



**NATIONAL
PLANNING
COMMISSION**
SPEARHEADING WEALTH CREATION FOR ALL

Does Malawi's Exchange Rate Regime Keep Prices Low?

Evidence and Policy Implications

NPC & IFPRI
29 May 2026 | World Bank, Lilongwe



Presentation largely based on this policy note:



STRATEGY SUPPORT PROGRAM | POLICY NOTE 56

FEBRUARY 2026

Does Malawi's exchange rate regime keep prices low?

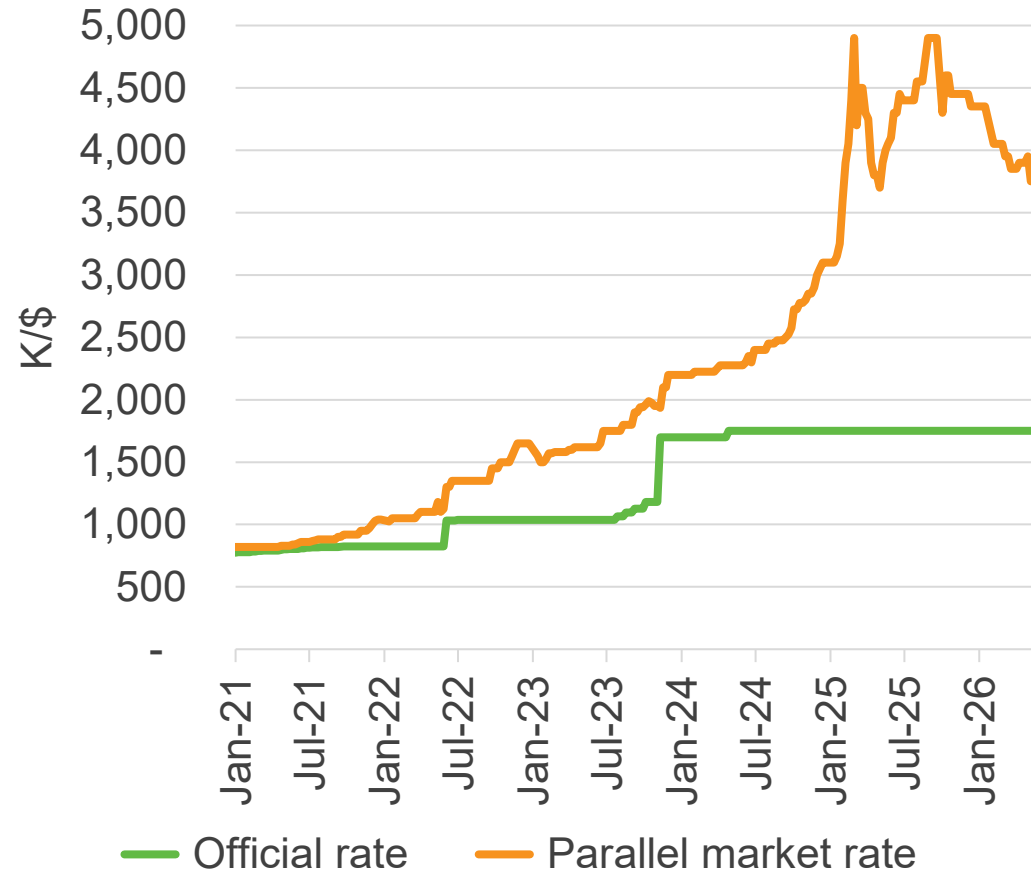
Evidence and policy implications

Frederick Changaya, Andrew Comstock, Joachim De Weerd, Jan Duchoslav, Andrew Jamali, Frank Kamanga, Grace Kumchulesi and Karl Pauw

available on-line at: <https://hdl.handle.net/10568/181860>

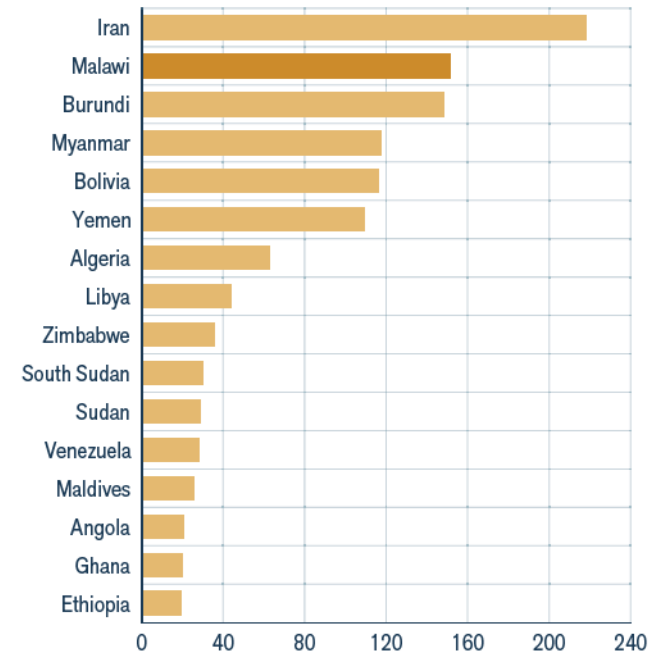


Multiple Exchange Rates



The large spread between the official and market exchange rates puts enormous pressure on reserves

Difference between official and parallel rate as of June 30, 2025 (as percent)



Source: World Bank staff calculations.



Implications

- Increasingly difficult to obtain forex formally.
- Informal routes exist, but with high transaction costs. Cumbersome to:
 - Import goods - consumer goods, intermediary goods, capital goods
 - Accessing international services: software subscriptions, advisory services, credit card use for business travel
- Formal exports become uncompetitive
- Foreign investors are scared off



Barriers to Exchange Rate Reform

- Interests, Ideology & Implementation
- Genuine technical concerns any reform that involves a devalued kwacha:
 - Effect on debt
 - Lack of export response
 - Lack of import response
 - Sequencing of reforms
 - Lack of reserves
 - Inflation
 - Etc etc. etc.
- This presentation will focus on **inflation**: does Malawi's fixed exchange rate help keep domestic prices low?



