THIS WEEK IN THE ECONOMY

An update of economic developments taking place in Malawi and around the world from your trusted Association of Economists.

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MALAWI'S INFLATION OUTLOOK

Navigating the Path to the 15.0% Percent Target

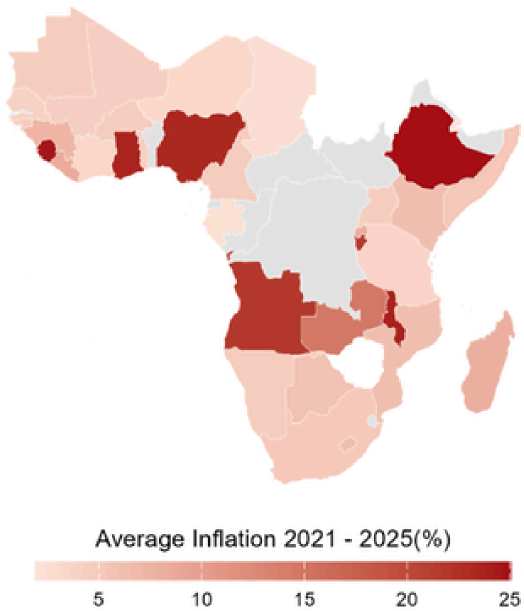
KEY MESSAGES

- Malawi is one of the countries in Sub-Saharan Africa with the highest inflation rate. Although headline inflation has recently taken a modest downward trend, it is still high, averaging 23.9 percent between 2021 and 2025.
- Food prices are the dominant driver, contributing more than half of all headline inflation. Housing, water and electricity, and transport account for most of the remainder.
- Reaching 15.0 percent by March 2027 requires food inflation to consistently shed about 1.5 percentage points of contribution every quarter.
- Non-food inflation is largely pre-committed: the outstanding ESCOM tariff hike, fuel price exposure, and potential water tariff adjustments leave little room for slippage.
- Monetary tightening alone cannot deliver the target. Coordinated action on food supply, exchange rate stability, energy pricing, and fiscal discipline is essential.

Malawi's Inflation Remains Among the Highest in Sub-Saharan Africa

Malawi continues to experience one of the highest headline inflation rates in the Sub-Saharan region. Inflation averaged 23.9 percent between 2021 and 2025. There are, however, signs of moderation. Data from the National Statistical Office (NSO) shows year-on-year inflation declining from 27.7 percent in the fourth quarter of 2025 to 24.3 percent in the first quarter of 2026. The Government of Malawi has set an ambitious objective: to reduce headline inflation to 15.0 percent by the end of the 2026/27 fiscal year. This goal reflects the government's commitment to restoring macroeconomic stability. The question, however, is what needs to change for inflation to decelerate in a sustained manner until March 2027.

Figure 1: Consumer price developments in Sub-Saharan Africa

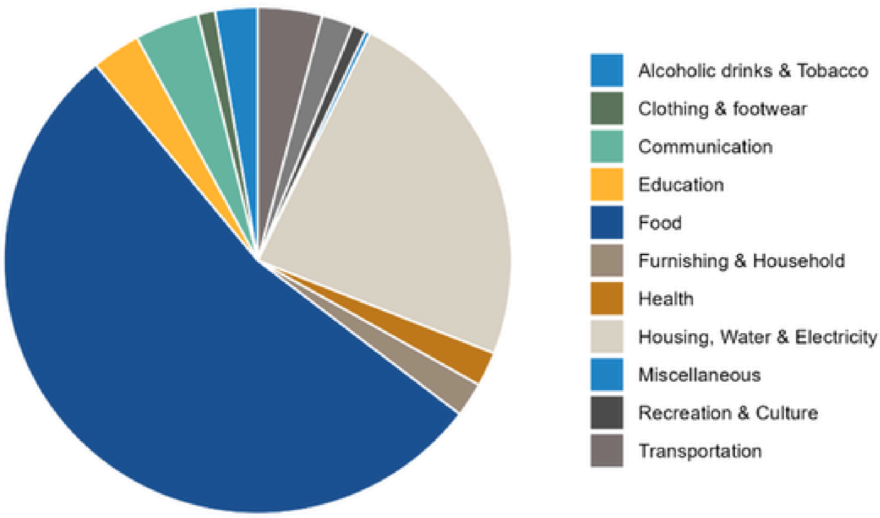


Source: *ECAMA based on data from the International Monetary Fund, World Economic Outlook*

