



2025 Annual Economic & Business Review

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Commerce & Industry (MCCCI)

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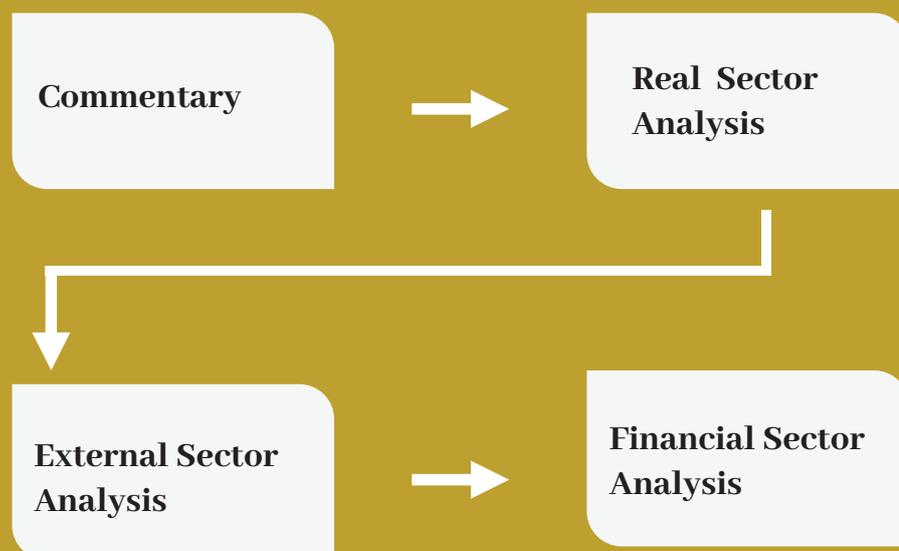
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Preamble

The business environment in 2025 remained more constrained and fragile compared to 2024, despite pockets of stabilization in some macroeconomic indicators. While 2024 was characterized by sharp macroeconomic adjustments, including significant exchange rate depreciation, accelerating inflation, and acute foreign exchange shortages, 2025 reflected a transition into a period of relative nominal stability but deeper structural stress. The exchange rate stabilized at weaker levels and inflationary pressures persisted, meaning that although volatility eased, operating conditions for businesses did not materially improve. Instead, firms had to adjust to a “new normal” of high costs, limited liquidity, and subdued demand.

Compared to 2024, access to foreign exchange in 2025 remained tight, continuing to disrupt the importation of raw materials, spare parts, and intermediate inputs. Manufacturing, construction, and agro-

processing firms were particularly affected, with frequent production interruptions, longer lead times, and higher reliance on parallel market foreign exchange. Although export sectors such as tobacco showed some recovery in volumes, export earnings were insufficient to significantly ease Foreign Exchange constraints. As a result, business planning and pricing remained difficult, and confidence stayed weak.

Demand conditions in 2025 also remained subdued. High inflation continue to erode household purchasing power, limiting consumption growth, while high interest rates constrained borrowing and investment. Although macroeconomic uncertainty was somewhat lower than in 2024, this did not translate into stronger private sector expansion, as firms focused on survival, cost containment, and working capital management rather than growth.

1. GDP Growth Rate

Real GDP for 2025 is projected to grow by 2.7 percent, slightly below the earlier forecast of 2.8 percent. This modest downward revision reflects weaker-than-anticipated performance across several key sectors, including manufacturing (1.8 percent), wholesale and retail trade (0.1 percent), mining and quarrying (5.3 percent), and transportation and storage services (3 percent). The subdued sectoral performance is largely attributed to persistent foreign exchange shortages, which continue to limit the importation of raw materials, intermediate goods, and essential services, thereby constraining production capacity.

Findings from MCCCI survey reinforce this picture. Forex scarcity emerged as the most significant business challenge, with 74.1 percent of respondents ranking it among their top three challenges. Inflation was cited as the second most critical constraint (70.4 percent), followed by rising input costs (55.6

percent), policy uncertainty (29.6 percent), and high interest rates (22.2 percent). Only 3.7 percent of respondents reported not being affected by foreign exchange shortages, while 63.0 percent indicated that they had been severely and frequently impacted, highlighting the widespread and persistent nature of the challenge.

The effects of these constraints are evident in firms' production levels. Most businesses reported operating below optimal capacity, with 51.9 percent indicating capacity utilization of below 50 percent. An additional 37.0 percent reported utilization between 50 percent and 75 percent, while only 11.1 percent operated at more than 75 percent of their capacity. Beyond foreign exchange challenges, prolonged power outages, intermittent disruptions in fuel supply, and escalating operational costs further limited output and business activity throughout the year.

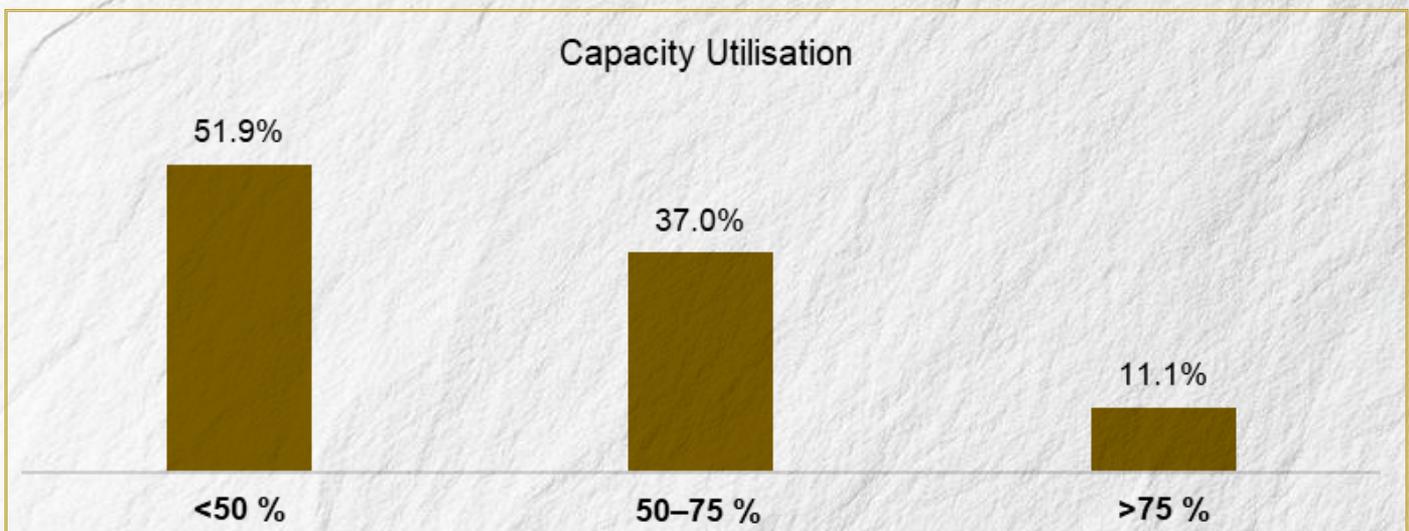


Figure 1: Capacity Utilization of Businesses in the first half of 2025

Data Source: MCCCI Business Review Survey APA

These findings highlighted the urgent need for coordinated and comprehensive measures to address the forex situation and related supply-side constraints. Doing so is essential for restoring business confidence, reducing production bottlenecks, and supporting sustainable economic growth. Without decisive intervention, the combined pressures of forex scarcity, inflation, high input costs, and financial instability will continue to weaken businesses and impede the country's economic recovery and competitiveness.

Despite the downward revision, the 2025 growth projection of 2.7 percent still represents an improvement from the 1.7 percent growth recorded in 2024. This cautious optimism is anchored on expectations of stronger performance in agriculture, mining, manufacturing,

wholesale and retail trade, transportation and storage, accommodation and food services, and information and communication. These sectors form the core of the Government's National Economic Recovery Plan, which prioritizes targeted investments and reforms aimed at stabilizing and revitalizing economic activity.

Looking ahead, the domestic economy is expected to strengthen further in 2026, with real GDP growth projected at 3.8 percent, according to the National Statistical Office the Ministry of Economic Planning and Development, and Public Sector Reforms. This anticipated improvement is driven by ongoing structural reforms, enhanced sectoral productivity, and a gradual easing of supply-side constraints, factors that are expected to support a more robust and broad-based economic recovery.

