

Middle East Conflict — Macro- Fiscal and Socio- Economic Impact on Malawi

Policy Brief

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Executive Summary: Implications of the Middle East Conflict for Malawi

The escalating conflict in the Middle East—marked by disruptions in the Strait of Hormuz, stalled oil shipments, shutdowns of major Liquefied Natural Gas (LNG) facilities, and widespread rerouting of shipping—poses a severe external shock to Malawi's economy. Malawi enters this crisis with limited shock-absorption capacity: inflation is falling recently albeit remains elevated, foreign exchange reserves are below one month of import cover, public debt exceeds 90% of GDP, and the country is fully dependent on imported fuel and fertilizer. This confluence of structural weaknesses sharply heightens Malawi's exposure to global market volatility.

How the Shock Reaches Malawi

The conflict affects Malawi through four powerful and mutually reinforcing channels:

1. Rising global fuel prices feed directly into domestic pump prices because Malawi imports 100% of its petroleum products and has minimal strategic reserves.
2. LNG supply disruptions increase global energy prices, indirectly raising fertilizer production costs, electricity generation costs, and global demand for refined fuels.
3. Shipping disruptions and rerouting via the Cape of Good Hope add 10–14 days to delivery times, raising freight costs on all imports—including essential goods such as medicines, food, and inputs for manufacturing.
4. Fertilizer supply and price shocks threaten agricultural production, especially given Malawi's complete dependence on imported fertilizer and the time-sensitive October–December planting window.

These transmission channels compound, creating a feedback loop in which higher fuel and freight costs worsen inflation, reduce household purchasing power, raise fiscal pressures, and accelerate the depreciation-inflation cycle.

Macro-Fiscal Outlook

Under both short-term and medium-term scenarios, the crisis is expected to raise inflation (potentially above 30%), weaken growth, widen the current account deficit, and deepen fiscal pressures. Higher fertilizer and fuel import costs will generate pressures for large unbudgeted expenditures, while revenue growth remains weak. With debt service already consuming nearly half of domestic revenues, policy space is extremely constrained.

Socio-Economic Impacts

Smallholder farmers, low-income urban households, women, and children face the highest exposure. Fertilizer shortages could significantly reduce the 2026/27 harvest, worsening food insecurity for the more than 20% of Malawians already in crisis levels of need. Rising transport and food costs will further reduce welfare and increase humanitarian caseloads.

Policy Imperatives

The government must act swiftly to update fiscal assumptions; maintain the Automatic Fuel Pricing Mechanism (AFPM); establish a formal foreign-exchange priority list for essential imports; safeguard fuel and fertilizer supply chains; improve targeting within the Farm Inputs Subsidy Programme (FISP); accelerate both domestic and external debt restructuring; and invest in medium- to long-term structural resilience, including diversifying the export base to boost foreign-exchange earnings and expanding renewable energy to reduce dependence on imported fuel.

Introduction

Malawi enters the current Middle East conflict crisis from a position of acute fragility. The country is at a critical juncture, facing high inflation, constrained fiscal and unsustainable debt outlook, and foreign exchange shortages. Foreign reserves remain critically low — below one month of imports — constraining the country's ability to withstand global commodity price shocks. Against this backdrop, the escalation of the Middle East conflict — marked by Strait of Hormuz disruptions, oil price surges, Liquefied Natural Gas (LNG) supply shocks, and Red Sea/Cape of Good Hope shipping rerouting — delivers a compounding external shock to an economy that has almost no buffer capacity.

This brief assesses the transmission pathways and macro-fiscal impacts across two scenarios: a **short-term disruption** (approximately one month) and a **medium-term disruption** (up to twelve months). It identifies the most vulnerable population groups and outlines priority policy responses. The methodology and analytical framework are detailed in the annex.

Part I: Malawi's Pre-Crisis Vulnerability — The Starting Conditions

Understanding the severity of the conflict's impact requires a clear-eyed assessment of where Malawi stands today.

Economic Growth

In 2025, real GDP grew by 1.9%, only a slight improvement from 1.7% in 2024 and still far below the 2.6% population growth rate, resulting in a continued decline in GDP per capita for the fourth consecutive year.¹ Malawi's economy is in a deep and protracted crisis marked by high inflation, declining living standards, and high rates of food insecurity. Economic growth rates have dropped from an average of 4.1% (2011–2019) to 2.2% since 2020.

