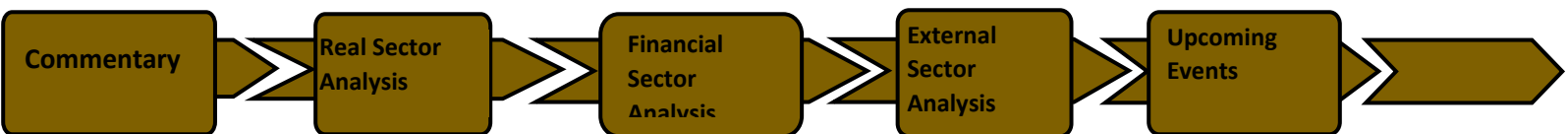




August 2025

Economic And Business Review

In this issue...



Commentary

Malawi's economy in August 2025 continued to exhibit a mixed trajectory, reflecting modest improvements in certain sectors but persistent macroeconomic challenges that continue to weigh on overall performance. The review indicates that while there have been some positive developments, such as seasonal upticks in agricultural exports, particularly tobacco, and a modest accumulation of foreign exchange reserves, these gains remain fragile and unevenly distributed across the economy.

The economy remains caught between short-term seasonal relief and enduring structural vulnerabilities. High inflation persists, eroding purchasing power and placing pressure on household consumption. Simultaneously, the widening trade gap reflects Malawi's continued reliance on imports to meet domestic demand, compounded by limited export diversification beyond traditional commodities. In addition, foreign exchange constraints continue to pose significant challenges, particularly for businesses reliant on imported inputs and for the broader effort to stabilize the kwacha.

Looking ahead, sustaining macroeconomic stability will require a coordinated and multi-pronged policy approach. Reducing fiscal deficits is essential to manage the country's debt trajectory and restore investor confidence. Addressing supply-side constraints in both agriculture and manufacturing will be critical to enhance productivity, ensure food security, and support industrial growth. Expanding export diversification beyond tobacco is also imperative to build resilience against external shocks and improve the balance of payments. Furthermore, increased investment in energy, transport, and other critical infrastructure can help lower production costs, stimulate private sector activity, and improve competitiveness.

Absent such measures, Malawi faces the risk of sliding back into deeper macroeconomic instability, particularly as the lean season approaches towards the end of the year, when pressures on food prices and household incomes typically intensify. The country's economic outlook hinges on the ability of policymakers to implement a comprehensive strategy that balances short-term stabilization with long-term structural reforms.

1. Real sector developments

This section provides an analysis of Real GDP, Inflation as well as Domestic Production.

i. Real Economic Activity

Malawi’s economy in 2025 is expected to record modest growth, although performance will remain fragile and uneven across sectors. Real GDP is projected to expand by 2.8 percent, up from 1.7 percent in 2024. While this points to some recovery, the projection is a notable downward revision from the 4.0 percent growth forecast in the October 2024 national accounts survey. The weaker outlook is mainly linked to the underperformance of agriculture, the backbone of Malawi’s economy, whose growth forecast was cut sharply from 4.5 percent to 1.3 percent. The sector has been hit by a series of shocks, including the late onset of rains, prolonged dry spells in several key producing districts, and widespread pest infestations such as African and Fall Armyworms. Given that agriculture accounts for around one-third of GDP and supports nearly 80 percent of the population, its underperformance has serious implications for national output, household incomes, food security, and overall macroeconomic stability.

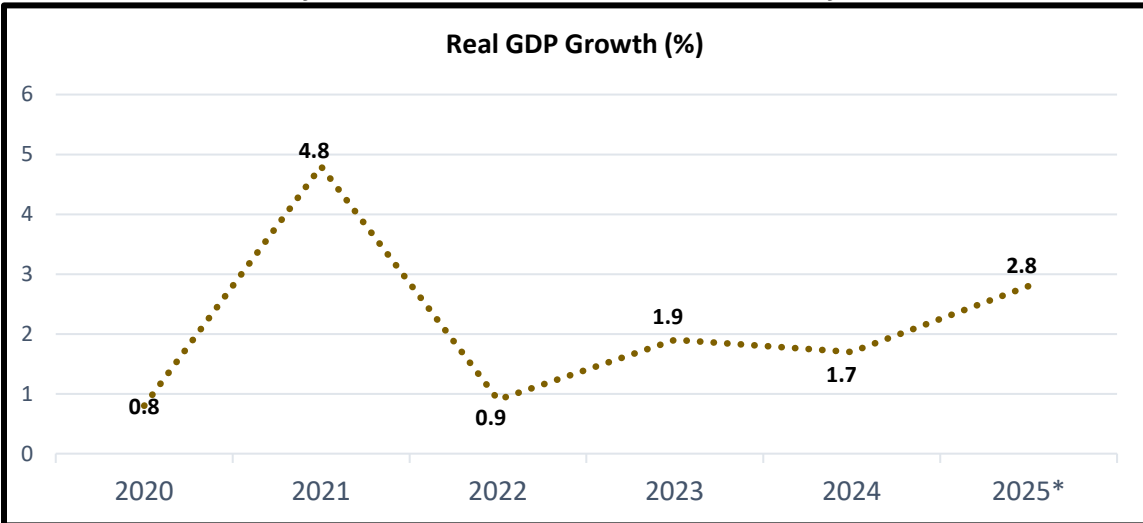


Figure 1: Annual GDP Growth Rate Source : The Ministry of Finance and Economic Affairs

Nonetheless, the outlook for agriculture, forestry, and fishing has improved slightly compared to early 2025 estimates. The third-round Agriculture Production Estimates Survey revealed better-than-expected outcomes relative to the first-round survey, leading to an upward revision from 0.3 percent to 1.3 percent growth. Even so, this growth remains subdued and insufficient to drive broad-based recovery. By contrast, the mining and quarrying sector is expected to be one of the bright spots of 2025. Growth in the sector has been revised upwards to 6.3 percent from 5.6 percent projected earlier and is significantly higher than the 4.8 percent recorded in 2024. This stronger outlook is supported by increased demand for construction materials, particularly rock aggregate, alongside renewed mining activity at the Kayerekera uranium mine, which is expected to boost both GDP and foreign exchange earnings.

The manufacturing sector, however, is projected to expand by only 2.4 percent in 2025, down from the 3.9 percent forecast in October 2024. Performance is constrained by persistent foreign exchange shortages, which limit the ability of firms to import raw materials, as well as intermittent power supply that disrupts industrial operations. Weak agricultural production has further reduced the availability of raw inputs for agro-processing industries, deepening the sector’s challenges. In contrast, the construction industry is projected to grow by 6.5 percent, slightly higher than the 6.2 percent projected earlier, largely due to ongoing government investment in road construction and rehabilitation projects.