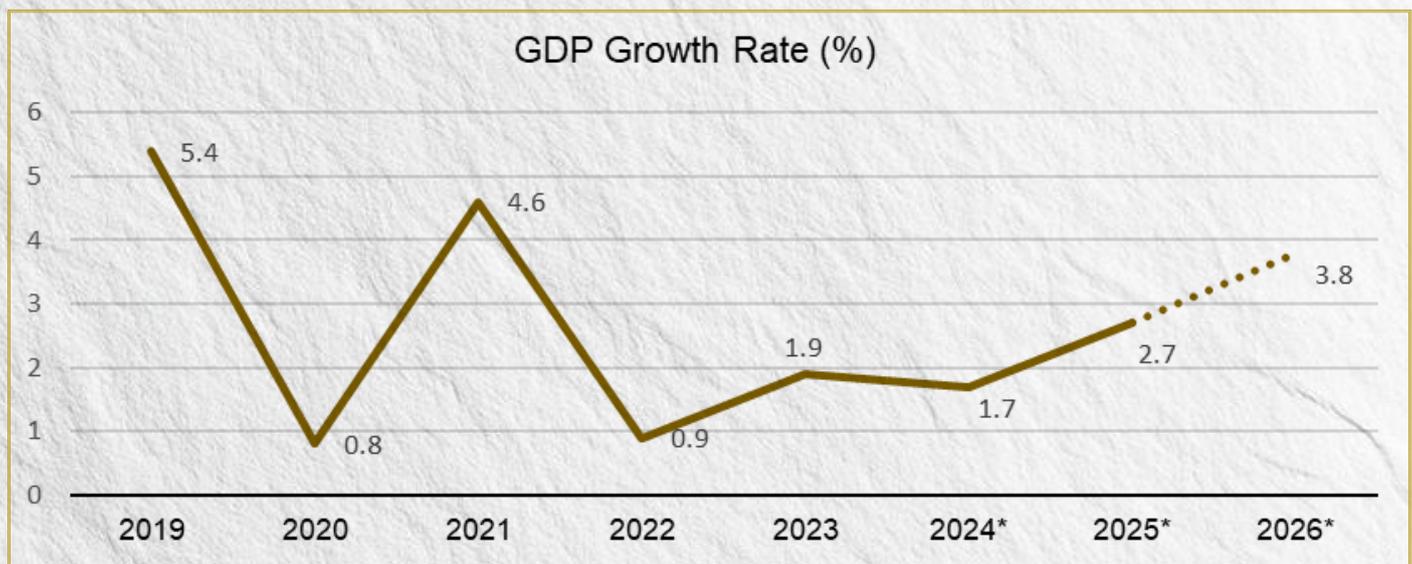


Figure 2: GDP Growth Rate projections
(Computed by MCCI)

Data Source: National Statistical Office

2. Inflation Rate

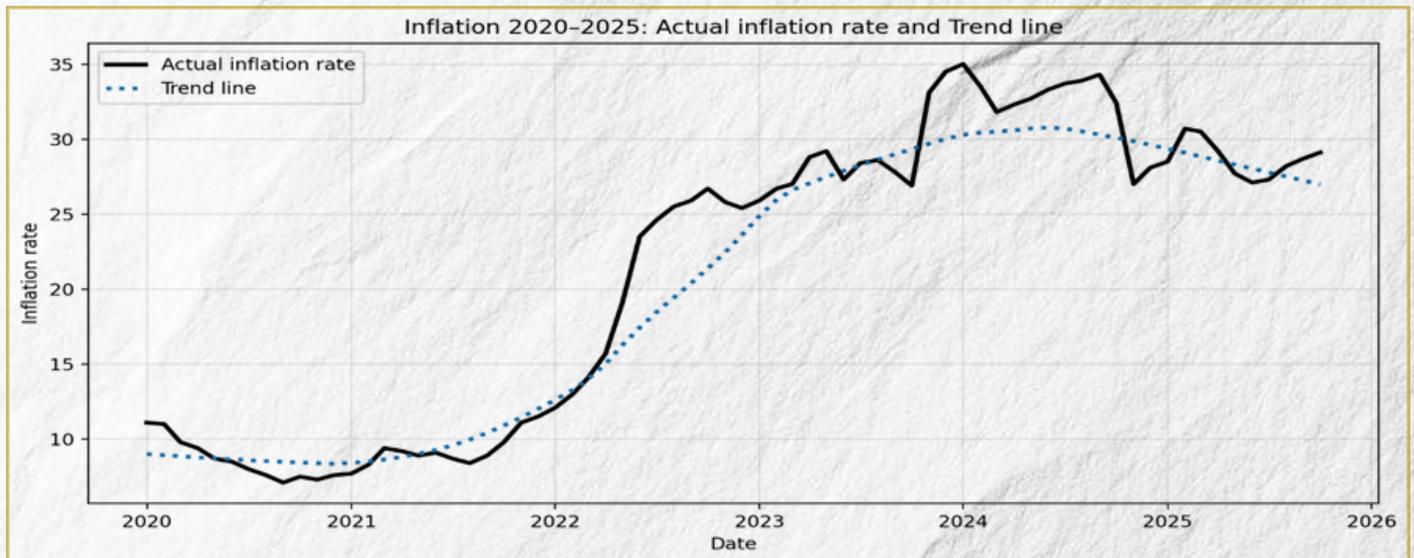


Figure 3: Inflation rate (Computed by MCCI).

Data Source: National Statistical Office

Comparing 2025 with 2024, there is a clear easing in overall inflation pressures. In 2024, the average inflation rate is higher (about 32.3%) than in 2025 (about 28.7% as of October 2025), indicating that price growth has moderated rather than accelerated. This means that while prices are still rising in 2025, they are doing so at a slower pace than in 2024, suggesting some relief in cost pressures for households and businesses.

Several factors are likely contributing to this moderation. On the demand side, tighter monetary policy (higher interest rates and reduced liquidity) has cooled credit growth and tempered consumer and investment spending, reducing pressure on prices. On

the supply side, earlier disruptions have eased: global supply chains have become more reliable, shipping costs have fallen from their peaks, and improved availability of key imports has helped stabilize input prices. In addition, food inflation, which is often major drivers of headline inflation, has increased at a slower rate compared to 2024, limiting pass-through effects into retail prices. There may also be a base effect, where very high price levels reached in prior years make subsequent percentage increases mechanically smaller, even if nominal prices remain elevated. However, increase in fuel prices and Value Added Tax will likely in pressure on nonfood inflation in 2026.

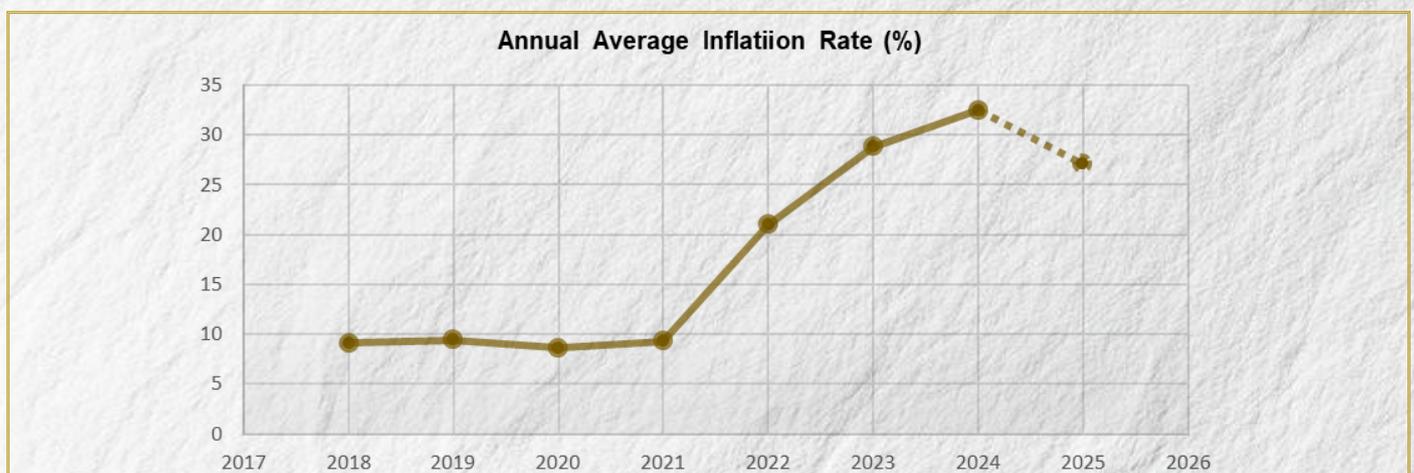


Figure 4: Annual Inflation Rate (computed by MCCI)

Data Source: Reserve Bank of Malawi

Initial analysis per sector projections had most sectors projecting growth. However, challenges faced by the economy led to downward revision in the projections made in the third quarter of 2025, whilst others were able to capitalize on the opportunities that emerged.

