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5th Edition | June 2026

MALAWI AND THE IMF

Navigating the June 2026 Extended Credit Facility Scoping Mission

KEY MESSAGES

- Malawi's consultation with the International Monetary Fund (IMF), scheduled for 8th – 18th June 2026, follows a typical 12-month standard routine but comes at a defining moment for the country's macroeconomic management.
- The 2023 US$175 million Extended Credit Facility (ECF) automatically terminated on 14th May 2025, prior to completion of its first review.
- The country's macroeconomic landscape remains challenging with inflation at 24.3% in 2026Q1, public debt at about 90% of GDP, and persistent and ongoing foreign exchange challenges.
- In its 2026/27 FY budget policy statement and the National Economic Recovery Plan (NERP), the Government of Malawi has signalled a clear intention to restore fiscal discipline, resolve foreign exchange challenges, achieve debt sustainability, and stabilise inflation.
- An IMF-supported programme, no matter how well designed, cannot, on its own, resolve Malawi's underlying structural vulnerabilities. There is a need to build structural resilience beyond the ECF.

Why the June 2026 Consultation Matters

The International Monetary Fund (IMF) is scheduled to visit Malawi from 8th to 18th June 2026 for a consultation with the Government. These discussions are significant, occurring 13 months after the automatic termination of the 2023 SDR131.86 million (US$174.89 million) Extended Credit Facility (ECF)[1]. The consultations are integral to the government's broader economic recovery and reform agenda. In its 2026/27 Fiscal Year (FY) Budget Policy Statement, the government signalled commitment to reduce inflation to 15.0% by March 2027, reduce fiscal deficit by 2.9 percentage points to 9.0% of Gross Domestic Product (GDP), improve debt sustainability, and resolve foreign exchange challenges. These goals are also echoed by the 2025 – 2030 National Economic Recovery Plan (NERP).

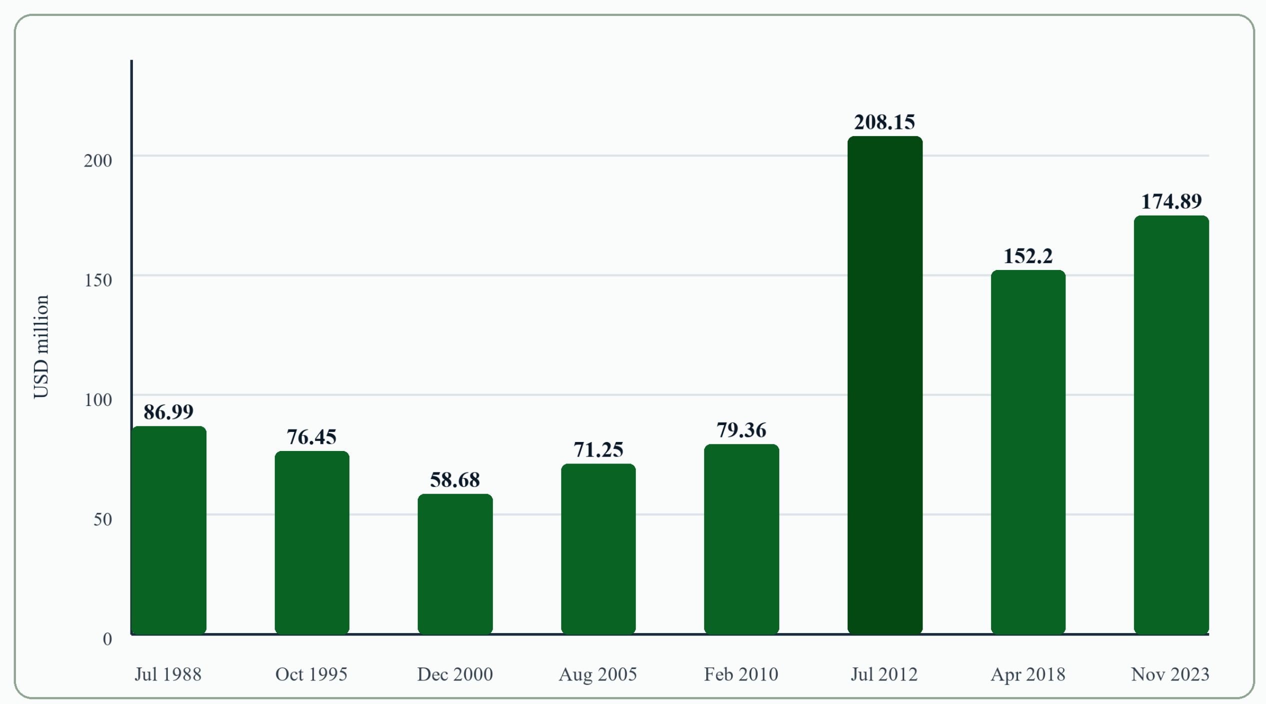
[1] IMF Rule O-2(a) defines the value of the U.S. dollar in terms of the SDR as the reciprocal of the sum of the equivalents in U.S. dollars of the amounts of the currencies in the SDR basket. For more information on SDR valuation, check: https://www.imf.org/external/np/fin/data/rms_sdrv.aspx