Not all sectors share this momentum. Growth in wholesale and retail trade has been revised downwards to just 0.3 percent, compared to 4.7 percent estimated earlier. The sector is under strain from persistent foreign currency shortages, which restrict businesses’ ability to restock goods, and from elevated inflation, which erodes household disposable incomes and depresses demand. The transport and storage sector is expected to perform relatively better, with growth projected at 5.4 percent in 2025. This is supported by the completion of major road and railway rehabilitation projects as well as increased demand for transport services during the election period.

Similarly, the accommodation and food services sector is projected to expand by 6.6 percent, though this represents a downward revision from 8.6 percent estimated earlier. The slowdown is mainly due to the cessation of USAID-funded programs that had previously sustained demand, although some growth is expected from election-related activities and a gradual recovery in domestic tourism. The information and communication sector is anticipated to grow by 6.3 percent in 2025, virtually unchanged from the 6.2 percent projected in October 2024, as demand for ICT services rises during the election period when political parties intensify use of media platforms. Meanwhile, the financial and insurance sector is projected to grow by 6.1 percent, an upward revision from 5.5 percent forecast earlier, reflecting stronger financial intermediation and increased borrowing linked to election-related activities. Growth in this sector is expected to moderate slightly to 5.9 percent in 2026 once election-related demand subsides.

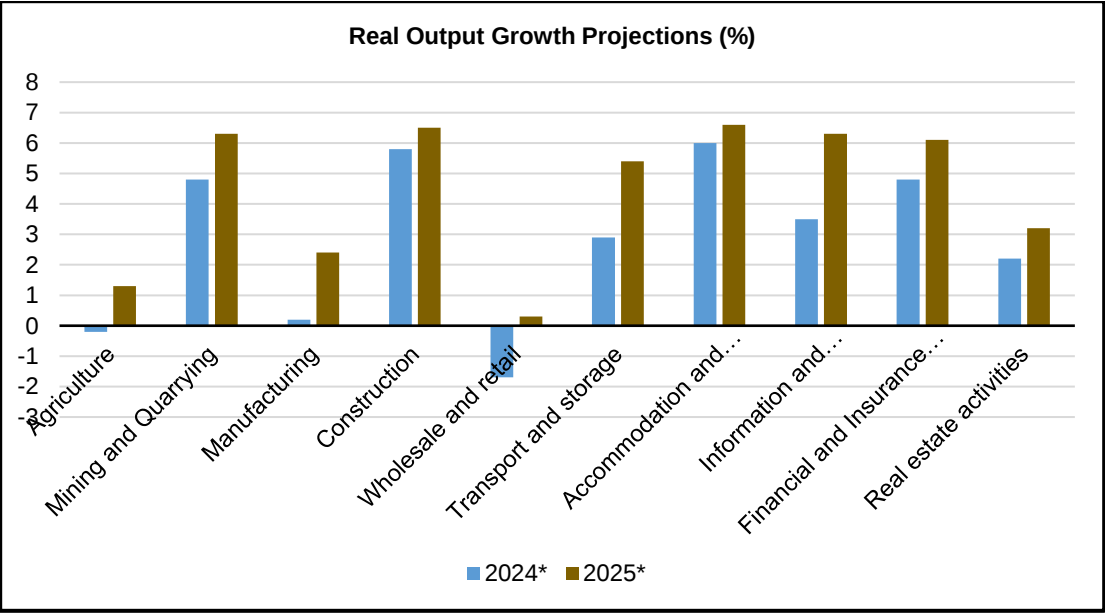


Figure 2: Real Output Growth by Type of Activity (at 2017 prices) Source: National Statistical Office & Ministry of Economic Planning and Development and Public Sector.

Overall, Malawi’s growth outlook for 2025 presents a mixed picture. While the economy is expected to expand more strongly than in 2024, growth remains weaker than initially anticipated due to deep-rooted structural constraints. Agriculture continues to face vulnerability from climate shocks, while industry struggles with forex shortages and high cost of production. However, positive projections in mining, construction, ICT, and financial services signals areas of resilience and opportunity. Unlocking this potential will require urgent policy measures to strengthen climate resilience in agriculture, expand energy generation, ease foreign exchange pressures, and diversify exports. Without such reforms, Malawi’s growth is likely to remain fragile, leaving the economy highly exposed to recurrent shocks and instability.

ii. Inflation Rate

According to the National Statistical Office (NSO), the Year-on-Year inflation rate rose to 28.2 percent in August 2025, up from 27.3 percent in July 2025, highlighting persistent inflationary pressures in the economy. Food inflation accelerated to 33.7 percent from 32.4 percent in July, while non-food inflation edged up slightly to 19.5 percent from 19.3 percent over the same period. A closer look at expenditure categories reveals broad-based increases, with notable rises in consumer essentials. Alcoholic drinks and tobacco rose from 23% to 25%, while clothing and footwear climbed from 37% to 39%, reflecting higher consumer goods costs. Housing, water, and electricity remained steady at 20%, indicating some stability in utility prices despite broader price pressures. Furnishing and household equipment increased from 31% to 33%, while health inflation jumped significantly from 18% to 21%, signaling rising costs of healthcare. Transportation stayed unchanged at 12%, and communication and recreation & culture also remained stable at 9% and 11%, respectively. Education costs held steady at 7%. However, restaurants and hotels rose from 28% to 30%, pointing to higher service-related costs, while miscellaneous goods and services stayed at 17%.

Overall, the inflationary trend is being driven largely by rising food prices and cost increases in essential goods and services such as health, clothing, and

restaurants. This combination continues to squeeze household budgets, erode purchasing power, and limit disposable income. For businesses, particularly those in consumer goods and services, these dynamics suggest heightened production and operating costs, while for households, the cost-of-living pressures are likely to deepen, raising concerns about affordability and welfare.