Three angles

- Focus on maize price: important + good informal trade data
- Broaden to food prices more broadly
- Model a well-executed unification exercise, in which a devalued kwacha:
 - Directly impacts price of formal imports
 - Indirectly impacts other prices (pass-through inflation)
 - Look at distributional effects (poverty status, urban vs rural)



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The maize self-sufficiency myth



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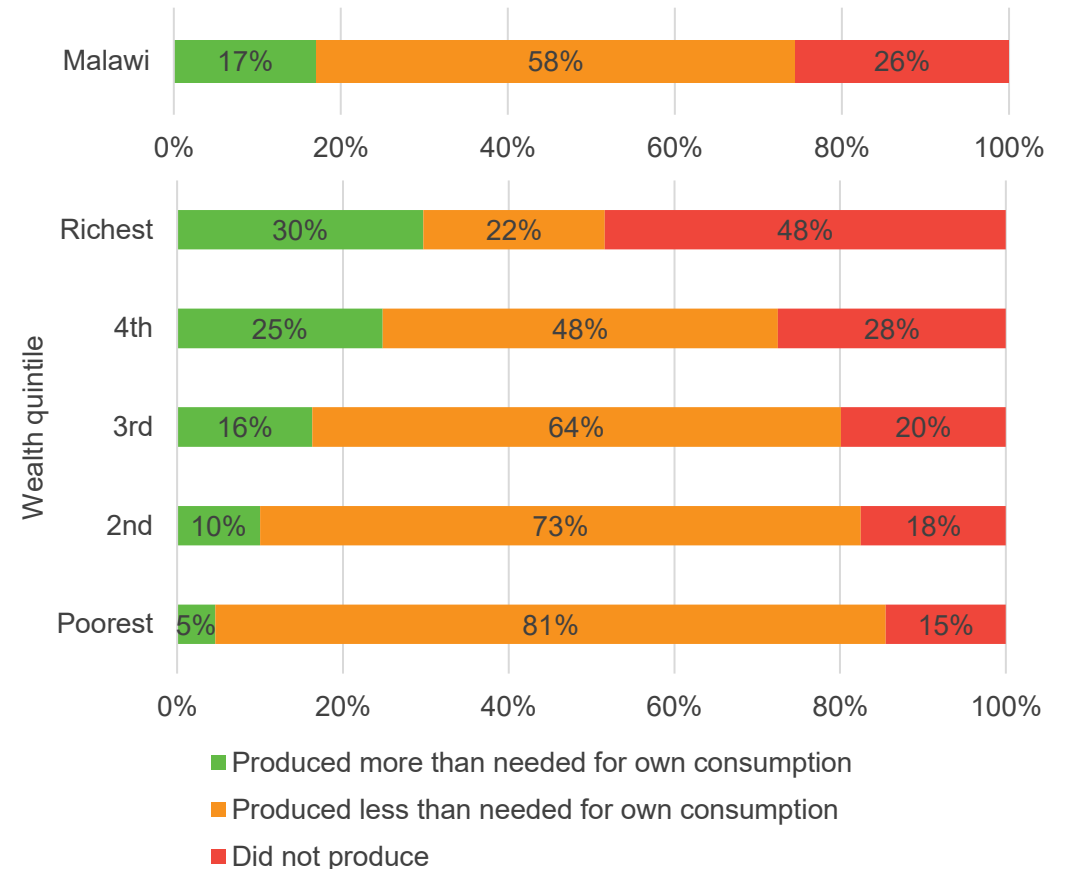
APRIL 2026

Five misconceptions distorting food policy in Malawi

A joint NPC-IFPRI position paper

Fredrick Changaya, Lara Cockx, Joachim De Weerd, Jan Duchoslav, Andrew Jamali and Joseph Nagoli

Available on-line at <https://hdl.handle.net/10568/182570>



Source: Changaya et al. (2026)



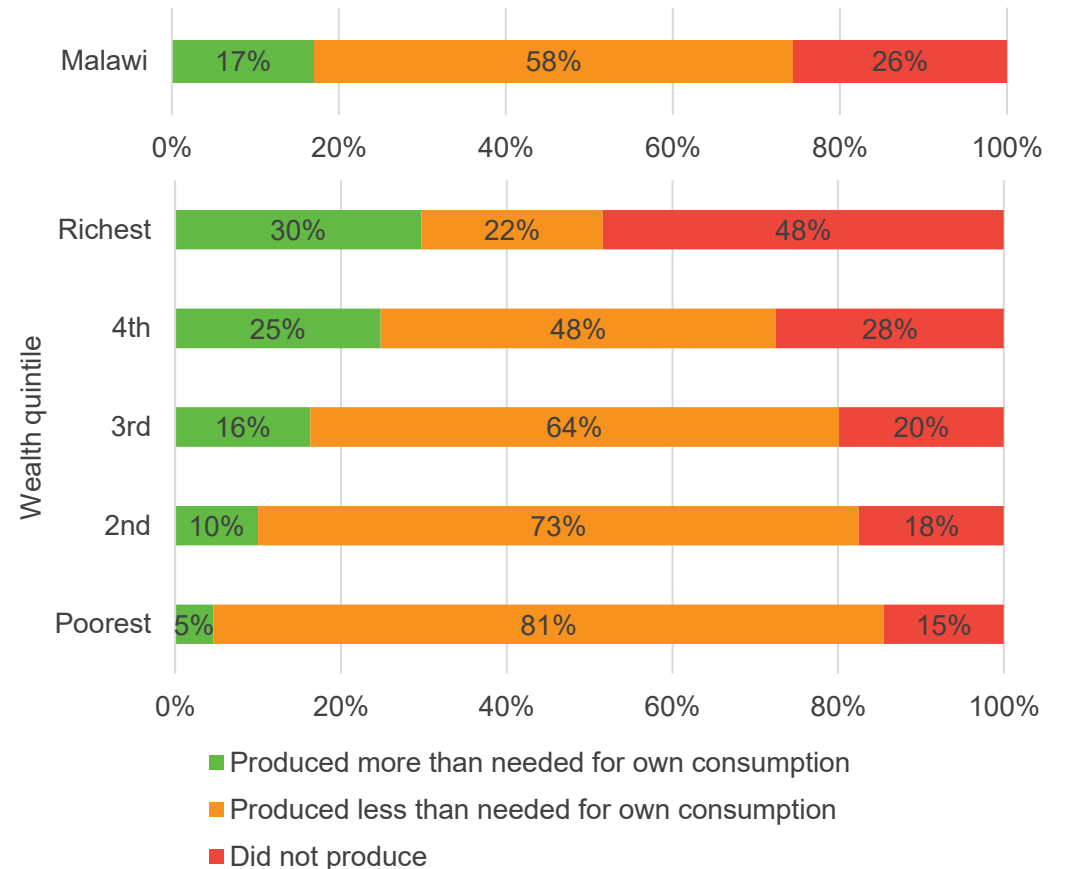
The maize self-sufficiency myth

Misconception:

- Most Malawians can grow enough maize to feed their households.

