent of GDP), with a fiscal deficit of MK2.852 trillion (9.06 percent of GDP).

Domestic revenue has grown slowly, achieving only half the Domestic Revenue Mobilisation Strategy (DRMS) target of a 5-percentage point increase over five years. The 2026/27 target of 20.5 percent of GDP requires accelerated implementation of revenue measures.

Fiscal space is expanding: Statutory obligations (wages, debt interest, pensions) have consumed an average of 94 percent of domestic revenue over the past four years, leaving minimal room for discretionary spending. In 2026/27, this ratio is projected to decline to 78.9 percent, creating MK1.36 trillion in new fiscal space, the most significant expansion in the MIP-1 era.

The development budget has recovered, rebounding from a collapse to 20.9 percent in 2025/26 to 30.9 percent in 2026/27, the highest share since MIP-1 began. This represents a 93 percent nominal increase (64 percent real growth), demonstrating renewed commitment to development investment. Debt service remains critical. Despite improvement, debt interest still consumes 43.3 percent of domestic revenue, leaving the economy vulnerable to fiscal shocks.

The 2026/27 budget introduces several commendable revenue measures with significant macroeconomic implications. Import surcharges on selected goods provide short-term protection for domestic industries but risk reducing competitiveness and provoking retaliation from regional trading partners. VAT on digital services from foreign entities broadens the tax base and captures revenue from the growing digital economy. Local procurement requirements for security forces' uniforms, with duty-free raw material imports, support domestic manufacturing and import substitution. Tax incentives for irrigation investment (dams and farm-water infrastructure treated as deductible expenses) promote climate-resilient agriculture and productivity growth. Motorcycle clearance moratorium extension incentivises formalisation of the transport sector, with long-term benefits for regulation and revenue.

The 2026/27 budget has progressively aligned to the Malawi 2063 and MIP-1 more than before. Along the central principles of the MW2063, the budget allocates 19.9 percent of development resources to wealth creation under the ATMM (Agriculture, Tourism, Mining, Manufacturing) strategy. Agriculture dominates (89.8 percent of ATMM allocations), while tourism (1.37 percent), mining (4.05 percent), and manufacturing (4.79 percent) remain severely underfunded relative to their potential. The doubling of mining's share (0.4 percent to 0.81 percent) is positive but far below the ambition to increase mining's GDP contribution from 0.8 percent to 10 percent by 2030.

The dependency ratio, the share of development budget financed by donors, has declined from 71.2 percent in 2025/26 to 59.9 percent in 2026/27, marking significant progress toward the threshold of 50 percent. However, the budget remains heavily reliant on external financing, and subsidies such as the Fertiliser Input Subsidy Programme (MK111 billion) require careful targeting to avoid perpetuating dependency rather than building productive capacity.

The budget allocates 18.8 percent of programme resources to inclusivity-focused interventions, a 5-percentage point increase from 2025/26. However, critical vulnerabilities persist:

- Children: 14 percent of development budget, but 95 percent donor-funded; only 10 of 22 planned projects funded
- Youth: 18 percent of development budget (excluding CDF), 75 percent donor-funded
- Gender and Disability: 12.8 percent of development budget (excluding CDF), 95 percent donor-funded; allocations inconsistent over five years
- Pro-poor: 13 percent of development budget, 100 percent donor-funded, no domestic financing for poverty-targeted programmes

This extreme donor dependency exposes Malawi's inclusivity agenda to significant sustainability risk.

Execution gaps in development budget persist. Between 2021 and 2025, development outturns consistently fell short of allocations, indicating implementation capacity constraints that undermine the impact of increased funding.

Financing sources indicate progress toward self-reliance: Part II (domestic) funding has grown from 31 percent to 40 percent of the development budget, while the dependency ratio has declined from 71 percent to 59.9 percent.

The Constituency Development Fund (CDF) has been transformed, increasing from MK88.6 billion in 2025/26 to MK1.145 trillion in 2026/27, a 1,858 percent increase. Local councils now manage 33.7 percent of the total development budget, up from 3.3 percent. Of this, 72 percent (MK824 billion) is allocated to construction and rehabilitation, with the remainder supporting district-wide projects, education bursaries, project management, and women and youth empowerment. This historic decentralisation carries significant absorptive capacity and oversight risks that must be urgently addressed.

At least 30 percent of development interventions mentioned in the State of the Nation Address (SONA) have been explicitly allocated funding in the budget. However, for many interventions, the link between SONA pronouncements and budget allocations remains unclear.

1 INTRODUCTION

1.1 Background

The national budget is the Government's primary policy instrument for translating development priorities into actionable programmes and projects. It provides the financial framework through which national development strategies are implemented, and public resources are allocated to sectors and interventions that drive economic growth and social development. In Malawi, the national budget plays a critical role in supporting the implementation of Malawi 2063 (MW2063).

To operationalise MW2063, the Government developed the First 10-Year Implementation Plan (MIP-1) (2021–2030) as the initial plan of the vision. MIP-1 outlines priority interventions, flagship projects, and reforms that are expected to drive the country towards the attainment of lower-middle-income economy status. Effective implementation of MIP-1, therefore, depends largely on the extent to which national budgets allocate adequate and well-aligned resources to prioritised interventions under the plan.

1.2 Rationale of the Budget Analysis

Since the inception of the MIP-1, the National Planning Commission (NPC) has consistently engaged Ministries, Departments, and Agencies (MDAs) to ensure budget alignment with catalytic interventions that drive growth. This notwithstanding, funding gaps and budget misallocations still. Additionally, NPC and the Economics Association of Malawi (ECAMA) recognize that the 2025/26 fiscal year experienced high levels of macroeconomic instability due to multiple factors, including foreign exchange shortages. These shortages disrupted the importation of strategic commodities such as fuel, triggering a snowball effect of rising prices, stalled development projects, and higher living costs. As 2026 marks the sixth year of MIP-1 implementation, the economy was expected to grow at an average annual rate of 6.4 percent to reach lower-middle-income status by 2030. However, due to the various challenges the country has faced, the economic growth has stagnated at an average of 2.3 percent for the past five years. Progress across MIP-1 pillars and enablers has been subdued. This is largely attributed to limited financial resources, delays in fund disbursements, and limited human resources to implement MIP-1. With only four years remaining before the MIP-1 phase concludes, the country must remain committed to supporting its implementation and the broader goals of Malawi 2063. This emphasises the need to scrutinise the proposals in the draft budget to identify opportunities and risks that require careful consideration by policy decision makers.

1.3 Objectives of the Budget Analysis

The analysis of the 2026/27 National Budget sought to examine how government resource allocations support the country's long-term development agenda as articulated in the Malawi 2063 and its first implementation framework. The analysis focused on assessing the degree to which the budget contributes to national priorities, economic transformation, and inclusive development.

Specifically, the analysis pursued the following objectives:

- i Assessed the extent to which the 2026/27 National Budget aligns with the MW2063 vision. This included evaluating whether the budget prioritized interventions that support wealth creation and economic transformation, as well as the extent to which it promoted inclusivity by addressing key thematic issues, particularly how the budget responded to the needs of children, youth, the pro-poor, people living with disabilities, and gender equality considerations, ensuring that development benefits are broadly shared across society.
- ii Assessed the alignment of the 2026/27 National Budget with the Pillars, Enablers, and Key Focus Areas of MIP-1. The analysis examined how government expenditure is distributed across the strategic areas outlined in MIP-1 by determining the cumulative percentage share of budget allocations directed toward the respective pillars, enablers, and key focus areas;
- iii Assessed the trends and performance of the development budget. This involved analysing historical data to understand the trajectory of development spending since 2021/2022 fiscal year focusing on:
 - a. The comparison between actual budget allocations and expenditure outturns, to determine the level of budget execution, and
 - b. The growth rates in development budget allocations over time, to ascertain whether development spending is expanding in line with national goals.
- iv Assessed how the 2026/27 budget responded to other pertinent policy issues. The analysis also considered the extent to which the budget supports key cross-cutting policy priorities, including:
 - a. Import substitution, particularly through investments that promote domestic production and industrial development.
 - b. Fiscal decentralization, by examining the allocation of resources to local authorities and decentralized institutions; and
 - c. Alignment with priorities outlined in the State of the Nation Address (SONA), to determine the consistency between policy commitments and resource allocation.

Overall, the objective of this analysis is to provide evidence-based insights into how effectively the 2026/27 National Budget supports Malawi's long-term development aspirations and strategic priorities.

2 METHODOLOGY

The analysis was informed by a review of key documents, including the MIP-1, budget, financial statements, Public Sector Investment Programs, annual economic reports and other relevant materials. The data was extracted and populated into an analytical framework developed by NPC and ECAMA. Microsoft Excel was used for analysis and data visualisation. The results were validated through stakeholders' engagements with Members of Parliament and the Ministry of Finance, Economic Planning and Decentralization.

3 MACRO-ECONOMIC CONTEXT

Malawi is a resource-rich and labour-abundant economy; however, it faces significant constraints due to insufficient capital investment. The country exhibits persistent structural vulnerabilities that hinder its development.

Growth has been modest, averaging 2.3% from 2019 to 2025. Over the past five years, the GDP growth has been impeded by a combination of factors, including adverse climate shocks, macroeconomic instabilities, and inadequate investment in key productive sectors. Malawi's GNI per capita is estimated at around US\$580 (World Bank, 2024), falling short of the US\$1,135 threshold required to graduate to lower middle income. This highlights the urgent need for increased investment to support sustainable economic growth and improve the well-being of its population. Inflationary pressures grew in 2025 but eased in later months. Year-on-year inflation averaged 28.4% in 2025, down from 32.3% in 2024 (National Statistical Office, December 2025).

Malawi continues to face a serious foreign exchange shortage, severely restricting economic activity. Since early 2025, the country's foreign exchange reserves have averaged only about 2.2 months of import cover (Reserve Bank of Malawi). This shortage has disrupted manufacturing, agriculture, energy, transport, and retail sectors. The root causes of Malawi's foreign exchange scarcity remain structural: a narrow export base concentrated in low-value primary commodities, increasing import demand for fuel, fertiliser, pharmaceuticals, and manufactured goods, and declining inflows from development partners.

As of December 2025, the public debt reached approximately K23.9 trillion, about 91 percent of the GDP. This increase is mainly driven by persistent fiscal deficits, statutory expenses, and high domestic borrowing costs, which make debt servicing more difficult. Rising interest payments also divert funds that could be used for domestic investments vital for growth.

The economic outlook suggests that the 2026/27 Budget will be implemented amid these challenging macroeconomic conditions. These factors underscore the importance of basing the budget on realistic assumptions, improving implementation capacity, and prioritising investments that enhance the economy's productive capacity. Such an approach will be crucial for fostering sustainable growth and maintaining social stability in a difficult fiscal environment.

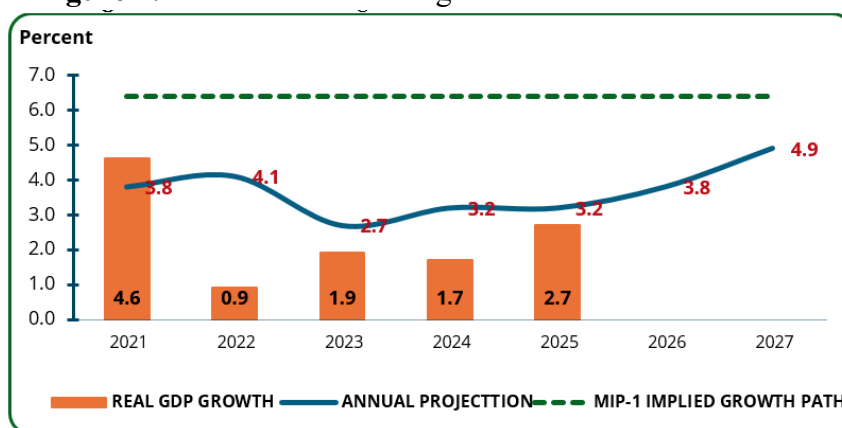
4 SITUATION ANALYSIS

4.1 Credibility of key macroeconomic assumptions

The effectiveness and viability of a budget are fundamentally influenced by the underlying macroeconomic assumptions that inform its framework. Consequently, it is imperative to establish realistic, objective, and quantifiable assumptions concerning all critical indicators that could impact its execution. Among the essential macroeconomic variables that underpin the budgetary framework are GDP growth, inflation, the policy rate, and the exchange rate. It was therefore anticipated that these variables would be carefully considered in the preparation of the 2026/27 budget. A detailed examination of these factors is presented below.

- a. The **fiscalised GDP** growth rate for the fiscal year is estimated to be 4.1 percent. This is above the anticipated global growth rate of 3.3 percent in 2026 but below the implied annual growth rate of 6.4% under MIP-1 (Figure 1). The growth rates in 2026 (3.8 percent) and 2027 (4.9 percent) are based on planned strategic

Figure 1: Trends in Real GDP growth



Source: NPC & ECAMA based on statistics from NABOP

investments in key sectors such as agriculture, tourism, mining, and manufacturing, which the budget highlights as essential for driving economic expansion. The highlighted supply-side enhancements within these sectors include energy, irrigation, the recommissioning of mining operations, and notable infrastructure advancements. A 3.8 percent growth rate is not far-fetched, provided the planned investments are implemented. However, caution must be taken recognising that in the past four years, the actual growth rates have been consistently below the projected.

