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A Study on the Impact of High Inflation Rate on the Living Standards of People at Area 25 Lilongwe Residents, Malawi

Agness Thokozani Lingamawa[1], Mr Maurice Sambo[2]

[1]*Student, Masters of Commerce in Finance and Accounting, Dmi-St. Eugene University, Zambia*
[2]*Guide, Dmi-St. Eugene University, Zambia*

ABSTRACT

This study looks at how residents of Area 25, Lilongwe, Malawi, are affected by high inflation. With an emphasis on important topics like food security, housing affordability, healthcare access, and educational opportunities, it investigates how inflation affects purchasing power, cost of living, and economic stability. The study looks into how these effects are influenced by market forces, governmental laws, and unofficial economic activity.

The study employs a mixed-method approach, integrating secondary data analysis, interviews, and surveys. While surveys document the demographic diversity of Lilongwe's population, interviews shed light on coping strategies, resilience, and adaptation tactics. Long-term impacts on poverty and inequality are anticipated from findings that emphasize lifestyle modifications, financial strain, and dependence on coping mechanisms like debt, limited access to services, and informal labor.

The study also assesses how well government programs and social safety nets work to lessen the effects of inflation. By offering evidence-based suggestions to safeguard vulnerable groups, uphold living standards, and encourage sustainable economic growth in Lilongwe, it seeks to contribute to policy discussions.

INTRODUCTION

Living conditions are greatly impacted by inflation, which is a persistent increase in the prices of goods and services. This is especially true in developing nations like Malawi, where low incomes and unstable economies are prevalent. Blanchard (2000) and Friedman (1977) claim that inflation disproportionately affects vulnerable groups by decreasing purchasing power, interfering with savings, changing consumption patterns, and exacerbating inequality.

External shocks, exchange rate volatility, and agricultural dependence are the main causes of inflation in Malawi (Chirwa & Mvula, 2015). Inflation increased to an average of 29% per year by 2023, with food inflation rising by 39.3% by July. Urban dwellers, particularly in Lilongwe, are negatively impacted by these inflationary pressures, which increase the price of housing, food, healthcare, and education, exacerbating socioeconomic disparities and lowering quality of life (Dabla-Norris et al., 2012).

This research focuses on Lilongwe residents, analyzing how high inflation affects household spending, savings, and coping strategies while examining broader implications for poverty and inequality. It aims to provide insights to policymakers for developing strategies to mitigate inflation's adverse effects and promote sustainable development.

REVIEW OF LITERATURE

To assess changes in employment and income levels among residents

Munthali et al. (2019) examine how inflation affects employment and real income, revealing that inflation reduces real wages, eroding workers' purchasing power and lowering living standards. Rising prices increase business costs, leading to staff reductions or hiring freezes, which heighten unemployment. Lower-income workers are disproportionately affected, worsening economic inequality. The study advocates for inflation-adjusted wage policies to protect workers' purchasing power, maintain consumer demand, stabilize employment, and mitigate inflation's negative impact on household well-being.

Chokotho et al. (2018) explore the relationship between inflation and economic growth in Malawi, highlighting that moderate inflation can stimulate growth by boosting consumer spending and business activity. However, high inflation disrupts economic stability, reduces investor confidence, lowers investments, and hinders long-term growth. Supported by Bruno and Easterly (1998) and Fischer (1993), the study links high inflation with reduced economic performance and market uncertainty, making business planning difficult. The authors recommend tight monetary policies, such as controlling the money supply and interest rates, to stabilize inflation and create an environment conducive to sustainable growth and investment in Malawi.

To examine coping mechanisms and strategies adopted by residents

Study: Mwambene et al. (2020) examine how low-income households cope with the financial burden of inflation, highlighting strategies such as reducing food quantity/quality, postponing medical expenses, and relying on informal savings groups. While these tactics provide short-term relief, they often worsen long-term vulnerabilities, such as poor nutrition and health outcomes, particularly for children (Sahn & Stifel, 2003), and lead to higher future medical costs. Informal savings groups, though helpful, are often unreliable and pose financial risks (De Weerdt & Fafchamps, 2011).