Inflation

For the full year of 2025, average inflation stood at 28.5% compared with 32.3% recorded in 2024.² Inflation remains elevated, influenced by high food prices, exchange rate dynamics, and monetary expansion fueled by high fiscal deficits. However, the inflation rate declined since October at 29.1% reaching 24.9% by February 2026,³ largely driven by a sharp deceleration in food inflation (due to improved food supply, particularly maize). Meanwhile, in January 2026,

¹ World Bank. 2026. Malawi Economic Monitor, February 2026. Getting Reforms Right - Special Topic - Reversing Malawi's Export Decline. © World Bank. <http://hdl.handle.net/10986/44420> License: CC BY-NC 3.0 IGO

² Ministry of Finance, Economic Planning and Decentralisation, February 2026. Budget Statement. Government of Malawi

³ National Statistical Office of Malawi (NSO). 2026. Inflation Developments. Government of Malawi

petrol rose nearly 42% to 4,965 kwacha per litre and diesel about 41% to 4,945 kwacha⁴ after the energy regulator moved to prevent shortages.

Foreign Exchange and Reserves

Malawi's current account deficit is near 20% of GDP, with imports more than two-and-a-half times larger than exports. The exchange rate remains significantly overvalued, with a parallel market premium above 140%,⁵ discouraging exports and reducing foreign currency inflows. Foreign reserves remain critically low — below one month of imports. The official exchange rate has been largely flat, trading around 1,730 to the US dollar. The World Bank has flagged critically low reserves and a widening spread between the official and parallel exchange rates, a distortion that discourages formal trade and rewards the black market.

Fiscal Position

Fiscal deficits have averaged 10.9% of GDP since 2022, among the highest in Sub-Saharan Africa.⁶ They are largely financed by costly domestic borrowing, with interest payments on domestic debt reaching 7.0% of GDP in 2024,⁷ consuming almost half of domestic revenue and crowding out public investments and social spending. Public debt is now above 90% of GDP.⁸

Fuel and Fertilizer: Critical Import Dependencies

Malawi must import all its fuel products. Malawi's fuel crisis has been severe, with limited strategic fuel reserves since July 2024. Malawi consumes roughly 1.4 million litres of fuel daily, meaning the country has been operating with virtually no security buffer.⁹

On fertilizer, there is no primary production of inorganic fertilizers in Malawi; the country relies entirely on imports for its fertilizer needs. Malawi faces chronic fertilizer deficit, with an annual demand of 400,000 metric tonnes.¹⁰

Trade and Supply Routes

⁴ <https://mera.mw/2026/01/20/review-of-the-retail-price-of-petrol-and-diesel/>

⁵ <https://www.worldbank.org/en/country/malawi/publication/malawi-economic-monitor-getting-reforms-right>

⁶ World Bank. 2026. Malawi Economic Monitor, February 2026. Getting Reforms Right - Special Topic - Reversing Malawi's Export Decline. © World Bank. <http://hdl.handle.net/10986/44420> License: CC BY-NC 3.0 IGO

⁷ <https://www.imf.org/en/news/articles/2025/07/22/pr25261-malawi-imf-executive-board-concludes-2025-article-iv-consultation>

⁸ https://finance.gov.mw/documents/uploads/2026-03/Doc%201_2026-27%20Budget%20Policy%20Statement_0.pdf

⁹ <https://www.nyasatimes.com/inside-malawis-fuel-nightmare-nocma-admits-reserves-have-been-empty-since-july-2024/>

¹⁰ <https://agri-malawi.com/2025/02/the-fertilizer-fizzle-malawis-soil-suffers-as-yields-stagnate/>

Petroleum industry officials note that 70% of Malawi's fuel imports come through Mozambique's ports.¹¹ As a landlocked country, Malawi is entirely dependent on maritime supply chains through Indian Ocean ports (Beira, Nacala, Dar es Salaam), making it acutely sensitive to disruption in Indian Ocean or Red Sea shipping. High transport costs, which can comprise over 30% of Malawi's total import bill, already constitute a serious impediment to economic development and trade.

