THE ECONOMICS ASSOCIATION OF MALAWI'S REACTION TO THE STATE OF THE NATION ADDRESS

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1 INTRODUCTION

Malawi's Constitution emphasises the importance of the State of the Nation Address (SONA) for democratic accountability. According to Section 89(3), the President must annually address Parliament before the official budget is considered, discussing the country's status and future government policies, while also reporting on the previous year's policies. This requirement promotes transparency and allows representatives to scrutinise and debate the nation's economic direction, policy priorities, and fiscal decisions. Against this background, the President of the Republic of Malawi, His Excellency Prof. Arthur Peter Mutharika fulfilled this constitutional obligation on Friday, 13th February 2026 by providing the SONA. The SONA bridges government commitments to economic realities affecting households and businesses. It precedes the national budget and outlines expectations for growth, spending, revenue, and reforms. This speech informs investors, partners, and citizens about government's policies, going forward and therefore affects confidence and economic activity nationwide.

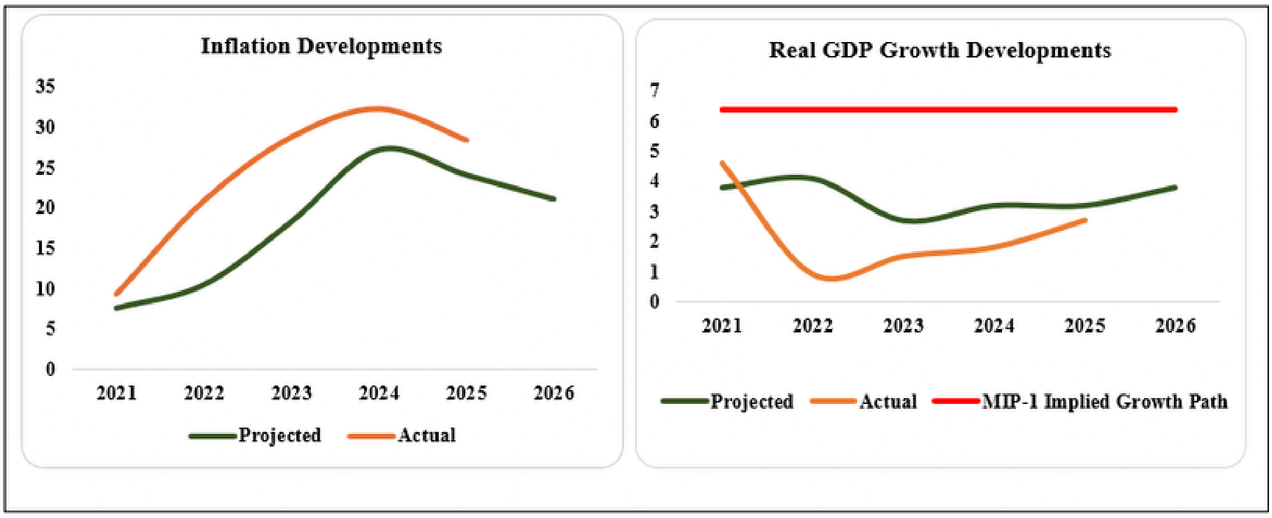
Titled *"The Path to Economic Recovery: Delivering a People-Centred Development"*, the 2026 SONA outlines the current administration's key objectives for fiscal policy, including economic recovery, macroeconomic stabilization and citizen-focused development. The speech emphasizes the need for restoration of macroeconomic stability, rebuilding productive capacity, and alleviating cost-of-living pressures on households, while also highlighting government's broader strategy for growth, investment, and structural transformation.

2 THE MACROECONOMIC ENVIRONMENT

The SONA recognizes the current macroeconomic environment as challenging and in a severe crisis, characterized by low economic growth, high inflation, and lower-than-required foreign exchange reserves. The address is projecting an increase in growth from 2.7% in 2025 to 3.8% in 2026 and 4.9% in 2027 against other favorable economic fundamentals, including inflation which is expected to fall below 21% in 2026, and improved foreign exchange supply. Over the past years, the country's growth has remained stagnant, keeping consecutively below projected growth. Similarly, inflation remained above projected rates, only moderating slightly from May 2025 onwards (see Figure 1). This was mainly due to recurrent weather-related shocks that have affected the country's agricultural output and hence the overall economic activity given that the country's main economic activity is from the agricultural sector. Low agricultural productivity influenced demand-driven inflation.

Foreign exchange shortages continue to plague the economy and will likely continue to affect non-food inflation, at least in the short run. Therefore, there is need to address non-food inflation by among other things, finding quick solutions to foreign exchange shortages while bringing down food inflation to significantly low levels to offset any unforeseen stubbornness of non-food inflation.

Figure 1: Developments in Inflation and Real GDP Growth



The projected growth of 3.8% may be realized if favorable weather conditions persist in this farming season. Growth may also be driven by increased economic activity given the multiple developments mentioned in the Address **(see section 3)**. Food inflation continues to significantly decline, and this is an encouraging development. However, efforts must be made towards stabilizing the non-food inflation which is mainly driven by foreign exchange challenges as these may distort the declining inflation trend.

The SONA, however, makes no mention of the current debt problem and the proposed debt management measures. In the 2025/2026 Financial Year (FY) national budget, debt interest payments were estimated to account for 49% of total domestic revenues. The total public debt stock is concerning, currently estimated at MK22.4 trillion (89.2% of GDP). This could slow the growth of the economy as significant financial resources may be committed towards debt servicing instead of being channeled to productive sectors.