To address these challenges, the study recommends community-based financial programs and targeted subsidies, such as food and healthcare assistance, to provide a stable safety net. This aligns with Fiszbein et al. (2009), who emphasize that social protection programs can enhance financial security and access to essential services, mitigating inflation's adverse effects on vulnerable households.

Study: Kambale et al. (2020) analyze how inflation affects household consumption, particularly among lower-income families. Rising prices force households to prioritize essentials, reducing spending on non-essentials. Lower-income families, who spend a larger share of their income on basic necessities, are disproportionately affected, with limited flexibility to adjust spending. This exacerbates income inequality (Deaton, 1997) and deepens poverty by eroding wages and savings (Kakwani & Subbarao, 2005).

To address these challenges, the study advocates for price controls on essential goods to protect vulnerable populations. This aligns with Wodon et al. (2008), who argue that such measures can help ensure access to vital goods and mitigate inflation’s adverse effects on low-income families.

M. A. Akhtar (2013) "The Effects of Inflation on Economic Development" Akhtar's research explores the long-term effects of inflation on various economic development indicators, including GDP growth, employment, and income inequality. The study uses cross-country data to show that while inflation can initially support economic development by boosting consumption, sustained high inflation erodes purchasing power, undermines the stability of national currencies, and exacerbates income inequality. Akhtar argues that the negative impacts of inflation on real wages and savings can significantly hinder long-term development prospects, particularly in low-income economies where inflation may lead to the decline of key sectors such as manufacturing and agriculture.

G. K. Munthali et al. (2019) "The Impact of Inflation on Poverty Reduction in Malawi". Munthali et al. explore how inflation affects poverty reduction programs in Malawi. The study argues that while Malawi has made progress in poverty alleviation, high inflation has undermined these efforts by eroding the purchasing power of households, especially those dependent on government subsidies and social programs. The paper suggests that inflation control should be prioritized in Malawi’s poverty reduction strategies to ensure that poverty alleviation gains are not undone by rising prices.

RESEARCH DESIGN

To give a thorough grasp of how inflation affects households, a mixed-method approach was used. This blends qualitative and quantitative approaches to capture a range of viewpoints and bolster the reliability of results.

Quantitative Data:

Structured questionnaires were employed to collect data on household income, expenditure patterns, savings, and coping strategies.

Qualitative Data:

Semi-structured interviews were explored households' experiences, challenges, and coping mechanisms in detail.

A mixed-method research design is used in this study to investigate how high inflation affects households' living standards in Area 25, Lilongwe. The study gathers quantitative trends and qualitative information about how inflation impacts savings, coping strategies, and consumption patterns by combining surveys, interviews, and secondary data. A thorough grasp of the effects of inflation is provided by statistical and thematic analyses, while stratified random sampling guarantees diverse representation. Notwithstanding possible drawbacks such as non-responses, the study employs techniques to address these issues and preserve moral principles. By highlighting regional issues and providing evidence-based suggestions to lessen the negative impacts of inflation, improve household resilience, and advance sustainable development, the findings seek to educate policymakers.

SAMPLING

The study's sampling strategy entails choosing participants from Area 25, Lilongwe's population in a methodical manner. To guarantee representation of diverse socioeconomic groups, including employed people, business owners, and unemployed residents, the study uses a stratified random sampling technique. The results were more thorough and trustworthy since stratification will help capture the various experiences and viewpoints of locals affected by inflation.