Part II: Transmission Pathways — How the Conflict Reaches Malawi

The Middle East conflict transmits to Malawi through four interconnected channels:

Channel 1: Fuel Price Shock

The Strait of Hormuz is the artery through which about 15% of global oil supply flows, primarily crude and condensate, but also petrochemical feedstocks, jet fuel, and diesel/gasoil.¹² Brent crude has climbed more than 15% since late February, trading above \$82–\$83 per barrel.¹³ The Strait of Hormuz, which handles roughly 20% of global seaborne oil and LNG flows,¹⁴ has seen disruptions following tanker damage and production stoppages across the Gulf.

For Malawi, the pass-through is near-total. Since all petroleum is imported and priced in US dollars, any global crude price increase translates directly into higher kwacha-denominated pump prices — amplified further by the already-depreciated exchange rate. Net oil importers face higher import bills, currency pressure, and rising transport, food, and manufacturing costs. Heavy dependence on refined fuel imports from Gulf suppliers amplifies the inflationary pass-through.

Channel 2: LNG and Energy Price Shock

The ceasing of LNG transit through the Strait of Hormuz has resulted in approximately 20% of global LNG supply being shut in.¹⁵ Qatar's Ras Laffan shutdown operations and issued force majeure notices to buyers. Gas prices in Europe and Asia surged roughly 65% since the disruption began, reaching their highest levels since March 2023.¹⁶

The combined effect is the removal of approximately 5.8 million tonnes of Middle Eastern LNG supply in March alone — equivalent to roughly 14% of the original global monthly forecast.¹⁷

¹¹ <https://www.unep.org/news-and-stories/blogpost/mozambique-malawi-and-zimbabwe-switch-low-sulphur-diesel-fuels-june-2017>

¹² <https://www.iea.org/about/oil-security-and-emergency-response/strait-of-hormuz>

¹³ <https://tradingeconomics.com/commodity/brent-crude-oil>

¹⁴ <https://www.iea.org/about/oil-security-and-emergency-response/strait-of-hormuz>

¹⁵ <https://energy-analytics-institute.org/2025/06/24/around-20-of-global-lng-flows-through-strait-of-hormuz-eia/>

¹⁶ https://sg.linkedin.com/company/erudite-risk?trk=public_post_feed-actor-name

¹⁷ <https://www.kpler.com/blog/middle-east-conflict---gas-market-implications-a-continuing-assessment>

While Malawi does not directly import LNG, the global energy price shock ripples through: (i) higher electricity generation costs for thermal backup systems; (ii) increased cost of petroleum products used as LNG substitutes globally, tightening supply and raising prices; and (iii) higher costs for manufactured goods (chemicals, fertilizers) whose production is energy-intensive.

Channel 3: Shipping Cost and Delay Shock

Major container lines — including Maersk, Hapag-Lloyd, CMA CGM, and MSC — have suspended Suez Canal and Red Sea transits, diverting Asia-Europe and Asia-Africa services via the southern tip of Africa.¹⁸ The detour adds 3,500–4,000 nautical miles and 10–14 days, spiking fuel costs by roughly \$1 million per round-trip voyage and total premiums to \$2–4 million when factoring in crew, insurance, and capacity constraints.¹⁹

For Malawi, this means: (i) all imported goods — including food, medicines, manufactured inputs, and fuel — face higher freight costs and longer lead times; (ii) port congestion at Beira, Nacala, and Dar es Salaam worsens as rerouted vessels create backlogs; and (iii) insurance premiums on cargo destined for Indian Ocean ports rise, adding further cost layers.

Channel 4: Fertilizer Supply and Price Shock

When global fertilizer prices rise — as seen during the COVID-19 pandemic and the Russia-Ukraine conflict — the cost of importing fertilizer skyrockets. The government has to spend more foreign currency, placing pressure on Malawi's already limited reserves. The Middle East is a significant source of nitrogen-based fertilizers (urea, ammonia) and phosphate inputs. Any disruption to Gulf production or shipping elevates global fertilizer prices, directly threatening Malawi's Farm Inputs Subsidy Program (FISP) and smallholder agricultural productivity. The FISP provides subsidized fertilizer to smallholder farmers. Because the fertilizer is imported, programme costs increase sharply whenever international prices go up or the kwacha loses value. These expenses strain the national budget and limit spending on health, education, and infrastructure.

Part III: Scenario Analysis

Scenario A — Short-Term Disruption (Up to 1 Month)

Assumptions: Partial Strait of Hormuz closure; shipping rerouting via Cape of Good Hope; Brent crude at \$82–\$90/barrel; LNG spot prices elevated; disruption resolves within 4–6 weeks.