Food, Housing, Utilities and Transport Drive Nearly All of Malawi's Inflation

Food dominates Malawi's Consumer Price Index at 53.7 percent of the basket, which explains directly why it is also the dominant driver of inflation. Housing, water and electricity account for a further 23.7 percent, with transport weighted at 4.1 percent. Together, these three categories make up over 80 percent of the CPI. Hence, it is their price dynamic, rather than the smaller categories, that will determine whether the 15.0 percent target is realised. Figure 2 shows the full basket composition.

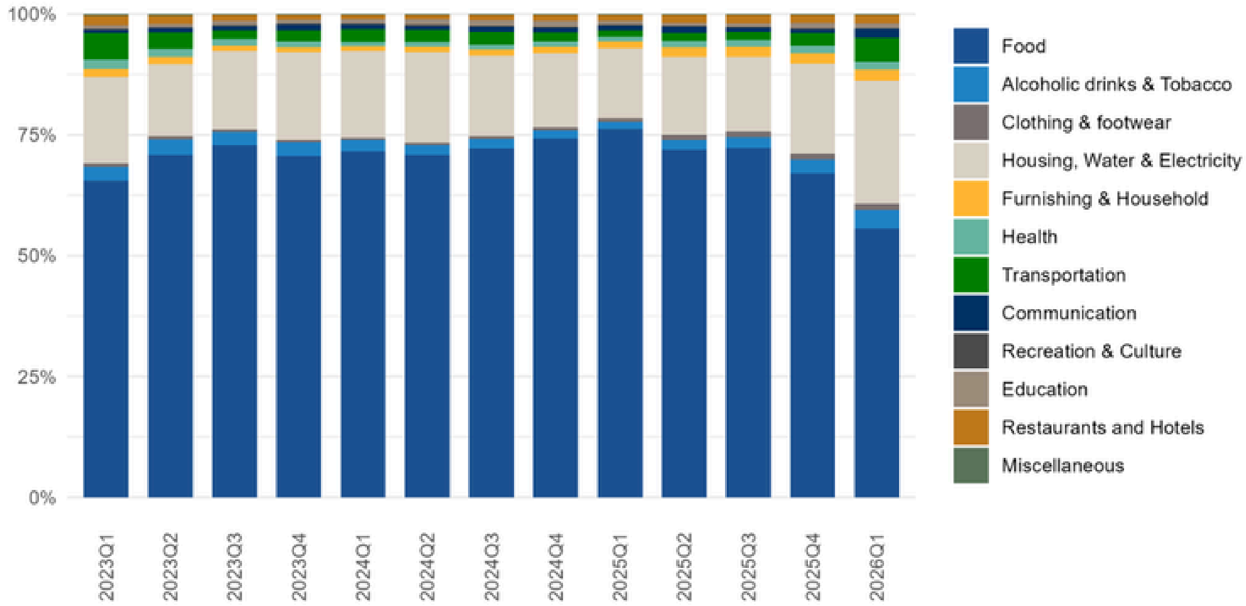
Figure 2: Malawi CPI categories and weights



Source: *ECAMA based on data from the National Statistical Office (NSO)*

Decomposing the inflation trends into actual inflation contributions reveals the scale of the challenge. Food alone contributed between 65.0 and 75.0 percent of headline inflation through most of 2023 and 2024, before easing to 56.0 percent in the first quarter of 2026 (Figure 3).