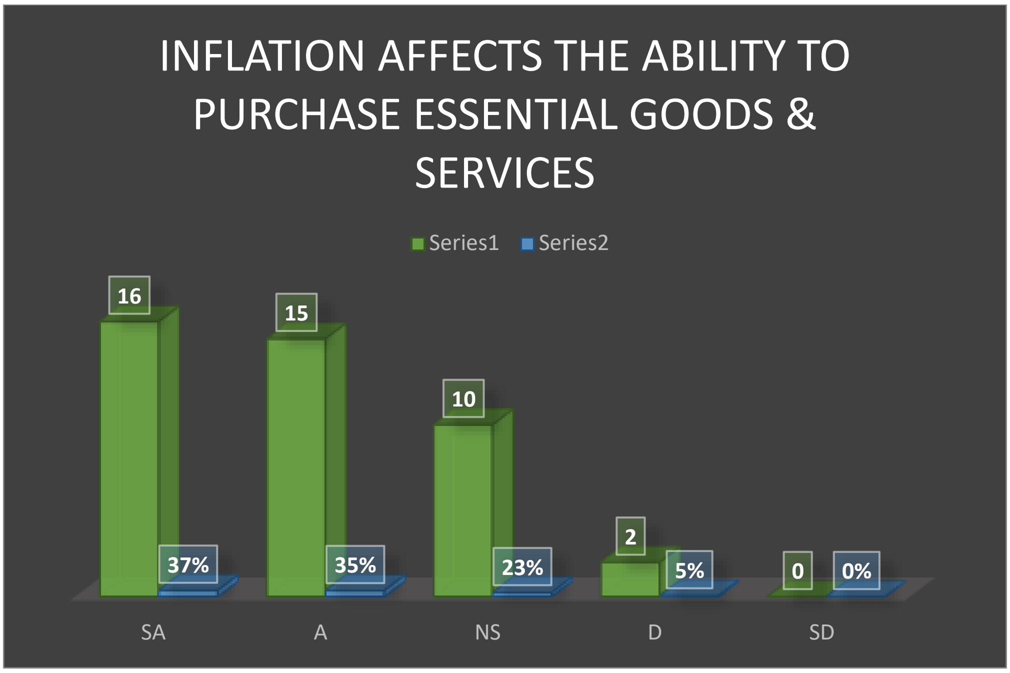
With a 95% confidence level and a 5% margin of error, the sample size is determined using Yamane's formula (Yamane, 1967) to include 45 respondents out of a total population of 100. From the 45 questionnaires which was distributed 43 were collected from the respondents. Based on the demographic makeup of each group, the sample was distributed proportionately among the designated strata to guarantee equity.

Participants were selected through a random sampling process within each stratum. This ensures equal chances of selection while minimizing bias. The chosen sample size balances the need for precision in results with practical constraints such as time and resources, making it feasible to conduct data collection and analysis effectively.

DATA ANALYSIS AND INTERPRETATION

Figure 6

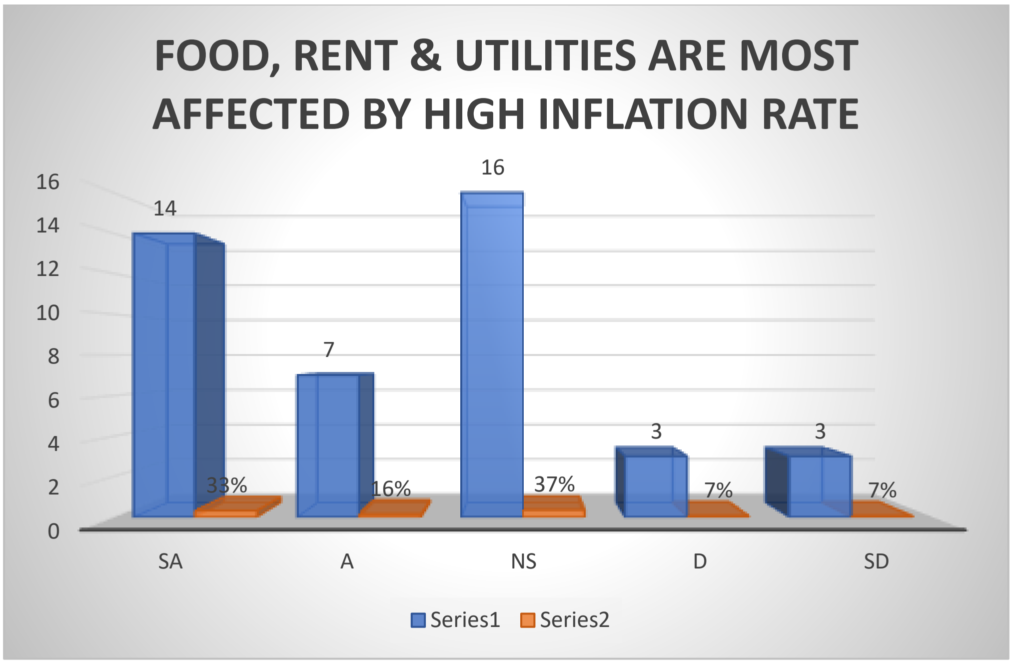
High inflation rate affects the ability to purchase essential goods and services.