Inflation

¹⁸ <https://www.maritimenews.com/container-shipping/container-carriers-suspend-middle-east-transits>

¹⁹ <https://www.thehabarexpress.com/blog/major-container-carriers-reroute-ships-via-cape-of-good-hope-adding-933000-per-voyage-and-doubling-transit-times-8c6c8519>

The immediate impact is a fuel price spike. Given that Malawi's fuel prices are already at historic highs following the January 2026 adjustment, a further global oil price increase of 15–20% would add 5–8 percentage points to non-food inflation within weeks. Freight cost pass-throughs on imported consumer goods (medicines, processed foods, manufactured goods) would add a further 1–3 percentage points to the headline CPI. Combined with existing inflation of approximately 25%, Malawi could see headline inflation breach 32–35% in the short term, with food inflation potentially returning to 35%+ levels given the sensitivity of transport costs to food distribution.

GDP Growth

A one-month disruption would shave an estimated 0.3–0.5 percentage points off already-weak 2026 GDP growth projections. GDP growth for 2025 has been revised downward to 1.9%, with a modest improvement projected for 2026 at 2.3%. The recovery will be supported by a partial agricultural rebound from improved rains, though persistent forex shortages and structural constraints will continue to limit access to inputs and constrain overall economic performance and job creation. A fuel supply disruption compounds this by raising transport costs for agricultural produce and reducing manufacturing output.

Foreign Exchange Reserves

Gross foreign exchange reserves are below one month of import cover. The fuel import bill surge would rapidly worsen this fragile position. A 15% oil price increase applied to Malawi's monthly fuel import bill (estimated at \$40–50 million) would add approximately \$6–8 million per month in additional forex demand. With reserves critically low and a parallel market premium already above 140%, any additional forex demand pressure could gravely worsen the situation.

Trade Balance

Higher import costs with no corresponding export revenue increase widen the current account deficit. Malawi's current account deficit reached 22.0% of GDP in 2024, driven by declining export competitiveness and persistent fiscal deficits. A short-term shock would widen this further by an estimated 1.5–2.5 percentage points of GDP.

Fiscal Impact

The government faces a dual fiscal squeeze: (i) higher petroleum subsidy costs if pump prices are not immediately adjusted; (ii) higher FISP costs as fertilizer prices rise. Debt servicing already accounts for up to 43% of domestic revenues. Any additional unbudgeted spending would require either further domestic borrowing (worsening inflation) or cuts to social spending.

Short-Term Scenario Summary

Indicator	Baseline (2025/26)	Short-Term Shock Estimate
Headline Inflation	~26–28%	32–36%
GDP Growth	~2.3%	1.8–2.0%
Current Account Deficit	~22% of GDP	~23.5–24.5% of GDP
FX Reserves (months of imports)	~1 month	~0.5 – 0.7 months
Fiscal Deficit	~9.2% of GDP	~10.0–10.5% of GDP
Fuel Pump Price Pressure	Already elevated	+15–25% additional increase

Scenario B — Medium-Term Disruption (Up to 12 Months)

Assumptions: Prolonged regional instability; Hormuz partially or intermittently disrupted; Brent crude sustains at \$85–\$100/barrel; shipping costs remain elevated; fertilizer supply chains disrupted for 2–3 planting seasons; LNG prices remain at \$15–\$20/MMBtu.

Inflation

A sustained 12-month shock would entrench a new, higher inflation plateau. The kwacha, already under severe pressure, would face persistent depreciation demand as the import bill swells. With more kwachas and fewer foreign currencies, there is immense pressure on the exchange rate, leading to widening distortions and creating a thriving illegal market if the exchange rate cannot adjust. The depreciation-inflation spiral — already well-established in Malawi — would accelerate. Headline inflation could stabilize in the 35–45% range for an extended period, with food inflation potentially exceeding 40% if the fertilizer shock reduces the 2026/27 harvest. Maize production is already below the national requirement of at least 3.3 to 3.5 million metric tonnes. A fertilizer supply disruption during the planting season (October–December) would be catastrophic for the 2026/27 harvest.