Reality:

- Out of every 10 Malawian households, fewer than 2 produce more maize than they consume

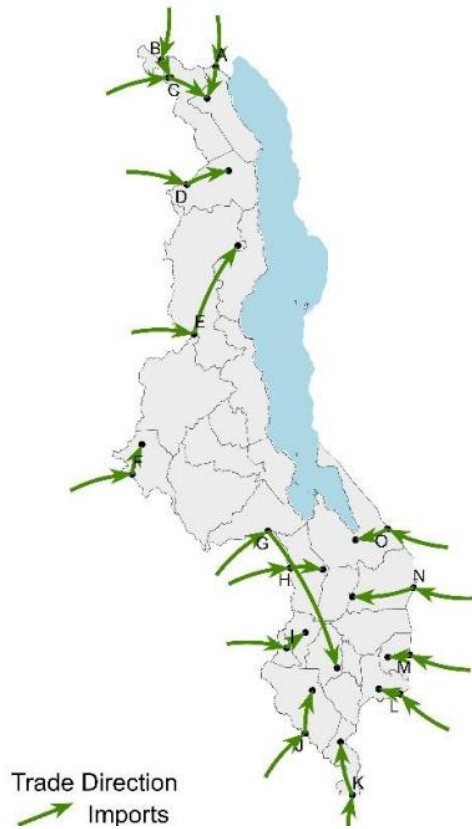


Source: Changaya et al. (2026)

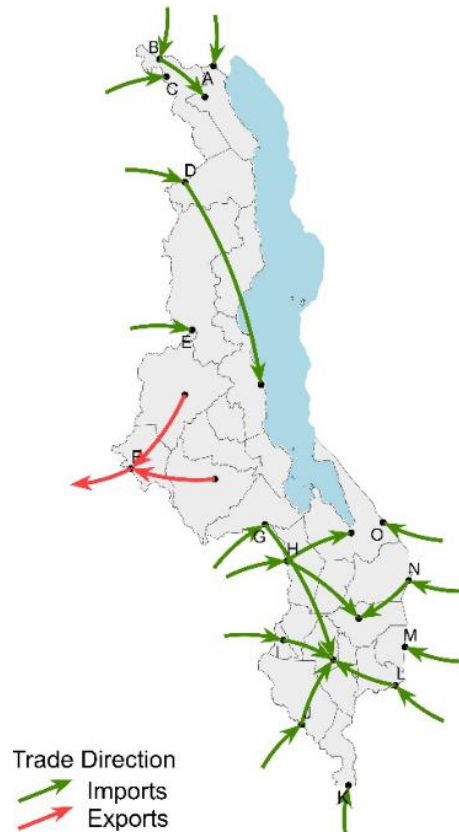


Malawi structurally imports maize (informally)