Historically, the ECF has served as an important signal to creditors and development partners regarding Malawi's economic stability and reform commitment despite its bad press. The outcome of the upcoming negotiations is, therefore, critical. A successful negotiation could significantly enhance Malawi's position and improve the country's access to external financial resources. However, the key issue worth reflecting on is: what would a successful programme completion require?

Understanding the ECF

The ECF is the IMF's main tool for providing medium-term financial support to low-income member countries (LICs) facing prolonged balance of payments difficulties. While Malawi has previously accessed other IMF facilities, the ECF is the most significant for its financial implications. ECF arrangements come with concessional terms, which include a 5.5-year grace period, a 10-year maturity period, and a zero-interest rate for LICs. These favourable terms make ECF financing considerably less expensive than market borrowing or commercial debt. In exchange for this financial support, member countries agree to implement a program of economic reforms, which are periodically reviewed by IMF staff, with disbursements contingent on satisfactory performance. In this regard, the most important element of the ECF is the reform package. This is so because any successful implementation of agreed reforms could have wider benefits in the economy. Besides, the monetary benefits associated with the ECF in the context of Malawi are usually not significant enough to resolve a country's external sector problems instantly (Figure 1). For instance, Malawi requires approximately US$250.0 million to cover its imports for a single month. When annualised, this figure amounts to about US$3.0 billion. Therefore, under the 48-month approved arrangement for the 2023 Extended Credit Facility (ECF), Malawi's total import needs over this period can be projected to reach around US$12.0 billion. Thus, the financing from the ECF would only account for 1.46% of the total need. Consequently, more than 98% of the external financing requirements would need to be met through the market and secondary income sources. This shows that the ECF's primary mechanism is, therefore, indirect. By anchoring fiscal discipline and signalling policy credibility to the international community, a successful programme may unlock donor support, foreign direct investment, and trade inflows that support broader economic stabilisation.

Figure 1. Malawi ECF agreed commitments



Source: ECAMA calculations based on data from the International Monetary Fund (IMF)

Performance Assessment Under the ECF

The IMF evaluates programme performance through two main instruments. First, Quantitative Performance Criteria (QPC), which are legally binding, measurable targets that must be met at specified review dates. For Malawi, these typically include a floor on net international reserves (minimum foreign currency reserves the Reserve Bank of Malawi must hold), a ceiling on net domestic assets (limiting central bank liquidity injection), and a floor on the primary fiscal balance (deficit excluding interest payments).

Second, Structural Benchmarks, which are institutional reform targets that are qualitative in nature and not strictly binding for disbursement, but significant in practice. Failure to meet benchmarks signals weak reform commitment and can complicate the review process even where QPCs are satisfied. Examples include the submission of regular public finance reports by the Ministry of Finance.