The chart reveals that 72% of respondents believe inflation significantly impacts their ability to purchase necessities, with 37% strongly agreeing and 35% agreeing. Only 5% disagreed, while 23% were uncertain. These findings highlight the urgent need for government action to stabilize inflation, particularly for essential goods. Suggested measures include public awareness campaigns, financial aid for vulnerable households, affordable credit, and subsidies. Long-term policies should focus on job creation and wage growth aligned with inflation to enhance purchasing power and resilience.

Figure 7

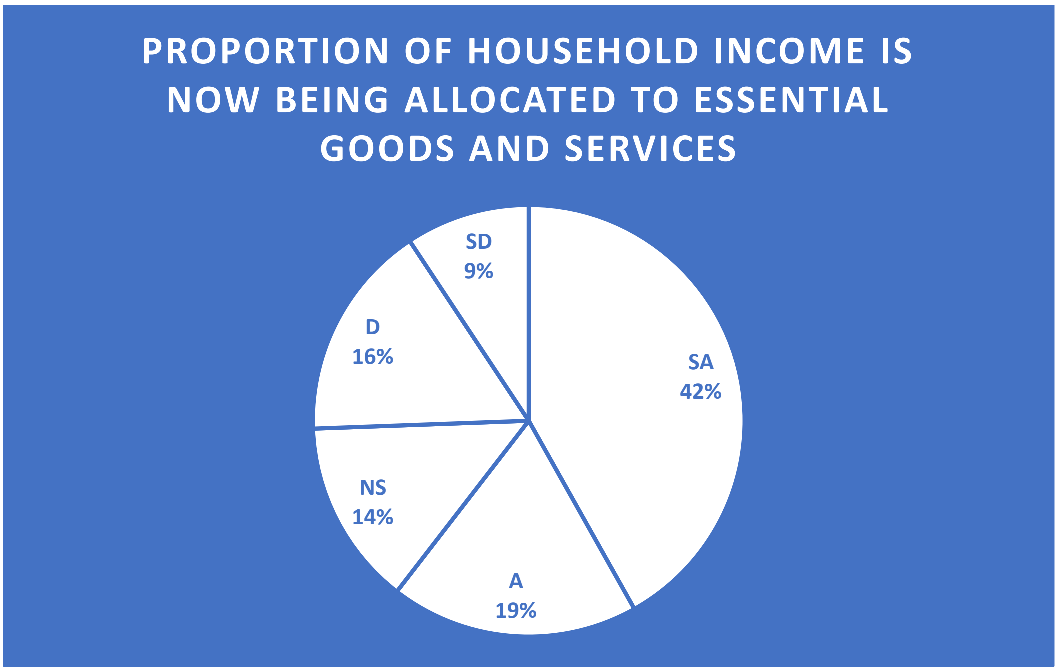
These categories of household expenses, food, rent & utilities are most affected by high inflation



The graph shows the response rate of the area 25 Lilongwe residents and their concerns that food, rent and utilities are most affected by high inflation rate. The majority (49%)of them agreed and strongly agreed with the statement

Proportion of household income is now being allocated to essential goods and services as a result of high inflation rate