3 HIGHLIGHTS OF THE SONA

The SONA highlights several policy actions that are expected to be taken in the Financial Year 2026/27 and beyond as follows:

- Ongoing review of foreign exchange regulations, increased gold purchases, and monetization to improve foreign exchange reserves.
- Enhanced austerity measures for top government officials, including reduced fuel entitlements and restricted local and foreign travel.
- Increased Constituency Development Fund (CDF) allocation from MK220.0 million to MK5.0 billion per constituency per year.
- Enhanced digitalization for financial reporting on CDF.
- Two-storey market buildings in the country's main cities of Blantyre, Lilongwe and Mzuzu.
- Increased fuel storage capacity from 60 million to 120 million litres through construction of new facilities in Blantyre, Lilongwe and Mzuzu.

- Proceed with the development of the Special Economic Zones at Magwero, Chigumula, Matindi and Dunduzu Industrial Parks to attract high investments.
- Capacitation of Malawi Mining Investment Company (MAMICO) to undertake detailed exploration of mineral deposits.
- Increased energy production by 51 megawatts through rehabilitation of Tedzani Hydro, installation of Nanjoka-Egenco solar plant in Salima, and commissioning of Raiply biomass in Mzimba.
- Rehabilitation of the Marka-Bangula rail line, and advance works on the Kanengo-Mchinji rail line.
- Expansion of the Malawi Airlines fleet from three to ten aircrafts within the next five years, which will increase international destinations and strengthen Malawi's global connectivity.
- Increased beneficiaries of student loans from 32,480 to 38,000 in the 2026/27 FY.
- Increased health budget allocation by MK22.0 billion including MK5.0 billion for children's vaccines, alongside securing a US$744 million from the United States Government to support health services delivery.
- Commence construction of Blantyre and Chikwawa district hospitals in 2026/27 FY.
- Allocate MK100.0 million in soft loans for youth in every constituency for every year beginning in the 2026/2027 FY.
- Commence the disbursement of MK100.0 million as annual soft loans for women in every constituency to support economic empowerment.
- Commence the disbursement of MK250.0 million in grants to people with disabilities.
- Procurement of two heavy duty passport printers for increased passport printing per day.
- Facilitation of the commencement of fertilizer production in the country for a sustainable source of affordable fertilizers for the country.
- Commencement of feasibility and design studies for rail expansion from the Central to the Northern Region.

4 ECAMA'S POSITION ON THE SONA

A. *SONA's alignment to sound economic principles*

1. *Clear acknowledgement of the macroeconomic crisis*: The SONA correctly recognises the severity of Malawi's macroeconomic challenges such as high cost of living, subdued economic growth, weak external sector and fiscal pressures. This recognition is the first step to rebuilding confidence.
2. *Commitment to macroeconomic stabilization*: The projected reduction in annual average inflation from 28.7% to below 21% and the expected rise in growth to 3.8% in 2026 reflects a stabilisation agenda. ECAMA welcomes the emphasis on expenditure control, austerity measures and efforts to strengthen Malawi's external position as these measures are crucial steps to restoring macroeconomic balance.

3. *Strengthening public finance management*: Measures such as stopping fraudulent contracts, auditing personnel and removing ghost workers, reducing non-essential travel, among others are consistent with ECAMA's long standing call for fiscal discipline and improved governance. However, there is a need to ensure that the implementation of these measures does not negatively impact other sectors like tourism.
4. *Prioritisation of food security*: The rapid procurement of maize and fertilizer has helped to stabilise food prices. ECAMA recognises this short-term critical intervention but expects action towards long-term measures, such as mega farming and irrigation farming
5. *Decentralisation and the CDF reform*: Increasing the CDF allocation from MK220.0 million to MK5.0 billion per constituency and shifting management to local authorities signal a bold commitment to local development.
6. *Focus on energy, industrialisation and mining reforms*: The SONA outlines intentions to expand electricity generation, operationalise Special Economic Zones (SEZs), and reform mining governance among others. These are critical efforts for structural transformation. However, given the need for urgency in economic recovery, there is need for speeding up the implementation of projects.

B. *Areas requiring reflection and/or greater clarity*

1. *Implications of loans to women, youth, and MK5.0 billion allocation per constituency on the national budget*: These would add up to MK22.9 billion, MK22.9 billion, and MK1.145 trillion per year, respectively. Collectively, these represent 13.9% of the 2025/26 budget. This is a significant shift in resource allocation that demands a great trade off in the upcoming budget.
2. *Limited clarity on private sector competitiveness*: While the SONA emphasized industrialization, greater clarity is required in terms of plans to deal with the high cost of doing business and regulatory bottlenecks.
3. *Agricultural strategy is still short on key structural reforms*: The SONA focuses on redesigning the mega farms initiative, but key issues equally important to improve agricultural productivity remain outstanding. These include extension services, irrigation, structured markets, and commercialization.
4. *Risks of expanding CDF*: While decentralisation is a welcome idea, the rapid scale-up of CDF to MK5.0 billion per constituency must be reflected carefully in the context of absorption capacity, procurement inefficiencies and potential abuse of funds.

5 CONCLUSION

The 2026 SONA has outlined the current administration's key objectives for fiscal policy, emphasizing the need to restore macroeconomic stability, rebuilding productive capacity, and alleviating cost-of-living pressures on households, while also highlighting government's broader strategy for growth, investment, and structural transformation. The SONA has also indicated the increased budgetary allocation towards the health sector, Constituency Development Fund, energy and infrastructure developments. The SONA further indicates a direction towards increasing digitalization for improved transparency and accountability. In general, while the SONA has recognized an economic crisis, the developments mentioned in the speech promised economic recovery, shown by efforts to reduce inflation, increase growth, improve foreign reserves and create more jobs. Overall, ECAMA welcomes the new measures for expenditure control, increased investments in mining, and infrastructure development as a way of restoring the macroeconomic environment. ECAMA, however, warns on the implementation challenges and proposes areas that may require further reflection before full implementation.