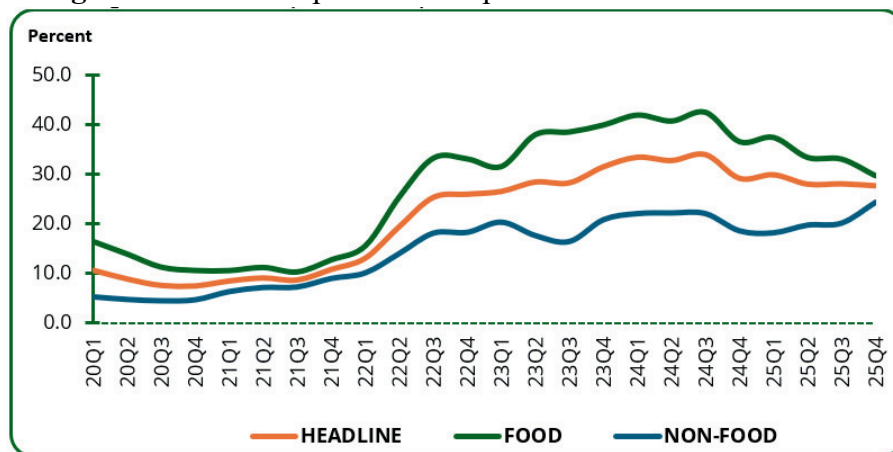
- b. **Inflation** is forecasted to decelerate to approximately 15 percent by the close of the fiscal year. This projection aligns with the observed trends in annual inflation averages, which have decreased from 32.3 percent in 2024 to 28.4 percent in 2025 and 24.9% in January 2026. This decline is primarily attributable to a substantial increase in food supply, which affected food inflation. Further, it is attributed to a reduction in net credit to the government, thereby exerting a contractionary force.

The annual average inflation target of 15 percent in 2026 is achievable but very ambitious. This will depend on the government's response to the strong call from labour unions to adjust wages. With a wage increase, the final prices of goods and services will increase, and production costs

will certainly rise, which ultimately reflects in the final prices of goods and services.

Nevertheless, some factors remain key in stabilising inflation. Key among these are the stabilisation of maize prices, the maintenance of adequate foreign currency reserves, and adherence to a disciplined fiscal policy.

Figure 2: Consumer prices developments

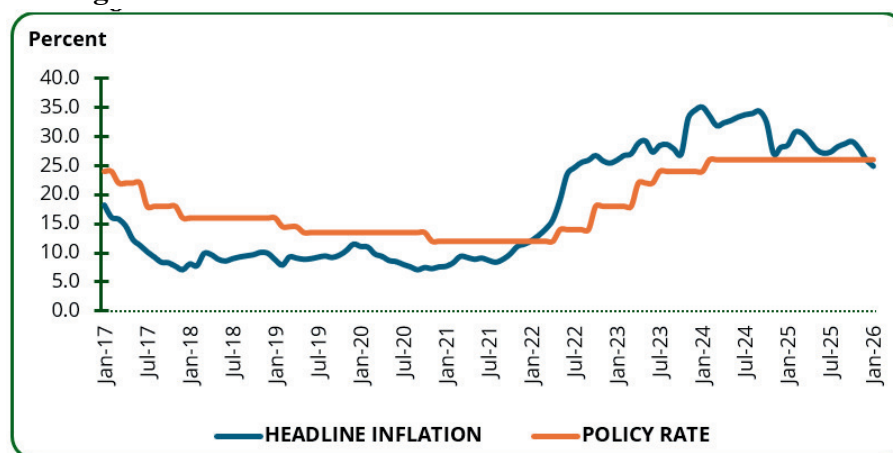


Source: NPC and ECAMA based on statistics from NSO

Despite the recent downward trend in headline inflation, non-food inflation has risen in recent months. Since August 2025, non-food inflation has risen from around 20 percent to 30 percent by January 2026 (Figure 2). This development suggests that the challenges in the fight against inflation are far from resolved, emphasising the need for continued vigilance and policy adjustments.

b. The **policy rate** is anticipated to decrease to 18 percent, reflecting a 600-basis points reduction over the course of the year from the current rate of 24 percent. This proposed cut, while significant, is not without precedent; between January and December 2017,

Figure 3: Trends in interest rates



Source: NPC & ECAMA based on statistics from RBM and NSO

monetary authorities similarly reduced the policy rate by a comparable margin, from 24 percent to 16 percent (Figure 3). If inflation trends downward towards 15 percent, maintaining a policy rate of 18 percent would suggest a modestly positive real interest rate, aligning with the objectives of economic stabilisation.

Nonetheless, the trajectory of disinflation is significantly contingent upon the resolution of foreign exchange constraints, a reduction in government domestic borrowing, and the successful anchoring of inflation expectations. Should these critical conditions remain unmet, the Reserve Bank of Malawi (RBM) may find it necessary to sustain higher interest rates for an extended period to ensure economic stability.

4.2 General observations on assumptions

A general observation regarding the assumptions is that, as in the previous fiscal years, there is an optimism bias in the forecasts for both growth and inflation. Such biases could lead to unrealistic expectations regarding revenue generation and expenditure planning. Furthermore, the treatment of the exchange rate assumption is inconsistent. Even in the previous fiscal years, this assumption is either absent or articulated only in qualitative terms. This lack of forward-looking exchange rate projections persists even during periods of significant currency developments.

Going forward, addressing the inconsistencies surrounding the exchange rate assumptions is crucial for enhancing economic stability and decision-making. It is recommended that future budget policy statements incorporate a comprehensive set of assumptions, including clearly defined and forward-looking exchange rate projections. By doing so, the likelihood of speculative behaviour among economic agents can be significantly reduced, fostering a more predictable economic environment.

5. 2026/27 FISCAL YEAR BUDGET HIGHLIGHTS

5.1 Size and structure of the budget

For the upcoming fiscal year, total expenditure is estimated at MK10.978 trillion, representing 34.9 percent of GDP. Total revenue and grants are projected to be MK8.126 trillion, representing 25.8 percent of GDP. Within this, domestic revenue is estimated at MK6.454 trillion, or 20.5 percent of GDP. Consequently, the budget deficit is expected to be MK2.852 trillion (9.06 percent of GDP).

Table 1: Budget performance (MK' millions)

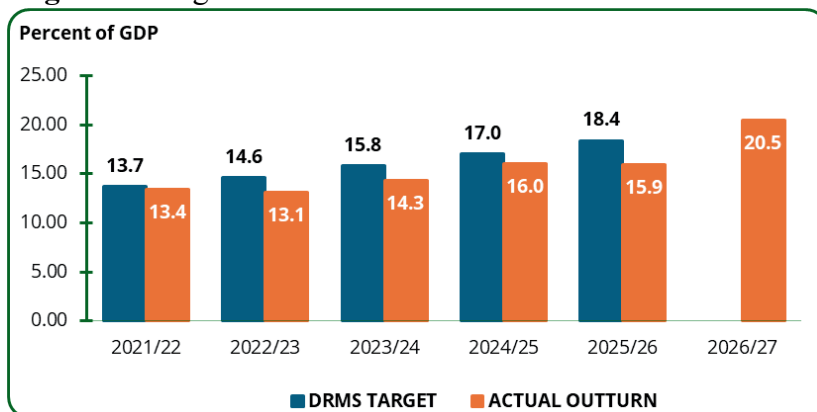
Category	2022/23 outturn	2023/24 outturn	2024/25 outturn	2025/26 pre. outturn	2026/27 proposed
Revenue and grants	2,075,411	2,992,756	4,354,520	5,528,142	8,126,029
Domestic revenue	1,661,409	2,407,430	3,114,131	4,545,140	6,453,957
Tax revenue	1,572,891	2,198,090	2,985,992	4,391,574	6,203,436
Non-tax revenue	88,518	209,340	128,139	153,566	250,521
Grants	414,002	585,326	1,240,389	983,002	1,672,072
Expenditure	3,357,507	4,447,807	6,276,037	8,430,928	10,978,492
Recurrent	2,355,478	3,224,503	4,519,782	6,667,511	7,581,180
Statutory	1,529,783	2,154,071	3,027,846	4,427,267	5,091,998
Share in domestic revenue (%)	92.1	89.5	97.2	97.4	78.9
Development	1,002,029	1,223,304	1,756,255	1,763,417	3,397,312
Share in total expenditure(%)	29.8	27.5	28.0	20.9	30.9
Deficit	-1,282,096	-1,455,051	-1,921,517	-2,902,786	-2,852,463

Source: NPC and ECAMA based on Statistics from the Ministry of Finance

A comparative analysis of the budget structures from previous fiscal years alongside the proposed budget highlights several significant observations.

a. Domestic revenue has demonstrated sluggish growth over recent years, and its share relative to GDP has consistently fallen short of the Domestic Revenue Mobilisation Strategy (DRMS 2021-2026) targets. The DRMS aimed to increase the domestic revenue-to-GDP ratio by 5 percentage points, yet it achieved only a 2.5 percentage points increase,

Figure 4: Progress in domestic revenue mobilisation



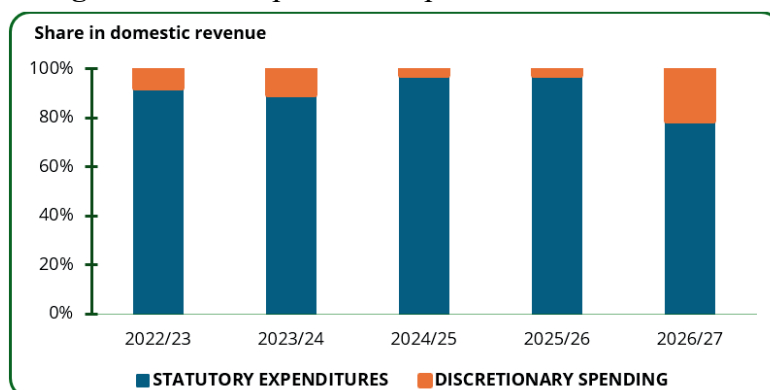
Source: NPC and ECAMA based on statistics from the Ministry of Finance

averaging 0.5 percentage points, per annum (Figure 4). To achieve the targeted 20.5 percent ratio (a 4.5 percentage points increase from 2025/26) in 2026/27 is an uphill task, but

achievable. Therefore, tax broadening measures presented in the 2026/27 budget are commendable, but there is room for more.

b. Between 2022/23 and 2025/26, statutory obligations comprising wages and salaries, pensions and gratuities, interest payments, and other statutory expenses absorbed an average of 94.05 percent of domestic revenue. This level of mandatory spending effectively constrains fiscal space, leaving minimal room for discretionary allocations that support service delivery and development

Figure 5: Fiscal space developments

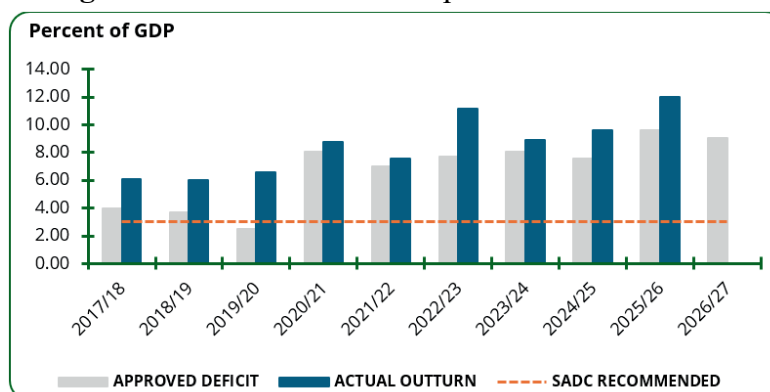


Source: NPC and ECAMA based on statistics from the Ministry of Finance

priorities (Figure 5). Projections for 2026/27 indicate a decline in this ratio to approximately 78.9 percent, suggesting a gradual convergence towards the internationally recommended fiscal policy guidance of less than 70 percent for fiscal sustainability. This anticipated reduction likely reflects ongoing efforts to strengthen fiscal consolidation, improve debt management, and contain recurrent pressures. However, even with this improvement, the fiscal envelope remains tight, underscoring the need for sustained reforms to rebalance expenditure toward growth-enhancing priorities.

c. The planned fiscal deficit remains high. At 11.9 percent of GDP in 2025/26, the fiscal deficit represents a 4.0-fold increase over the SADC-recommended threshold of 3.0 percent of GDP (Figure 6). The 2026/27 budget seeks to reduce this to about 9.06 percent of GDP. The government's continued emphasis on austerity measures to control expenditure, as well as on enhancing revenue collection, is thus commendable.

Figure 6: Fiscal deficit developments



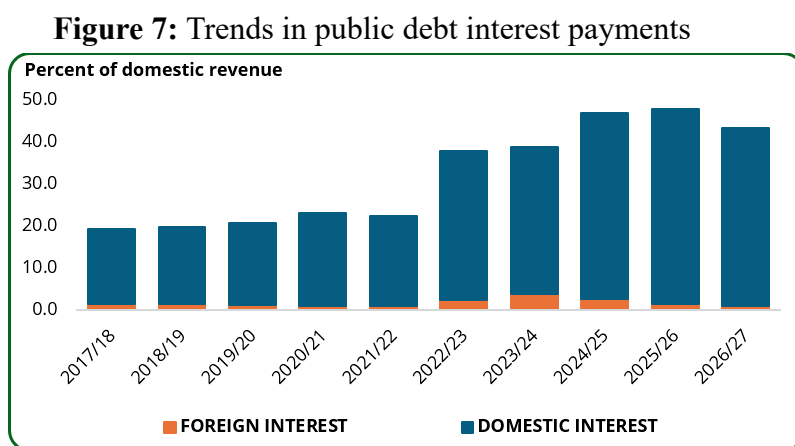
Source: NPC and ECAMA based on statistics from the Ministry of Finance

d. The development budget has been allocated at 30.9 percent of total expenditure, surpassing the 25 percent minimum recommended threshold for sustained development. This allocation underscores the government's commitment to fostering investment in productive sectors to stimulate economic activity. Notably, the ratio of committed resources for the development

budget is projected at 60:40 between foreign-financed and domestically financed projects, marking a substantial improvement from the previous average of 75:25 over the last four fiscal years.

