Sovereign Debt News Update No. 175: Institutional Gaps and Default Risks: Examining Malawi's Fragile Debt Management Architecture

By:

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Malawi's escalating debt challenges increasingly demonstrate that sovereign debt distress is not only a consequence of excessive borrowing or external shocks, but also a reflection of institutional weaknesses in how public debt is contracted, monitored, disclosed and overseen. While Malawi has established legal and policy frameworks governing public borrowing, recent assessments reveal significant gaps in accountability structures that limit Parliament's and citizens' ability to scrutinise government borrowing decisions. The International Budget Partnership's (IBP) Open Budget Survey 2025 Debt Accountability Module found that Malawi's public debt governance system falls significantly short of international standards relating to transparency, oversight and public participation. More importantly, Malawi reportedly does not have an independent debt management office. Released in April 2026, the findings are particularly concerning given that Malawi remains in a period of severe economic stress, with rising debt obligations, foreign exchange shortages, inflationary pressures and constrained fiscal space.

Why is it Important to have an Independent Debt Management Office?

Debt Management Offices (DMOs) are specialised offices that manage the country's debt portfolio, typically housed within a country's finance ministry or central bank. Their responsibilities include debt issuance, risk management, debt servicing, and lending advice. A well-managed DMO with independent oversight guarantees that the government's funding needs are satisfied at the lowest feasible cost while maintaining a sensible level of risk, thereby contributing to the country's macroeconomic stability. It contributes to developing a domestic debt market, increases transparency and accountability in public debt management, and enhances the quality of the government's fiscal statistics. DMOs can also play a crucial role in dealing with external shocks, such as sudden currency depreciations or commodity price shocks, which could impact the country's debt sustainability. A well-functioning DMO can improve a country's debt management and its access to credit markets. However, the efficiency of DMOs is determined by their technical capacity, independence, and the quality of the information at their disposal. DMOs' usefulness may be reduced in countries where specific prerequisites still need to be met. While the natural responsibilities of the DMO are the operational debt management functions, the exact responsibilities may vary from country to country.

What Does this Institutional Gap Mean?

The absence of an independent debt management institution has emerged as one of the most significant weaknesses in Malawi's debt governance architecture. According to the IBP assessment, Malawi does not have an independent fiscal institution specifically mandated to scrutinise public debt management, meaning that assessments of borrowing decisions and debt sustainability largely remain within government structures. This creates a situation where the same institutions responsible for contracting and managing debt are also responsible for assessing the sustainability and risks associated with those decisions. Without an independent body to provide objective oversight, the balance of power tilts towards the executive, reducing opportunities for impartial review and increasing the risk that borrowing decisions proceed without sufficient external challenge. Such an arrangement weakens independent scrutiny and raises broader questions regarding accountability in a country where debt vulnerabilities have intensified over recent years.

A Debt Crisis Deepened by Weak Institutional Arrangements

This institutional weakness must be understood against the backdrop of Malawi's broader economic crisis. As previously highlighted by the African Sovereign Debt Justice Network (AfSDJN) in Sovereign Debt News Update No. 148, Finance Minister Joseph Mwanamvekha inherited an economy characterised by deep structural vulnerabilities, including high debt levels, fiscal pressures, foreign exchange shortages and declining confidence in public finances. AfSDJN previously noted that the incoming administration faced the difficult task of restoring macroeconomic stability while managing the consequences of years of accumulated borrowing pressures and economic shocks. The current debate around debt management institutions reinforces the earlier concern that Malawi's debt crisis is not merely about the size of its debt stock, but also about whether the country possesses sufficiently independent and transparent systems to prevent future debt distress.

The IBP's Open Budget Survey 2025 Debt Accountability Module highlights that Malawi's debt governance challenges are closely linked to weaknesses in institutional independence and oversight. Although Malawi has legal frameworks governing public borrowing, including provisions under the Public Finance Management Act, the country lacks a fully independent institution capable of evaluating debt sustainability, reviewing borrowing proposals and providing objective assessments separate from executive decision-making. The IBP findings indicate that Malawi's Parliamentary Budget Office exists only through an administrative arrangement and lacks the legal foundation and dedicated resources required to operate as a genuinely independent fiscal institution.