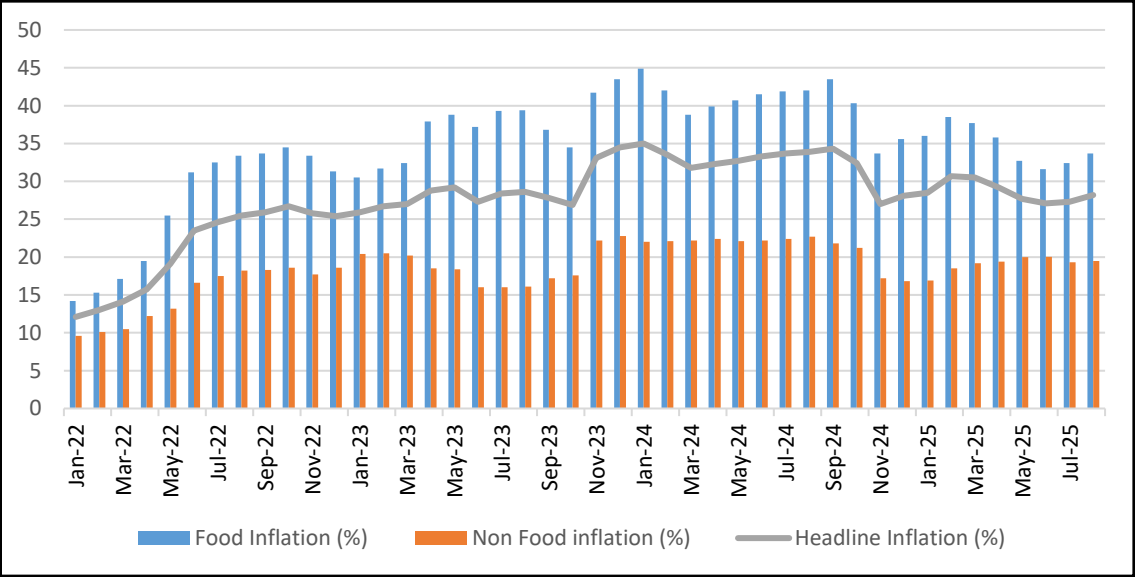


Figure 3 : Inflation Trends

Source : National Statistical Office

According to data from the National Statistical Office, an analysis of inflation trends for the first half of 2025 compared to the same period in 2024 reveals a notable decline in overall inflationary pressures, particularly in food inflation. However, despite this downward trend, inflation levels remain elevated, indicating that the cost of living continues to pose a significant challenge for households. In 2025, headline inflation declined from 28.5% in January to 27.7% in May, showing a steady downward trend. This contrasts sharply with 2024, when headline inflation remained above 31.8% for the same months, peaking at 35% in January and still standing at 32.7% in May. Food inflation in 2025 started at 36% and declined to 32.7%, significantly lower than in 2024, where it began at 44.9% and remained above 40% through May. Non-food inflation, however, has remained

relatively stable, rising slightly from 16.9% in January 2025 to 20% in May, but still below the 22.1% to 22.4% range recorded during the same period in 2024.

The decline in headline and food inflation in 2025 suggests easing pressure on consumers' purchasing power, particularly for essential goods. For consumers, this has likely provided some relief in terms of food prices, especially as food makes up a large proportion of household expenditures in Malawi. However, the relatively persistent non-food inflation indicates that the cost of goods like transport, housing, and services remains elevated, maintaining pressure on overall living costs.

For producers, particularly in agriculture and manufacturing, the declining inflation trend may help stabilize input costs and improve planning. However, the persistence of non-food inflation and high borrowing costs (given the 26% policy rate) means that access to affordable capital remains constrained, limiting production expansion. Additionally, although food inflation has declined, it remains high by regional standards, indicating ongoing supply-side constraints and market inefficiencies.

Overall, while inflation pressures have eased compared to 2024, they remain significant, especially for vulnerable populations. Policymakers must continue to support supply-side interventions to reduce structural inflation drivers such as improving agricultural productivity and reducing logistics costs while gradually creating conditions for monetary easing to stimulate investment and consumption.

iii. Domestic Production

This part of the analysis covers developments in tea, tobacco and maize production.

A. Tea Production

Tea production in August 2025 was recorded at 1,411,962 kg, representing a 2.3% decline from 1,448,180 kg in July 2025 and a much larger 11.9% decrease compared to 1,598,787 kg in August 2024. This downward trend aligns with the

seasonal production pattern, where output typically dips during the dry season due to reduced rainfall. The weaker year-on-year performance points to challenges in sustaining output levels, which may negatively affect export earnings and foreign exchange generation in a period when Malawi is already grappling with balance of payment pressures. Looking ahead, production is expected to pick up towards the last quarter of the year, as the onset of the rainy season usually boosts leaf growth and factory processing volumes.

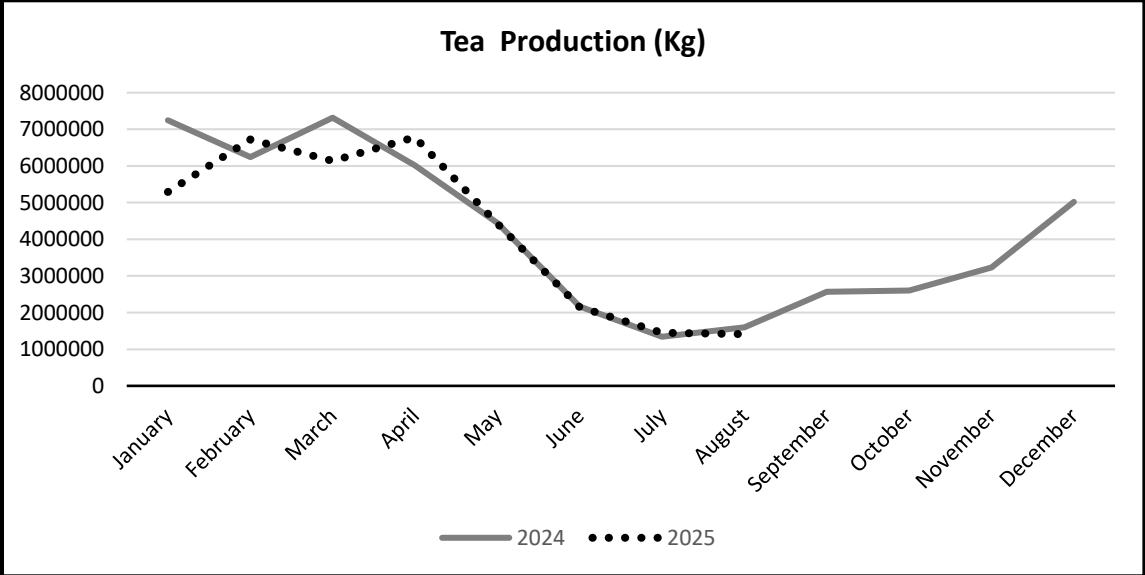


Figure 4: Tea Production statistics Source : Tea Association of Malawi

B. Maize Production

According to the IFPRI, maize prices continued their upward trajectory in August 2025, rising by 16 percent from an average of K1,169/kg in the last week of July to K1,358/kg in the last week of August. This price surge was observed across all monitored markets, with the most significant spike occurring on August 15th, when average prices rose by over K100 following a widely publicized report by a major radio stations claiming that maize was retailing at K1,700/kg in some areas. Although this claim was not corroborated by market data, many retailers reacted by adjusting their prices upward, demonstrating how market sentiment and

information flows can influence price-setting behavior. The 16 percent increase in August stands in stark contrast to the same period in 2024, when maize prices rose by only 4 percent, highlighting worsening supply-demand imbalances this year.