It is important to note that the increase in the share of the budget allocated to domestically financed projects is largely due to the funding allocated for the CDF. Approximately MWK865.3 billion, which constitutes 25 percent of the development budget, is earmarked for CDF. About 75 percent of this amount is financed by local resources, whereby the remainder is supported by development partners. This shift not only emphasises a growing reliance on domestic funding sources but also reflects a strategic move to enhance local capacities and foster sustainable economic growth.

e. Public debt remains a significant fiscal concern, with total public debt projected at MK23.9 trillion, representing 91 percent of GDP, reflecting sustained pressure on the country’s fiscal position and overall macroeconomic stability. Consequently, interest obligations continue to consume a substantial share of public resources (Figure 8). Of the total interest payments planned for 2026/27,



Source: NPC and ECAMA based on statistics from the Ministry of Finance

approximately MK64.47 billion is attributed to foreign debt interest, while MK2.73 trillion relates to domestic debt. The relatively higher domestic interest burden underscores the growing reliance on domestic borrowing, which often carries higher interest rates and shorter maturities, thereby intensifying refinancing and liquidity risks.

5.2 Revenue mobilisation and administrative measures

The proposed budget for the fiscal year 2026/27 outlines a range of revenue mobilisation and administrative measures to enhance fiscal sustainability. This section highlights several key measures and examines their potential macroeconomic implications.

Table 2: Revenue mobilization & administrative measures and their implications

Measure	Macroeconomic Impact
Removal of import duties and taxes on essential teaching and learning equipment for Community Technical Colleges (e.g., sewing machines, plumbing tools, welding machines, and electrical installation tools)	This may enhance skills development by reducing the cost of training equipment and improving the quality and availability of vocational education.
Extension of the motorcycle-clearance moratorium for six months	This initiative has the potential to enhance the formalisation of the motorcycle transport sector by providing incentives for registration with the Malawi Revenue Authority (MRA) and the Road Traffic Directorate. Such formalisation could lead to a range of long-term benefits, including improved regulatory oversight, increased tax revenues, and enhanced safety and efficiency within the transport system.
Introduction of import surcharges on selected imported goods (dressed poultry, maize seed, eggs, sweets, biscuits, crisps, matches, toothpicks, vegetables, aluminium pots, diapers, mono cartons, treated electricity poles, plastic furniture, ballpoint pens).	It may provide short-term protection for domestic firms, but it risks reducing incentives for long-term competitiveness. Furthermore, a significant portion of these imports in Malawi comes from regional trade areas (RTAs), such as the Common Market for Eastern and Southern Africa (COMESA), to which Malawi is a signatory, with various provisions. These agreements typically encourage free trade, rather than protectionist policies. Consequently, adopting protectionist measures could provoke retaliation from trading partners, which may, in turn, harm Malawi's export performance.
Application of VAT on all sugar exports, refundable only upon proof of export and repatriation of export proceeds to Malawi	This measure could strengthen the repatriation of foreign exchange, ensuring that export earnings are returned to Malawi and contribute positively to the balance of payments. While it may lead to higher administrative costs for exporters in the short term, it is likely to improve the long-term availability of foreign exchange.

<p>Requirement that all security agencies manufacture their uniforms locally or procure from local manufacturers.</p>	<p>This measure may enhance domestic manufacturing capacity by establishing consistent demand from large public institutions. Additionally, this initiative is likely to generate employment and create opportunities for micro, small, and medium enterprises (MSMEs) within the textiles, tailoring, and associated supply chains. Lastly, it has the potential to reduce reliance on imports for finished uniforms, resulting in a modest improvement in the trade balance.</p>
<p>Removal of import duties on greenhouses to support agricultural modernisation and climate-resilient farming</p>	<p>The adoption of modern farming technologies can significantly boost agricultural productivity by reducing associated costs. Additionally, these advancements promote climate-resilient farming practices, which help mitigate vulnerability to adverse weather events and contribute to a more stable food supply.</p>
<p>Removal of import duties on heavy-duty generators above 75 KVA when imported by registered and licensed educational institutions and hospitals</p>	<p>This may improve human capital outcomes by fostering more effective learning environments and ensuring continuous access to healthcare services.</p>
<p>Allowing the construction of dams and other farm-water infrastructure to be treated as a deductible expense, like provisions for rice and sugar farming</p>	<p>This initiative offers a strong incentive to promote irrigation agriculture, reducing dependence on rain-fed systems. It boosts productivity, supporting the shift to high-value crops such as macadamia, horticultural crops, and legumes. It also enhances climate resilience through strategic investments in water management infrastructure. The main beneficiaries are medium to large-scale commercial farmers and organised estates capable of significant irrigation investments, with positive spillover effects for out-growers and contract farmers.</p>

The following measures are commendably aimed at broadening the revenue base and improving the efficiency of revenue collection.

- a. VAT on digital services from foreign entities (streaming and social media).
- b. Final withholding taxes on shares, gaming, and rentals.
- c. Automation of non-tax revenue.
- d. Import surcharges and excise taxes on luxury goods.

6. KEY FINDINGS

6.1 National budget alignment to MW2063

6.1.1 Wealth Creation

The 2026/27 national budget allocated about MWK395 billion, representing 19.92 percent of the development budget (excluding CDF), to productive sectors, namely, Agriculture, Tourism, Mining, and Manufacturing (ATMM). Figure 9 shows the distribution of the allocated funds to these sectors. Compared to the previous fiscal year, the percentage of budget allocation to productive sectors in relation to development budget has slightly increased by 0.6 percentage points, as indicated in Table 3.

However, the percentage allocation to agriculture and tourism has decreased, while the percentage allocation to manufacturing and mining has increased. The doubling of the percentage allocation to mining is vital for Malawi, as mining has already proved to have tremendous potential to support industrialisation, yet it has not been fully harnessed. Currently, the mining sector contributes only about one percent to national income. The goal is to increase the share of mining to GDP from 0.8 percent in 2020 to at least 10 percent in 2030.

Table 3: Productive sectors share in the development budget

Sector	Share of development budget	
	2025/26	2026/27
Agriculture	18.03	17.88
Tourism	0.31	0.27
Mining	0.4	0.81
Manufacturing	0.58	0.95
Total	19.32	19.92

Source: NPC & ECAMA calculations based on statistics from the Ministry of Finance

Out of the funds allocated to productive sectors, the largest share (89.79 percent) went to agriculture. Tourism has the lowest allocation of 1.37 percent. Mining and manufacturing have been allocated 4.05 percent and 4.79 percent, respectively. The centrality of agriculture in the allocations is understandable given the nature of the Malawian economy, but allocations to TMM must be enhanced for the sectors to contribute meaningfully to development.

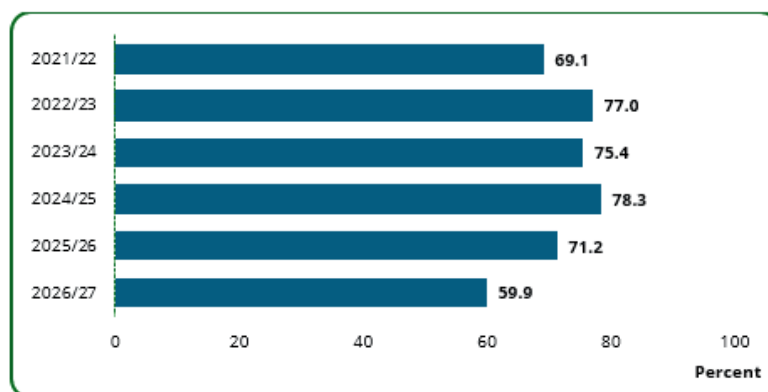
Figure 8: Distribution of budget allocations towards ATMM



6.1.2 Self-reliance

The analysis of the development budget also indicates that the financing of development interventions still relies on donor aid. The share of donor support in the development budget averaged about 74 percent between 2021/22 and 2025/26. However, it is encouraging to note that the donor dependency ratio is projected to decrease from 71 percent in 2025/26 to 59.9 percent in 2026/27.

Figure 9: Aid dependency for development budget



The above notwithstanding, the scope of social support remains rigid. For instance, the 2026/27 budget has allocated substantial resources to subsidies such as the Farm Input Subsidy Program (MWK111.45 billion) and the social cash transfer program (MWK7 billion), which reflects an increase of 58.6 percent from the 2025/2026 revised allocation of MWK4.4 billion. Additionally, the government has introduced free secondary education, necessitating that it provides more resources to schools than in previous years.

Notably, these interventions play an important role in supporting vulnerable groups. These programs must be re-engineered to promote self-reliance by strengthening the productive capacity of beneficiaries and supporting citizens in leveraging transfers and subsidies into sustainable economic activities.

6.1.3 Wealth Creation

In the 2026/27 fiscal year, approximately 18.8 percent of total programme resources have been allocated to interventions aimed at enhancing inclusivity and empowering vulnerable groups. This represents a 5-percentage point increase compared to the 2025/26 allocation. These programmes include social cash transfer initiatives, school construction projects, sports development initiatives, and targeted health programmes benefiting vulnerable populations.

Table 4: Development budget allocations to selected thematic issues

Category	Share in development budget (%)	Extent of donor support (%)
Children	14	95
Youth	18	75
Gender, Disability, and the Elderly	12.8	95
Pro-poor	13	-

6.1.3.1 Children

A good national budget must safeguard the human rights of all citizens, including children. In the 2026/27 fiscal year, 14 percent of total development expenditure is allocated to projects that support children. This also represents a decline from the 16 percent allocated to similar projects in 2025/26.

Notably, of the 14 percent allocated towards child-supporting projects in 2026/27, 95 percent of this share is expected to be funded by development partners, while the remainder is expected to be funded by the Malawi Government. Furthermore, out of the 22 projects that were analysed, aiming at supporting children, only 10 of these projects have been promised funding, which also raises concerns about the implementation of the planned initiatives.

6.1.3.2 Youth

The findings indicate that 18 percent of the total development budget, excluding the CDF, is allocated to youth-focused initiatives. This represents a marginal increase of 1 percent point from the 2025/26 financial year allocation. Of this total allocation, 75 percent is financed by development partners, while the Malawi Government will fund the remaining 25 percent.

6.1.3.3 Gender Disability and the Elderly

Budget allocations to gender and disability related projects have been inconsistent over the past five years of MIP-1 implementation. This variability undermines efforts to advance inclusivity, as meaningful progress cannot be achieved without sustained and adequate financing for initiatives that promote gender equality and disability inclusion within the development agenda.

The analysis of the 2026/27 national budget further reveals that (excluding CDF), 12.8 percent of the development budget is directed toward projects incorporating gender or disability focused components. Notably, approximately 95 percent of the resources supporting these marginalised groups are financed by development partners.

6.1.3.4 Pro-poor

The national budget is expected to protect citizens' rights and improve the welfare of the population, including the poor. The 2026/27 budget was therefore also analysed to assess the

extent to which it supports programmes aimed at poverty alleviation and assistance to poor and ultra-poor households.

The findings show that 13 percent of the total development budget has been allocated to programmes such as the social cash transfer and the FARMSE Ultra-Poor Graduation Programme.

6.2 National budget alignment to MIP-1 by pillars and enablers

The cumulative analysis of MIP-1 cost estimates and budget allocations over the past five years indicates that, during the early years of implementation, there was a substantial gap between the required financing and the resources provided through the national budget. For instance, in 2022, the total estimated cost of MIP-1 implementation was

approximately MWK2.5 trillion, while only about MWK640 billion was allocated in the national budget for MIP-1-related interventions. This represents an underfunding gap of roughly 80 percent during that period. Cumulatively, only 44 percent of the total funds needed to finance the MIP-1 interventions have been allocated, leaving a financial gap of MWK7 trillion, and this, coupled with the misaligned allocations to MIP-1 priorities, has proven to be costly and has led to the underachievement of the MIP-1 target.

From 2024 onwards, the gap between the required resources and the actual budget allocations narrowed. In the 2026/27 financial year, budget allocations are projected to nearly match the estimated annual MIP-1 costing. Despite this apparent convergence, it should not be interpreted as an indication that MIP-1 has been fully or adequately funded. Many interventions that were originally scheduled for implementation in the early years of MIP-1 were not executed as planned and have since been deferred to later years.

Since the commencement of the MIP-1, the absolute value of the development budget has steadily increased. However, despite this growth, budget allocations have not consistently aligned with strategic priorities outlined under MIP-1, which prioritises agricultural productivity, industrialisation, and economic infrastructure. The development budget has consistently skewed towards human capital development, environmental sustainability, and the enhanced public sector. This misalignment persists in the 2026/27 National Budget, notwithstanding the noticeable increase in the share of development budget relative to the total budget. The figure below presents the cumulative cost requirements of MIP-1 across each pillar and enabler, alongside the cumulative budget allocations made between the 2022/23 and 2026/27 fiscal years.