Parliamentary oversight remains another area of concern. The IBP assessment found that Malawi's Parliament did not scrutinise key debt management documents, including the Medium-Term Debt Management Strategy and annual borrowing plans, during the assessed period. This limits democratic accountability over decisions that directly affect public expenditure priorities and future generations' fiscal obligations. In a context where debt servicing consumes increasing portions of government revenue, insufficient parliamentary scrutiny risks allowing debt accumulation to continue without adequate examination of whether borrowing decisions generate sufficient developmental returns.

The weakness of Malawi's debt oversight mechanisms is particularly significant because sovereign borrowing decisions create long-term obligations that extend beyond electoral cycles and individual administrations. Without independent institutions capable of reviewing borrowing strategies, governments may have limited incentives to fully disclose risks associated with new loans, guarantees or other financial commitments. This concern is amplified in countries facing fiscal pressures, where borrowing can become a mechanism for managing immediate crises rather than financing sustainable development priorities. Effective debt accountability requires strong domestic institutions capable of ensuring that borrowing decisions are transparent, justified and aligned with public interest objectives.

Continuing Economic Pressures and Renewed Default Concerns

The World Bank's 2025 Debt Sustainability Analysis classified Malawi as being in debt distress, meaning the government is struggling to meet its financial obligations and faces a high risk of default. As such, the debate around Malawi's debt management institutions comes at a time when concerns over possible default risks remain prominent. Malawi has experienced persistent economic challenges, including foreign currency shortages, high inflation and difficulties meeting external financing needs. The IMF and World Bank debt sustainability analysis has classified Malawi as being in debt distress, highlighting the severity of the country's fiscal situation. The IMF's 2025 debt statistics assessment noted that Malawi continues to face challenges servicing its public debt and that strengthening debt governance remains essential to restoring sustainability.

Meanwhile, concerns over Malawi’s ability to meet its debt obligations have increased as fiscal pressures have intensified. Malawi's debt vulnerabilities have attracted growing concern from international financial markets. In April 2026, Citi's Chief Africa Economist, David Cowan, identified Malawi, alongside Mozambique and Senegal, as the three African countries most likely to default on their sovereign debt within the next two years. Cowan attributed this heightened risk to the combined effects of the Iran oil price shock, weakening domestic currencies and mounting pressures associated with servicing hard currency debt. He cautioned that while Africa had already witnessed four sovereign debt defaults since 2020 (namely Ghana, Zambia, Ethiopia and Chad), "*Africa is still not entirely out of the woods yet in terms of the debt defaults*." Although Cowan noted that any potential default by Malawi could be resolved relatively quickly because the country does not have international bonds and its debt is largely owed to the World Bank, multilateral institutions and bilateral creditors, the warning nevertheless reinforces concerns about Malawi's deteriorating debt sustainability and constrained fiscal position. These observations also underscore the urgency of strengthening debt governance and institutional oversight, particularly at a time when weak accountability systems continue to undermine prudent debt management and increase the country's vulnerability to external economic shocks.

Conclusion

Malawi’s current debt challenges reveal a deeper institutional crisis that extends beyond immediate questions of liquidity and financing. The absence of an independent debt management institution, combined with limited parliamentary oversight and weaknesses in debt transparency, has created vulnerabilities that complicate efforts to restore debt sustainability. While international assistance from institutions such as the IMF and World Bank remains important, external support cannot substitute for strong domestic accountability systems. The concerns raised by the International Budget Partnership, domestic commentators and economic analysts demonstrate that Malawi’s debt crisis is partly a consequence of institutional weaknesses that have limited effective oversight of borrowing decisions. Addressing these challenges requires reforms that strengthen independence, transparency and democratic accountability in public finance management.

The current debate over Malawi’s debt management institutions reinforces the urgency of addressing those vulnerabilities. Avoiding future default risks will require more than securing additional financing or restructuring existing obligations. It will require building institutions capable of ensuring that future borrowing decisions are transparent, sustainable and aligned with the interests of Malawi’s citizens. For Malawi and other African countries facing rising debt pressures, the central lesson is that debt sustainability is inseparable from debt governance. Strong institutions, meaningful oversight and transparent decision-making are not optional components of public finance management. These are essential foundations for ensuring that sovereign debt supports development rather than undermining it.

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