GDP Growth

The medium-term scenario could reduce GDP growth by 1.5–2.5 percentage points relative to baseline, potentially pushing Malawi into near-zero or negative per capita growth for the fifth consecutive year. Key channels: (i) agricultural output contraction from fertilizer shortages; (ii) manufacturing contraction from fuel and input cost increases; (iii) transport sector disruption; (iv) reduced household consumption from real income compression. Low productivity in agriculture — where most Malawians work — continues to constrain incomes and rural job creation. A fertilizer-induced agricultural shock would compound this structural weakness severely.

Foreign Exchange Reserves

Over 12 months, sustained higher import costs would drain reserves to critically low levels — potentially below 0.5 months of import cover. The rate at which Malawi generates foreign exchange has not kept pace with the growing demand for fuel. Under a sustained shock, the forex gap widens further, risking a complete breakdown of the fuel import system and supply chain paralysis.

Trade Balance and External Debt

Malawi remains in external debt distress and domestic debt is growing. A medium-term shock would: (i) widen the current account deficit by 3–5 percentage points of GDP; (ii) increase the external debt burden in kwacha terms as the currency depreciates; (iii) reduce access to external financing as sovereign risk perceptions worsen.

Fiscal Impact

The medium-term fiscal scenario is severe. The government would face: (i) sharply higher fuel import costs for NOCMA and state operations; (ii) FISP costs potentially doubling if fertilizer prices rise 50–80% (as seen during the Russia-Ukraine shock); (iii) higher debt service costs in kwacha terms; (iv) revenue shortfalls as economic activity contracts. Since 2022, fiscal deficits driven by rigid expenditures have averaged 10.9% of GDP. Persistently large fiscal deficits have driven up public debt, crowded out social and development spending, and reduced the availability of credit to the private sector. The fiscal deficit could widen to 12–14% of GDP under a sustained shock.

Agricultural Sector: The Critical Vulnerability

The fertilizer channel is Malawi's most dangerous medium-term vulnerability. For a country where more than 80% of people depend on agriculture, disruptions to fertilizer supply have devastating consequences for food security. If fertilizer shipments are delayed or unaffordable during the October–December 2026 planting window, the 2026/27 harvest would contract significantly, compounding the already-existing food deficit. Many Malawians continue to face

food insecurity. Since the 2022/23 farming season, staple grain production has consistently fallen short of domestic needs. Maize production is already below the national requirement of at least 3.3 to 3.5 million metric tonnes.

Medium-Term Scenario Summary

Indicator	Baseline (2025/26)	Medium-Term Shock Estimate
Headline Inflation	~26–28%	35–45%
GDP Growth	~2.3%	0.5–1.0%
Current Account Deficit	~22% of GDP	~25–27% of GDP
FX Reserves (months of imports)	~1 month	<0.5 months
Fiscal Deficit	~9.2% of GDP	~12–14% of GDP
Food Insecurity	>20% of population	30–40% of population
FISP Fertilizer Cost Overrun	Baseline	+50–80% cost increase

Part IV: Groups Most Impacted

1. Smallholder Farmers (approximately 60–70% of the population)

This is the most exposed group. They depend on the FISP for subsidized fertilizer, sell produce at prices sensitive to transport costs, and have no financial buffers. In years when fertilizer shipments are delayed or arrive late, planting is postponed, leading to poor harvests and increased food insecurity. A fertilizer supply disruption during the planting season would directly reduce their yields and incomes.

2. Urban Low-Income Households

Urban households spend the largest share of their income on food and transport — both directly affected by fuel and shipping cost increases. Falling real incomes due to elevated inflation, monetary tightening, and foreign currency shortages have already reduced both corporate and consumer demand. A further 5–10 percentage point increase in inflation would push millions of urban poor households deeper into food insecurity.

3. Women and Children

Women bear disproportionate responsibility for household food security and are more likely to work in informal agriculture and petty trade — both highly sensitive to input cost increases. Children face heightened malnutrition risks as food prices rise. Over 20% of the population is already facing high levels of food insecurity.

4. Manufacturing and Transport Enterprises

Many manufacturing companies have already reduced production levels due to challenges related to foreign exchange and devaluation of the kwacha, which has compromised their ability to import necessary raw materials and increased input costs for production. A fuel price surge adds directly to operating costs and transport fees, reducing margins and employment.