Regional disparities in maize pricing also widened during August. The Southern Region experienced the sharpest rise,19 percent compared to July, driving prices to an average of K1,476/kg by month-end. In contrast, prices grew more moderately in the Central and Northern Regions, increasing by 13 percent over the same period, with averages of K1,313/kg and K1,133/kg, respectively. This reflects both higher demand pressures and more acute supply constraints in the south, where population density is higher and alternative food sources are limited. The persistence of this regional gap underscores structural challenges in transportation, storage, and market integration.

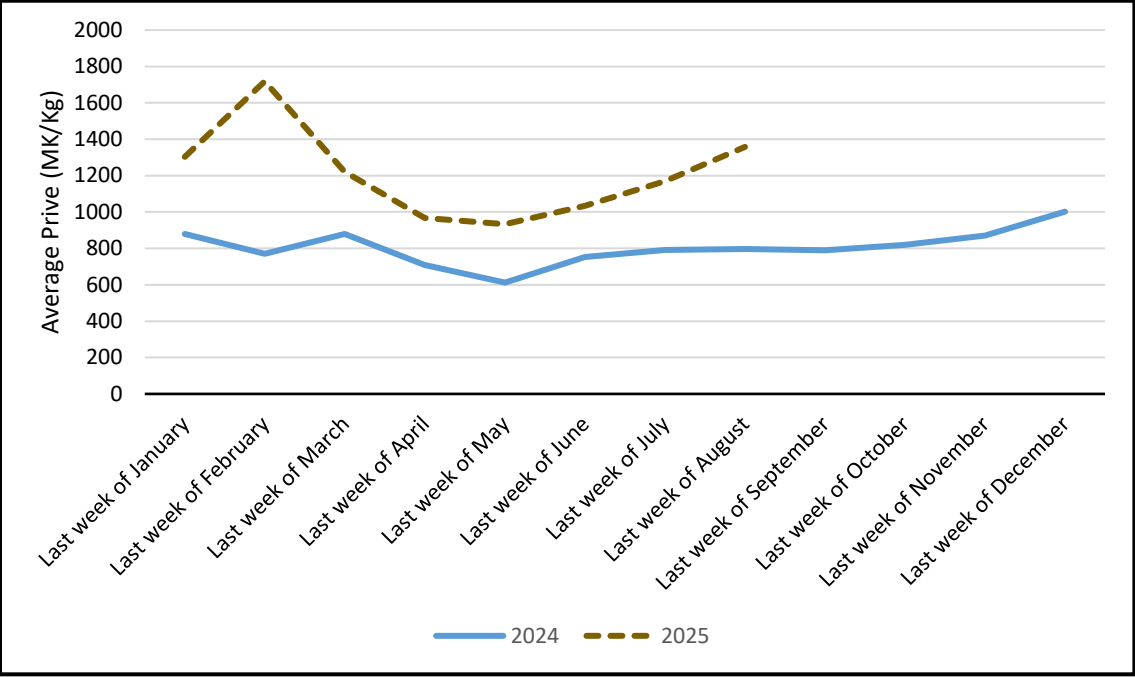


Figure 5: Average Price (MK per Kg) 2024 vs 2025

Source : IFPRI

Cross-border trade dynamics further shaped the price environment. Malawi continued to import more maize than it exported across all monitored border points, a trend that reflects domestic production shortfalls. Moreover, the maize import parity price increased in August compared to July, contributing to upward pressure on domestic prices. However, most imported maize remained within border districts rather than reaching inland markets, limiting its stabilizing effect on national prices. Without these imports, retail maize prices would likely have risen even further, indicating that cross-border trade continues to serve as a critical buffer against domestic supply deficits.

Looking ahead, the seasonal lean period and limited domestic supplies suggest that maize prices may continue to rise unless harvest inflows or scaled-up imports improve availability. For households, particularly in the south, these dynamics

mean higher food insecurity risks, while traders benefit from wider margins. Policymakers face the challenge of balancing short-term import facilitation to stabilize prices with long-term measures to boost productivity and storage capacity to reduce volatility.

C. Tobacco Market

As of week 16 in 2025, Malawi’s tobacco market showed varied performance across different tobacco types when compared with 2024. Burley tobacco, which makes up the bulk of production, registered a decline in volume from 159.0 million kg in 2024 to 117.6 million kg in 2025. Despite the lower volume, Burley still contributed the largest share of overall sales, though its average price dropped from US\$2.92/kg in 2024 to US\$2.50/kg in 2025, offering some price recovery for farmers. Flue-cured tobacco saw volumes fall from 13.6 million kg in 2024 to 12.5 million kg in 2025, while its average price also slipped from US\$3.56/kg to US\$3.23/kg in 2025, reducing total earnings despite being the traditionally higher-value variety. NDDF (Northern Division Dark Fired) tobacco volumes declined from 1.43 million kg in 2024 to 1.10 million kg in 2025, with its average price falling from US\$2.58/kg to US\$2.35/kg, signaling reduced competitiveness. Similarly, SDF (Southern Division Fire-Cured) volumes fell from 460,390 kg in 2024 to 429,072 kg in 2025, with a price decline from US\$2.76/kg to US\$2.72/kg.

Overall, while the national tobacco sales volume increased from 133.1 million kg in 2024 to 173.0 million kg in 2025, this growth came largely from Burley, masking weak performance and falling prices in Flue, NDDF, and SDF varieties. This mix highlights that Malawi’s export gains are driven more by quantity than quality or price competitiveness, raising concerns about farmer profitability, especially in higher-value varieties where price declines are sharper. The earnings from tobacco sales provide temporary relief to foreign exchange reserves; however, they remain insufficient to close the reserve gap required to ease the country’s persistent foreign currency shortages and achieve sustained stability.