Malawi's Track Record with IMF Programmes

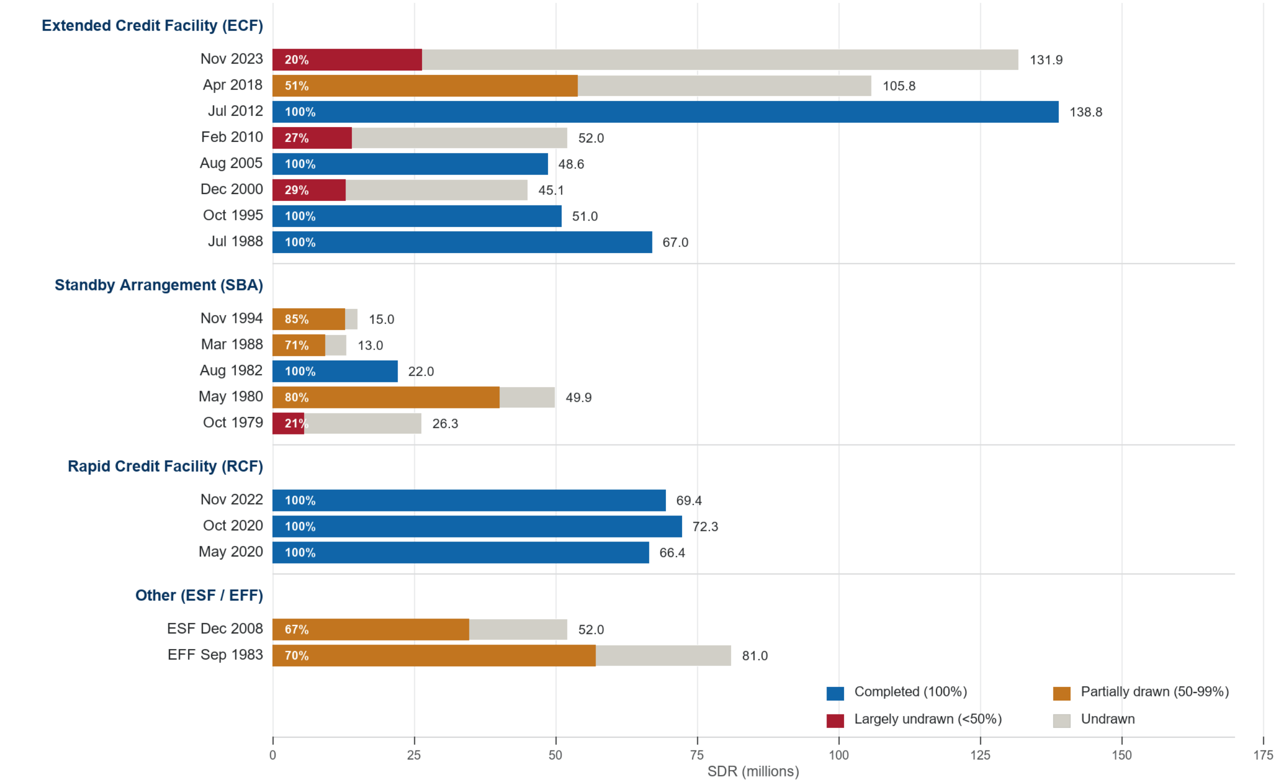
Malawi has entered into 18 arrangements with the IMF since 1979, which span five distinct facility types. Five Standby Arrangements were contracted between 1979 and 1994, and one Extended Fund Facility, accessed in 1983. One Exogenous Shock Facility, drawn in 2008, was designed to address the severe terms of trade shocks that the country was facing from increased costs of fertilisers and fuel in the 2007-2008 financial year. Three Rapid Credit Facilities, all accessed between 2020 and 2022, provided outright emergency disbursements in response to COVID-19 and successive climate disasters. The remaining eight arrangements, all ECFs contracted between 1988 and 2023, represent the core of Malawi's relationship with the Fund.

Collectively, these arrangements committed a total of SDR1,107.6 million to Malawi, of which SDR801.6 million (72.4% of the total agreed amount) was eventually drawn. Taken at face value, this aggregate disbursement rate might suggest a reasonably impressive track record. A disaggregated examination, however, reveals a pattern of persistent programme underperformance concentrated in the ECF.

During these four decades, 8 of the 18 facilities recorded a 100% disbursement rate, representing a 44.4% completion rate. This figure, however, is materially influenced by the inclusion of Rapid Credit Facilities, which, by design, disburses the full agreed amount in a single disbursement, and there are no reviews associated with it. In principle, the RCFs cannot fail. Controlling for the three RCFs leaves 15 programme arrangements of which only 5 were fully drawn, implying a programme completion rate of 33.3%.

The performance of the 8 ECFs is the most consequential in the context of the June 2026 IMF staff visit to Malawi. Of the 8 ECFs, 4 were fully drawn, with only 2 ECFs completed in the last two decades. The remaining 4 ECFs tell different but important stories that require reflection.
The February 2010 ECF went off track after completing the first review in December 2010, owing to the difficulty in reaching a consensus between the government and IMF staff regarding policy measures for 2011. The April 2018 ECF was cancelled by the incoming administration in 2020 in a bid to renegotiate a new one. The November 2023 ECF automatically terminated on 14th May 2025 without completing its first review. ECAMA's 2024 study of the effectiveness of the ECF highlights that the failure of the ECF can be explained by a multiplicity of factors, ranging from habitual non-compliance to both quantitative targets and structural benchmarks, external shocks, fiscal indiscipline, administrative controls, and governance weaknesses.

Figure 2. Malawi's Track Record with IMF Programs



Source: ECAMA based on statistics from the International Monetary Fund (IMF)

Reflections on the 2025 Article IV Consultations Key Recommendations

The 2025 Article IV Consultation Staff Report outlines key policy recommendations for Malawi in four key areas: fiscal policy, monetary and financial policy, exchange rate management, and structural governance. These recommendations could serve as the baseline framework for discussions expected in June 2026. Therefore, it is crucial to reflect on some of these recommendations. The table below maps each of the selected recommendations against the current state based on available data.