1. Sectorial Growth Projections

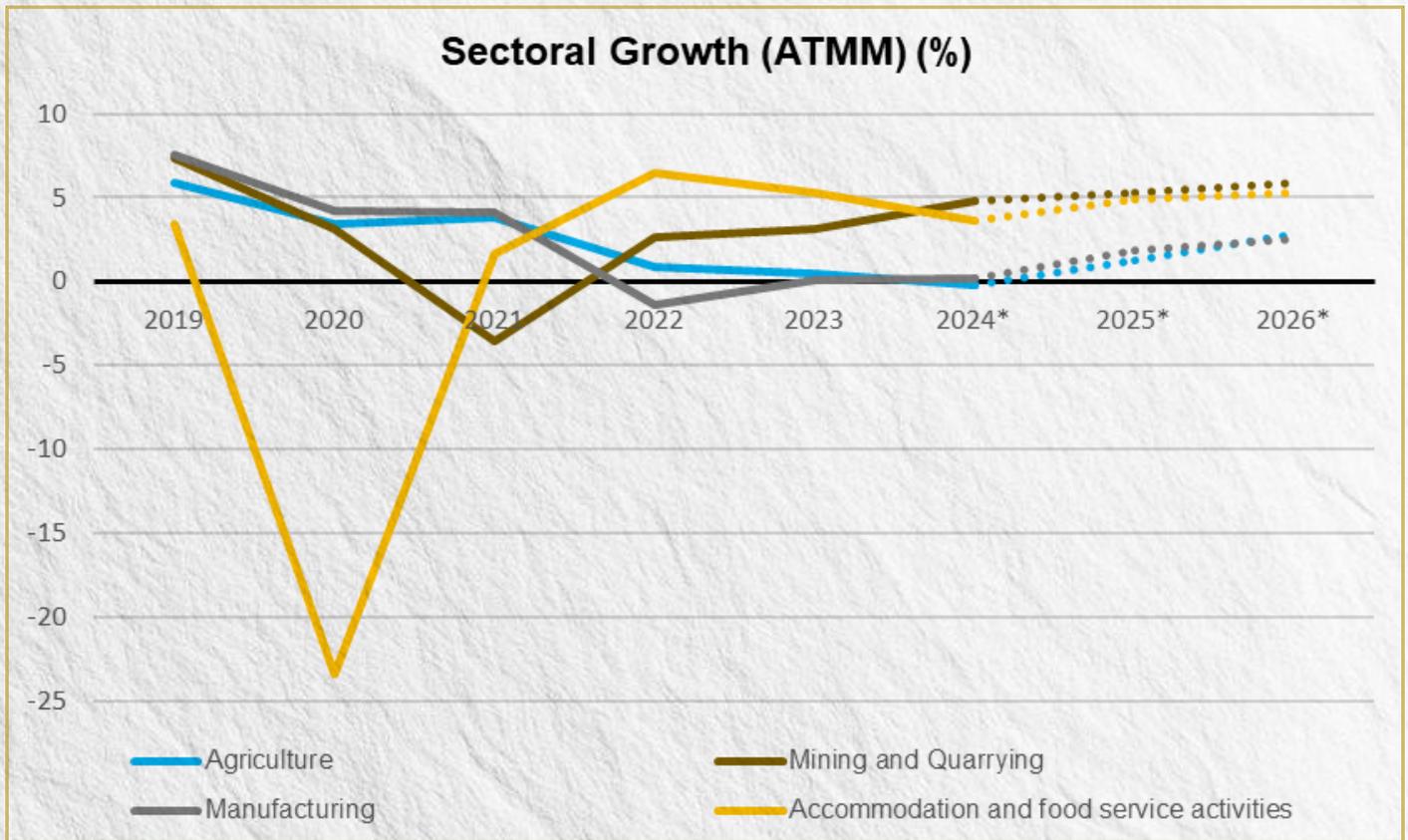


Figure 5: Sector Growth (Computed by MCCI)

Data Source: RBM

The agriculture, forestry, and fishing sector is projected to grow by 1.3 percent in 2025, rebounding from a contraction of 0.2 percent in 2024. The contraction in 2024 and 2024 exerted significant pressure on food inflation and worsened food insecurity, leaving nearly 4 million people in need of food assistance as of October 2025. The modest rebound in 2025 is supported by slight production gains in key export crops such as tea and tobacco. However, overall performance in 2025 remained subdued due to adverse

weather conditions experienced across the country, rising prices of agricultural inputs, and operational challenges associated with the implementation of the Affordable Inputs Programme (AIP). Looking ahead, the sector is expected to strengthen further with a growth forecast of 2.8 percent in 2026. This outlook is anchored on improved weather prospects, enhanced efficiency in the rollout of the Farm Input Subsidy Program (FISP), and increased investments aimed at boosting productivity and resilience within

the sector.

Growth in the mining and quarrying sector is projected at 5.3 percent in 2025, slightly below the earlier projection of 6.3 percent made in May 2025 but above the estimated 4.8 percent growth recorded in 2024. The downward revision reflects persistent disruptions in electricity supply, which continue to constrain production in this highly energy-intensive industry. In addition, reduced demand associated with a slowdown in construction activities, as well as delays in concluding key mining contracts, have dampened sector performance. Despite these challenges, growth is expected to improve to 5.9 percent in 2026, supported by strengthened regulatory frameworks and ongoing reforms under the National Economic Recovery Plan.

The manufacturing sector is projected to grow by 1.8 percent in 2025, a downward revision from the 2.4 percent projected in May 2025, yet a notable improvement from the modest 0.2 percent expansion recorded in 2024. The revised outlook reflects continued foreign exchange shortages, which have limited firms' ability to import essential raw materials, spare parts, and machinery required for production. Additionally,

ongoing electricity supply disruptions continue to hinder industrial operations and suppress manufacturing output. Nonetheless, the slight improvement relative to 2024 is attributed to stronger agricultural output in 2025, which is expected to enhance the availability of locally sourced raw materials, coupled with growing optimism for increased industrial activity toward the end of the year. The sector's performance is expected to improve further in 2026, with growth projected at 2.5 percent.

The accommodation and food services sector is projected to grow by 4.9 percent in 2025, revised downward from the earlier estimate of 6.6 percent in May 2025. This revision is primarily driven by the completion of several USAID-funded projects and programs that previously contributed to sustained demand within the sector. This slowdown occurs despite the sector benefiting from heightened economic activity and increased demand during the election period. Growth is nevertheless expected to pick up moderately in 2026, with the sector forecast to expand by 5.3 percent, supported by anticipated improvements in overall economic conditions and renewed private-sector activity.

2. Sector Contribution towards Gross Domestic Product (GDP)

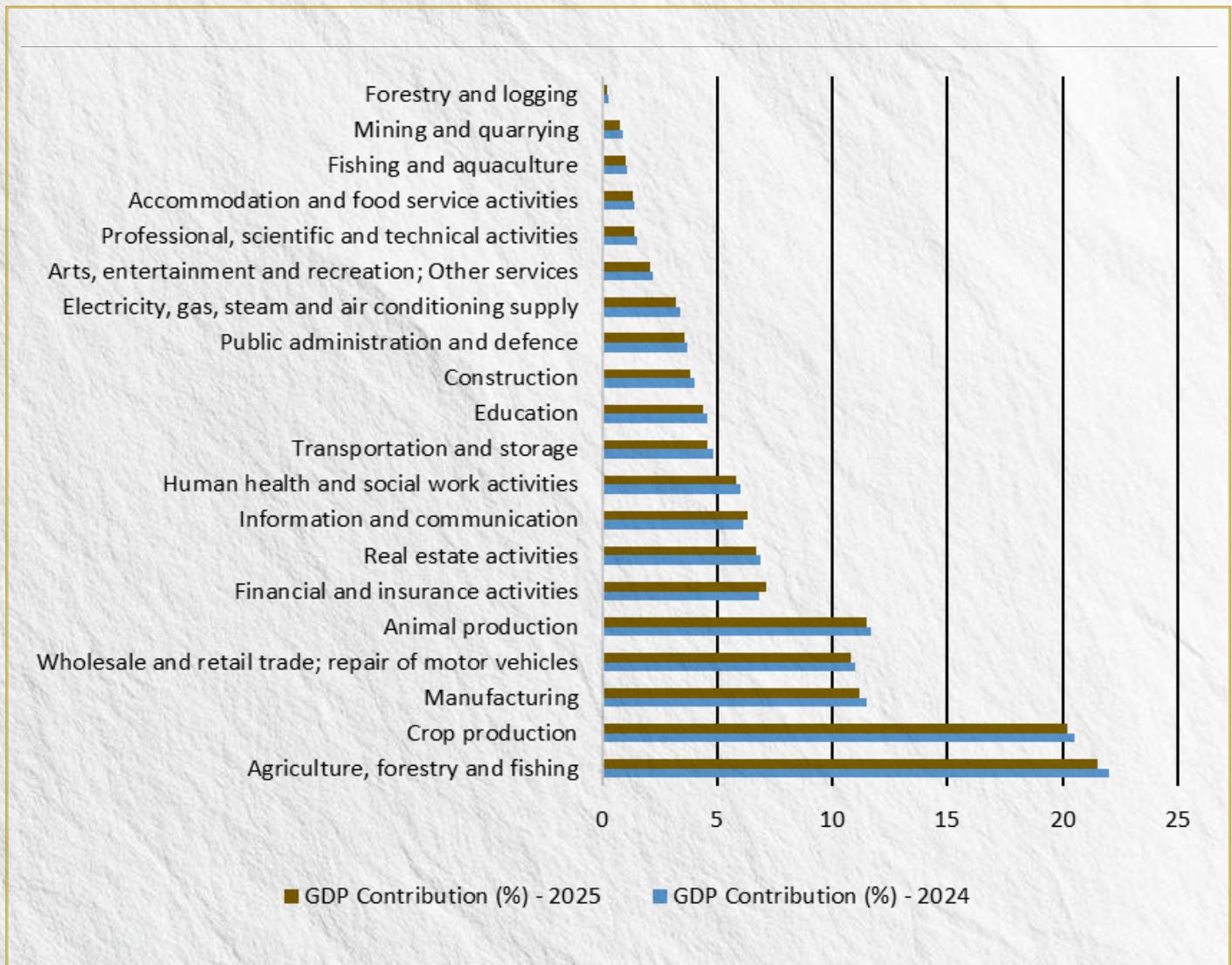


Figure 6: Sector Contribution towards GDP
(Computed by MCCI)

Data Source: Reserve Bank of Malawi

In terms of Sector contribution to GDP, in 2025, Malawi's GDP structure remained broadly similar to 2024, but with notable shifts across key sectors, reflecting post-COVID recovery dynamics, macroeconomic pressures, and structural constraints. Agriculture, forestry and fishing declined slightly from 22.0% in 2024 to 21.5% in 2025, while crop production fell from 20.5% to 20.2%. This marginal contraction points

to weather variability, rising input costs (fertilizer and seed), and foreign exchange shortages that affected timely access to farm inputs, despite agriculture remaining the backbone of the economy.