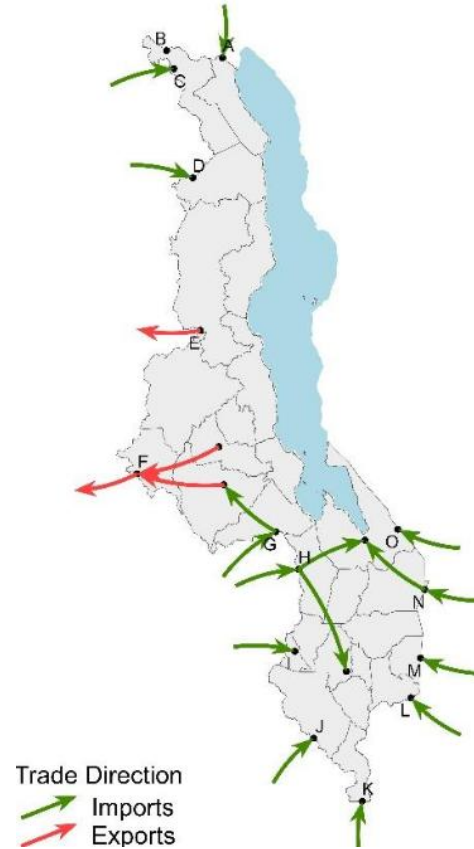
Sept 2025



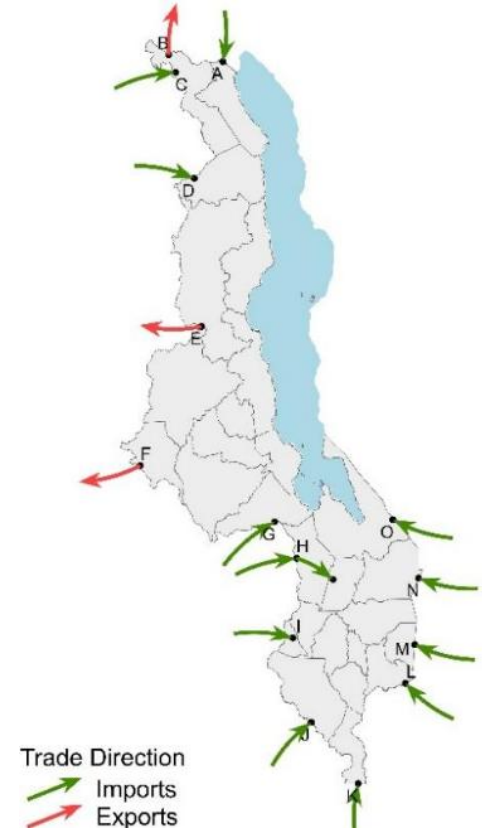
Nov 2025



Jan 2026



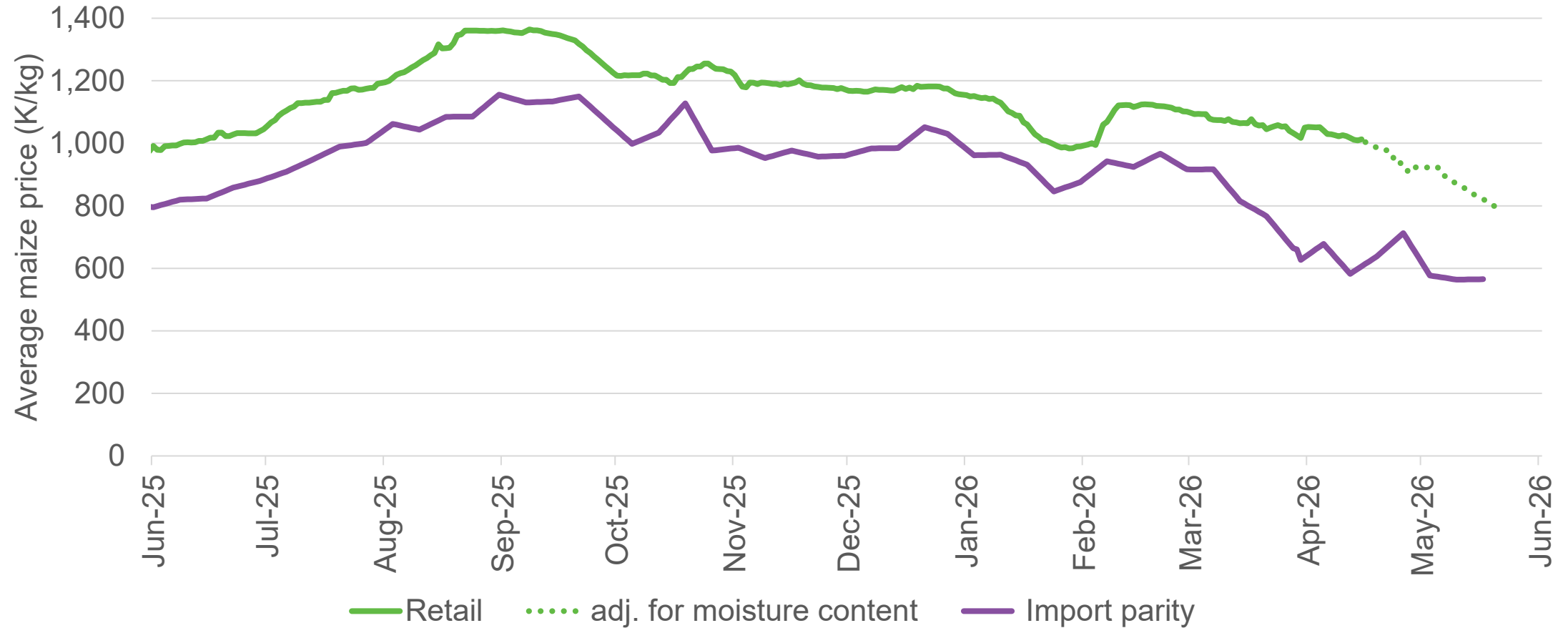
Mar 2026



Source: [IFPRI Malawi Maize Market Report \(March 2026\)](#)



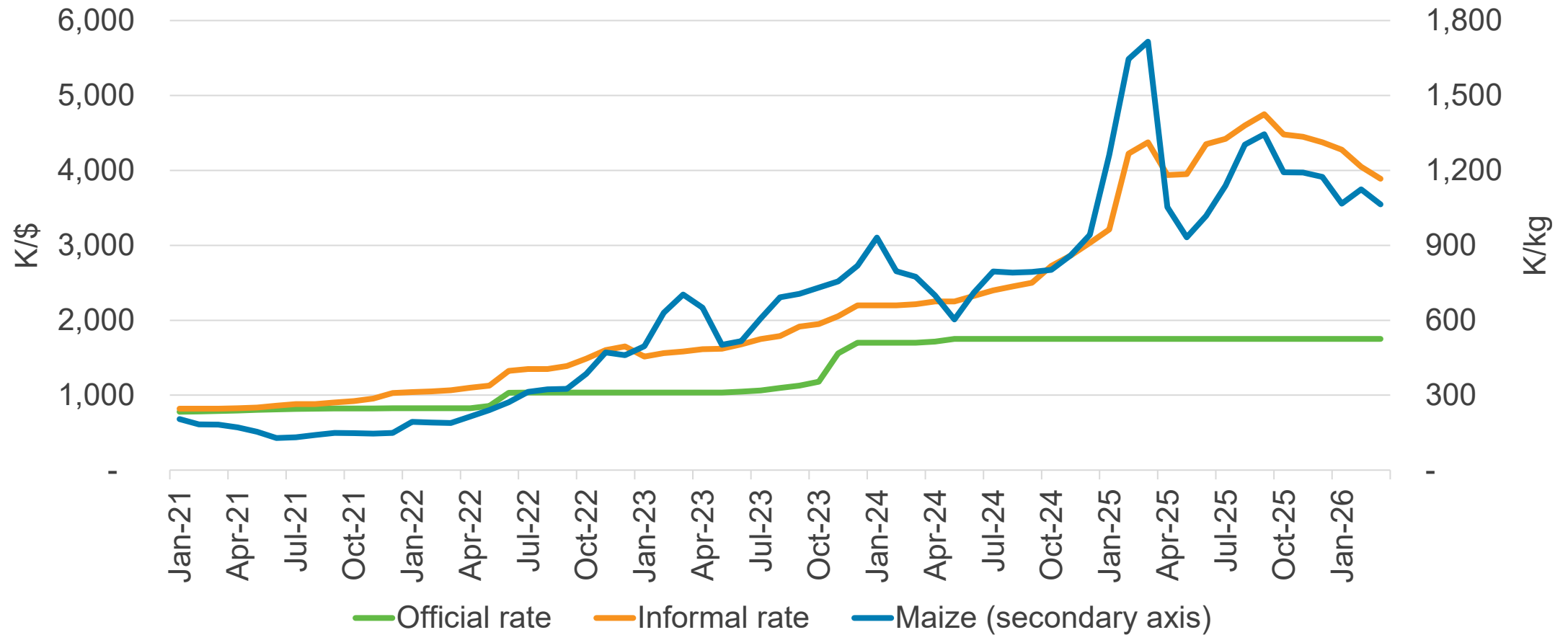
Informal import prices determine domestic prices



Source: [IFPRI Malawi Maize Market Report \(April 2026\)](#)



Domestic prices track the parallel rate – even for maize



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Urban food baskets from 6 urban centers