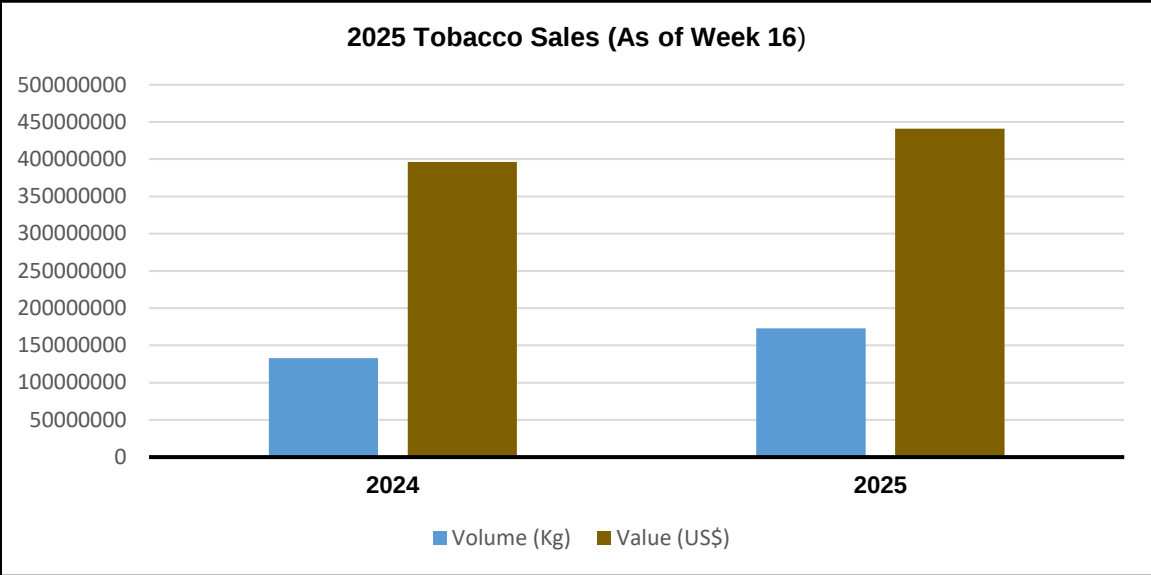


Figure 6: Tobacco market performance as of week 16(2025 vs 2024) Source: Malawi Tobacco Commission

Section 2: Finance Sector Developments

This section looks at developments in monetary policy, Stock Markets and credit to private sector

i. Monetary Policy vs Money Supply (M2)

The Monetary Policy Committee (MPC) of the Reserve Bank of Malawi held its third meeting of 2025 on July 30–31 to review recent macroeconomic developments and assess the inflation and growth outlook. After careful evaluation, the Committee resolved to maintain a tight monetary stance, keeping the Policy Rate at 26.0 percent, the Lombard Rate at 20 basis points above the Policy Rate, and the Liquidity Reserve Requirement (LRR) at 10.0 percent for local currency deposits and 3.75 percent for foreign currency deposits.

This decision underscores the MPC’s cautious approach to balancing inflation control with economic stability. Although headline inflation moderated from 30.7 percent in February to 27.1 percent in June 2025, the Committee noted that this

decline remains insufficient to restore medium-term price stability. Much of the improvement reflects seasonal factors, particularly increased food availability following the harvest, while non-food inflation continues to be elevated due to persistent foreign exchange shortages, energy supply constraints, and imported cost pressures.

For businesses, the policy stance presents both opportunities and challenges. On the positive side, maintaining high interest rates helps limit further depreciation of the kwacha and curbs runaway inflation, providing greater certainty for long-term planning and protecting household purchasing power. However, the downside is significant: at 26.0 percent, borrowing costs remain prohibitively high, especially for small and medium-sized enterprises (SMEs). This restricts access to affordable finance for working capital, investment, and modernization, thereby slowing production growth and job creation. Credit-dependent sectors such as manufacturing, construction, and agro-processing are particularly constrained, with many firms unable to scale operations or compete regionally.

The MPC stressed that monetary policy alone cannot ensure sustainable recovery and called for complementary structural measures to boost supply-side capacity and expand foreign exchange earnings. Key priorities include improving agricultural productivity through irrigation and mechanization, scaling up investments in energy and infrastructure to reduce operational bottlenecks, and strengthening export-oriented industries to broaden Malawi’s foreign exchange base. The Committee also emphasized the need for policy coherence and a more supportive business environment to ease production costs and enhance competitiveness.

Nonetheless, a notable risk remains: the continued expansion of money supply (M2) despite the high-interest rate environment. In June 2025, M2 rose by K570.7 billion (9.3 percent) to K6.7 trillion, largely driven by increases in demand deposits, term deposits, currency outside banks, and foreign currency deposits. This growth mainly reflects seasonal inflows associated with the agricultural marketing season in the second quarter. While seasonal, such rapid liquidity expansion could

undermine the effectiveness of tight monetary policy by fueling inflationary pressures if not carefully managed.

The outlook will therefore depend heavily on the government’s ability to implement structural reforms, ensure fiscal discipline, and create conditions for productivity-led growth, which together can complement monetary policy and ease pressure on businesses.

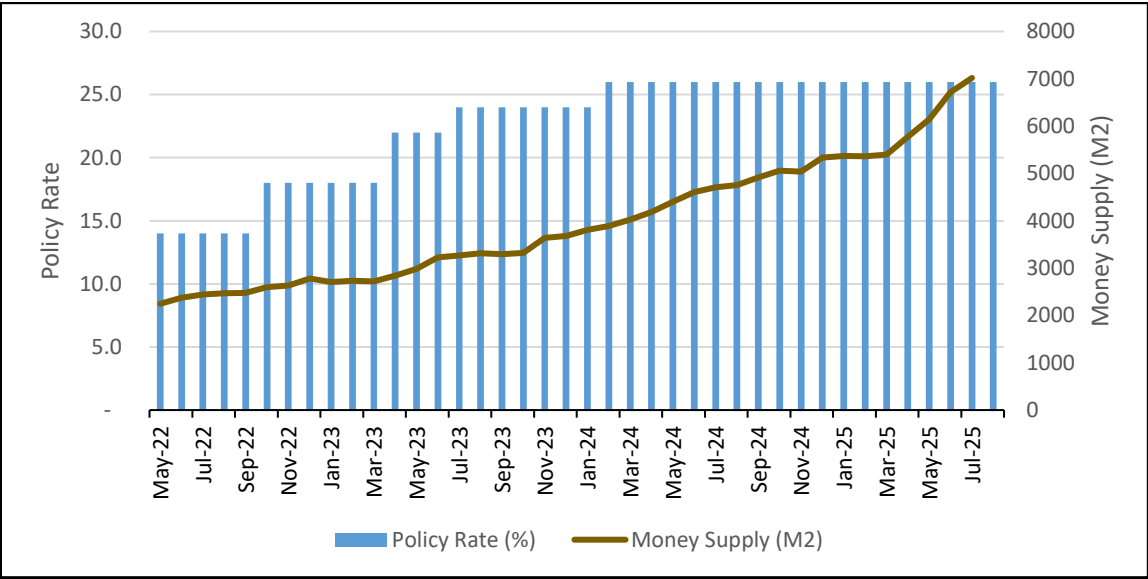


Figure 7: Trends of policy rate and money supply M2 Source: Reserve Bank of Malawi

ii. Stock market developments

In August 2025, the Malawi Stock Exchange (MSE) experienced a remarkable surge in market activity, signaling renewed investor confidence and improved liquidity in the equity market. A total of 108.31 million shares were transacted at a total consideration of MK59.50 billion (US\$34.32 million) across 4,345 trades. This represents a staggering 106.32% increase in trading volume compared to July 2025, when 52.04 million shares worth US\$16.63 million were traded in 4,501 transactions. The significant increase in value and volume of trades highlights not

only heightened investor participation but also stronger demand for equity instruments.