The manufacturing sector also experienced a modest decline, from 11.5% in 2024 to 11.2% in 2025, reflecting persistent challenges such as high electricity tariffs, intermittent power supply, and constrained access to foreign

exchange for importing raw materials. Similarly, wholesale and retail trade slipped from 11.0% to 10.8%, suggesting weakened household purchasing power amid high inflation and currency depreciation.

In contrast, parts of the services sector showed resilience and gradual expansion. Financial and insurance activities increased from 6.8% in 2024 to 7.1% in 2025, driven by the growth of mobile money, digital financial services, and increased demand for short-term credit as firms and households adjusted to liquidity constraints. Information and communication also rose from 6.1% to 6.3%, reflecting continued digitalization, expansion of mobile and internet services, and increased use of ICT in commerce and service delivery.

Social and public service sectors registered slight declines. Human health and social work activities fell from 6.0% to 5.8%, and education from 4.6% to 4.4%, partly reflecting fiscal consolidation pressures and constrained public spending in real terms.

Construction decreased from 4.0% to 3.8%, as rising costs of imported construction materials and delayed public projects weighed on activity.

Low-contributing sectors such as mining and quarrying (from 0.9% to 0.8%) and forestry and logging (from 0.3% to 0.2%) remained largely stagnant, highlighting limited progress in economic diversification and natural resource exploitation. Overall, the comparison between 2024 and 2025 indicates an economy undergoing gradual recovery but structural adjustment, with agriculture and traditional sectors slightly weakening, while ICT and financial services increasingly supporting growth amid macroeconomic headwinds.

1. Tea Production

An analysis of the 2025 tea production compared with 2024 shows a mixed and highly volatile performance across the first ten months of the year. January recorded the sharpest decline, falling by 27 percent from 2024 levels, followed by another major contraction in March, which dropped by 16 percent. These weak outturns were partially offset by strong gains in February and April, which increased by 7.7 percent and 12.8 percent, respectively, indicating temporary rebounds in activity. From May to July, movements were relatively stable, with very marginal declines of less than 1 percent in May and June, and a moderate increase of about 8 percent in July. However, the trend

weakened again in August, which registered an 11.7 percent contraction, and deteriorated further in September and October, which fell by 29 percent and 15.4 percent, respectively. Overall, the January–October pattern indicates that 2025 underperformed relative to 2024, recording an average of 38,400,591 Kg, compared to 41,543,224 Kg in 2024, representing a 7.6% decline. More months in 2025 registered decreases than increases, highlighting a generally softer and more volatile performance. Tea continues to be one of the major exports for the country as well as source of employment for the citizens. November and December 2025 could not be assessed due to missing data.

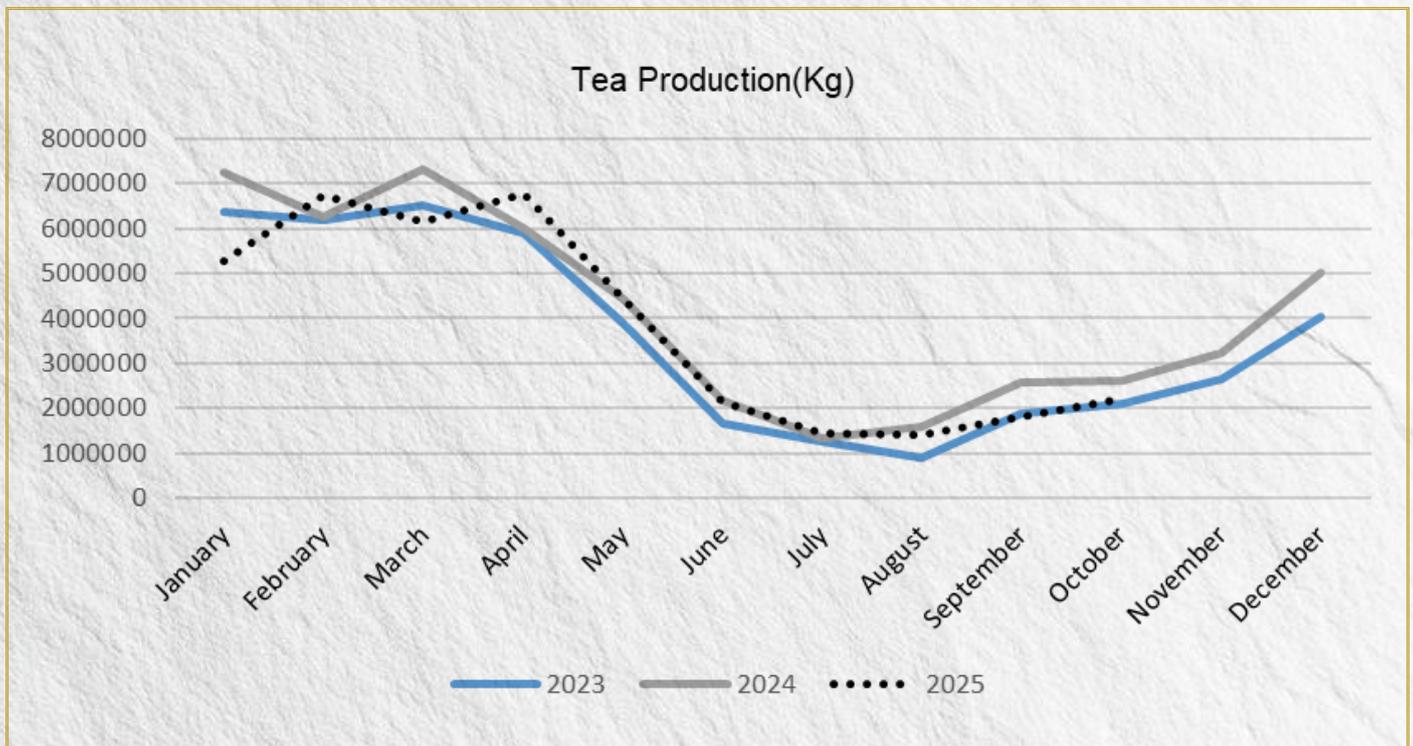


Figure 7: Monthly Tea Production (Computed by MCCCCI)

Data Source: Tea Association of Malawi

2. Tobacco Production and Market

In 2025, the tobacco market shows a strong recovery compared to 2024, driven primarily by a sharp increase in traded volumes. Total volume rose from 133.1 million Kgs in 2024 to 173 million Kgs in 2025, representing an increase of about 30 percent, indicating improved production and better market participation. Total earnings also increased, from \$396.8 million to \$441.1 million, although at a more modest rate of around 11 percent. Burley tobacco continued to dominate, accounting for 91.9% of total tobacco production in 2025. This divergence suggests that while more tobacco was sold, average prices declined from 2.98 in 2024 to 2.55 in 2025, pointing to softer prices, possibly due to increased supply, quality variations, or buyer market power. However, in 2025, tobacco farmers in Malawi faced several significant challenges that affected their livelihoods and overall sector performance. Many farmers protested at the start of the 2025 marketing season due to very low prices offered on auction floors, with some offers as low as about \$1.20 to \$1.80 per kilogram despite rising costs of inputs like fertilizer, which left farmers feeling the prices did not cover their production costs. These price frustrations even caused the temporary suspension of sales at some floors. Market

dynamics also posed a problem: buyers with strong market power could keep prices low, and farmers often had limited bargaining power in a buyer-dominated system. Quality and grading issues emerged during the 2025 season too, with reports of poor leaf grading affecting average prices early in the marketing period. Another structural challenge was crop diversification. Although there were policy pushes and programs encouraging diversification into other crops, many farmers struggled to find reliable markets or support for these alternatives. Often the systems and infrastructure for market access and support services for other crops were weak, making tobacco remain the default despite its price volatility.

Overall, the trend confirms that the tobacco market continues to recover in the post-COVID period, with volumes rebounding strongly after earlier disruptions, even though price pressures remain. The market appears to be transitioning from recovery driven by higher prices to recovery supported by increased production and market activity, highlighting growing confidence among farmers and traders despite lingering price volatility.



Figure 8: Tobacco Market Dynamics (Compiled by MCCCI)

Data Source: Tobacco Commission

3. Maize Production and Price Developments

Maize market developments in 2025 were shaped by significant production shortfalls and heightened price pressures. Malawi's maize production for the 2024/25 agricultural season was adversely affected by weather-related shocks, including Cyclone Chido/Jude and prolonged dry spells, resulting in a below-average harvest estimated at approximately 2.9 million metric tons (MT). This level of production was around 22 percent below the five-year average and fell substantially short of the national maize requirement of about 3.7 million MT, necessitating imports to meet domestic food needs despite some internal market adjustments.

Reflecting the tight supply conditions, maize prices in 2025 were consistently and significantly higher than in 2024 across all months, signalling intensified food price pressures. Prices rose sharply at the start of the year, with the national average retail price increasing from MWK 880 in January 2024 to MWK 1,304 in January 2025, representing a 48 percent year-on-year increase. The upward pressure peaked in February, when prices more than doubled from MWK 771 to MWK 1,718, marking the steepest annual increase. Although prices moderated somewhat after February, they

remained elevated throughout the year, with mid-year prices (June–August) averaging above MWK 1,100, compared to below MWK 800 over the same period in 2024.