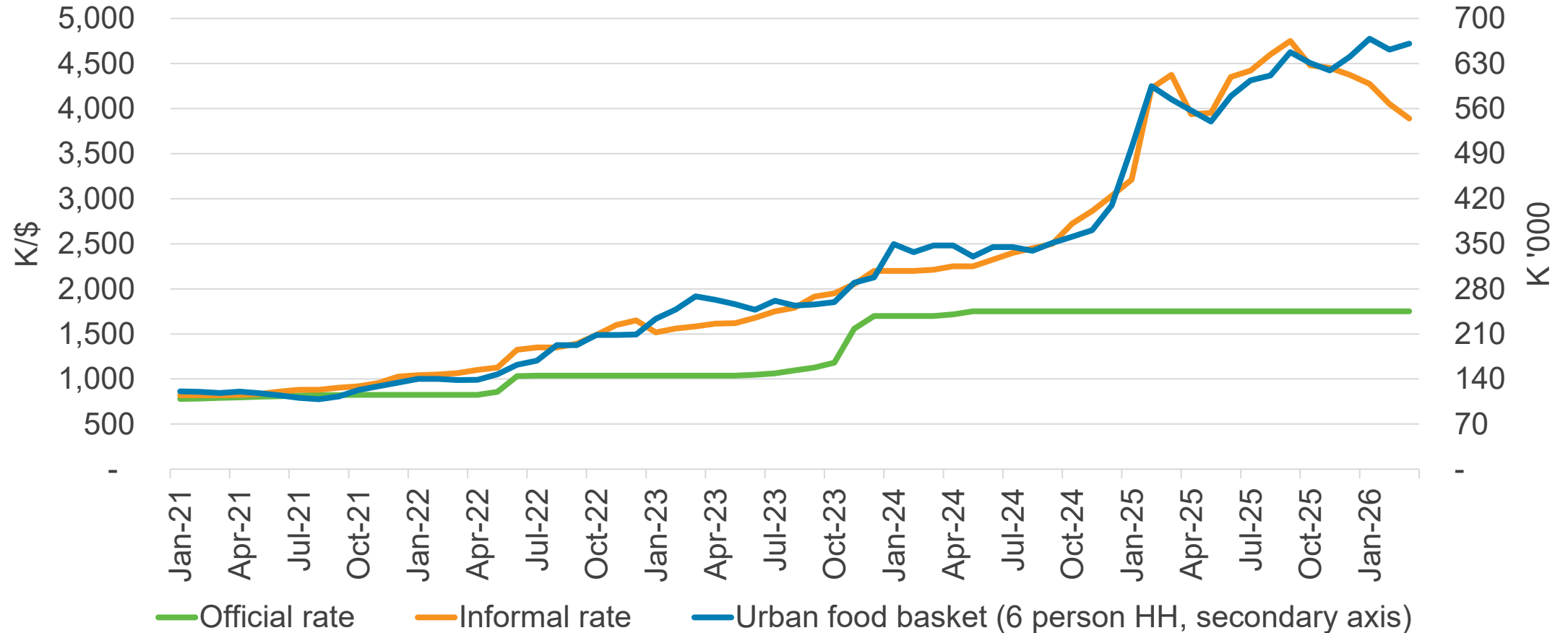
Lilongwe cost of living for a household of six people for August 2025

A. FOOD ITEMS		
Maize	59,500	119,000
Milling (Including Grinding)	2,100	29,400
Beans (0.8kg/day) 8 Days	7,038	45,043
Dry Usipa (250g/day) 4 days	39,554	39,554
Dry Utaka/Mcheni (200g/day) 4 days	35,700	28,560
Kapenta (200g/day) 4 days	0	0
Beef(1 kg/day) 4 days	11,875	47,500
Eggs (12/day) 4 days	513	24,624
Rape (750g/day) for 30 days	1,246	28,035
Tomato (0.5 Kg/day) 30 days	2,462	36,930
Onion (116g/day) 30 days	2,451	8,579
Fresh Milk (250ml/day) 30 days	1,863	27,945
Kazinga Cooking oil (100mls/day)30 days	9,788	29,364
Bread (5 bkfsts / wk) 20 days	3,175	63,500
Sugar (2 Kgs /Week)	3,475	27,800
Kitchen Salt	1,738	1,738
Tea leaves (Chisangalalo)	375	15,000
Cassava /potatoes (2Kgx2Bkfst)	924	14,784
Sub-Total	587,356	

Source: Centre for Social Concern



Food prices follow the informal exchange rate



Source: Reserve Bank of Malawi, Commodity Insights Africa, Centre for Social Concern. **Note:** Daily official rates and weekly informal rates are averaged over each calendar month to align their frequency with that of food price data.



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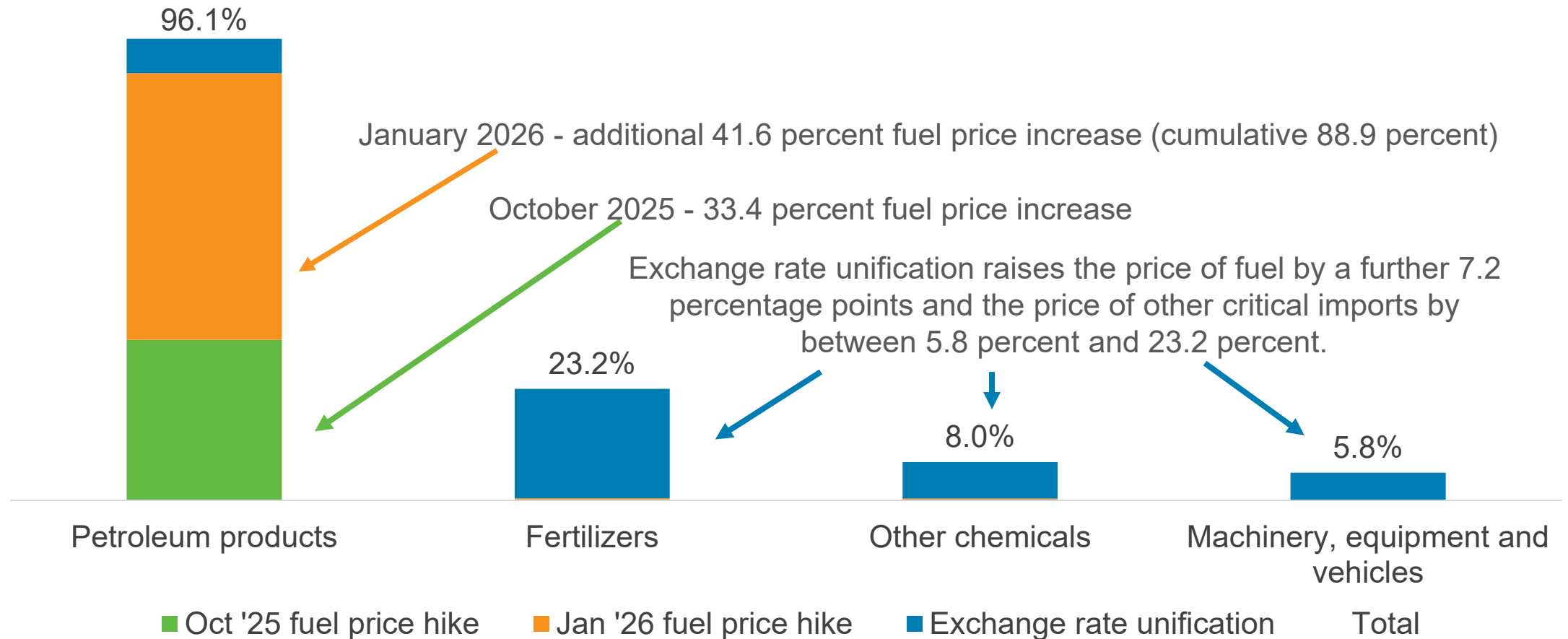


Modeling a unification scenario

- We assume unification will lead to a devalued kwacha. We further assume this will be part of a package of reforms:
 - Credible and sustainable move to a more flexible regime (not one-off)
 - A business environment that builds trust and expands exports
 - Accompanied by sound fiscal and monetary policy
 - No overshoot in the initial stages (assumes reserves to defend)
- **If** well-executed (big if), we expect a market rate under parallel rate (now ~4,000 MK/USD), because the 'informal market premium' is eliminated
- Modelled scenario: 1,750 MK/USD -> 4,400 MK/USD (median 2025)
 - Higher than current parallel rate (erring on side of more inflation)
 - Lower than peak 2025 parallel rate: 4,900 MK/USD



Direct effects of fuel price hikes and exchange rate unification on key commodity prices, relative to pre-October 2025 levels



Source: Authors' estimates. **Note:** The 'fertilizers' category also includes, for 7% of its total value, insecticides, fungicides and herbicides. The 'other chemicals' category includes, among others, 20 percent industrial chemicals, 17 percent medicines, 15 percent soaps and detergents, 10 percent laboratory reagents and 10 percent vaccines.