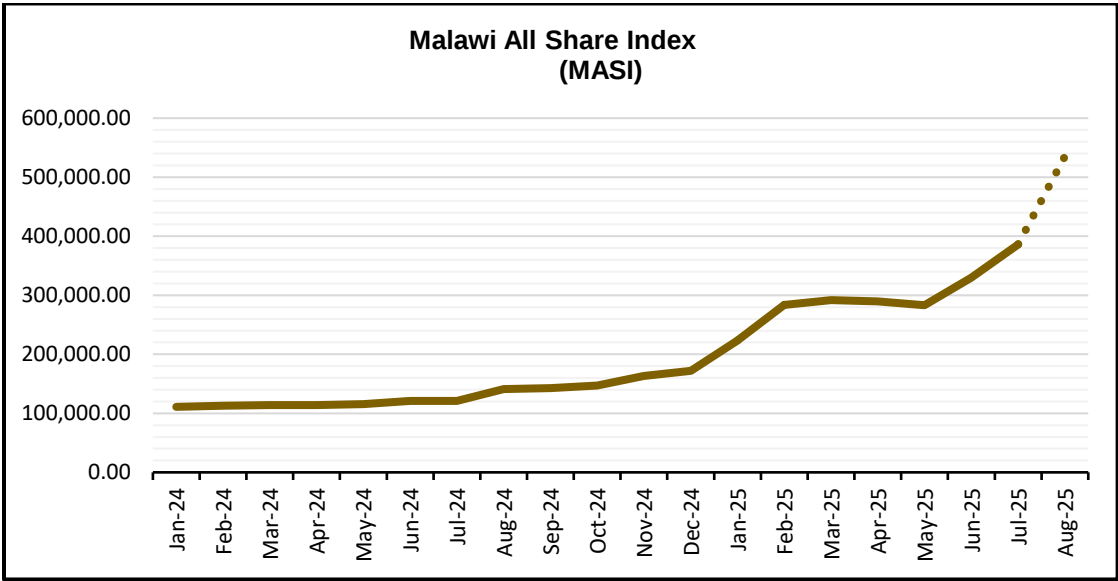


Figure 8: Malawi All Share Index Source : Malawi Stock Exchange

The Malawi All Share Index (MASI) registered a robust month-on-month gain of 38.58%, climbing from 386,281.85 points in July 2025 to 535,303.19 points in August 2025. This sharp upward movement was largely driven by price gains across major counters, including Standard Bank, NICO, NBS, PCL, NITL, FDH Bank, FMBCH, NBM, Airtel, BHL, ICON, Sunbird, Illovo, and Old Mutual (OMU). These gains more than offset the share price decline recorded by TNM, resulting in a broad-based increase across the index. Both the Domestic Share Index and the Foreign Share Index also rose significantly, with domestic equities surging by 42.73% and foreign equities advancing by 17.67%, underscoring the widespread positive sentiment.

Equity market capitalization rose sharply, both in local currency and dollar terms, increasing from MK21.03 trillion (US\$12.13 billion) in July 2025 to MK29.14 trillion

(US\$16.81 billion) in August 2025. This translates to market capitalization representing 117.60% of GDP, up from 84.86% in July 2025, suggesting that the equity market is expanding at a faster pace than the overall economy. Liquidity indicators also improved: turnover velocity increased from 0.14% in July to 0.20% in August, while the ratio of total value of trades to GDP doubled from 0.12% to 0.24%, reflecting greater depth and activity in the market.

For the broader economy, this bullish performance of the stock market has several implications. First, it provides evidence of growing investor confidence in Malawi's corporate sector despite persistent macroeconomic challenges, such as high inflation and tight monetary policy. Second, the rising market capitalization enhances the capacity of listed firms to raise capital for investment, expansion, and innovation, potentially supporting job creation and growth in key sectors like banking, telecommunications, and agro-processing. Third, the upward momentum in equity prices can create wealth effects for investors, boosting consumption and savings. However, it also raises questions about sustainability—whether these gains reflect genuine improvements in corporate earnings and productivity, or are being driven mainly by speculative trading and currency-driven revaluations.

In outlook, if this momentum is sustained, the stock market could play a stronger role in mobilizing long-term financing for businesses, complementing the banking sector, which has been constrained by high lending rates. Policymakers and regulators, however, must ensure that the surge in equity values is accompanied by improved corporate governance, transparency, and broader participation to avoid risks of market distortions.

Section 3: External Sector Developments

This section provides an analysis of developments in the merchandise trade, foreign exchange market, gross official reserves, global fuel prices and global commodity prices.

i. Merchandise Trade

The total goods trade balance for Malawi improved slightly in June 2025, narrowing to a deficit of US\$237.9 million from US\$280.0 million (K490.3 billion) recorded in May 2025. This improvement was largely driven by a 112.6 percent (US\$39.0 million) surge in export earnings, supported by seasonal tobacco sales, alongside a modest 1.0 percent (US\$3.1 million) decline in imports during the month under review. Despite this positive shift compared to the previous month, the deficit in June 2025 remained marginally wider than the US\$235.2 million recorded in the corresponding month of 2024, underscoring persistent structural weaknesses in the country's trade position.

Exports rose sharply to US\$73.6 million in June 2025 from US\$34.6 million in May 2025, representing both a strong month-on-month recovery and a year-on-year improvement from US\$53.7 million in June 2024. The seasonal upswing was primarily driven by tobacco sales, which increased to US\$52.3 million, consistent with the peak of the mid-year tobacco marketing season that typically boosts foreign exchange inflows. This seasonal factor highlights Malawi's continued heavy dependence on tobacco as its main export commodity, which exposes the economy to both price volatilities on the international market and risks of smuggling to neighboring countries.

On the import side, inflows fell slightly to US\$311.5 million in June 2025, compared to US\$314.6 million in May 2025, though they remained above the US\$288.8 million recorded in June 2024. The marginal monthly decline was attributed to reduced imports of pharmaceuticals, cereals, and boilers & machinery. However, these declines were offset by higher imports of fuels, vehicles, printed books, newspapers, and fertilizers—inputs that reflect ongoing domestic demand for transport, energy, and agricultural productivity during the farming season.

Overall, the trade performance reflects seasonal dynamics, with exports boosted by peak tobacco sales while imports remain driven by structural needs for fuel, fertilizers, and machinery. Although the narrowing of the deficit offers temporary relief, the persistence of a wide negative balance compared to June 2024 indicates Malawi's ongoing structural challenge: heavy reliance on a single

seasonal export against steady demand for imports. This underscores the urgent need to diversify exports, promote value addition in agriculture and manufacturing, and enhance trade competitiveness to sustainably narrow the trade deficit beyond seasonal gains.