Seasonal price patterns broadly followed historical trends, with some easing after the harvest period between April and June and gradual increases toward the lean season. However, in 2025, the post-harvest price decline was notably muted, and prices failed to return to 2024 levels, underscoring persistent supply constraints. By the final quarter of the year, maize prices remained substantially elevated, averaging MWK 1,238 in October and MWK 1,168 in November, compared with MWK 819 and MWK 871, respectively, in 2024, before rising again in December. While the national average retail price declined slightly in October and November, contrary to typical seasonal trends, it remained approximately 36 percent higher on a year-on-year basis. These short-term declines are partly attributed to continued inflows of maize from neighboring countries, which helped bolster domestic availability, alongside relatively stable informal exchange rates at border points that contained further price escalation.

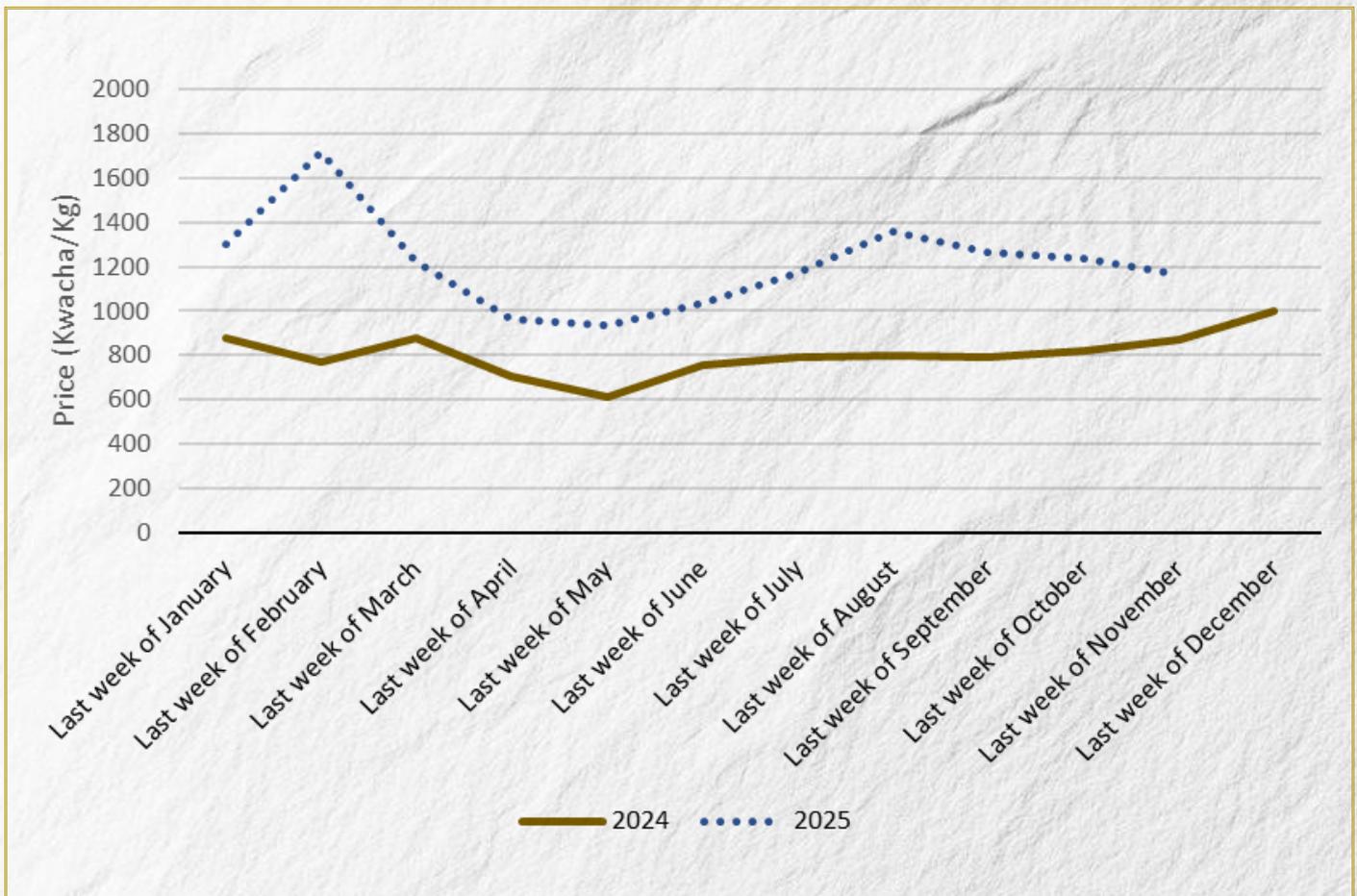


Figure 9: Maize Prices (computed by MCCCCI)

Data Source: IFPRI

The sustained elevation in maize prices reflects tight domestic supply conditions following two consecutive years of below-average harvests in 2024 and 2025, compounded by macroeconomic pressures. Depreciation of the Malawian kwacha increased production and transportation costs, while high inflation and weak economic growth eroded real incomes and reduced purchasing power, particularly among poor and urban net food-buying households.

As a result, food security conditions remain fragile. An estimated 4 million people are projected to face IPC Phase 3 (Crisis) or worse acute food insecurity between October 2025 and March 2026, including approximately

8,000 people in IPC Phase 4 (Emergency). Although this represents an improvement compared to the 5.7 million people classified in IPC Phase 3 or above during the 2024/25 lean season, humanitarian needs remain substantial. The current situation is driven by reduced household food stocks due to poor harvests, persistently high staple food prices, and declining real incomes, which together continue to limit access to adequate food for resource-constrained households. However, despite localized weather risks, seasonal weather conditions currently point to a favourable production outlook for the 2026 cereal harvest at the national level.

The business environment remains challenging for the private sector, primarily due to significant macroeconomic imbalances driven by low productivity. This persistent low productivity results in diminished revenue, declining exports, negative balance of payment and limited job creation, which in turn heightens the demand for social spending.

Consequently, the economy is caught in a cycle where increased social expenditures coincide with reduced government revenue, complicating the ability of both the government and private sector to fulfill their respective roles effectively.

1. Monetary Policy vs Money Supply

In 2025, Malawi's money supply M2 exhibited sustained robust expansion, rising from 5.4 trillion MWK in January to a peak of 7.4 trillion MWK in September before moderating slightly to 7.2 trillion MWK by October, with year-on-year growth rates oscillating between 33% and 52% despite the Reserve Bank of Malawi (RBM) anchoring the policy rate at a restrictive 26% throughout the year. Compared to 2024, where M2 grew aggressively from 3807.6 billion MWK in January to 5339 billion MWK by December. Money supply developments in Malawi in 2025, despite a tight monetary policy stance, were driven by a combination of seasonal, fiscal, and broader macroeconomic factors that amplified liquidity growth. Broad money (M2) recorded strong quarterly increases, most notably in the second quarter (April–June), coinciding with the post-harvest season. During this period, agricultural sales, particularly of tobacco and maize, injected substantial liquidity into the financial system. These inflows boosted deposits and expanded the money stock as farmers and

traders converted crop proceeds into formal financial assets, thereby raising the overall level of broad money in circulation.

At the same time, mid-year fiscal slippages played a major role in expanding the money supply. Government spending exceeded planned levels due to rising expenditure pressures. As 2025 is an election year, culminating in national polls on September 16, pre-electoral outlays on voter handouts, infrastructure commitments, and statutory obligations further boosted liquidity. To finance a fiscal deficit estimated at over 10 percent of GDP, the government increased domestic borrowing through Treasury bills and Treasury notes.

Compared to 2024, where M2 grew aggressively from 3807.6 billion MWK in January to 5339 billion MWK by December under a policy rate stabilizing at 26% from February, 2025 displayed marginally decelerated but more volatile intra-