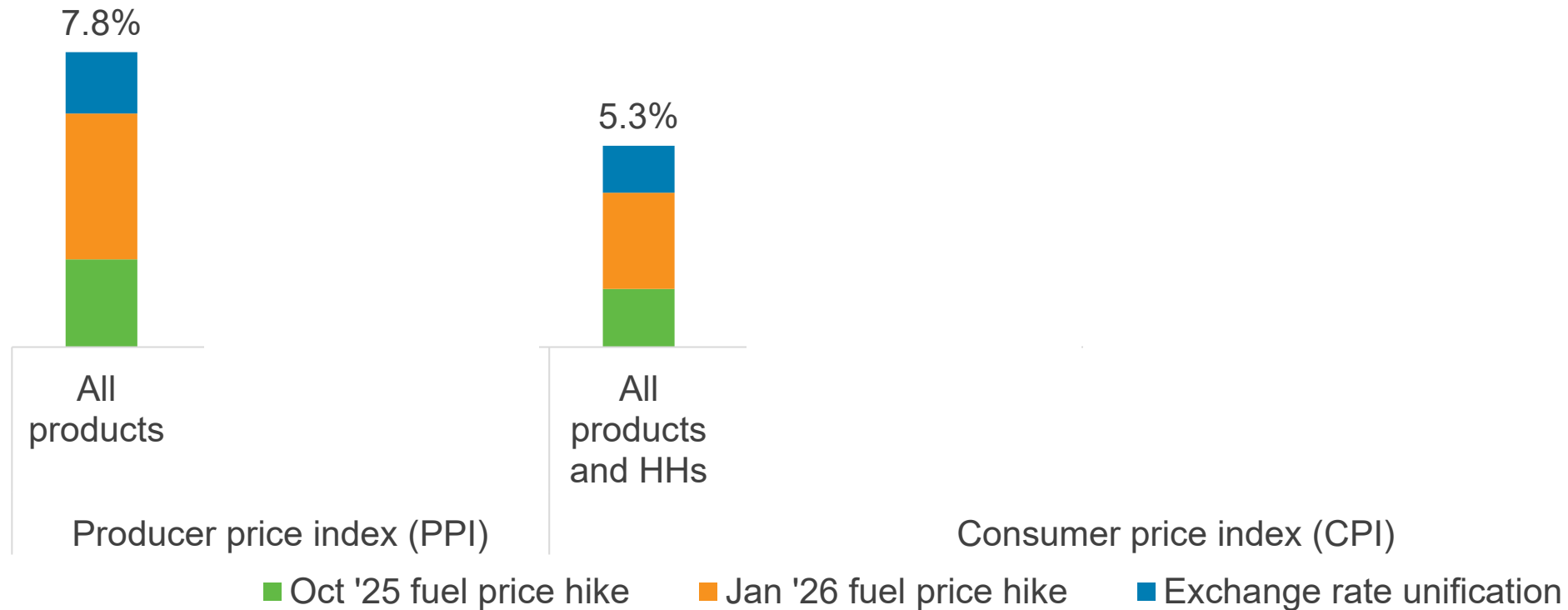


Pass-through inflation effects

- Cost-push transmission framework: production costs reflect intermediate input use, captured using the 2022 Malawi Social Accounting Matrix (SAM) (IFPRI, 2024).
- Assumption: changes in input prices translate into final prices proportionally to their cost shares in total production costs.
- Provides a first-order (accounting-based) estimate of inflation transmission across sectors, but market dynamics may diverge from this:
 - E.g. 42% increase in fuel prices in January -> 66% rise in bus fares.
 - Price setting dynamics important area for further research.



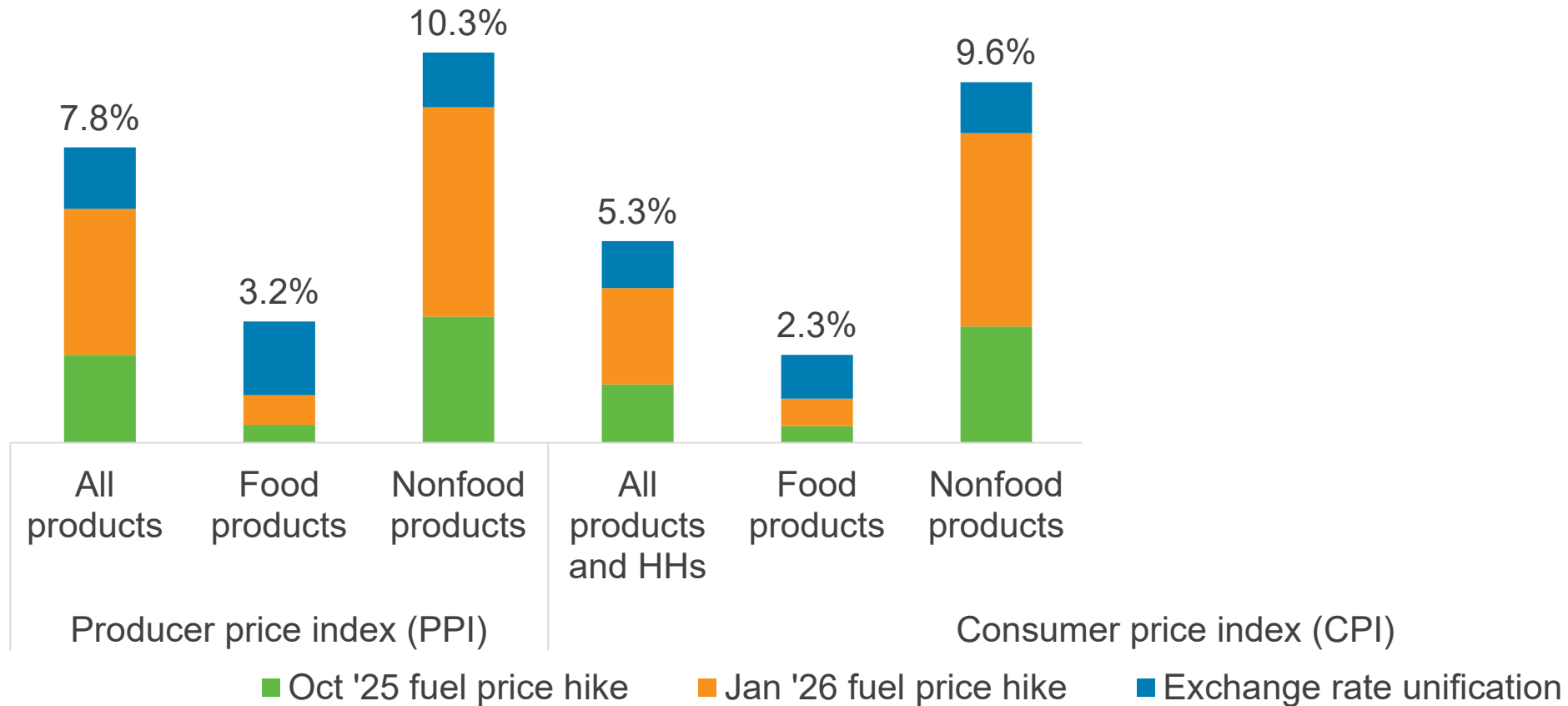
Impact of recent fuel price hikes and potential exchange rate unification on producer and consumer prices, relative to pre-October 2025 levels