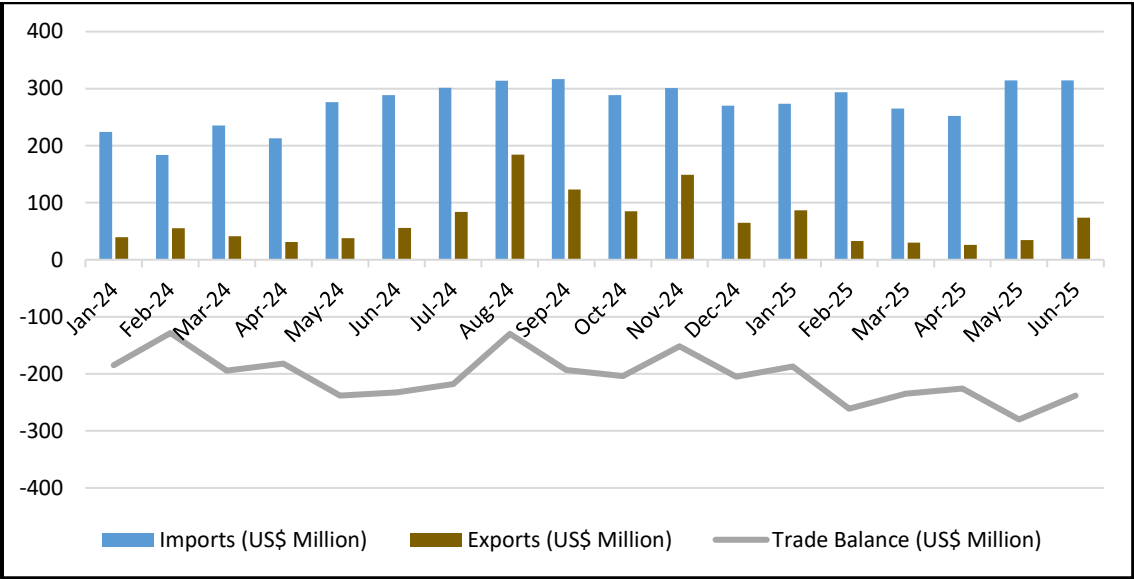


Figure 9: Merchandise Trade Balance Source : Reserve Bank of Malawi

ii. **Malawi Kwacha Exchange Rate**

In August 2025, the Malawi kwacha continued to show sustained weakness across major currencies when compared to both July 2025 and August 2024. Against the US dollar, the kwacha averaged MWK 1,750.32 in August 2025, only a marginal 0.01% appreciation from MWK 1,750.33 in July 2025, but significantly weaker compared to MWK 1,750.33 in August 2024, showing prolonged depreciation pressures. Against the British pound, the exchange rate rose from MWK 2,403.67 in July 2025 to MWK 2,418.39 in August 2025, while in August 2024 it stood at MWK 2,328.13, reflecting a year-on-year depreciation of about 3.9%. Similarly, the kwacha depreciated against the euro, moving from MWK 2,076.02 in July 2025 to MWK 2,093.87 in August 2025, compared to MWK

1,891.77 in August 2024, a year-on-year fall of nearly 10.7%. For businesses, this persistent depreciation translates into higher import costs for fuel, machinery, raw materials, and pharmaceuticals, thereby raising production costs and consumer prices. Exporters may benefit from relatively higher returns in kwacha terms, but the gains are undermined by structural supply-side bottlenecks that limit the country’s capacity to expand exports. The exchange rate trends reflect continued external imbalances, weak foreign exchange reserves, and inflationary pressures, all of which increase uncertainty for businesses in planning, pricing, and investment.

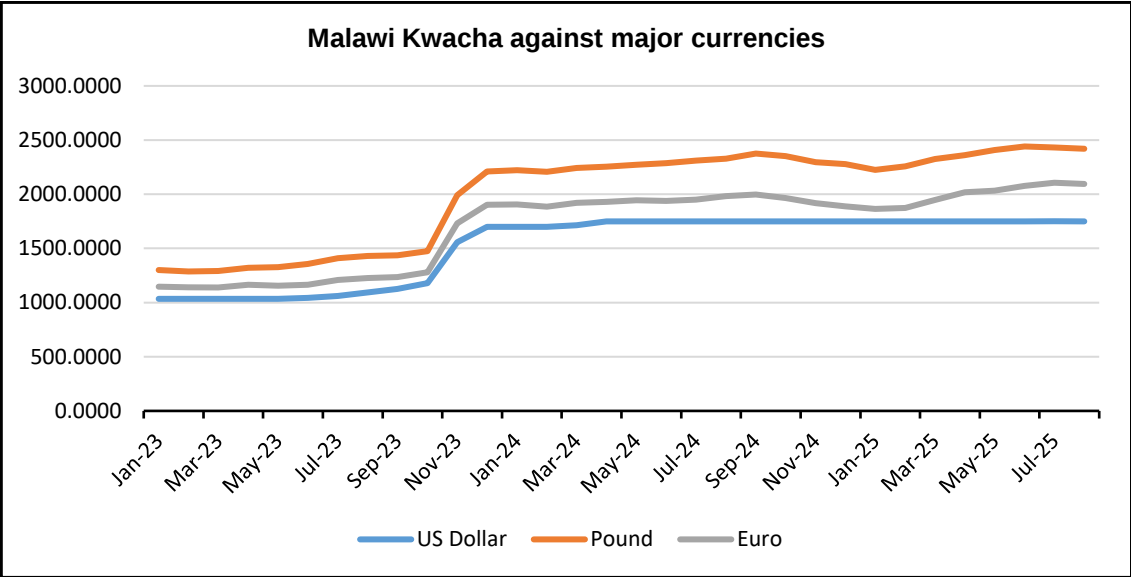


Figure 10: Monthly average exchange rate of the Kwacha against major trading currencies Source: Reserve Bank of Malawi

iii. **Gross official reserves**

In July 2025, Malawi’s foreign exchange reserves increased to US\$607.7 million, equivalent to 2.4 months of import cover, according to Reserve Bank of Malawi (RBM) figures released in September 2025. This represents an improvement from US\$555.9 million (2.2 months of cover) in June 2025 and US\$565.3 million (2.3 months) in July 2024. The rise in reserves is largely seasonal, reflecting

peak inflows from tobacco sales, which are Malawi’s largest foreign exchange earner. During the tobacco marketing season, typically between April and July, export earnings provide temporary relief to the country’s foreign exchange position, supporting a modest strengthening in import cover. However, this increase should be interpreted cautiously because the reserves remain well below the internationally recommended minimum of 3 months of import cover, meaning the country is still highly vulnerable to external shocks.