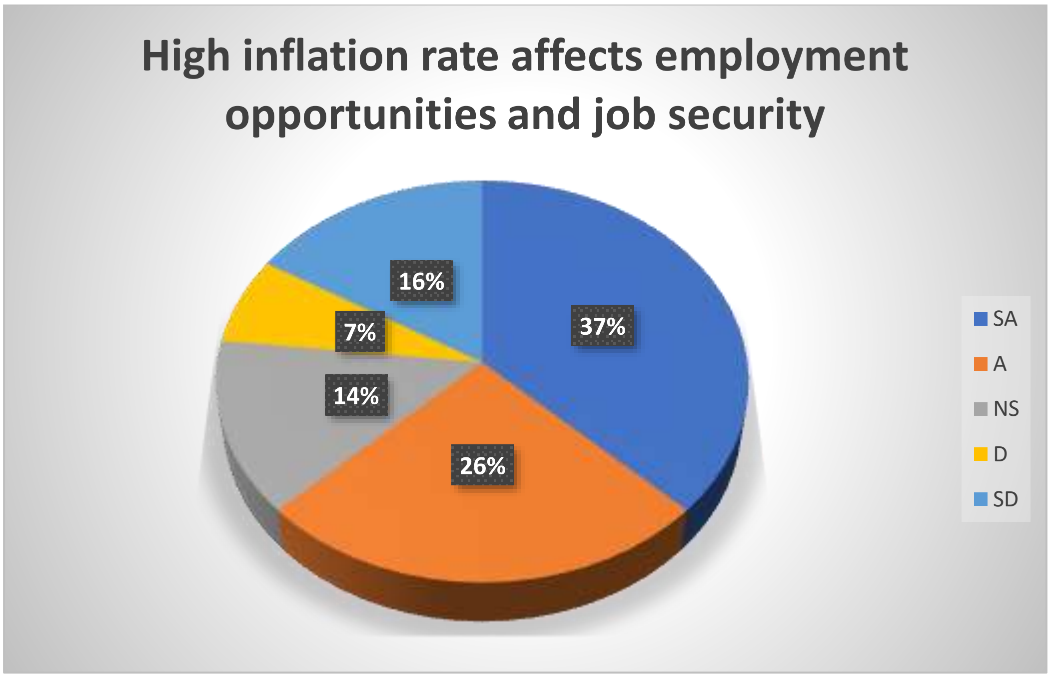
Figure 8



The pie chart, which depicts how high inflation has affected household spending in Area 25, Lilongwe, reveals that 19% of respondents agreed and 42% strongly agreed that a greater percentage of their household income is now spent on utilities, rent, and food. The direct and significant impact of rising prices on household financial priorities is highlighted by the fact that 61% of respondents overall confirmed that inflation has forced them to devote a sizable portion of their income to necessities.

High inflation rate affects employment opportunities and job security.