Source: SAM price multiplier model results.



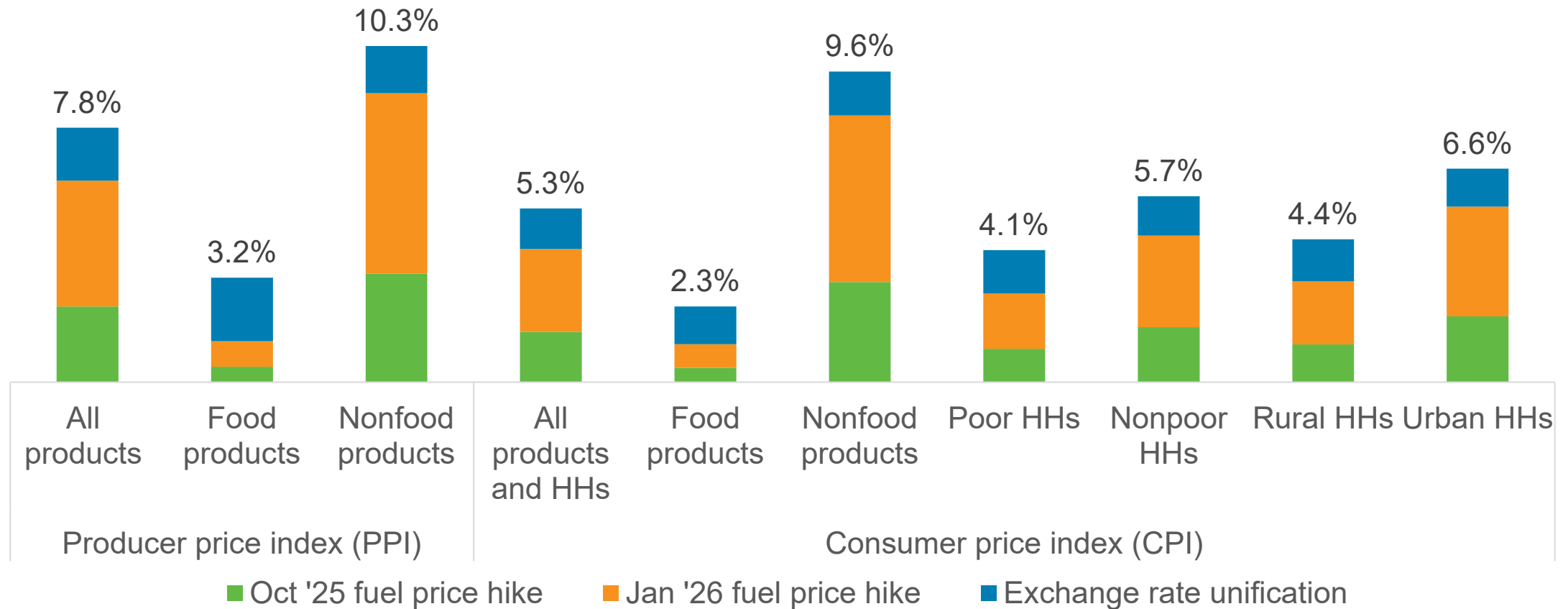
Impact of recent fuel price hikes and potential exchange rate unification on producer and consumer prices, relative to pre-October 2025 levels



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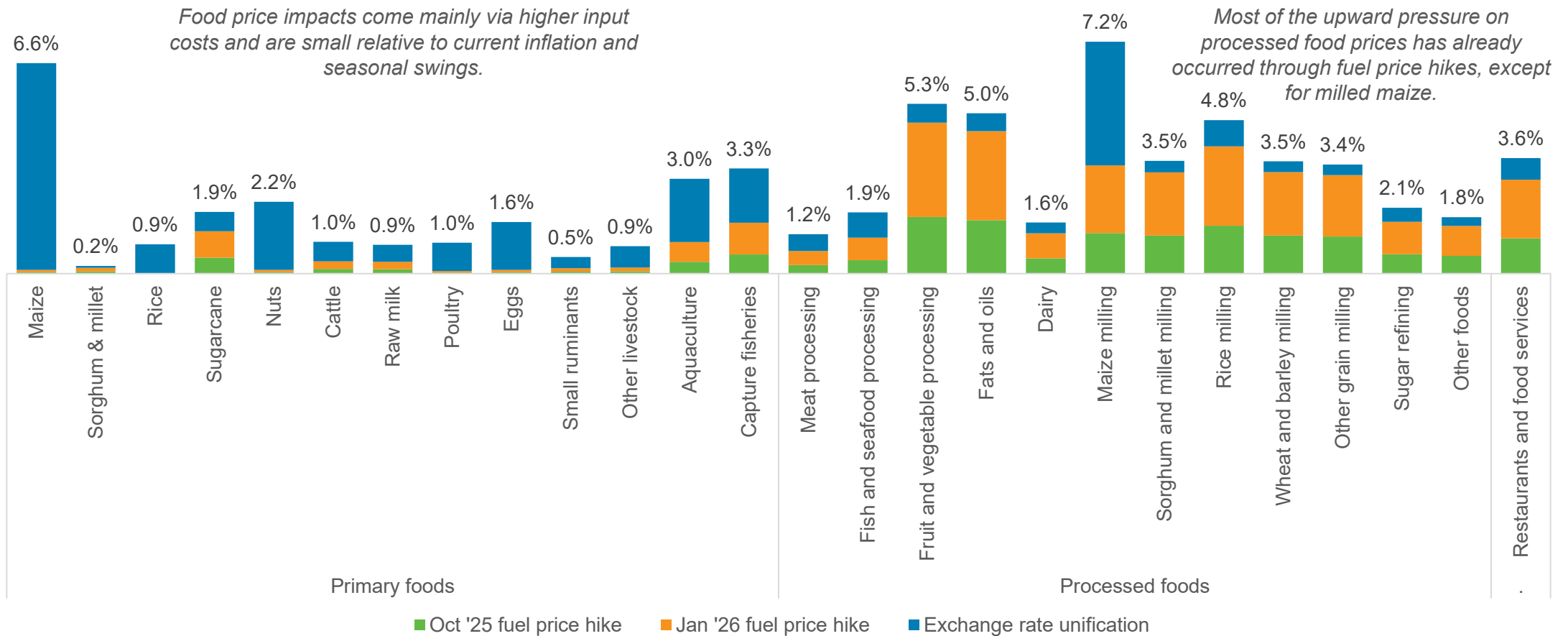
Impact of recent fuel price hikes and potential exchange rate unification on producer and consumer prices, relative to pre-October 2025 levels