Figure 10: Overall development budget allocations against MIP-1 costing

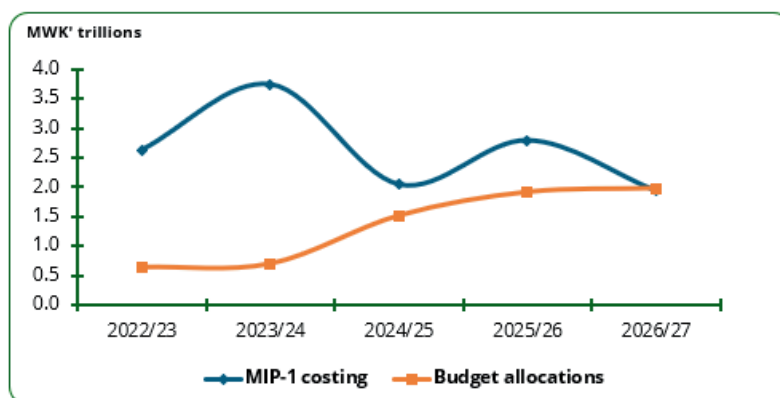
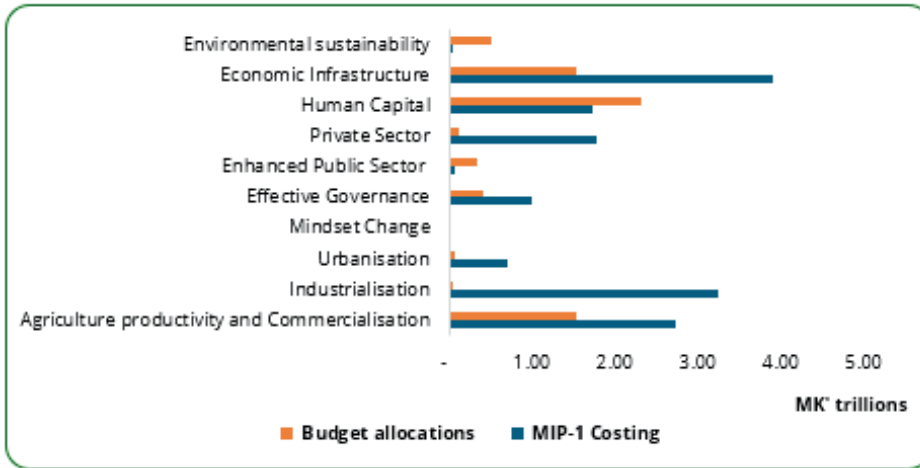


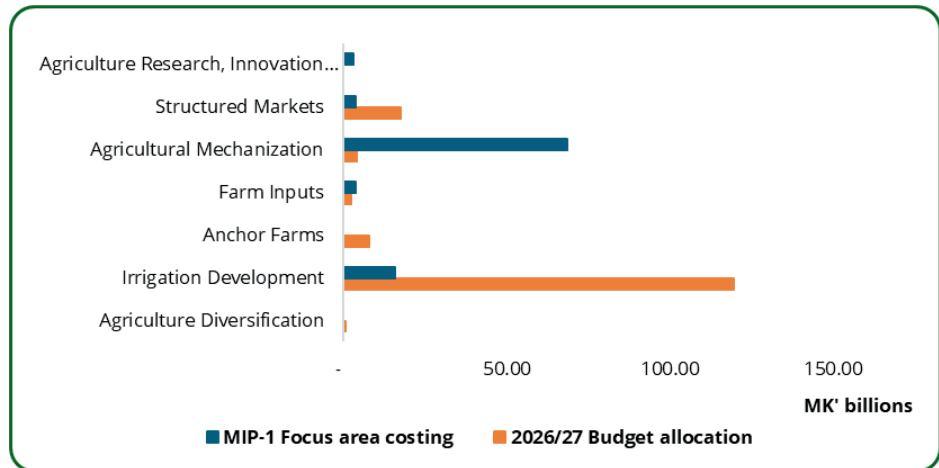
Figure 11: Cumulative budget allocations vs MIP-1 costing (2022-2026)



6.2.1 Agricultural Productivity and Commercialization

At the design stage, MIP-1 envisaged a gradual but sustained rise in the contribution of agriculture to GDP through 2030, supported by deliberate investments aimed at both strengthening the sector and enabling broader economic diversification. In

Figure 12: Distribution of allocations in agricultural commercialisation focus areas



practice, however, agriculture’s share of GDP has remained broadly stagnant over the past five years. This divergence between projection and outcome largely reflects implementation constraints and systemic vulnerabilities within the sector.

The original reform thrust under MIP-1 was multidimensional. It included: (i) systematic rollout of the Mega Farms initiative to drive commercialization and economies of scale; (ii) expansion of irrigated land to mitigate rainfall dependency; (iii) establishment of structured commodity markets to improve price discovery, reduce transaction costs, and enable enterprise planning; and (iv) diversification into non-traditional crops, livestock production, and aquaculture to broaden the productive base. Collectively, these interventions were intended to transition agriculture from a subsistence orientation toward a more resilient, market-integrated system.

The 2026/27 national budget signals a renewed commitment to this transformation agenda. Substantial allocations have been directed toward the mega farms programme and its management architecture, agricultural mechanisation, including local production of small-scale farm implements, and the operationalisation of a common commodity exchange to underpin structured markets across agriculture and other value chains, including mining.

Notably, MWK40 billion has been earmarked for agricultural de-risking and food security through a scaled-up national irrigation development programme. From a macroeconomic standpoint, irrigation investment is not merely a food security intervention; it is a volatility-reducing instrument that stabilizes output, moderates food inflation, and cushions the economy against climatic shocks. Additionally, MWK26.7 billion has been allocated to contract farming arrangements, which, if effectively governed, can enhance access to inputs and financial resources, and provide an assured market with the Government as the buyer.

Furthermore, given that a significant share of Malawi's import bill is agro-based, the allocation of MWK11.3 billion toward locally produced maize seed is strategically aligned with import substitution objectives. With annual seed imports reportedly over US\$100 million as of 2024, domestic seed system development represents both a balance of payments intervention and an industrial policy lever for stimulating upstream agro-processing and input manufacturing, creating jobs in the process.

In synthesis, the 2026/27 agricultural budget can be interpreted as a recalibrated effort to reignite the core ambitions of MIP-1, this time informed by implementation lessons and macro-economic realities. If execution efficiency improves and complementary reforms in trade, finance, and infrastructure are sustained, the current allocations could help reposition agriculture as a genuine engine of inclusive growth and structural transformation.

Mechanization receives moderate attention but remains below the strategic ambition enshrined in MIP-1. Agricultural mechanization shows a large MIP-1 financing requirement, but the 2026/27 allocation is much smaller in comparison. Limited investment in mechanization could slow productivity improvements, particularly in land preparation and harvesting efficiency. Without adequate mechanization financing, irrigation expansion alone may not translate into the expected productivity gains and commercialization outcomes.

There is weak financing towards structured markets and anchor farms, despite their role in value chain coordination, aggregation, and market access. MIP-1 identifies these areas as critical for transitioning farmers from subsistence production to commercial agriculture.

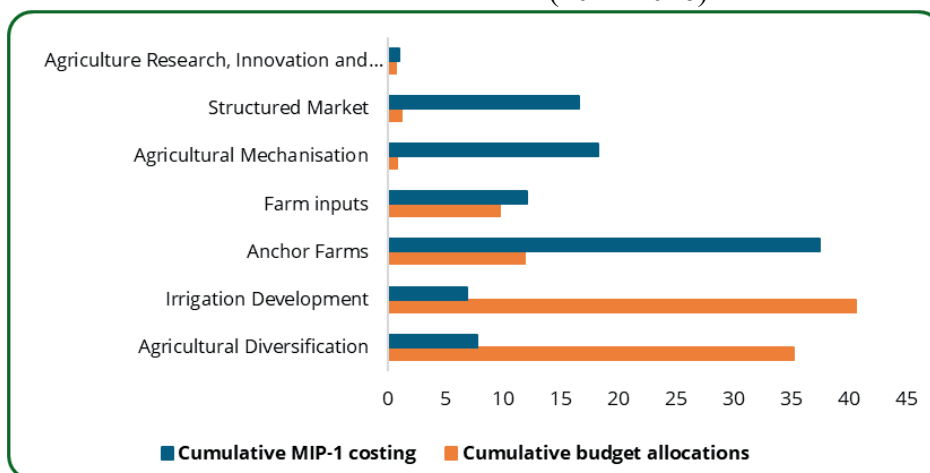
Again, there is very limited investment in diversification and research in the 2026/27 budget compared to MIP-1 expectations. This is concerning because diversification is essential for reducing dependence on maize and tobacco, expanding high-value crops, livestock, fisheries, and agro-processing, and strengthening climate-resilient food systems.

The overall pattern suggests that the 2026/27 budget partially aligns with MIP-1 priorities but does not fully finance the breadth of interventions required for structural transformation. Investment appears highly concentrated in irrigation, while other complementary focus areas of agricultural transformation remain underfunded. For MIP-1 outcomes to be realised, future budgets may need to rebalance allocations towards a more integrated agricultural transformation package that balances allocation across the key focus areas that will drive transformation and without such balance, there is a risk that major capital investments such as irrigation schemes may not generate

their full economic and productivity benefits due to weak supporting systems across the agricultural value chain.

Over the past five years, national budget allocations have provided considerable allocations to the irrigation development

Figure 13: Cumulative allocations towards agricultural commercialisation (2022-2026)



and agricultural diversification focus areas. In certain instances, fiscal commitments towards these priority areas have even exceeded the notional allocations originally projected under MIP-1. Despite this apparent prioritization, however, the structural transformation of the agricultural sector has remained limited. Production patterns continue to be dominated by the traditional crops like maize and tobacco, while the livestock and fisheries, particularly aquaculture, subsectors have yet to register the level of expansion anticipated under the diversification agenda.

A plausible explanation for this outcome lies in the dispersion of resources across a wide range of interventions without sufficient scaling of specific catalytic investments. In effect, allocations were often spread thinly across multiple programmes, diluting their potential to generate measurable structural shifts within the sector. As a result, while funding was nominally aligned with diversification objectives, the magnitude and concentration of investment required to trigger transformation in priority value chains were not consistently achieved.

The 2026/27 budget appears to signal a strategic shift. Unlike in previous years, substantial and more targeted allocations have been directed toward interventions that could generate system-level change. Notably, the budget provides significant resources to establish commodity exchanges across several priority value chains, to strengthen structured markets, and enable more predictable market access for producers.

Similarly, the government has begun operationalizing plans to expand aquaculture through the development of a large-scale fish megafarm. As outlined in the 2025 Economic Report, the initiative seeks to increase national tilapia production from approximately 10,000 metric tons to 30,000 metric tons. If successfully implemented, such an investment could meaningfully expand the fisheries sub-sector.

A comparable shift is observable in the government’s renewed focus on anchor farms. Under the original sequencing of MIP-1, the establishment of anchor farms was front-loaded within the first five years of the implementation period.

Over the review period, one area that has consistently attracted considerable fiscal support has been farm inputs, largely due to the continuation of the government’s agricultural subsidy programmes. While these subsidies have played an important role in sustaining production levels, they have also absorbed a significant share of the agricultural budget. Consequently, other productivity enhancing investments, particularly agricultural mechanization and the development of structured commodity markets, have historically received comparatively limited funding.

The 2026/27 budget, however, indicates a shift in policy emphasis. Substantial allocations toward mechanization and the development of structured markets suggest a more deliberate move toward commercialized and market-oriented agriculture. If sustained and effectively implemented, these investments could address long standing bottlenecks in productivity, market coordination, and value chain integration, thereby aligning the agricultural sector more closely with the wealth creation and transformation objectives envisioned under the MIP-1.

6.2.2 Industrialization

Overall, industrialization comprises 1.21 percent of the proposed 2026/27 development budget. Industrialized mining has been allocated 67 percent of the pillar’s total budget; creation of special economic zones and export processing zones has 31 percent, while 2 percent is under diversification and value addition in export products and competitiveness.

Nonetheless, the 2026/27 budget allocations do not align with the MIP-1 projected estimates. The budget allocations were expected to prioritise diversification and value addition in export products, as well as competitiveness. Overall, the allocated budget is

Figure 14: Distribution of allocation shares towards Industrialization focus areas

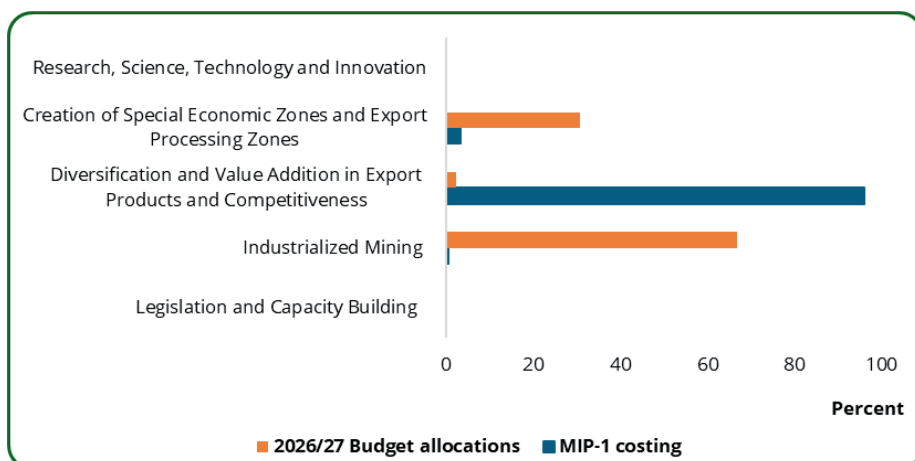
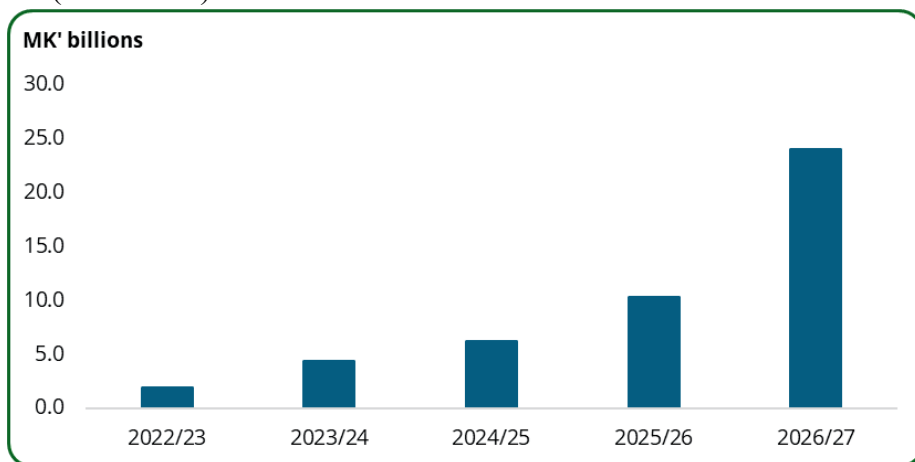


Figure 15: Trends in budget allocations towards Industrialisation (2022-2026)



not adequate, meeting only 17 percent of the MIP-1 estimates, and with notable misallocations

among the focus areas under industrialization.