For Malawi, the seasonal boost from tobacco sales highlights both an opportunity and a risk. On one hand, it underscores the importance of the agricultural export sector in shoring up foreign exchange, providing the country with short-term access to essential imports such as fuel, raw materials, medicines, and machinery. On the other hand, it exposes the structural fragility of the economy, which remains heavily dependent on a single commodity. Once the tobacco season ends, reserves typically decline again as foreign exchange demand outpaces inflows, leading to renewed shortages, exchange rate pressures, and rising import costs.

The July 2025 outturn therefore signals the urgent need for Malawi to diversify its export base beyond tobacco and scale up production in other foreign exchange-earning sectors such as mining, tourism, agro-processing, and manufacturing. At the same time, policies aimed at reducing excessive import dependency, for example, promoting local production of goods that substitute high-value imports, would help reduce the structural trade deficit. Without such reforms, the current improvements in reserves will remain seasonal and unsustainable, leaving Malawi stuck in a cycle of temporary relief followed by recurring scarcity. Ultimately, building a more stable and resilient reserve position will require both macroeconomic stability and a deliberate strategy to broaden the country’s export base while strengthening domestic production capacity.

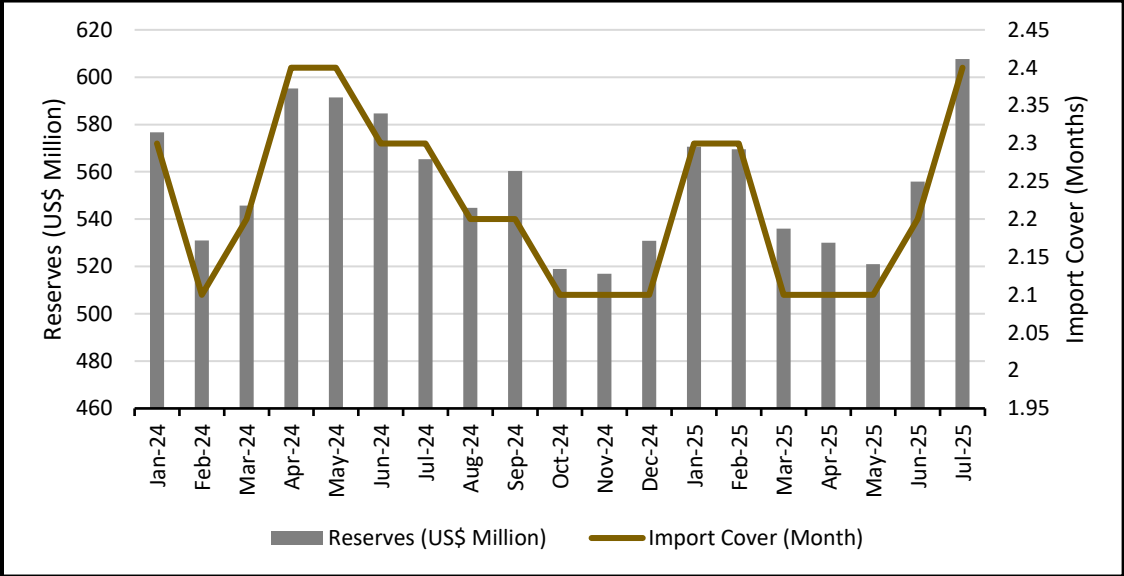


Figure 11: Total Foreign Exchange Reserves Position Source: Reserve Bank of Malawi

Section 3: Key Takeaways and Recommendations

1. Inflation in Malawi remains stubbornly high despite being in the post-harvest period, when food prices typically stabilize or decline. The persistence of elevated inflation, particularly food inflation, is eroding household purchasing power and weakening consumer demand across businesses. This has reduced disposable incomes, forcing households to cut back on non-essential spending, which in turn has dampened sales for firms in retail, services, and manufacturing. The inflationary environment is also driving up input and operational costs, creating a dual squeeze on both consumers and businesses.
 - Expanding irrigation and investing in climate-resilient farming can stabilize food production and reduce food inflation. At the same time, strengthening the effectiveness of ADMARC in grain marketing and

price stabilization would help smooth seasonal fluctuations, protect household incomes, and create a more predictable environment for business growth.

2. In the current tight monetary environment, where borrowing costs remain prohibitively high, the strong performance of the stock market demonstrates that it can serve as an attractive alternative for businesses to raise capital. Equity financing offers firms an opportunity to mobilize long-term funds without incurring the heavy debt burden associated with high interest rates.
 - Businesses should explore listing or issuing additional shares on the Malawi Stock Exchange to leverage investor appetite and diversify their financing sources. At the same time, government and regulators should strengthen capital market infrastructure, promote transparency, and encourage broader participation to ensure the stock market remains a reliable and sustainable avenue for financing business growth.
3. Malawi's persistent trade imbalance is driven by its reliance on raw agricultural exports and heavy dependence on imports, which strain foreign exchange reserves. To address this, the country must combine **export diversification** with **import substitution** to build a more resilient economy.
 - Key priorities include revitalizing the private sector, promoting manufacturing and agro-processing, and supporting domestic production of goods currently imported. Long-term strategies should focus on attracting investment in high-potential sectors like mining and value-added agriculture. This dual approach would reduce forex pressure, create jobs, and strengthen economic competitiveness.
4. Despite being in a tight monetary environment, Malawi's money supply continues to grow, highlighting the limitations of monetary policy when not complemented by other measures. This signals that while high interest rates may slow private sector credit expansion, broader liquidity drivers, such as government borrowing, continue to fuel money supply growth.

This weakens the overall effectiveness of the tight policy stance in taming inflation and stabilizing the economy.

- There is an urgent need for stronger coordination between monetary and fiscal policy to ensure policy consistency and effectiveness. Fiscal discipline, including reducing deficit financing and improving expenditure efficiency, would ease pressure on the money supply and support the Reserve Bank's efforts to control inflation. In the medium term, aligning fiscal measures with monetary objectives will help stabilize prices, improve investor confidence, and create a more predictable environment for businesses.

UPCOMING BUSINESS EVENTS

The following are the business events that MCCCCI is facilitating in the third and fourth quarter of 2025, respectively:

• India Malawi Business Seminar (<i>8TH October 2025 at Amaryllis Hotel, Orchid Hall, from 10am to 2pm</i>) • Zomba SME Fair and Farmer's market (1 November 2025) • Innovation and Entrepreneurship Fair (06 November 2025) • Public Private Dialogue: PPDF&PPSC and other platforms	For more information please Contact Linda Pete on 0888 361 132 or email: lpete@mccci.org