Source: SAM price multiplier model results.



Impact of recent fuel price hikes and potential exchange rate unification on primary and processed food prices, relative to pre-October 2025 levels



Source: SAM price multiplier model results.

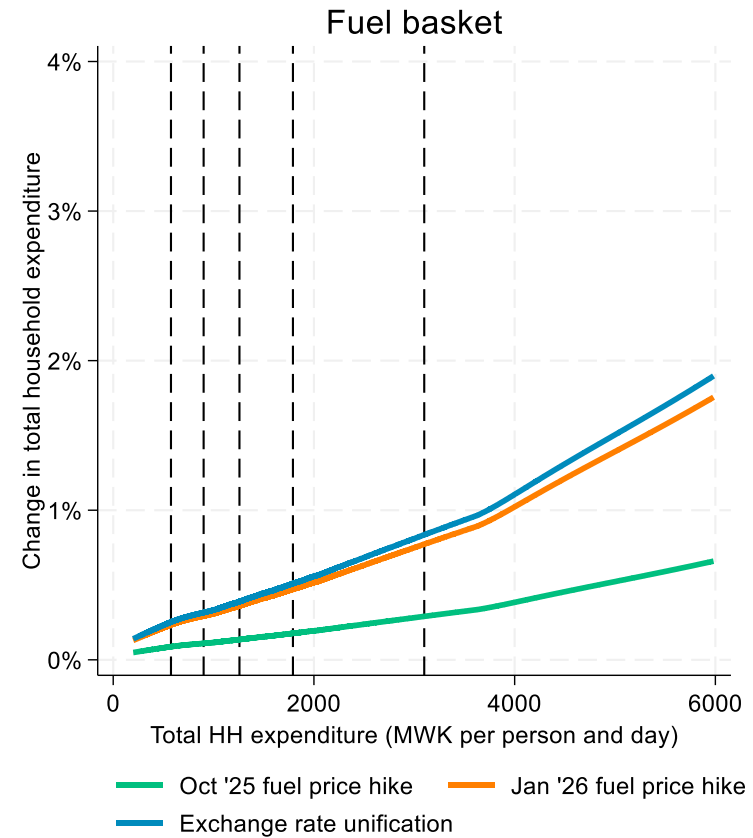
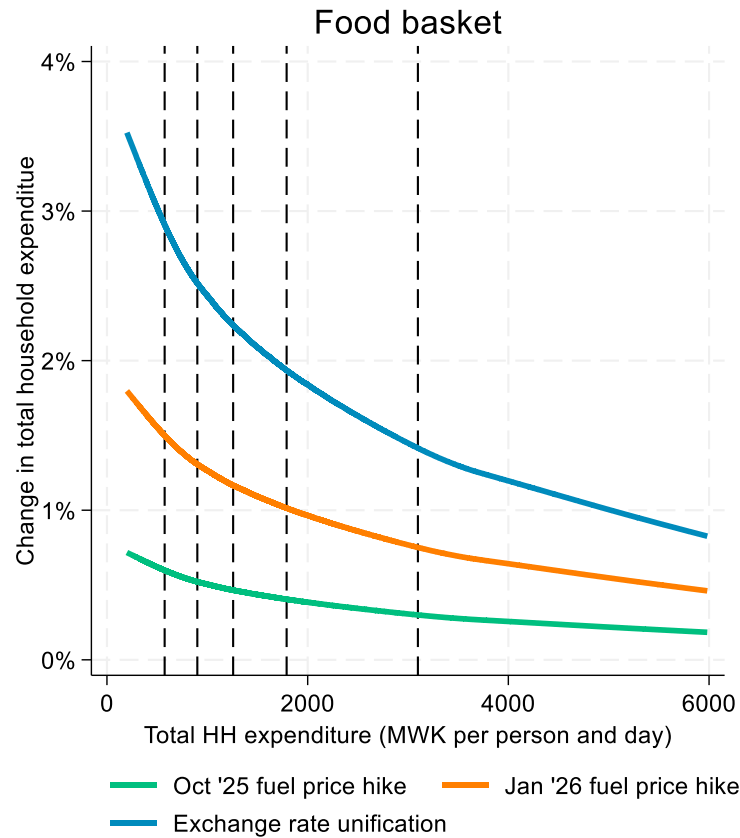


Distributional effects: consider two baskets

- **Fuel basket:** diesel, petrol and motorized transport (buses, motorcycle taxis)
- **Food basket** reflecting diets observed in IHS
- Both become more expensive, but with different distributional effects:
 - (i) composition of the basket differs by wealth
 - (ii) share in total consumption wealth
 - Share of food goes down with wealth (Engel)
 - Share of fuel goes up with wealth



Distributional impacts



Source: Authors' own calculations based on Malawi's 2019/20 Fifth Integrated Household Survey (IHS5). **Note:** The dashed vertical lines represent cut-off points for 5 wealth quintiles.



Conclusion

- The inflationary pressures that would normally accompany a well-executed exchange rate unification have largely been incurred
 - Most prices are already set at the parallel rate
 - Fuel price adjustments ensured fuel prices align with market rates too
- We (probably) all agree that the current ER regime harms the economy
- What are remaining worries at the technical level?
 - Debt servicing?
 - Will exports pick up? What else is needed for them to do so?
 - Does the official rate anchor the parallel rate?
 - Will MK free fall if floated?
 - Do we first need reserves?
 -



Thank you!



Ireland



References

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