Sovereign Debt News Update No. 148: Malawi's Debt Dilemma: Reform, Restructuring, and Bilateral Engagement

By:

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Malawi is facing a period of heightened fiscal and economic uncertainty, with rising debt pressures coinciding with a politically significant moment following the return of President Lazarus Mutharika. On the 4th of October 2025, President Mutharika was sworn in as Malawi's 7th President, taking over from ex-President Lazarus Chakwera. This debt update examines Malawi's current political and economic landscape, and the fiscal and debt sustainability challenges President Mutharika has inherited. Further, the update highlights perspectives from the IMF and analysts, as well as the evolving role of China in Malawi's borrowing framework. Drawing solely from recent reporting and analysis, the update highlights both the opportunities and risks that the country faces as it navigates this complex macroeconomic environment.

Political Context

The recent electoral outcome in Malawi marked a rare comeback for President Lazarus Mutharika, who was sworn in promising a decisive break from previous governance patterns. President Mutharika previously held this office from 2024 to 2020. Upon assuming office for a second term in what has been termed “a political comeback”, President Mutharika condemned what he described as a “*honeymoon of looting*” by the previous administration, pledging to restore fiscal discipline, tackle corruption, and strengthen accountability in public finances. Central to this reform agenda is the appointment of a new finance minister, who has been tasked with addressing long-standing macroeconomic challenges, including high inflation, foreign exchange shortages, and unsustainable debt accumulation. The President signed a decree on the 5th of October that saw the appointment of Joseph Mwanamvekha as Malawi’s new Minister of Finance, Economic Planning and Development. With the decree coming in a day after the President was sworn in, many have viewed the appointment as a signal of the government’s recognition that immediate and sustained fiscal interventions are needed to stabilize the economy, regain investor confidence, and create a credible pathway toward debt sustainability. However, analysts have emphasized that the success of this leadership depends not only on policy measures but also on the political will to implement reforms that may be unpopular in the short term but necessary for long-term economic health.

Economic and Fiscal Status

It is imperative to highlight that Malawi’s new Finance Minister, Mwanamvekha, inherits an economy weakened by structural imbalances, global shocks, recurring droughts, and inconsistent fiscal policies. Malawi’s economic landscape remains fragile. Inflationary pressures have persisted at high levels, undermining purchasing power and complicating monetary management. In September 2025, it was reported that Malawi's headline inflation (the rate at which commodity prices change over time) had risen to 27.3% in July 2025, making it the highest in the sub-Saharan Africa region. Simultaneously, the country faces a looming debt service obligation of $1.8 billion, which could strain public finances and have far-reaching implications for private sector activity, investment, and essential public service provision

In addition, recent reporting indicates that Malawi may already have breached its external debt limits, highlighting the urgency of both fiscal consolidation and structural reforms to ensure that debt servicing does not crowd out critical government expenditures. According to a report by the Debt Relief for Green and Inclusive Recovery, Malawi alongside 14 other African economies, has already breached solvency thresholds on its external debt. This means that Malawi has reached a stage where its debt duties are no longer manageable in relation to its ability to produce resources for repayment. The government, meanwhile, has taken a cautious approach to monetary policy, ruling out a devaluation of the kwacha despite external pressures, citing improved foreign exchange inflows. This decision seeks to stabilize the currency and avoid sudden shocks to the cost of living, but it also underscores the delicate balancing act Malawi faces between macroeconomic stability and competitiveness. Experts, however. argue that without comprehensive fiscal management and stronger revenue mobilization, these short-term measures may not be sufficient to prevent deeper economic stress in the near future.

IMF Perspectives

The IMF has been making consistent calls for the need for Malawi to implement stringent fiscal reforms and adopt policies that ensure sustainable debt. Its calls emphasize not just cutting deficits but also improving public financial management, enhancing transparency in borrowing, and creating structural conditions for long-term growth. On the 17th of October 2025, on the sidelines of the IMF and World Bank Annual Meetings in Washington DC, Finance Minister Mwanamvekha held a series of high-level meetings with IMF (African Department), World Bank and US government officials. According to one report, the discussions focused on Malawi's economic reforms, debt sustainability, inflation control, fiscal deficit reduction, and restoring investor confidence as the country works toward long-term economic stability under the leadership of President Mutharika. Analysts, civil society, and business actors have echoed the urgency of these reforms, emphasizing that Malawi must consider comprehensive debt restructuring to avoid default and safeguard fiscal space for critical social and development programs. Overall, there is a growing consensus that piecemeal adjustments may not be sufficient; instead, an integrated strategy combining debt management, fiscal discipline, and economic reform is required.

China’s Role and Bilateral Implications

China has emerged as a significant player in Malawi’s debt and development landscape. While Chinese financing has provided Malawi with substantial development resources, questions about the fairness and transparency of these arrangements have been raised. In a recent development, China cancelled US$20 million of Malawi’s debt and extended repayment period for some loans to 48 years, a move framed as part of strengthened bilateral relations and a measure to ease immediate fiscal pressure. Chinese Ambassador to Malawi, Ambassador Lu Xu, also mentioned that China is offering Malawi emergency food assistance, cheaper fertilizer, and duty-free access for Malawian farm products to the Chinese market. While the debt cancellation provides short-term relief, analysts caution that Malawi’s overall debt burden remains significant, with larger repayments looming and external vulnerabilities persisting. China’s US$20 million debt cancellation comes against Malawi's total debt to China of over US$300 million. Dr Bangara Chikadza, President of the Economics Association Malawi (ECAMA), said by the end of 2023 Malawi owed China slightly over USD200 million, an amount which has accumulated to over USD300 million after Malawi continued to borrow some money between 2024 and 2025 financial years. In short, China cancelled approximately 6.67% of what it is owed by Malawi. China has also not revealed which debts have been cancelled or what those loans were used for, raising concerns around transparency. The interplay between concessional Chinese debt relief, domestic fiscal policy, and engagement with multilateral institutions will be critical in determining whether Malawi can achieve a sustainable debt path.

Conclusion

Malawi’s debt and fiscal situation is at a critical crossroads. The country is now under a “new” administration and faces immediate fiscal pressures, potential external debt breaches, and structural vulnerabilities that, if unaddressed, could undermine economic stability and development. To navigate this landscape successfully, Malawi must implement robust fiscal and monetary policies, pursue transparent and sustainable debt restructuring, and leverage both domestic and international support effectively. The next months will be decisive in determining whether Malawi can stabilize its economy, restore investor confidence, and chart a credible path toward long-term fiscal sustainability.

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