Over the years, budget allocations under industrialization have increased in nominal terms. With a wider increase in the current budget allocation, jumping from MWK9.66 billion to MWK23.97 billion in the 2025/26 and 2026/27 financial years, respectively.

This is a positive move towards accelerating economic transformation. Cumulatively, the projected MIP-1 allocation as of 2026 was expected to be approximately MWK2.6 trillion compared with the actual allocated amount of MWK46.8 billion. Notably, 1.6 trillion was projected to be under industrialised mining, but only MWK17.0 billion has been allocated. Overall, the budget allocations are much lower than the MIP-1 projected costs, with only 2% achievement since 2022.

6.2.3 Urbanisation

The findings reveal consistent under-funding across all focus areas except Legislation and capacity building, which shows having received slightly above the estimated MIP-1 costs. Tourism, however, despite being a priority sector by the government, has remained substantially underfunded over the past five years.

The analysis also examined the extent to which the 2026/27 budget allocated resources to the focus areas under the Urbanisation Pillar, compared with the estimated MIP-1 costing. The findings indicate that tourism has received a relatively larger share of funding, with allocations amounting to MWK7.5 billion, compared to the MWK2.2 billion required under the MIP-1 costing for 2026/27. This shows a commitment towards making the tourism sector a priority for driving the country's economy under the ATMM initiative. In contrast, infrastructure development, identified as the most resource-intensive area, which requires MWK97.2 billion in 2026/27, has only been

Figure 16: Cumulative allocations towards Industrialisation (2022-2026)

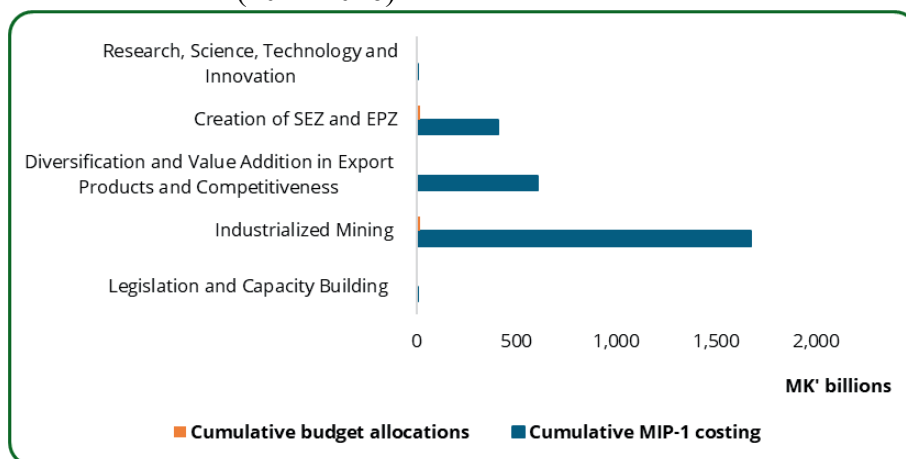
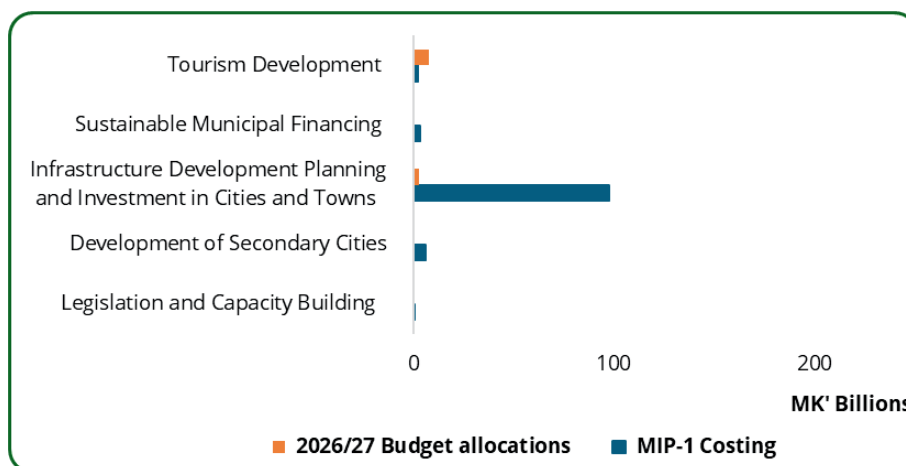
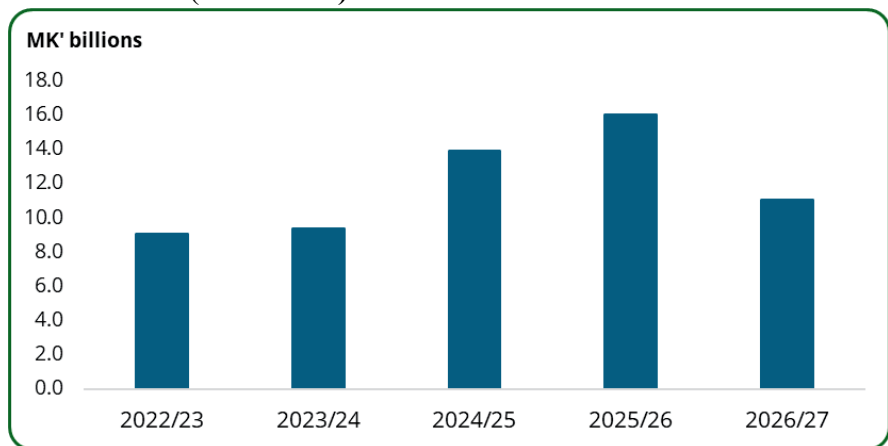


Figure 17: Distribution of allocations under urbanisation focus areas



allocated MWK2.2 billion in the budget. While the remaining focus areas have not received any allocations in the current budget. Cumulatively, urbanisation has only received 1% of the total development budget in 2026/27 FY- excluding CDF.

Figure 18: Cumulative budget allocations towards urbanisation (2022-2026)

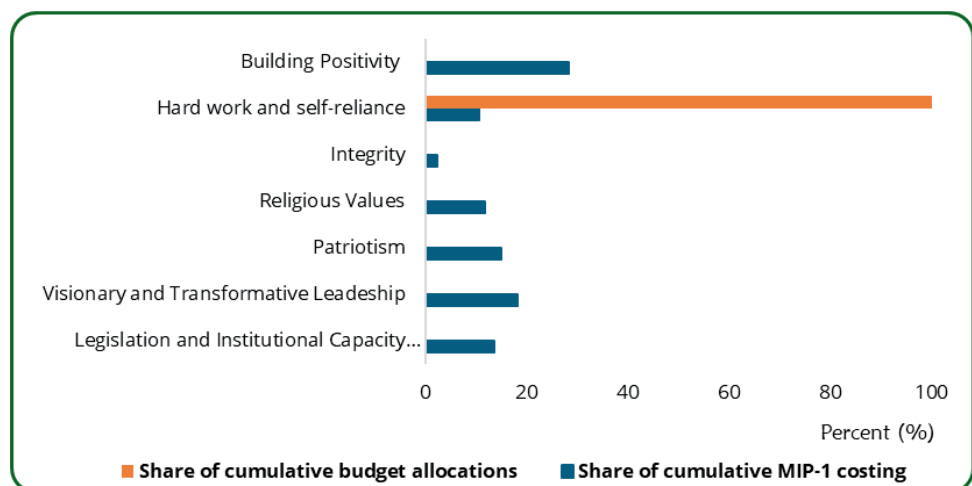


The analysis also examined trends in cumulative budget allocations towards urbanisation over the past five fiscal years, from 2022/23 to 2026/27. The results show a steady increase in budget allocations from about MWK9 billion in 2022/23 to approximately MWK9.3 billion in 2023/24, before rising significantly to around MK13.9 billion in 2024/25. The allocation peaked at about MWK16 billion in the 2025/26 financial year, suggesting a temporary increase in investment towards urbanisation-related interventions. However, the 2026/27 budget shows a decline to about MWK11 billion. The trend shows declining allocations in the 2026/27 FY and funding inconsistencies that may fall short of the sustained financing required to meet the Urbanisation targets under MIP-1

6.2.4 Mindset Change

The percentage share of cumulative budget allocations relative to the projected percentage share of cumulative MIP-1 costing from 2022/23 to 2026/27 indicates that the Mindset Change enabler remains significantly underfunded. Since the 2022/2023

Figure 19: Cumulative allocations to mindset change focus areas (2022-2026)



However, the 2026/2027 development budget has not allocated resources to any focus area under this enabler. This persistent lack of adequate funding risks under mining the implementation of the Mindset Change enabler and its intended outcomes.

6.2.5 Effective Governance Systems and Institutions

The budget allocation trends for Effective Governance Systems and Institutions (EGSI) reveal a misalignment with the MIP-1 costing. Over the years, MIP-1 costing for ESGI exceeds the budget allocations across all focus areas, except one, indicating a substantial financing gap. This indicates that though the reforms under this enabler remain a priority within the national development framework, the fiscal resources committed towards the attainment of these strategic goals have consistently been insufficient to fully support their complete implementation.

Figure 20: Cumulative allocations to effective governance systems and institutions (2022-2026)

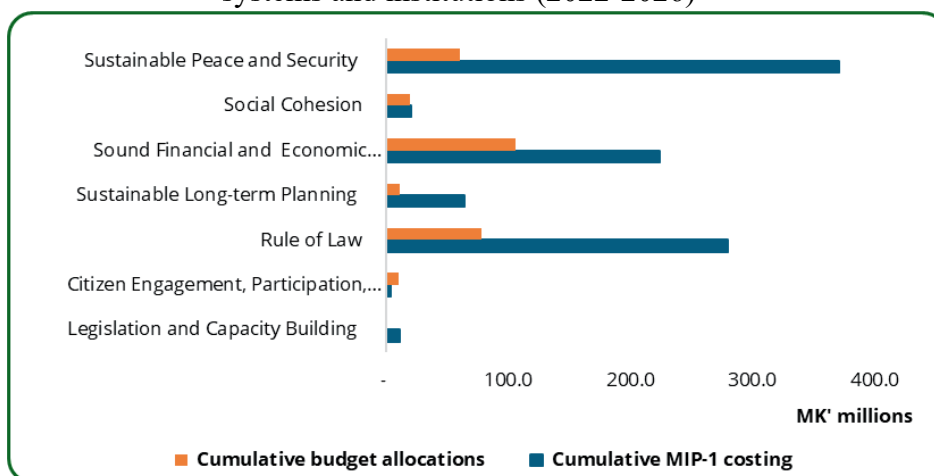
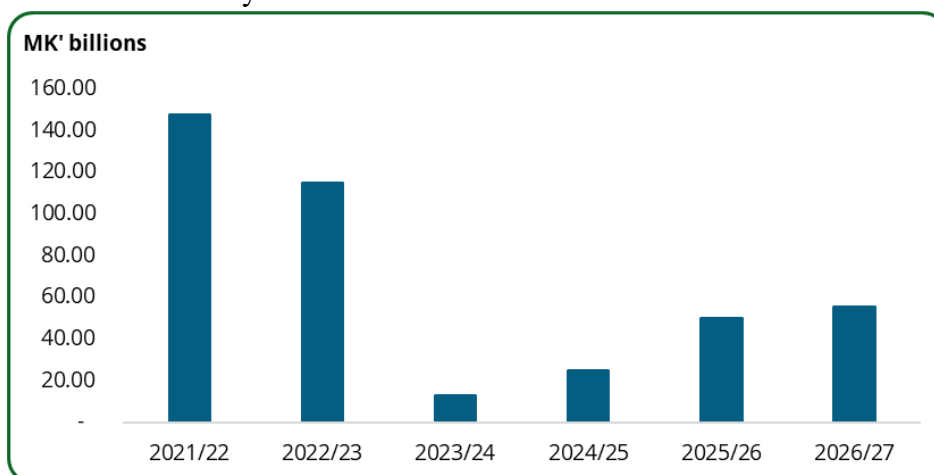


Figure 21: Trends in budget allocations to effective governance systems and institutions



There are particularly large disparities in focus areas such as ‘Sustainable Peace and Security’ and ‘Rule of Law’, which require the largest investments within the MIP-1 costing framework, yet the cumulative budget allocations fall considerably short of the requirements. The ‘Sound Financial and Economic Management’ focus area also falls short despite being central to improved public financial management and economic governance. These gaps could undermine the efforts to strengthen institutional capacity and enhance peace and security systems in the country.

The mismatch is also true in the focus areas with smaller proportions within the enabler’s MIP-1 costing- mainly ‘Sustainable Long-Term Planning’ and ‘Legislation and Capacity Building’. Underfunding in these areas is likely to slow down the progress towards building stronger institutions and improving long-term planning, which are key elements for long-term economic development.

Contrastingly, the ‘Citizen Engagement, Participation and Fair Conduct of Elections’ focus area continues to receive a higher proportion of funding relative to its cost, signalling the importance of

democratic accountability in achieving long-term stability. However, without adequate investment in the other focus areas, the gain from this may not fully translate into improved economic outcomes.