5. Government and Social Spending

Higher fuel import costs, FISP cost overruns, and exchange rate depreciation squeeze the fiscal space available for health, education, and social protection. Debt servicing already accounts for up to 43% of domestic revenues, ahead of allocations to all key social and economic sectors. Combined social sector allocations are only 25% of total government expenditure. Any further fiscal tightening risks cut to these already-constrained social budgets.

6. Patients and Health System Users

Malawi imports virtually all pharmaceutical inputs and medical supplies. Shipping delays and higher freight costs will disrupt medicine supply chains, raise costs and cause stock-outs in health facilities — particularly in rural areas.

Part V: Policy Recommendations

Immediate Priorities (0–30 Days)

1. Fiscal policy assumptions

Reassess fiscal policy assumptions—particularly growth and inflation projections—in light of the heightened risks stemming from the Middle East conflict. Updated, risk-adjusted assumptions will help ensure that fiscal planning remains realistic, credible, and aligned with emerging external pressures.

2. Uphold and Enforce the Automatic Fuel Pricing Mechanism (APM)

In light of heightened global fuel market volatility, it is critical to strictly adhere to the Automatic Pricing Mechanism (APM) to maintain transparency, safeguard fuel supply continuity, and prevent the accumulation of hidden fiscal liabilities.

3. FX priority list

Establish a formal essential imports priority list (fuel, food, medicines, fertilizers) for Reserve Bank of Malawi forex allocation. Explicitly curtailing allocations for non-critical imports will be vital to safeguarding national resilience, protecting vulnerable households, and maintaining the continuity of essential services.

4. Activate Social Protection Mechanisms

Expand cash transfer programmes for the urban poor and smallholder farmers. Coordinate with humanitarian partners to pre-position emergency food stocks in high-risk districts. This is vital to cushion vulnerable groups from rising food, transport, and fuel prices.

Short-to-Medium-Term Measures (1–6 Months)

5. Strategic Reserve Replenishment

Prioritize strategic reserve replenishment to at least 30 days of cover as an immediate shock mitigation measure.

6. Prioritize Fertilizer Procurement

Given the October–December planting window, the government should closely monitor and initiate timely emergency fertilizer procurement through regional suppliers (South Africa, Morocco, Egypt) to reduce exposure to Gulf supply chains. Explore concessional financing for emergency fertilizer purchases and negotiate bulk purchases with suppliers.

7. Improve fertilizer targeting within FISP

Improving fertilizer targeting within the FISP is critical to enhancing the programme's effectiveness, reducing fiscal leakage, and ensuring that scarce public resources generate the greatest possible social protection and productivity gains.

8. Accelerate Debt Restructuring

Malawi's public debt situation remains challenging, with the restructuring of external commercial debt, initiated in 2022, still unresolved. Completing debt restructuring both domestic and external would free fiscal space and restore access to concessional external financing — both essential for weathering the current shock.

9. Diversify Fuel Supply Routes and Storage

Invest in expanding petroleum storage capacity at inland depots (Lilongwe, Blantyre, Mzuzu) to increase strategic reserves. Accelerate the TAZAMA pipeline utilization (Dar es Salaam to Ndola, Zambia, with onward road transport to Malawi) as an alternative to Mozambican port routes.

10. Monetary Policy: Resist Premature Rate Cuts

The Reserve Bank of Malawi cut its policy rate by 200 basis points from 26% to 24% on 5 March 2026. In the context of a new inflationary shock, the RBM should pause further rate reductions and stand ready to reverse course if inflation re-accelerates. Monetary loosening while the kwacha faces renewed depreciation pressure risks reigniting the depreciation-inflation spiral.

11. Exchange Rate Unification

A unified market-clearing exchange rate is integral to achieving macroeconomic stability and providing the basic conditions for accelerating economic growth. The current overvalued official rate, with a parallel premium above 140%, is suppressing export incentives and discouraging formal forex flows. A managed, phased exchange rate adjustment would reduce distortions and improve the current account over the medium term, though short-term inflation impacts must be cushioned through social protection.

Structural Resilience Measures (6–12+ Months)

12. Invest in Domestic Fertilizer Blending Capacity

Focus on developing fertilizer blending and granulation facilities. Rebuilding domestic blending capacity — which existed historically through the Malawi Fertilizer Company — would reduce dependence on fully-manufactured imported fertilizers and provide a buffer against global supply shocks.