Figure 3: Relative contributions of CPI categories to headline inflation



Source: *ECAMA based on data from the National Statistical Office (NSO)*

Housing, water and electricity have risen sharply as a contributor, from less than 18.0 percent of headline inflation in early 2023 to more than 25.0 percent by 2026Q1, reflecting the effects of electricity tariff adjustments and fuel-linked energy costs. Transport, while commanding a small contribution, has grown rapidly, rising by almost two percentage points to around 5.0 percent between December 2025 and March 2026.

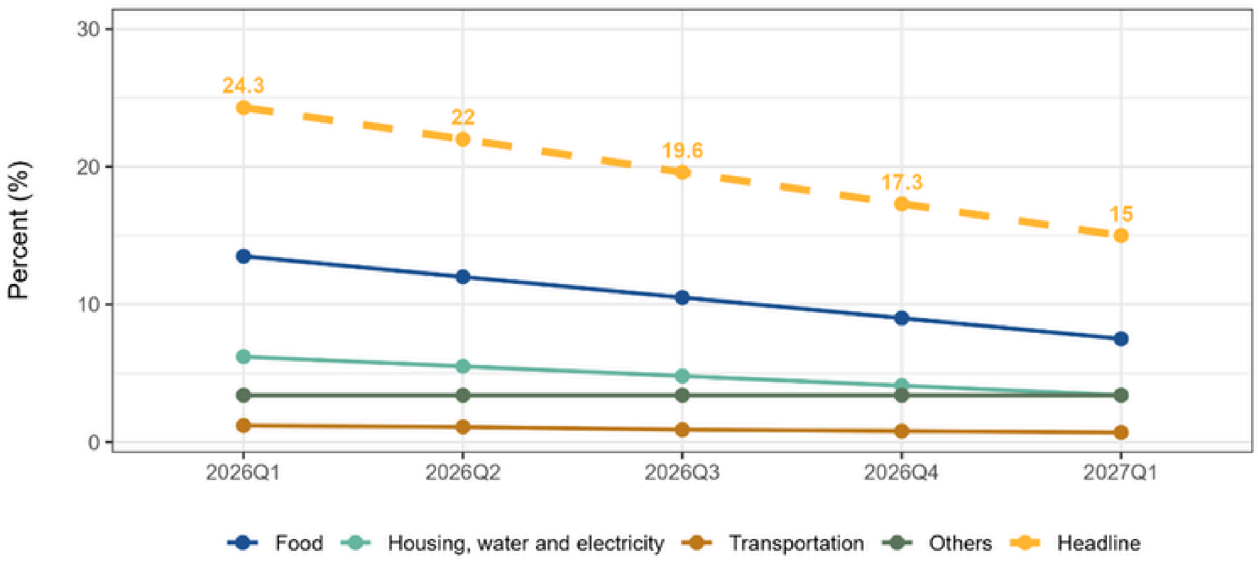
In absolute terms, food contributed 13.5 percentage points (pp) to the 23.4 percent headline rate recorded in 2026Q1; housing, water and electricity added 6.2 pp; and transport contributed 1.2 pp. Combined, these three categories account for 20.9 pp, which is nearly the entire headline figure. It is worth noting that all three are driven predominantly by supply-side and administered price factors. This implies that monetary restraint alone cannot deliver the required disinflation. Easing production costs, stabilising the exchange rate, and managing administered prices prudently are all necessary conditions.

Reaching 15.0 Percent Requires Food Prices to Fall Every Single Quarter

With the 2026Q1 contribution structure established, a plausible disinflation scenario can be constructed to simulate the disinflation path to 15.0 percent. The nine smaller CPI categories currently contribute a combined 3.4 pp to headline inflation. If their contribution remains broadly stable through to 2027Q1, the entire burden of disinflation falls on food, housing, electricity, and transport. Their contribution must collectively reduce by 9.3 pp, from 20.9 pp to 11.6 pp.