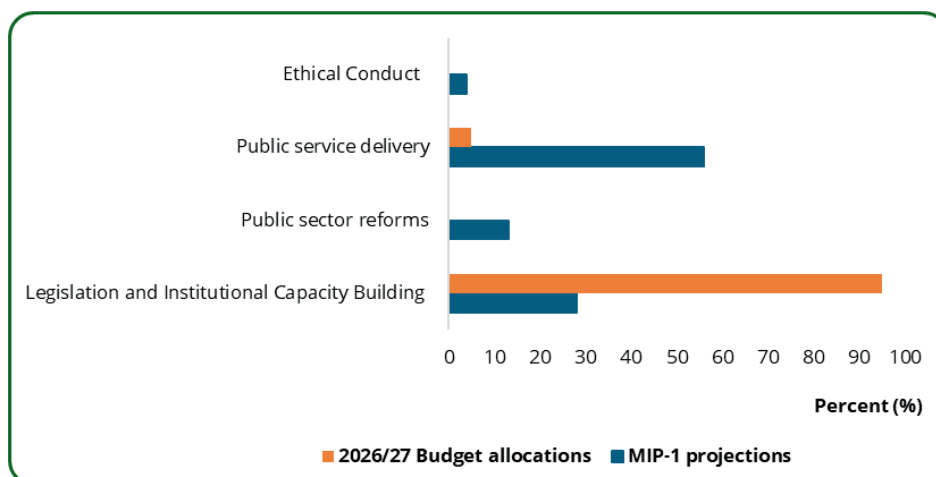
Therefore, the overall picture shows that the current financing pattern is partially aligned, but with this underfunding trend, bottlenecks may persist, slowing down the progress towards the MIP-1 milestones.

The budget allocations for the ESGI enabler have been volatile over the period. Despite relatively high budget allocations in 2021 and 2022, 2023 recorded a sharp decline to around MWK13 billion from MWK115 billion in 2022 and MWK147 billion in 2021, before gradually recovering in subsequent years. Although funding has been on an upward trajectory since 2024, the allocations remain well below the levels within the first two years of the period under review and the MIP-1 costing. Such fluctuations suggest fiscal reprioritisation due to fiscal constraints but consequently push interventions off-track.

6.2.6 Enhanced Public Sector Performance

The analysis of the budget data reveals a significant strategic realignment between the cumulative MIP-1 expenditure from 2021/22 to 2026/27 and the proposed allocation for the 2026/2027 financial year. Over the MIP-1 period, total spending across all focus areas amounted to

Figure 22: Distribution of allocations to enhanced public performance



approximately MWK60.94 billion, with Legislation and Institutional Capacity Building dominating the landscape. This sector received about MWK33.03 billion, capturing a commanding 75.9 percent share of the total budget, indicating a historical emphasis on establishing foundational legal and institutional frameworks. In sharp contrast, the 2026/2027 allocation for this area is slashed to just MWK583.59 million, reducing its share to 27.6 percent, a dramatic drop of 48.3 percent. This suggests a deliberate turn away from large-scale institutional investment in the immediate term.

On the other hand, Public Service Delivery is positioned to become the primary focus of the upcoming fiscal year. While it already accounted for a substantial 46.2 percent of the MIP-1 budget, MWK20.09 billion, its 2026/2027 allocation of approximately MWK 1.18 billion elevates its share to 55.7 percent of the annual plan. This 9.5 percentage-point increase is a shift toward direct service implementation. Meanwhile, Public Sector Reforms maintains a consistent 13.0%

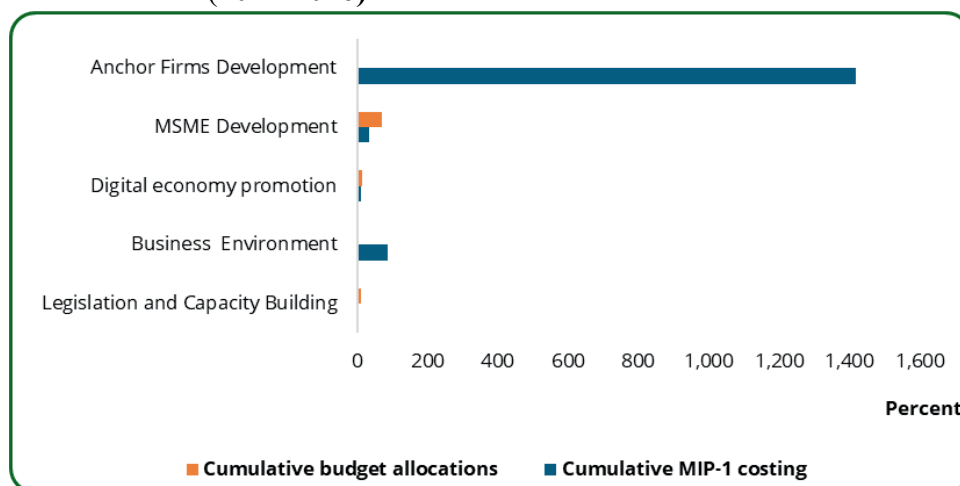
share across both periods, reflecting steady institutional commitment. Ethical Conduct receives the smallest allocation, declining marginally from 5.0 percent in MIP-1 to 3.7 percent in 2026/2027, reinforcing its position as a lower financial priority.

For the past 5 financial years, enhanced public sector performance has received MWK321 billion across all the focus areas. The Legislation and Institutional Capacity Building area dominates the budget, with a massive funding flow beginning in 2023/24, accumulating over MWK207 billion by 2026/27, indicating a long-term strategic priority. In contrast, the Public Sector Reforms area shows no allocated budget across all years, suggesting it may not be a current financial priority. Public service delivery demonstrates a highly unstable trend, with significant funding in 2024/25 and 2025/26 of over MWK50 billion each year, but drops down in 2026/27, while Ethical Conduct appears to have no budget figures reported. Cumulatively, the total budget crosses MWK 321 billion by 2026/27, driven almost entirely by the steep year-over-year increases in the Legislation category, particularly from MWK3.9 billion in 2022/23 to over MWK40 billion in 2023/24.

6.2.7 Private Sector Dynamism

Malawi is aiming at having a dynamic and vibrant private sector that effectively delivers on the industrialised upper middle-income status. MIP-1 recognises that the private sector is critical in catalysing economic development and wealth creation.

Figure 23: Cumulative allocations towards private sector dynamism (2022-2026)



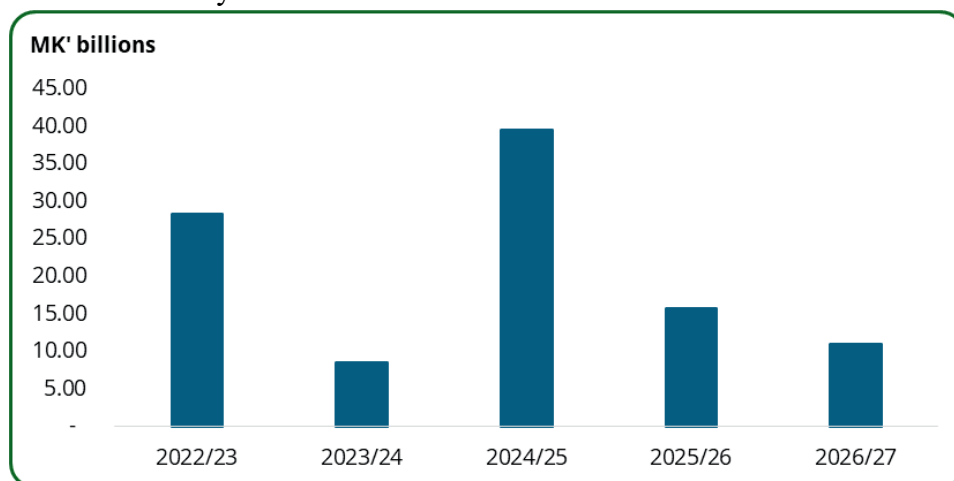
The focus areas within this enabler include the creation of an enabling business environment through the creation of a stable macro environment and economic infrastructure. Other focus areas include legislation and capacity building, Promotion of a digital economy, micro, small, and Medium Enterprise (MSMEs) development, and the promotion of the establishment of large-scale firms with strong connections to both local and global market value chains.

The analysis done on the 2026/27 national budget shows that while anchor firms required the most funding of approximately MWK1.42 trillion, they have been the most underfunded, getting only MWK3.2 billion, while creation of an enabling environment did not get any funding in the five years. However, the analysis also shows overfunding in the other focus areas, notably for MSME development and legislation, which were funded beyond the MIP-1 requirement.

An assessment of the budget allocations against the MIP-1 costing requirements for 2026/27

shows several financing gaps. The findings indicate that the development of an enabling business environment and the promotion of a digital economy have not been allocated any funding in the 2026/27 financial year. The results also show that the establishment of

Figure 24: Trends in budget allocations towards private sector dynamism



anchor firms, which requires the largest share of funding under the private sector enabler, approximately MWK95.6 billion in 2026/27, has only been allocated MWK565 million, mainly directed towards value chain development.

However, the Government appears to be shifting its focus towards MSMEs as key drivers of economic growth in the 2026/27 FY. The 2026/27 budget allocates a total of MWK3 billion to MSMEs against an estimated MIP-1 requirement of MWK1.7 billion, which shows the Government’s commitment to prioritising MSMEs through the MSME Transformation Programme.

The trends in cumulative budget allocations towards private sector development over the past five fiscal years, from 2022/23 to 2026/27, show significant fluctuations in funding across the period under review. Allocations declined sharply from about MWK28.3 billion in 2022/23 to approximately MWK8.5 billion in 2023/24, before rising substantially to around MWK39.5 billion in 2024/25. This was followed by another decline to about MWK15.7 billion in 2025/26 and a further reduction to roughly MWK10.9 billion in the 2026/27 fiscal year. These fluctuations suggest inconsistency in budgetary support towards private sector development, which may affect the implementation of interventions under MIP-1.

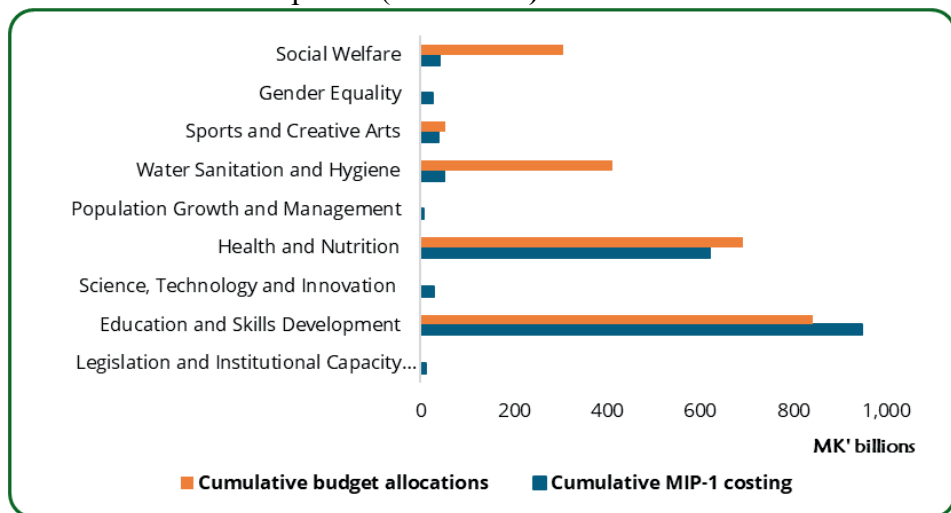
6.2.8 Human Capital Development

Malawi 2063 recognizes that the thrust of an economy is in its people, as they are the ones who design programs, implement strategies, and create innovations. Therefore, developing human capital through education, skills, and health of the population plays a pivotal role in the transformation of the economy.

For the past 5 years, budget allocation has surpassed MIP-1 cost for Human Capital development (HCD). However, misallocation exists when focus area allocations are analysed. For instance, legislation and Institutional Capacity, Population Growth and Management, and Gender Equality have not received any allocations in the national budget from 2022/23 to 2026/27. Overall, the

highest funded has been Education and Skills Development. This is also consistent with MIP-1 costing. However, the percentage allocated is less than that in MIP-1, indicating misalignment. Similarly, Health and Nutrition has been the second highest, which is consistent with MIP-

Figure 25: Cumulative allocations toward Human Capital Development (2022-2026)

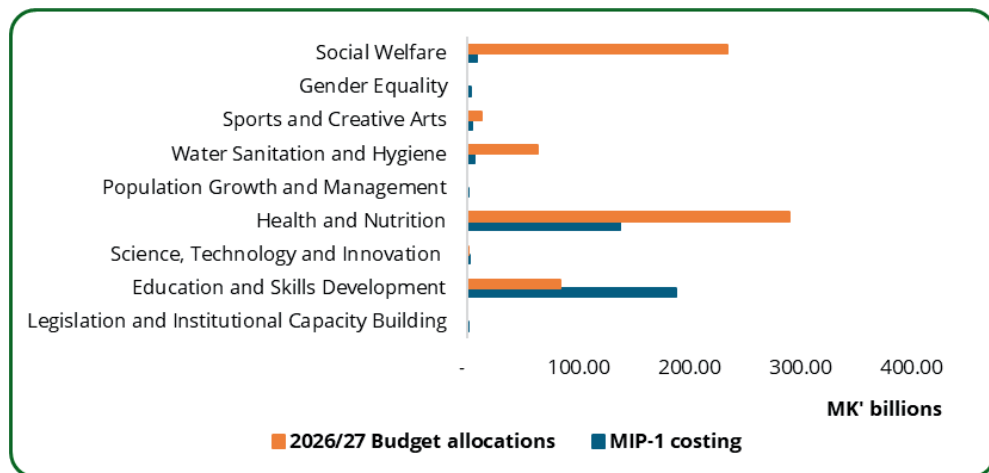


1, but the percentage allocation is also less than planned. Water, Sanitation, and Hygiene, and Social Welfare have received more than their allocated funds compared to MIP-1 cost allocations.

The 2026/27 budget has allocated MWK684.8 billion to HCD, representing about 34 percent of the total development budget. This is higher than the MIP-1 cost allocation, which is 23 percent of the total development budget in the fiscal year. While this investment is a positive step for the HCD, the significant diversion from the plan raises concerns about potential fiscal pressures on other pillars and enablers, which may face constrained resources as a result.