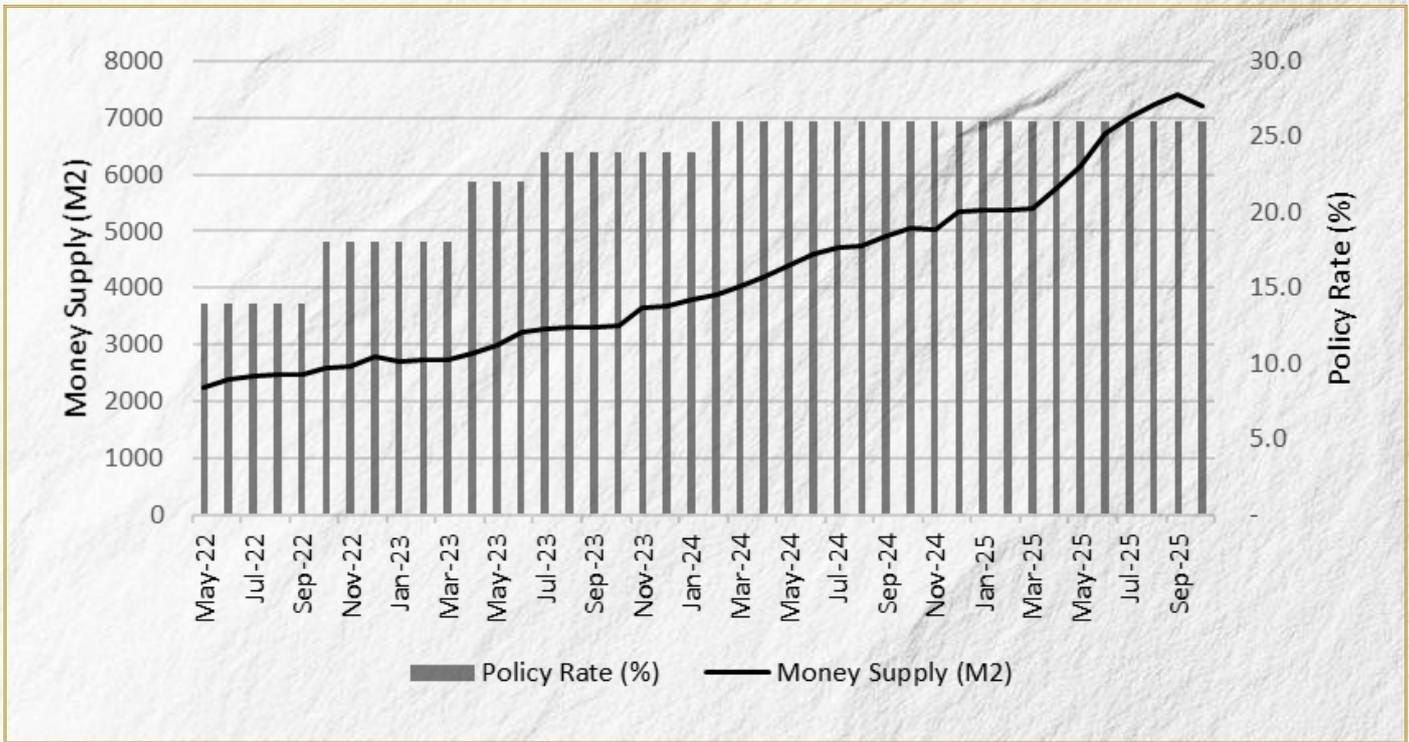


Figure 10: Money Supply (M2) and Policy rate

Data Source: Reserve Bank of Malawi

2. Foreign Exchange Rates

In 2025, Malawi’s exchange rate shows a marked shift from the sharp depreciation experienced in 2024 to a period of relative stabilization, albeit at historically weak levels. In 2024, the kwacha depreciated significantly across all major currencies, with the US dollar rising from about 1,698 in January to around 1,750 by mid-year and remaining elevated thereafter, while the pound and euro climbed steeply, reflecting severe foreign exchange shortages, adjustment pressures, and pass-through effects from earlier devaluations. By contrast, in 2025 the exchange rate against the US dollar remains largely flat, fluctuating narrowly around 1,750 throughout the year, indicating a form of nominal stability. However, the pound and euro continue to trend upward in 2025, peaking above 2,440 and 2,110 respectively before easing slightly toward the end of the period. This

divergence suggests that while the kwacha stabilized against the dollar, possibly due to administrative controls, improved export inflows such as tobacco, or tighter monetary policy, it remained vulnerable to global currency movements and underlying structural weaknesses. Overall, the trend indicates that 2025 was characterized by exchange rate stabilization rather than recovery, signaling reduced volatility compared to 2024 but continued pressure from limited foreign exchange reserves and high import demand, underscoring the fragility of Malawi’s external position.

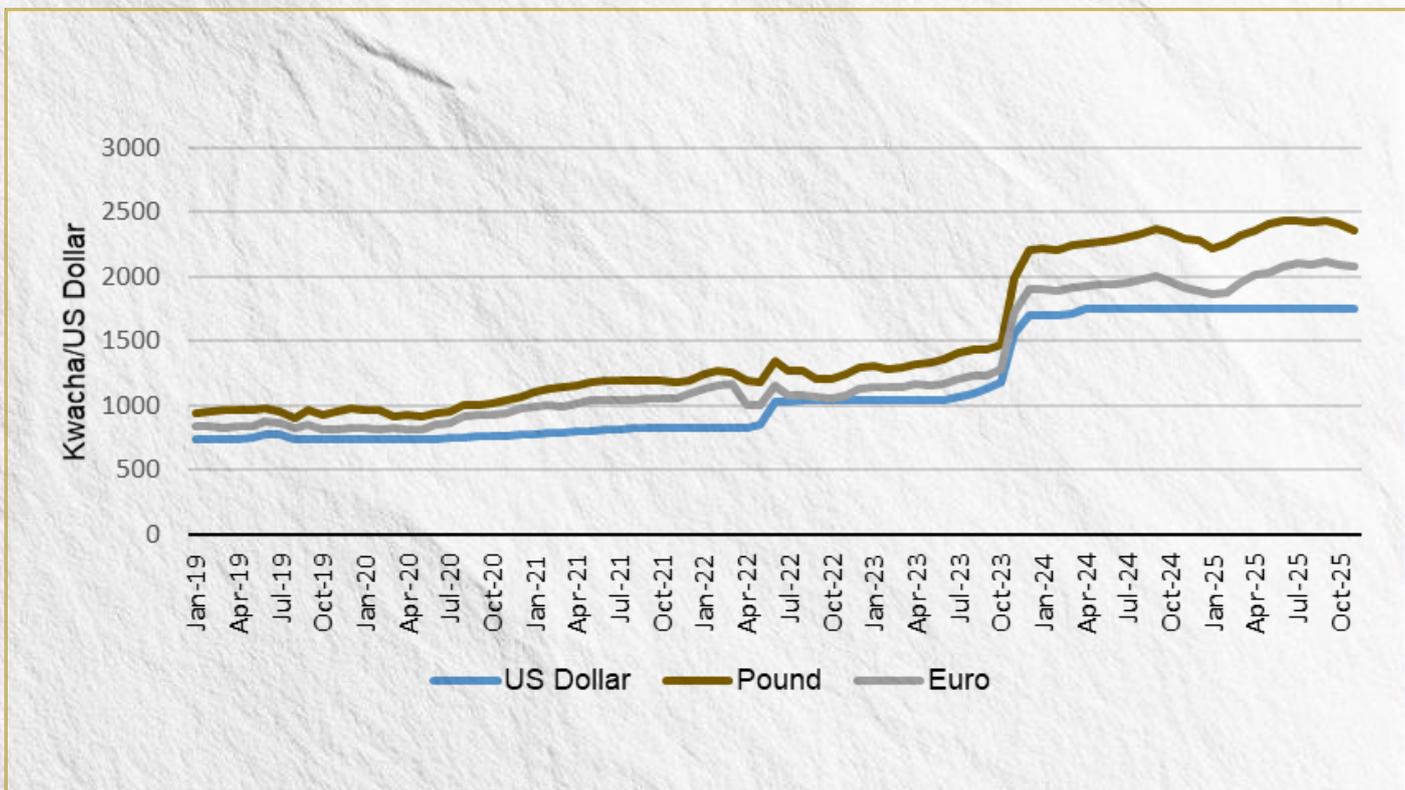


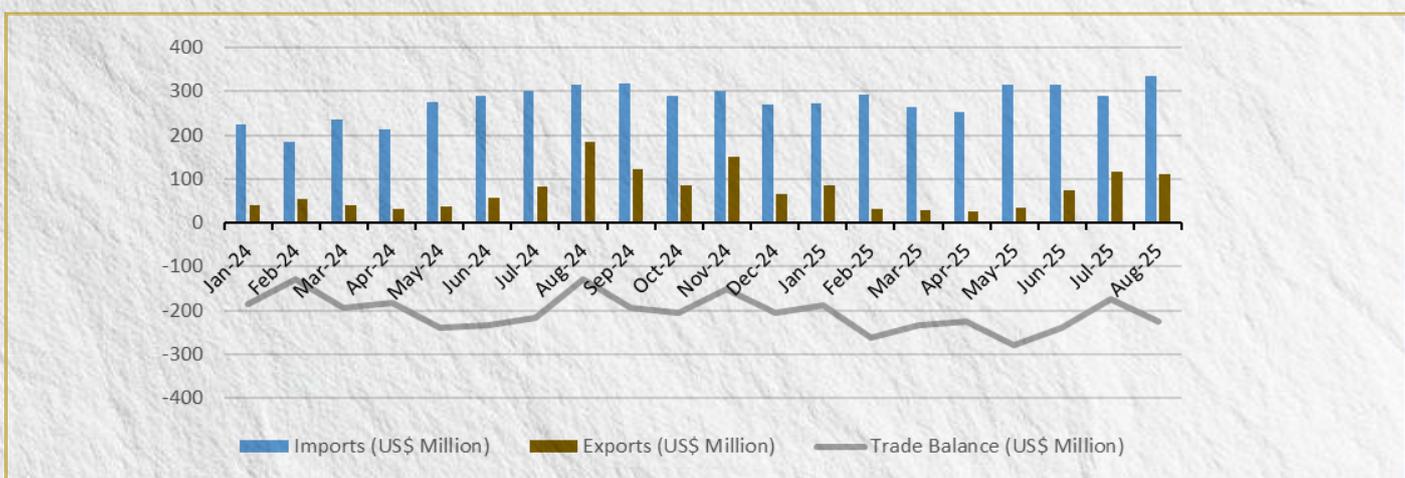
Figure 11: Money Supply (M2) and Policy rate

Data Source: Reserve Bank of Malawi

3. Merchandise Trade

In 2025, Malawi's trade performance deteriorated compared to the same period in 2024, as reflected in higher imports, weaker exports, and a significantly wider trade deficit. On average, 2025 (January–August), imports rise to about US\$291 million, while average exports fall to around US\$64 million, widening the average trade deficit to approximately, US\$231 million.

In contrast, for 2024 (January–December), total imports average about US\$267 million, while exports average approximately US\$80 million, resulting in an average trade deficit of roughly US\$187 million over the year. The statistics shows that Malawi imported significantly more and exported less in 2025 than in 2024, leading to a materially larger trade gap.