Selected 2025 Article IV Key Recommendations	Situation analysis as of June 2026
Fiscal sector	
• Prioritise fiscal policy in support of macroeconomic stability and debt reduction; implement a revenue-based fiscal adjustment by expanding the tax base and closing exemptions; and improve expenditure efficiency, including public investment, to drive sustainable growth. • Implement effective commitment and expenditure controls while enhancing budget credibility. Strengthen public procurement processes, fiscal risk analysis and disclosure, and SOE oversight. Build	• Tax revenue is estimated at 16.4% of GDP in 2025/26 from 14.6% in 2024/25. The fiscal deficit stood at 11.9% in 2025/26 but is expected to decline to 9.0% in 2026/27. Public debt interest payment is projected to decline to 43.3% of domestic revenue in 2026/27 from 47.8% in 2025/26. Public debt was estimated at 91% of GDP as of December 2025. • In the 2026/27 budget statement, the government has introduced a series of new taxes, including those that tap into the informal sector.

policy credibility through an MTFF and regular reporting and publication of IFMIS-based budget execution outturns;	• Debt restructuring discussions are currently underway in the country in efforts to achieve debt sustainability. • Revenue broadening measures announced in the 2026/27 Budget policy statement, supported by enhanced fiscal discipline measures, are expected to support fiscal consolidation and debt sustainability goals.
Monetary and financial	
• Re-anchor inflation expectations and tighten effective monetary policy by mopping up excess liquidity to restrain money growth, sterilise government borrowing, and increase key interest rates to positive real levels.	• The monetary policy stance remained relatively tight, with the policy rate at 26% since the second quarter of 2024 but adjusted to 24% in March 2026. Money supply growth has been effectively controlled, decreasing from 52.1% in August 2025 to 37.5% in March 2026. Inflation fell to 24.3% in the first quarter of 2026, enabling a rare change in the real policy rate from negative to positive for the first time since the first quarter of 2022.
• Improve fiscal and monetary policy coordination to strengthen policy transmission and ease inflationary pressure from domestic financing, including by discontinuing the rediscounting facility.	• Fiscal authorities have expressed an intent to move from a clear fiscal-monetary policy inconsistency toward coordination. However, fiscal policy remains the weak point. Monetary policy has carried most of the burden of fighting inflation, while large fiscal deficits, high domestic borrowing, and high interest payments reinforced fiscal dominance. The projected fiscal adjustment in 2026/27 is a step toward a coordinated anti-inflationary stance between fiscal and monetary policies, contingent on ensuring the intended fiscal consolidation is actually delivered.

Exchange rate	
• Adopt a unified and market clearing exchange rate, implement consistent macroeconomic policies, and develop an appropriate policy and operational framework.	• In the first quarter of 2026, the Malawi Kwacha was trading at an official rate of MK1,750.88 per USD, while the unofficial rate was significantly higher at MK3,950 per USD. This indicates that the local currency is trading 126% weaker on the parallel market, sparking discussions about the need to unify the exchange rates. Although unifying the exchange rates is considered one potential solution for exchange rate liberalisation, further consideration is necessary due to Malawi's current macroeconomic challenges, including high inflation, declining exports, and elevated public debt. Implementing structural reforms to enhance export capacity remains crucial.
• Accumulate reserves and maintain the necessary level of SDR holdings to prevent arrears to the IMF.	• Malawi's total reserves amount to US$571.6 million, which is equivalent to 2.3 months' worth of imports. The RBM faces a daunting task of accumulating reserves due to the structure of the country's current account. The three components: goods, services, and primary income, often show negative balances. Additionally, the secondary income account, which includes donations and remittances, is insufficient to cover the increasing import costs.
Structural and governance	
• Improve the investor climate by inter alia reducing regulations, removing distortions, and improving forex availability.	• The government has launched a comprehensive review of recent foreign exchange directives and regulations that are seen as hindering the operations of the foreign exchange market. The goal is to ensure that these regulations align with the market's needs. • The Malawi Energy Regulatory Authority has recently reinstated the Price Stabilisation Fund (PSF) and Automatic Pricing Mechanism (APM) to stabilise fuel pricing.

ECAMA's Recommendations

As the Malawi government engages with the IMF, it is important to reflect on the following:

1. Treat programme completion as the core objective. Approval of a new ECF programme would be a significant milestone. However, completion of the programme would represent a significant transformation in economic management.
2. Sequence reforms realistically. There is a need for the government to avoid front-loading politically difficult reforms for the sake of securing an initial disbursement, then struggling to sustain momentum in subsequent reviews.
3. Build structural resilience beyond the ECF. An IMF-supported programme, no matter how well designed, cannot on its own resolve Malawi's underlying structural vulnerabilities. The programme should be treated as a springboard for macroeconomic stabilisation that catalyses structural reforms to address binding constraints such as export diversification and domestic revenue mobilisation.

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.