Translating this into quarterly milestones, food must shed approximately 1.5 pp per quarter, falling from 13.5 pp to 7.5 pp by 2027Q1. Housing, water and electricity's contribution must reduce by around 0.7 pp per quarter, from 6.2 pp to 3.4 pp. Transport's contribution must moderate by 0.13 pp per quarter, from 1.2 pp to 0.67 pp (Figure 4). The pace implied by this scenario is demanding and leaves very limited room for slippage. For instance, food prices are not determined by domestic production conditions alone. Fertiliser costs, distribution bottlenecks, Kwacha depreciation, and imported input prices all play a role. Even in a favourable agricultural season, elevated transportation costs and input price pressures can prevent the required rate of food disinflation from materialising.

Figure 4: Baseline scenario for disinflation (2026Q1 - 2027Q1)



Source: *ECAMA calculations*

Non-Food Inflation Is Largely Pre-Committed

The outlook for non-food inflation is equally challenging. It is already partially determined by administrative decisions already in motion. For instance, the Electricity Supply Commission of Malawi (ESCOM) is implementing a multi-year base tariff adjustment running from 2023 to 2027. Increases of 18.0, 16.0 and 12.0 percent have already been applied. A final 8.0 percent increase remains outstanding and it falls within the disinflation horizon. Beyond the direct price effect, electricity costs feed into production, distribution and service delivery across the economy, creating the risk of second-round price effects. It is worth noting, however, that the planned tariff adjustment is consistent with calls for cost-reflective tariff setting to ensure that state-owned enterprises like ESCOM are able to operate in a sustainable manner while meeting their social obligations. The Malawi Revenue Authority is also enforcing a 20.0 percent tax on high-value rental properties above MK170,000.00 per month. However, most Malawians rent houses below this threshold. Consequently, the direct effect on the housing component of the CPI is likely to be limited, conditional on property owners not passing additional costs to lower-rent tenants. Water tariff adjustments remain uncertain. If there is an upward adjustment before March 2027, the disinflation path becomes more challenging. Transport presents an ongoing uncertainty. Fuel prices reflect oil price shocks from global markets, limited foreign exchange availability, and constrained petroleum reserve capacity. The geopolitical tensions in the Middle East risk elevated fuel costs, pushing transport inflation to the upside. Considered together, these dynamics imply that achieving the inflation target falls disproportionately on food prices.

The Role of Monetary Policy

In the current environment, monetary policy has remained tight. During its Second 2026 meeting, the Monetary Policy Committee (MPC) resolved to increase the Liquidity Reserve Requirement (LRR) from 10.0 to 12.0 percent. This move is intended to compress demand by limiting the availability of loanable funds within the banking sector. It can complement the supply-side interventions aimed at maintaining the disinflation momentum. However, given that Malawi's inflation is predominantly supply-driven, monetary restraint alone cannot bring headline inflation to the 15.0 percent target. Tighter monetary conditions must be accompanied by concurrent action to ease production costs, stabilise the exchange rate, and manage administered prices prudently.

Achieving the 15.0 Percent Inflation : A Policy Checklist

In conclusion, achieving the 15.0 percent inflation by the end of the 2026/27 fiscal year requires coordinated progress on multiple fronts. The table below summarises the conditions that must be met and the risks associated with each failing to materialise.

Issue	What Must Happen	Risk if it does not materialise
Food Prices	Decelerate contribution by ~1.5 pp per quarter	The 15.0% target becomes unachievable
Exchange Rate	Remain stable or appreciate	Imported inflation stays elevated
Electricity Tariffs	Final 8.0% hike absorbed without triggering second-round price effects	Energy costs feed into production, distribution and services.
Fuel & Transport	Contain cost escalation amid geopolitical uncertainty	Non-food inflation becomes further entrenched
Housing / Rental	Ensure 20.0% rental tax is not fully passed onto tenants	Housing, water and electricity inflation accelerates
Monetary Policy	Remain reasonably tight while complementing supply-side measures	Demand-side pressures add to already elevated price levels

About this Brief

This brief was prepared by the Economics Association of Malawi (ECAMA) Secretariat. For any inquiries or feedback, kindly contact us through secretariat@ecamamw.com.