Several factors contributed to this. On the export side, weaker international prices for key agricultural commodities, supply constraints linked to climate shocks, and structural limitations in production and value addition constrained export earnings in 2025 despite some recovery in volumes for crops such as tobacco. At the same time, persistent foreign exchange shortages and exchange rate pressures affected export competitiveness and the ability of firms to operate at full capacity. On the import side, Malawi continued to rely heavily on imports of fuel, fertilizer, food, and intermediate goods due to domestic production shortfalls, while a gradual recovery in economic activity sustained import demand. These factors combined to push average imports higher over the 2025 period than in 2024.

The implications for the economy for this stand of this trade balance are substantial. A larger average trade deficit intensifies pressure on foreign exchange reserves, contributes to exchange rate instability, and feeds into inflation through higher import costs. It also heightens balance-of-payments vulnerabilities and increases the burden of external debt servicing. Addressing these challenges requires strengthening export performance through diversification, value addition, and productivity improvements, while promoting import substitution where feasible. In parallel, policies that enhance foreign exchange inflows, such as supporting export-oriented investment, improving market access, and encouraging formal remittance channels, alongside prudent macroeconomic management, are critical to narrowing the trade gap and improving Malawi's external sustainability.

4. Foreign Exchange Reserves

Malawi's foreign reserve position in 2025 remained fragile and broadly comparable to 2024, with only marginal improvements and continued vulnerability. In January–August 2024, total reserves averaged around US\$570 million, translating into an import cover fluctuating between 2.2 and 2.4 months, before softening to about 2.2 months by August. In the same January–August period of 2025, average reserves were slightly lower at about US\$557 million, while import cover mostly ranged between 2.1 and 2.3 months, briefly improving to 2.4 months in July before declining again to 2.1 months in August. This comparison indicates that although reserves in 2025 experienced temporary gains, likely supported by seasonal export inflows such as tobacco, the overall reserve adequacy did not improve meaningfully relative to 2024

and remained well below the commonly recommended threshold of at least three months of import cover.

The reserve position implies a continued tight foreign exchange environment for the economy in 2025. From a business perspective, limited reserves translate into constrained availability of foreign currency, resulting in delays in import payments, prioritization of essential imports, and increased reliance on the parallel market. Firms that depend on imported raw materials, particularly in manufacturing, agro-processing, construction, and pharmaceuticals, face difficulties in securing inputs on time, leading to production disruptions, higher operating costs, and reduced capacity utilization. The uncertainty around access to

foreign exchange also complicates business planning and pricing decisions, as exchange rate pressures and pass-through effects raise the cost of imported inputs.

The persistence of low reserves underscores the need to strengthen foreign exchange generation through improved export performance, diversification beyond traditional commodities, and enhanced value addition, while also managing

import demand and supporting domestic production of key inputs. Without progress on these fronts, businesses will continue to face challenges in accessing raw materials, constraining industrial growth and broader economic recovery.

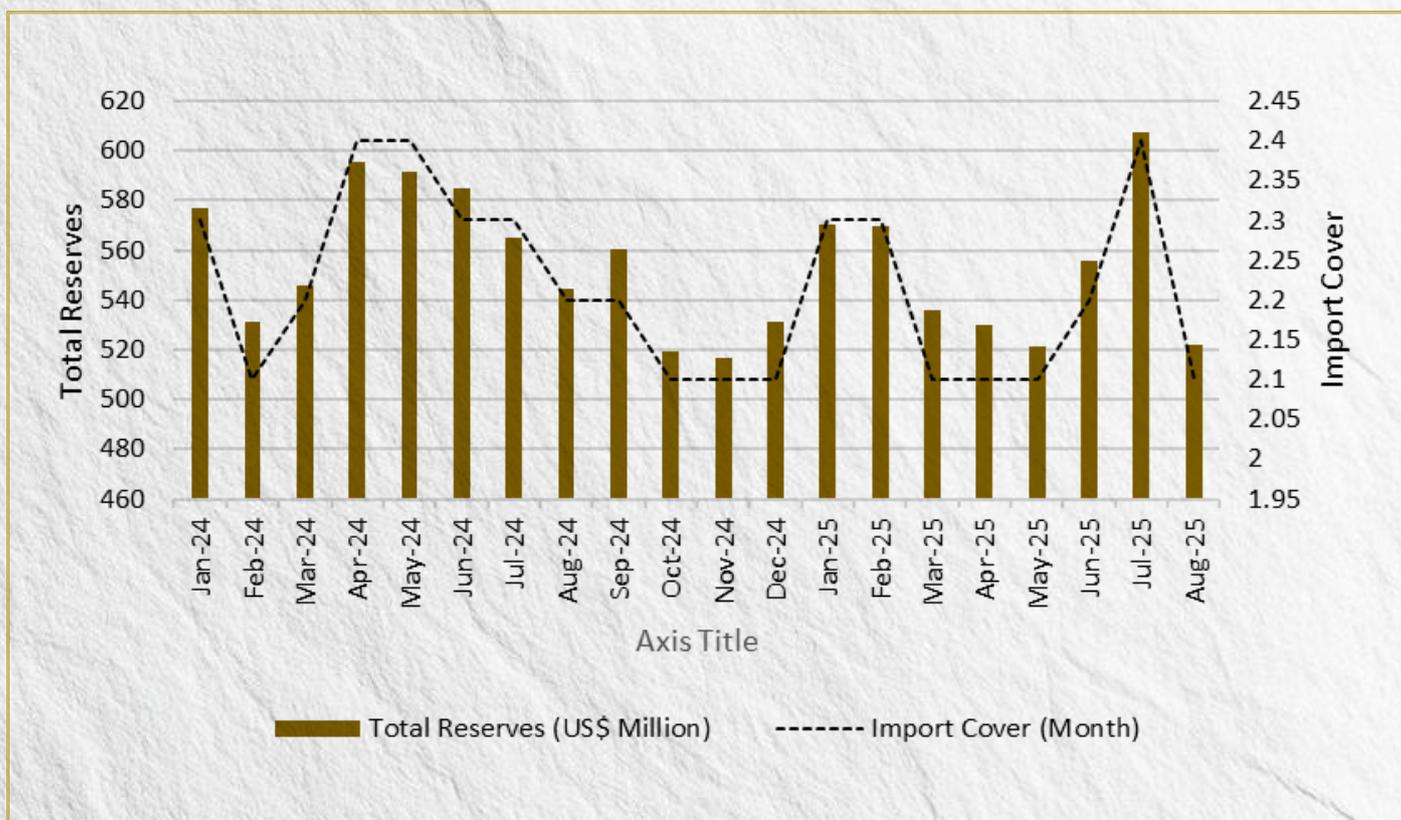


Figure 12: Foreign Reserve Position

Data Source: Reserve Bank of Malawi

1. 2025/2026 National Budget Performance

Table 1: 2025/2026 Fiscal Budget Performance. Data Source: Ministry of Finance, Economic Planning and Decentralization

	2025/2026 Fiscal Budget	Planned for the first half of the fiscal year	Actual Mid-Year figure	Projection for the second half of the fiscal year
Total revenue	K5.58 Trillion	K2.711	K2.383 trillion	K3.078 trillion
Total expenditure	K8.077 trillion	K4.244	K4.420 trillion	K4.169 trillion
Recurrent expenses	K6.04 trillion	K3.220 trillion,	K3.502	K3.161 trillion
Development Expenditure	K2.01 trillion	-	K917.9 billion	K1.008 trillion
Budget Deficit	K2.498 trillion	K1.534 trillion	K2.037 trillion	K1.091 trillion
Public debt interest	K2.17 trillion	-	-	K1.260 trillion;
Public debt	K16.19 trillion,	-	K21.6 trillion	-

Fiscal policy stance in the 2025/26 financial year is markedly expansionary but under severe strain, as reflected in weak first-half performance, rising expenditure pressures, and a widening fiscal deficit. In the first half of the fiscal year, total revenue amounted to K2.383 trillion, above the planned level

(K2.711 trillion), while total expenditure reached K4.420 trillion, resulting in a first-half deficit of K2.037 trillion, against the planned budget of K1.534 trillion. This imbalance was driven largely by recurrent spending, which absorbed the bulk of resources, with K3.502 trillion spent in

the first half, compared to much lower execution of development expenditure. The dominance of recurrent outlays, particularly wages, pensions, interest payments, and subsidies, continues to crowd out productive investment spending, weakening the growth-enhancing role of fiscal policy.

Against this background, the approved 2025/26 Budget has been revised upward by K512.6 billion, from K8.077 trillion to K8.589 trillion, largely to accommodate unavoidable expenditure pressures. These include higher wages and salaries, increased public debt interest, expanded pensions and gratuities, additional allocations to FISP, election-related costs, maize procurement logistics, procurement of drugs, and the extension of free primary and secondary education, alongside domestically financed development projects such as the CDF for new constituencies. While many of these expenditures are socially important, they further entrench the rigid structure of spending and increase fiscal inflexibility.

As a result, the total fiscal deficit for the year is now projected at K3.128 trillion, significantly higher than the initially approved K2.498 trillion, representing a

widening of K630.2 billion (25.2 percent). This implies heavier reliance on domestic borrowing, which risks crowding out private sector credit, pushing up interest rates, and undermining macroeconomic stability. The situation is further compounded by the rising cost of servicing public debt, with interest payments alone projected at K2.17 trillion, underscoring how debt dynamics are increasingly dictating fiscal outcomes rather than policy priorities.