Although the overall allocation to the HCD is higher relative to MIP-1 benchmarks, the internal distribution of resources within the enabler is of great importance. Within the HCD, Health and Nutrition receive the largest share of funding, followed by Social

Figure 26: Distribution of allocations toward human capital development focus areas



Welfare. This is a shift from the previous fiscal year, when Education and Skills Development was the most funded focus area. Two significant misallocations stand out. First, Social Welfare is allocated 34.16 percent of the enabler's budget, far exceeding the 2.41 percent provided under MIP-1. On the other hand, Education and Skills Development, which MIP-1 prioritized with 53.3 percent of the enabler's budget, has been allocated only 12.23 percent in the current budget. This huge divergence from the MIP-1 framework could undermine key priorities needed to shape the quality of human capital by 2030. Furthermore, with the introduction of free secondary education

aimed at improving access, the education and skills development focus area of adequate funding threatens the sustainability of this initiative. Realizing that this was the most funded area in the previous budget, which is in alignment with MIP-1 costing, this year’s drop in allocation is a setback.

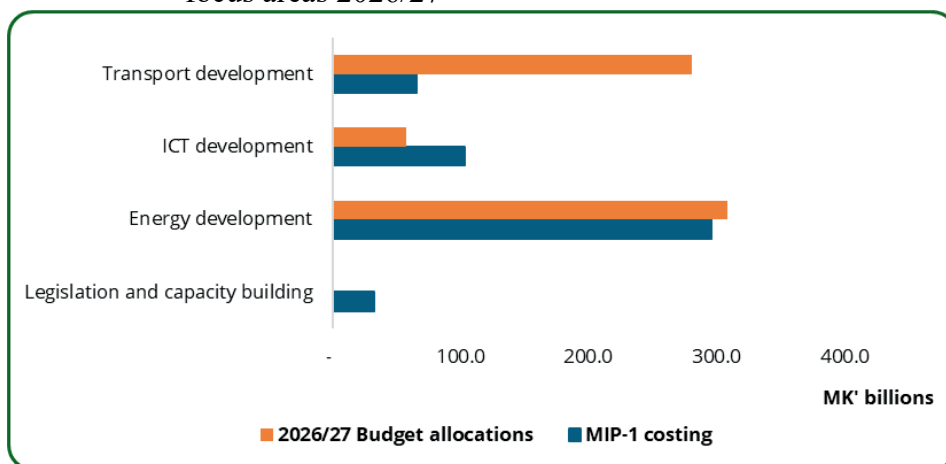
The most underfunded areas in the budget are Legislation and Institutional Capacity Building, Population Growth Management, and Gender Equality, which are consistent with the MIP-1. However, the complete absence of budget allocations for these three focus areas in the 2026/27 fiscal year is a great concern. Without any funding, it is impossible to register progress in these areas during the upcoming fiscal year.

Budget allocation trend analysis since 2022/23 reveals erratic movements. In 2023/24, Health and nutrition and WASH dropped while education and skills development increased slightly. From 2023/24 to 2025/26, the three focus areas rose sharply. The 2026/27 budget has seen another drop in allocation to HCD compared to the previous year. However, this is still above the MIP-1 cost, and if the drop is benefiting critical productive sectors while maintaining the minimum cost of MIP-1 for HCD, then it is good for the overall budget. The major concern is the inconsistency of the trend, which doesn't show the overall direction aimed at.

6.2.9 Economic Infrastructure

While national budget allocations to this enabler have remained below projected requirements over the past five years, the 2026/27 allocation reflects a notable shift. MIP-1 projected that the cost of interventions under this enabler for the 2026/27 fiscal year would amount to MWK 497

Figure 27: Distribution of allocations towards economic infrastructure focus areas 2026/27



billion. However, the 2026/27 national budget has allocated MWK 647 billion to the enabler, representing an increase of 30.1 percent above the projected requirement. This suggests that, at an aggregate level, the resource envelope for the enabler is adequate for the fiscal year.

Nonetheless, misalignment with MIP-1 priorities remains evident within the enabler itself. Specifically, the 2026/27 national budget allocates a larger share of resources to transport infrastructure development compared to ICT development, contrary to the prioritization outlined in MIP-1 for 2026/27.

6.2.10 Environmental Sustainability

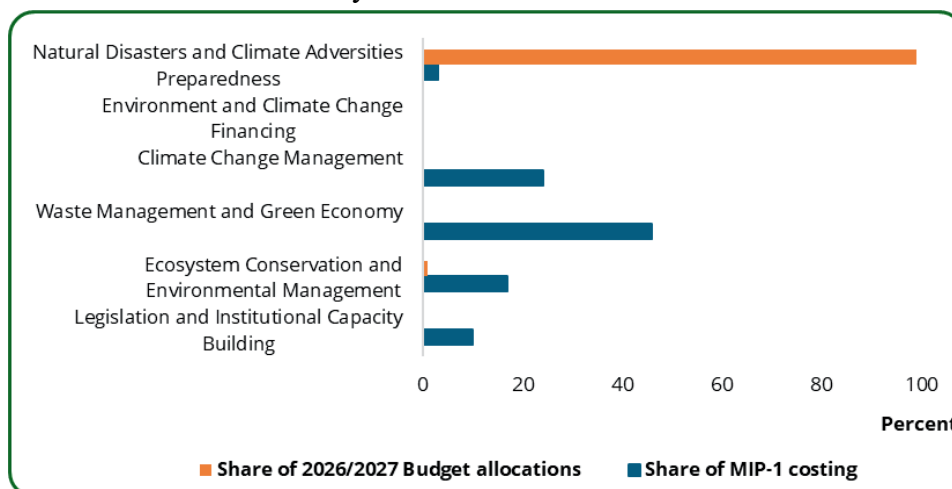
The Environmental Sustainability enabler has consistently received budgetary allocations for only two of its six focus areas from 2022/23 to 2026/27, namely the ecosystem conservation and environmental management, and natural disasters and climate adversities preparedness focus areas. The other four focus areas were unfunded during this period. Notably, budgetary allocations to ecosystem conservation and environmental management have been fluctuating over time. Funding declined sharply from MWK39.92 billion in 2022/23 to MWK800 million in 2023/24, before increasing to MWK26.46 billion in 2024/25 and MWK49.75 billion in 2025/26. However, allocations were reduced again significantly to MWK1.75 billion in 2026/27. In contrast, funding for natural disasters and climate adversities preparedness shows an overall upward trend despite an initial decline. Allocations decreased from MWK53.56 billion in 2022/23 to MWK12.05 billion in 2023/24 but subsequently increased sharply to MWK71.66 billion in 2024/25, MWK108.55 billion in 2025/26, and MWK130.71 billion in 2026/27.

Furthermore, the comparison between the 2026/27 budget and the projected MIP-1 costs reveals a significant misalignment and insufficient resource allocation within the enabler. The natural disasters and climate adversities preparedness focus area has received 99 percent of the total environmental sustainability budget, despite accounting for only 3 percent of the projected MIP-1 costs. On the other hand, the ecosystem conservation and environmental management focus area has been allocated just 1 percent of the total budget, which is below the projected MIP-1 cost requirement.

Meanwhile, other priority areas within Environmental Sustainability remain entirely unfunded. This is particularly troubling, given that MIP-1 projected costing amounts to 46 percent for waste management and the green economy focus area and 24 percent for the climate management focus area. Although investing in natural disasters and climate adversities preparedness is crucial, the current high concentration of funding in a single focus area weakens the balanced and integrated approach envisaged under MIP-1, risking inadequate financing of critical environmental priorities.

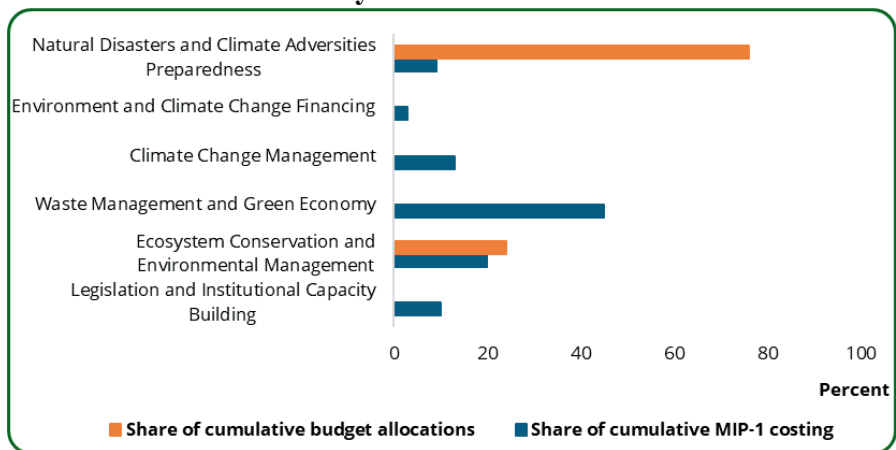
In addition, the natural disasters and climate adversities preparedness focus area has received the largest share cumulatively, accounting for 76 percent of cumulative budget allocations. This is followed by ecosystem conservation and environmental management, with 24

Figure 28: Distribution of allocations towards environmental sustainability 2026/27



percent of the cumulative budget allocation. This distribution reflects sustained government commitment to strengthening resilience to climate-related shocks and advancing ecosystem management. However, focus areas such as waste management and green economy have not received cumulative funding over the past five years. The continued absence of investment in these areas is concerning, given their strategic importance in supporting the green transition. Failure to prioritise waste management limits progress in reducing pollution, conserving natural resources, and mitigating climate change. It also constrains economic opportunities associated with sustainable waste practices, including green enterprise development, job creation, and cost savings from reduced environmental damage. To achieve the objectives set out in MIP-1, increased and more balanced investment across all focus areas will be required to ensure holistic environmental protection and long-term sustainability.

Figure 29: Cumulative allocations towards environmental sustainability



6.3 National budget alignment to MIP-1 by pillars and enablers

6.3.1 Actual budget allocation vs outturns from 2021

Both development allocations and outturn expenditures increased significantly over the five-year period, indicating a growing emphasis on development spending. Allocations rose from roughly around MWK560 billion in 2021/2022 to about MWK2 trillion by 2025/26, reflecting a substantial expansion of the development budget. This increase reflects government efforts to scale up investments in infrastructure, agriculture, and other growth-enhancing sectors in line with the MW2063.

However, the graph also reveals persistent gaps between the planned allocations and the actual outturns, suggesting challenges in budget execution. In 2021/22 and 2022/23, the outturns were noticeably lower than the allocated amounts, indicating that a portion of the planned development projects may not have been fully implemented. Such under-execution can be attributed to factors commonly affecting development spending, including procurement delays, limited absorptive capacity within implementing agencies, delayed disbursement of donor funds, or fiscal pressures that lead to reallocation of funds to recurrent expenditures.

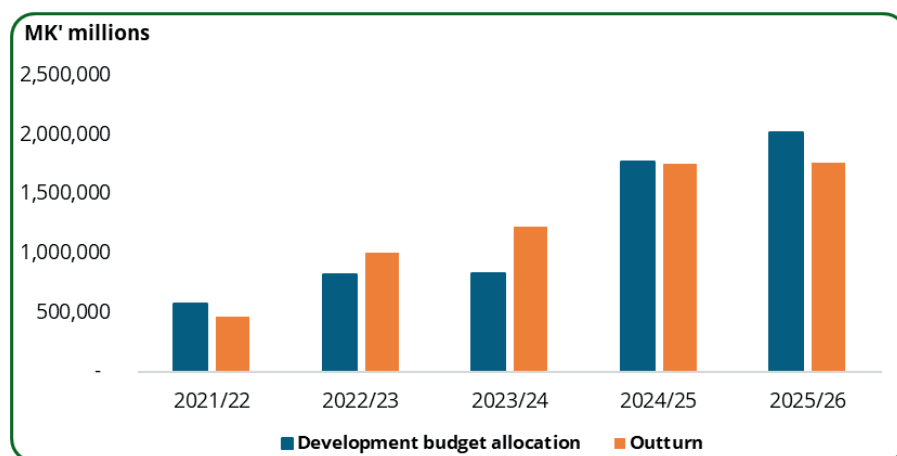
Interestingly, 2023/24 shows a reversal of the trend, where the outturn slightly exceeds the allocated development budget. This may indicate supplementary funding during the fiscal year, increased donor disbursements, or budget revisions that expanded development spending beyond the original plan.

In 2024/25 and 2025/26, although both allocations and outturns increased sharply, the gap between the two remains evident. While execution levels appear relatively high compared to earlier years, the continued difference suggests that scaling up development budget allocation alone does not guarantee proportional increases in actual investment on the ground.

In summary, the graph highlights two important policy insights: first, Malawi's development budget has expanded rapidly in nominal terms over the period; and second, implementation efficiency remains a key challenge, as

actual development spending often falls short of planned allocations. Strengthening project planning, procurement processes, and absorptive capacity will be critical to ensure that increased

Figure 30: Development budget allocations versus outturn



development allocations translate into tangible economic and social outcomes.

6.3.2 Growth rates of the budget allocations

The graph illustrates the growth rates of annual budget allocations across the three pillars of MW2063, highlighting shifts in fiscal prioritization and potential implications for structural transformation. The Industrialisation pillar exhibits the strongest, though volatile, growth trajectory among the three pillars. In 2023/24, allocations to industrialisation expanded by approximately 1.3 percent, indicating an early fiscal push toward industrial development. This momentum weakened temporarily, with growth slowing to around 0.42 percent in 2024/25, before recovering to approximately 0.65 percent in 2025/26. Projections suggest a further acceleration to about 1.3 percent in 2026/27, effectively restoring the pillar to its earlier growth peak. From a macro-economic standpoint, this pattern suggests an increasing fiscal emphasis on industrial policy, potentially reflecting efforts to stimulate domestic value addition, manufacturing capacity, and mining sector development.