13. Diversify Export Base to Generate Forex

Exports remain overly concentrated in tobacco, which still accounts for roughly half of total merchandise exports. Accelerating diversification into sesame, macadamia, soya, and agro-processing would generate additional forex inflows and reduce import-dependence vulnerability.

14. Expand Renewable Energy to Reduce Fuel Dependence

Malawi's sole power supplier generates almost all its power from hydroelectric plants along the Shire River. Expanding solar and other renewable energy capacity would reduce reliance on diesel backup generators, decreasing the economy's fuel intensity and vulnerability to oil price shocks.

15. Strengthen Regional Trade and Supply Chain Resilience

Deepen engagement with SADC and COMESA partners to develop regional fertilizer procurement pools, shared strategic petroleum reserves, and coordinated shipping logistics. Regional collective action can reduce the per-country cost of supply chain resilience.

Conclusion

The Middle East conflict arrives as a severe external shock to an economy with virtually no shock-absorption capacity. Greater investment in social protection, building on the strong

foundations laid over the last two decades, will enable Malawi to respond swiftly and effectively to a more volatile global environment and protect poor households from shocks. The immediate priority must be securing fuel and fertilizer supply — the two commodities whose disruption poses the greatest threat to economic activity and food security. Beyond emergency response, the crisis underscores the structural imperative of diversifying Malawi's export base, rebuilding forex reserves, completing debt restructuring, and investing in domestic energy and agricultural input production. Without structural reform, each successive global shock will find Malawi more vulnerable, not less.

Brief Methodology and Analytical Framework

The analysis applies a Structured Scenario Shock Model (SESM) tailored for a low-income, import-dependent economy such as Malawi. The SESM integrates five analytical frameworks to assess short-term (1 month) and medium-term (12 months) macroeconomic and food security impacts of global fuel, fertilizer, and shipping disruptions.

1. Import Cost Pass-Through Model

A recursive Vector Autoregression (VAR) inflation model quantifies how shocks to international fuel, fertilizer, and exchange rates feed into domestic inflation. Pass-through coefficients are calibrated from Malawi's historical episodes (e.g., 2022–2024 shocks). The model estimates both direct effects (fuel, fertilizer) and second-round effects (transport, food prices), including exchange-rate amplification triggered when reserves fall below crisis thresholds.

2. FX Reserve Dynamics Model

A modified balance of payments identity simulates reserve depletion under rising import prices. Import price shocks are weighted by fuel, fertilizer, shipping, and other import shares. A non-linear crisis threshold indicator activates when reserves fall below 0.75 months, triggering:

- Parallel market premium widening
- Import rationing
- Supplier arrears
- Loss of ability to confirm letters of credit

This threshold effect is the defining adjustment in the revised model.

3. Fiscal Impact Model

The fiscal balance is decomposed into revenue losses, subsidy pressures, social protection needs, and quasi-fiscal liabilities. Key components include:

- Reduced VAT and trade taxes from lower consumption and import compression
- Higher costs of fuel and fertilizer (FISP) procurement
- Emerging SOE and NOCMA liabilities
- Worsening debt dynamics due to higher domestic interest rates and slower growth

Outputs indicate rapid widening of the fiscal deficit under both scenarios.

4. Growth Accounting Shock Model

A supply-side sectoral accounting model estimates GDP impacts through agriculture, industry, and services, weighted by their GDP shares. Channels include:

- Fuel-driven transport cost increases
- Fertilizer-linked agricultural productivity shocks
- Investment collapse triggered by crisis-level reserves
- Credit tightening as banks respond to rising sovereign risk

Investment and consumption multipliers amplify the contraction.

5. Food Security Transmission Model

A three-stage model links macro shocks to household food access and IPC outcomes:

1. Domestic food price transmission (via transport costs, exchange rate, fertilizer costs)
2. Household food access (income compression vs. rising prices) using an LES approximation
3. IPC phase transition probabilities, producing population-level estimates of food insecurity

Calibrations rely on FEWS NET, IPC historical data, and household elasticity estimates.

Scenario Structure

- Short-term (1 month): Hormuz and Red Sea disruptions persist, with no buffer from reserves. Even modest shocks trigger immediate crisis conditions.
- Medium-term (up to 12 months): Crisis becomes systemic: reserves exhausted, forced exchange-rate adjustment, agricultural production decline due to fertilizer shortages, and large-scale food insecurity.

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