MALAWI CONFEDERATION OF CHAMBERS
OF COMMERCE AND INDUSTRY

POTENTIAL EFFECTS OF FUEL INCREASE ON BUSINESSES

1.0 Introduction

Malawi's recent fuel price increases, most notably the adjustment announced by the Malawi Energy Regulatory Authority (MERA) yesterday on 20 January 2026, are intended to avert fuel shortages, restore cost-reflective pricing, and safeguard limited foreign exchange reserves. MCCCI acknowledges that the recent fuel price adjustment was implemented to close the pricing gap created under the previously fixed fuel pricing regime, which had become commercially unsustainable. As outlined by MERA, the suppressed prices had hindered the importation of petroleum products, constrained the collection of economically important levies such as the Road Levy and the Rural Electrification Levy, and contributed to the erosion of strategic fuel reserves. Restoring the Automatic Pricing Mechanism, therefore, allows the government to recover these levies and maintain sector sustainability. However, the increases have intensified existing economic pressures, including persistently high non-food inflation (averaging around 20.6% in 2025), acute foreign exchange constraints, and Malawi's heavy dependence on imported fuel. The impact on businesses is substantial, with transport, agriculture, manufacturing, and logistics sectors experiencing sharply rising operating costs and reduced competitiveness.

Quick facts about the recent fuel hike

- Petrol price jumped **41.9%** from **K3,499** to **K4,965** per litre.
- Diesel price rose **41.3%** from **K3,500** to **K4,945** per litre.
- Increase driven by reinstatement of the **Automatic Pricing Mechanism (APM)**, which reviews prices when costs shift beyond **±5%**.

2.0 Key sectors affected and respective effects

- **Transport and Logistics** (most severely impacted): Fuel comprises between 30–50% of operating costs. Transporters have already announced fare and freight hikes, leading to higher delivery costs and reduced demand. Small operators risk closures, while logistics delays exacerbate supply chain issues. This cascades into broader inflation, as transport costs feed into production costs and retail prices, lowering the already challenged capacity utilization

- **Agriculture**, which employs about 80% of the population and accounts for 25% of GDP): The sector will be highly affected as most of the farm production operations relies on diesel-powered tractors, irrigation pumps, and produce transport. Higher costs for inputs (e.g., fertilizers) and movement squeeze smallholder margins, potentially reducing output and raising food prices. Past hikes contributed to food inflation peaking at 30.7% in 2025 (NSO). With forex shortages limiting imports, this risks food insecurity and lower agricultural productivity, capacity utilization

- **Manufacturing and Industry:** Diesel for generators (amid frequent power outages) and raw material transport raises production expenses, eroding competitiveness. Many firms may scale back or lay off workers, further pressuring unemployment and exports.

- **MSMES, SMES and Informal Businesses (majority of employment):** Higher transport and input costs reduce sales volumes and profitability. Many may shut down or operate at again a reduced capacity, worsening private sector performance

These series of fuel hikes has been exacerbated by a series of rapid policy and market adjustments, including increased taxation measures and high cost of electricity tariffs under the third tranche of the base tariff adjustment. The cumulative effect of these shocks places the private sector and consumers under considerable strain, raising concerns about reduced competitiveness, slower recovery prospects, and heightened risks of business contraction in the short to medium term. While aimed at stabilizing supply and supporting IMF negotiations, short-term pain includes reduced consumer spending and potential economic contraction without relief measures.

3.0 Comparison with the neighboring countries

Looking at data, a comparison of fuel prices within the region further highlights the cost implications. In January 2026, Malawi's pump prices rose to approximately USD 2.90 per litre for both petrol and diesel, making them among the highest in the region. In contrast, Zambia maintained much lower fuel prices at around USD 1.29 per litre for both petrol and diesel, while Mozambique's prices sat in the mid-range, with petrol at roughly USD 1.31 per litre and diesel at approximately USD 1.25 per litre. Overall, Malawi's fuel costs are more than double those in Zambia and notably higher than in Mozambique, reflecting exchange rate pressures and recent steep adjustments, while Zambia and Mozambique remain closer to regional and international averages.

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