Public debt has escalated sharply to K21.6 trillion, equivalent to about 86 percent of GDP, from K16.19 trillion recorded in September 2024, placing Malawi firmly in a high debt distress position. Although progress has been made on external debt restructuring, with agreements reached with most bilateral creditors, including the Kuwait Fund and the Saudi Fund for Development, the debt overhang remains a major fiscal risk. High debt levels limit fiscal space, constrain the government's ability to respond to shocks, and perpetuate a cycle in which new borrowing is increasingly used to service existing obligations rather than finance development.

2.0. Tax Measures introduced in Mid-Year National Budget Review

The tax measures in the Mid-Year Review for 2025/2026 Budget focus on widening the tax base, increasing progressivity, and capturing revenue from previously under-taxed activities and sectors:

1. **Bank Transfer Levy:** Introduction of a levy of 0.05 percent on all bank transfers, to be borne by the sender, aimed at enhancing revenue from financial transactions.
2. **Mobile Money Transfer Levy:**

Introduction of a 0.05 percent levy on mobile money transactions exceeding MK100,000, payable by the sender, expanding taxation within the fast-growing digital payments ecosystem.

3. **PAYE Schedule Adjustment:** Revision of the Pay-As-You-Earn (PAYE) tax bands to enhance progressivity, with rates set at 0 percent for incomes up to MK170,000, 30 percent for incomes between MK170,000

and MK1,570,000, 35 percent for incomes between MK1,570,000 and MK10,000,000, and 40 percent for incomes above MK10,000,000 per month.

4. **Supernormal Profits Tax Adjustment:** Revision of the supernormal profits threshold, with profits below MK5 billion taxed at 30 percent, and profits above MK5 billion taxed at 40 percent, targeting excess profits in high-performing firms.
5. **Gambling Winnings Tax:** Removal of thresholds on withholding tax for gambling winnings and an upward adjustment of the withholding tax rate from 10 percent to 15 percent on all gambling winnings.
6. **Excise Tax on Lotteries:** Introduction of a 15 percent excise tax on gross lottery revenues, to be enforced through radio and television operators.
7. **Minimum Alternate Tax (MAT):** Introduction of a 0.5 percent MAT on turnover for companies with annual turnover exceeding MK5 billion and operating for more than three years, aimed at ensuring minimum tax contributions from profitable firms with low declared taxable income.
8. **Capital Gains Tax:** Introduction of a standard capital gains tax rate of 30 percent on all share disposals, regardless of the holding period, to enhance equity in investment income taxation.
9. **Withholding Tax on Residential Rental Income:** Introduction of a 20 percent withholding tax on all residential rental income earned by property owners in urban areas, broadening the tax base within the real estate sector.
10. **Value Added Tax (VAT) Rate Adjustment:** Upward adjustment of the VAT rate from 16.5 percent to 17.5 percent, intended to boost indirect tax revenues.
11. **Import Surcharge on Cement:** Introduction of a 20 percent surcharge on imported cement, aimed at protecting domestic producers and reducing import dependence.

2.1 Non-Tax Measures

In addition to tax measures, the Budget proposes several non-tax interventions designed to improve revenue administration, compliance, and public sector efficiency:

1. **Motor Vehicle Insurance Levy:** Introduction of a 2 percent levy on motor vehicle insurance premiums to provide additional financing for the Ministry of Health, supporting health sector funding.
2. **Visa Policy Revision:** Revocation of visa-free access to Malawi, with visa application fees to be applied on a reciprocity basis, aimed at generating non-tax revenue and enhancing migration management.
3. **Revenue Remittance Enforcement (MDAs):** Strengthened enforcement of the remittance of all revenues collected by Ministries, Departments, and Agencies (MDAs) to the central government.
4. **SOE Dividend and Surplus Remittance:** Strict enforcement of the remittance of dividends and surplus revenues from State-Owned Enterprises (SOEs) to enhance non-tax revenue performance.

2.1. Possible implications of the Tax and Non Tax Measures

The proposed revenue measures in the 2025/26 Budget, while necessary for addressing Malawi's fiscal pressures, have important implications for the business environment and therefore call for a carefully balanced policy approach. Increased transaction levies, higher VAT, the introduction of a Minimum Alternate Tax, and higher withholding and capital gains taxes will raise the cost of doing business, compress cash flows, and potentially reduce firms' capacity to reinvest and expand. For many formal businesses, already operating under foreign exchange shortages, high interest rates, and weak demand, these measures may further strain profitability and, in some cases, discourage formalisation and investment. In the short term, the cumulative tax burden risks slowing private sector activity, with possible knock-on effects on employment and economic growth. Against this backdrop, policy efforts should increasingly shift away from repeatedly taxing the same compliant formal businesses and instead focus on broadening the tax base into largely untapped areas of the economy. Expanding coverage within

the informal sector, digital and platform-based commerce, professional services, and property markets, supported by stronger efficiency in tax administration, digital tracking, and data integration, would enhance revenue mobilization while improving equity in the tax system. At the same time, rationalizing tax incentives and reducing leakages could yield additional revenues without increasing statutory rates. A balanced approach that combines revenue mobilization with private sector support is essential. This includes sequencing tax measures carefully, strengthening compliance rather than raising rates, and complementing fiscal reforms with actions that lower business costs, such as improving access to foreign exchange, easing regulatory bottlenecks, and investing in energy and transport infrastructure. By widening the tax base and reducing over-reliance on formal businesses, government can protect competitiveness, sustain investment, and promote inclusive growth while still achieving fiscal consolidation objectives.

1. **Climate-Resilient Production Systems:**

Strengthening agricultural and industrial supply chains through climate-adaptive technologies and practices remains critical for Malawi, given the economy's high exposure to climate shocks such as droughts and floods. Investments in irrigation, climate-smart agriculture, resilient seed varieties, and improved water management systems are essential to stabilise food production and ensure a reliable supply of raw materials for domestic agro-processing and manufacturing. Beyond agriculture, industrial resilience should be enhanced through improved logistics, storage facilities, and disaster-resilient infrastructure to reduce supply disruptions and post-harvest losses.

2. **Fiscal Discipline and Public Finance Reform:**

In the context of rising public debt and widening fiscal deficits, fiscal consolidation must be a central policy priority. This requires expanding the domestic revenue base through improved tax administration, reduced leakages, and gradual broadening of the tax net into the untapped areas, while avoiding measures that unduly suppress productive investment. On the expenditure side, stronger controls are needed to contain recurrent spending, particularly subsidies and the public wage bill, while improving the efficiency and targeting of social programmes. In parallel, strengthening

public debt management frameworks, enhancing transparency, and adhering to credible fiscal rules will be essential to restoring confidence and safeguarding long-term fiscal sustainability.

3. **Investment Climate Enhancement.**

Creating a competitive, predictable, and investor-friendly business environment is critical to stimulating private sector-led growth. This entails maintaining sound macroeconomic fundamentals, reducing policy uncertainty, and streamlining regulatory and bureaucratic processes that raise the cost of doing business. A transparent, growth-oriented tax regime, faster contract enforcement, improved access to foreign exchange, and stronger protection of property rights will help attract both domestic and foreign investment. Special attention should be given to supporting small and medium-sized enterprises (SMEs), which are central to employment creation and economic diversification in Malawi.

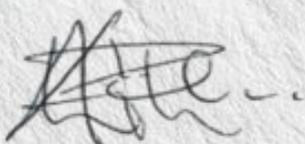
4. **Energy Infrastructure Development:**

Reliable and affordable energy remains a binding constraint to industrialization transformation. Continued investment in generation, transmission, and distribution infrastructure is therefore essential. Strategic projects should be complemented by efforts to diversify energy sources, including solar, hydro, and other renewables, to reduce vulnerability to climate-related power disruptions. In addition, fast-tracking

the industrial park initiative is crucial to creating manufacturing hubs with dedicated power supply, shared infrastructure, and streamlined regulatory services, thereby enhancing productivity and competitiveness of domestic industries.

5. Export Diversification and Market Expansion:

Reducing Malawi's dependence on a narrow range of primary commodity exports is critical for improving foreign exchange generation and external stability. Accelerated efforts are needed to diversify exports into higher-value agricultural products, agro-processing, light manufacturing, and services. Strengthening quality standards, certification systems, and logistics infrastructure will enhance competitiveness in regional and global markets. Leveraging regional trade frameworks such as the African Continental Free Trade Area (AfCFTA), as well as SADC and COMESA, can unlock new market opportunities, support scale economies, and help stabilise export earnings.



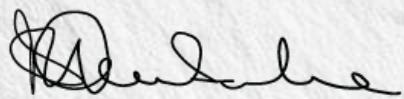
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6. Foreign Exchange and External Sector Resilience:

Given persistent foreign exchange shortages, policies should focus on boosting FX inflows while managing import demand. This includes supporting export-oriented investment, promoting formal remittance channels, and improving export retention and repatriation mechanisms. At the same time, targeted import substitution, particularly for food, energy, and basic industrial inputs, can help reduce pressure on the balance of payments without resorting to distortionary controls.

7. Human Capital and Productivity Enhancement:

Sustained economic transformation will require greater investment in human capital. Improving the quality and relevance of education and skills training, particularly in technical, vocational, and digital fields, will support industrialization and private sector growth. Health and nutrition interventions are equally important to enhance labor productivity and long-term growth potential.



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