In contrast, the agricultural productivity and commercialisation pillar demonstrates a deteriorating growth pattern, raising concerns about the sustainability of agricultural-led growth. While allocations initially grew moderately, reaching roughly 0.70 percent in 2023/24 and 0.78 percent in 2024/25, the trend reversed sharply thereafter. Growth declined to approximately 0.30 percent in 2025/26, with projections indicating a contraction of about 0.25 percent in 2026/27. From an economic policy perspective, this downward trajectory could constrain productivity improvements in the agricultural sector, which remains a critical driver of employment, rural incomes, and export earnings in Malawi.

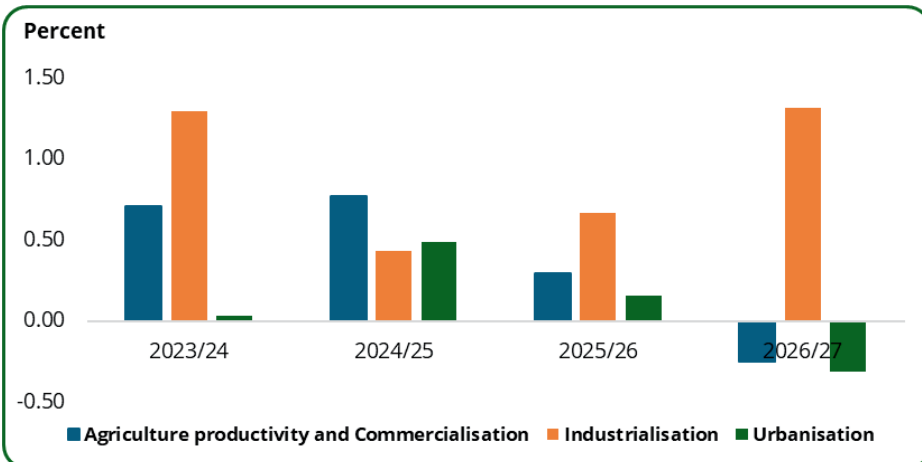
The Urbanisation pillar consistently records the lowest growth rates across the period. Allocation growth peaked at around 0.48 percent in 2024/25, before declining to approximately 0.15 percent in 2025/26, and is projected to contract further to -0.32 percent in 2026/27. Economically, subdued investment in urbanisation may limit progress in infrastructure development, urban productivity, and spatial economic transformation, all of which are important for supporting industrial expansion.

Overall, projections indicate that by 2026/27, only the Industrialisation pillar will maintain a growth trajectory comparable to its 2023/24 level, while both agricultural productivity & commercialisation, and urbanisation are expected to experience negative growth in allocation. This pattern suggests a strategic reallocation of fiscal resources toward industrialisation beginning around 2024/25, possibly to accelerate the implementation of previously delayed flagship initiatives, including the operationalisation of institutions such as Malawi Mining Investment Company (MAMICO) and the Malawi Mining Authority, alongside other industrial development interventions.

However, a balanced investment across the three pillars remains essential. Agricultural productivity improvements generate both forward and backward linkages with industrialisation by supplying raw materials for agro-processing while simultaneously demanding manufactured inputs

such as fertilizers, machinery, and packaging. Similarly, urbanisation is both a consequence and an enabler of agricultural and industrial growth, facilitating labour mobility, market access, and industrial clustering. Consequently, sustained progress toward the goals of Malawi 2063 will likely require more proportionate growth in budget allocations across the three pillars, reflecting their mutually reinforcing role in driving long-term economic transformation.

Figure 31: Growth rates of budget allocations across pillars



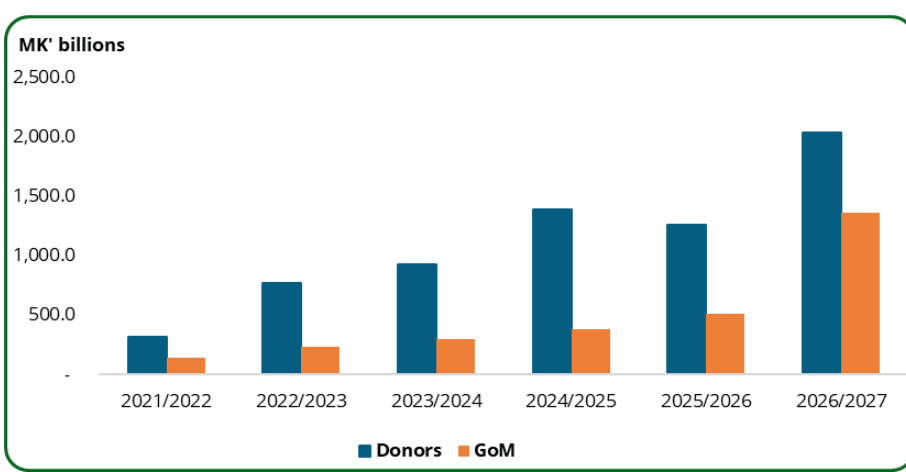
6.3.3 Trends in development budget funding

The data shows sustained expansion in the total development budget over the period, reflecting prioritization of public investments. This upward trajectory indicates the scaling up of development priorities and growing resource mobilization. Part I of the development budget, which represents donor funding, presents a strong upward trend over most of the period. After a sharp increase between 2021/22 and 2022/23, allocations continue to increase. A slight plateau is observed in 2025/26 before a notable increase in 2026/27.

Part II of the development budget, which represents Government of Malawi funding, moves in a similar trajectory throughout the period, with marked growth accelerating in 2026/27. This pattern points to medium-term strengthening of domestic fiscal efforts towards development spending. It also indicates intensified efforts to increase reliance on domestic financing to support the development agenda.

The trend in the dependency ratio is also worth noting. It rose to a peak of 78.29 percent in 2024/2025, then is estimated to decline sharply to 59.87 percent by 2026/2027. Part II, as a share of the total development budget, has grown to about 40 percent in 2026/2027,

Figure 32: Trends in development budget funding



compared with about 31 percent in 2021/2022.

6.4 Other pertinent issues

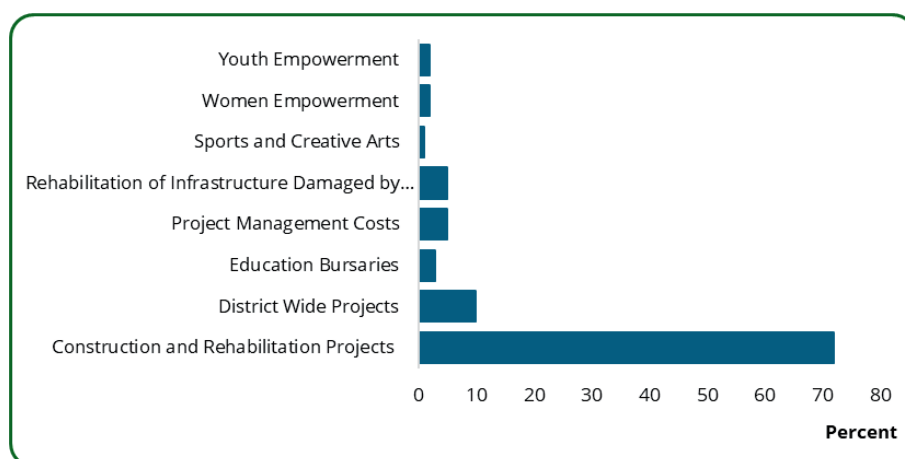
6.4.1 Fiscal decentralization

The constituency development fund allocations for the 2026/27 budget year reveal a significant and intentional focus on physical infrastructure. A combined total of approximately MWK824 billion, representing 72 percent of the entire CDF budget, is allocated to construction and rehabilitation projects. This dominant share underscores a strategic national priority to address infrastructure deficits at the constituency level, aiming to create tangible assets that can stimulate local economic activity and improve access to services. While this heavy investment in infrastructure is a positive step for long-term development, it must be coordinated with adequate technical supervision and robust monitoring mechanisms to ensure value for money and the timely completion of quality projects.

The remaining CDF resources are distributed among other critical social and administrative functions. Notably, allocations for district-wide projects at MWK 114 billion, representing 10 percent, education bursaries at MWK 34.3 billion, representing 3 percent, and Project Management Costs at MWK 57.2 billion, representing 5 percent, constitute the next largest shares. The funds allocated for women and youth empowerment are comparatively smaller at a combined MWK22.9 billion, representing 2.1 percent each. This represents a dedicated effort to foster inclusive development and target specific demographic groups.

Nevertheless, the budget statement is not clear on the target group, with the bursaries' beneficiaries considering that both primary and secondary schools are now free. Hence, a need for clarity on the utilization of the bursaries' allocations under CDF. To ensure transparency, effectiveness, and readiness of the CDF, strict guidelines must be developed, and all projects must undergo participatory planning and technical oversight to ensure compliance with MIP-1 and MW2063 Agenda.

Figure 33: Distribution of CDF allocations across thematic areas



6.4.2 Alignment between the State of the Nation Address and the Budget Policy Statement

Section 89(3) of the Constitution of Malawi mandates the President to address Parliament on the state of the economy, ongoing developments, plans, spending priorities for the year, and achievements from the previous year. In line with this provision, the President of the Republic of Malawi, His Excellency Professor Arthur Peter Mutharika, delivered the State of the Nation Address (SONA) on Friday, 13 February 2026, outlining the country's economic situation and key development priorities.

Specific development interventions were identified and assessed to ascertain the extent to which these were reflected in the national budget. The analysis found that at least 30 percent of the development interventions mentioned in the SONA have been explicitly allocated funding in the budget. While the budget statement references allocations for some interventions, these are not clearly directly linked to the initiatives outlined in the SONA and the financial statements.

7. RECOMMENDATIONS

The increased share of the development budget in 2026/27 has demonstrated the Government's commitment to development. However, the 2025/26 experience, where the development budget share collapsed to 20.9 percent, demonstrates how fragile and dispensable development budget is amidst fiscal pressures. To remain on course towards MW2063, the gains shown in the 2026/27 budget must be nurtured and guaranteed to ensure that the proposed 25 percent share as proposed in the MW2063 is guaranteed year in year out through the treasury circular.

Domestic revenue growth remains sluggish, achieving only a 2.5 percentage point increase between 2019/20 and 2025/26, half the DRMS target. Achieving a 4.5 percentage points within a year is possible but requires serious reforms and commitments. Implement the revenue measures outlined in the budget, with particular focus on:

- VAT on digital services.
- Automation of non-tax revenue.
- Formalisation of incentives (e.g., motorcycle clearance moratorium, only formal and tax compliant to supply goods and services for government projects, including CDF).
- Digitisation of all estate properties in cities (in collaboration with city councils).

Despite improvements in the Industrialisation (1.21 percent of development budget) and Private Sector Dynamism (0.1 percent), they remain severely underfunded relative to MIP-1 targets. The gains registered in 2026/27 need to be sustained by, among others:

- Establish binding allocation floors for future budgets (say, for example, 5 percent of the development budget)
- Intentionally derisk and incentivise the private sector to fill the gap in the economic sector, targeting specific value chains.
- Capitalise and operationalise MAMICO and MDC HL

Within-Pillar/Enabler distortions persist, which compromise the effectiveness of the pillar/enabler to contribute to the MIP-1 objectives. For instance, in agriculture, irrigation and subsidy inputs dominate while mechanisation, structured markets, anchor farms, diversification, and research remain underfunded, for Economic Infrastructure is road transport infrastructure that dominates, while energy, a binding constraint to industrialisation, remains under-resourced. In environmental sustainability, 99 percent of resources are allocated to disaster preparedness and response, while waste management and green economy are unfunded. It is therefore important to rebalance pillar/enabler spending through:

- Establish a flow for each focus area, say 5 percent of the pillar/enabler allocations, to ensure critical interventions within the pillar/enabler are operationalised

Gradual reform resource-heavy programme to ensure they are productive and self-sustaining, e.g., Public-private partnership arrangement for management of irrigation facilities to ensure they are self-funding for operational and maintenance costs.

- Have specific incentive programmes targeted at the areas which the national budget has not prioritised to be implemented through development partners and/or the private sector
- Reform social protection programmes and subsidies to include graduation pathways linking beneficiaries to productive economic activities.

Development outturns consistently fall short of allocations, indicating implementation capacity constraints. It is therefore important to establish a Multi-Agency Expenditure Monitoring Unit (Treasury, NPC, EP&D) to conduct quarterly public expenditure tracking and publish a real-time dashboard of development budget absorption rates by pillar.

Project proliferation and resource thinning undermine completion rates. Complete the zero-based review of the Public Sector Investment Programme (PSIP), halting approval of new projects until the stock of stalled, high-impact projects is cleared. Prioritise completion of projects that directly contribute to MIP-1 2030 milestones.

Strengthen CDF oversight and capacity as its allocations have increased by 1,858 percent to MK1.145 trillion, but councils spent only 54 percent of allocations in 2025/26, and oversight mechanisms are weak. Immediately roll out accelerated training for all 28 councils on project management, procurement, and financial management. Establish a CDF oversight Unit with a mandate to conduct value-for-money audits, publish quarterly performance reports, and suspend non-performing councils. Require all CDF projects to report against MIP-1 pillars and enablers.

Heavy donor dependency in Inclusivity programmes. For instance, donors finance 95 percent of children's specific projects, 75 percent of youth specific projects, and 95 percent of gender projects, creating extreme sustainability risk. It is therefore important to develop a gradual domestication strategy for inclusive financing.

Despite policy declarations, the budget framework has never been formally restructured to reflect MIP-1 pillars, enablers, and focus areas. It is therefore critical to ensure that the budget directly speaks to MIP-1 through:

- NPC certification of all MDA budget submissions for MIP-1 alignment
- Reclassification of budget codes by pillars, enablers, and focus areas

The link between SONA pronouncements and budget allocations is often unclear. Institute a SONA-Budget reconciliation statement, tabled alongside the budget, explicitly accounting for the resourcing of each presidential directive from the preceding State of the Nation Address.