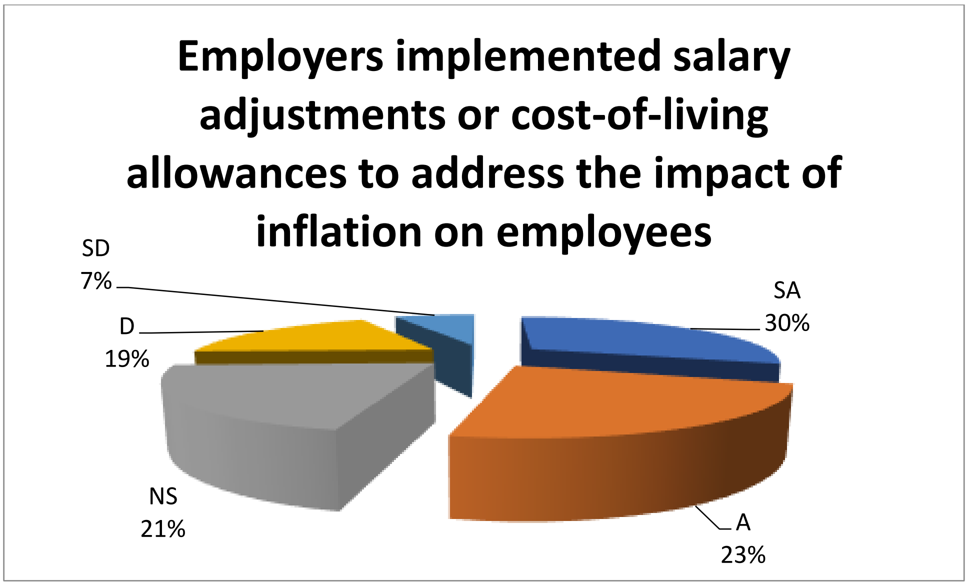
Figure 11



According to the data provide in the chart above, over 60% of the residents surveyed believe that high inflation has a negative impact on employment opportunities and job security (37% SA + 26% A). This aligns with the broader understanding that inflation can lead to decreased purchasing power, higher operating costs for businesses, and ultimately, the potential for layoffs or fewer hires.

Employers implemented salary adjustments or cost-of-living allowances to address the impact of inflation on employees

Figure 13



The pie chart reveals that 30% of respondents strongly agreed and 23% agreed that their employers implemented cost-of-living allowances or salary adjustments to address the impact of inflation. This combined 53% indicates that a majority of respondents believe their employers made efforts to mitigate the negative effects of inflation, particularly in formal or well-structured organizations.

MAJOR FINDINGS

The results of this study unequivocally show that high inflation has a substantial impact on Lilongwe residents' living standards, with households' diminished purchasing power being the most obvious consequence. With food, rent, and utilities being the most negatively impacted categories, the majority of respondents (72%) stated that inflation significantly impairs their capacity to buy necessities. To pay for these essentials, many households have had to reallocate a greater percentage of their income, which reflects a change in spending priorities brought on by the rising cost of living. Further aggravating the financial burden on families, more than 60% of respondents believed that inflation has a negative impact on employment opportunities, with business cost pressures resulting in layoffs or fewer job openings.

Positively, more than half of the respondents (53%) acknowledged that their employers, especially in formal organizations, had made an effort to mitigate the effects of inflation by offering cost-of-living allowances or salary adjustments. There is a discernible level of ambiguity, though, as 23% of respondents are unclear about how inflation has impacted their purchasing power. This could be because of varying personal circumstances or a lack of knowledge about inflationary trends. These results highlight how urgently the government must step in to control inflation and lessen its impact on households. To encourage financial stability and resilience in the community, policy recommendations include job creation programs, public awareness campaigns, subsidies for necessities, and making sure that wages are in line with inflation.

SUGGESTIONS AND RECOMMENDATIONS

Several ideas and recommendations are put forth in an effort to lessen the detrimental effects of high inflation on the living standards of people who live in Area 25, Lilongwe. Government action is crucial, especially when it comes to helping vulnerable groups like the elderly, young people, and those with low incomes. The immediate financial burden on households can be lessened by enhancing social protection programs, such as cash transfers and subsidies for necessities (Chirwa, 2015). Furthermore, to avoid disproportionate effects on the most vulnerable members of society, policies that stabilize inflation and promote economic growth are required (Mhone, 2022). Initiatives promoting financial literacy are also essential because they can increase residents' economic resilience by teaching them budgeting, saving, and investing techniques, which will help them better manage their money during inflationary times (Kanyongolo, 2017). Providing Small and Medium Businesses (SMEs) with resources and reasonably priced credit can help strengthen local economies, increase household income, and create jobs during uncertain economic times (Mthombeni, 2018). In order to directly lessen the impact of inflation on citizens, community-based solutions and public-private partnerships should be promoted in order to supply necessities, healthcare, and reasonably priced housing. Food assistance, healthcare subsidies, and income support are examples of targeted policy interventions for the most vulnerable groups that will guarantee that those most at risk receive the support they require, ultimately raising their standard of living (UNDP, 2021).

CONCLUSION

This study examined the impact of high inflation on the living standards of residents in Area 25, Lilongwe, and highlighted a number of significant findings. The study found that inflation dramatically lowers purchasing power, particularly for vulnerable populations like the elderly, young people, and low-income individuals. Residents' struggles with rising costs for necessities have resulted in a general decline in the standard of living. The results show that inflation worsens socioeconomic disparities that already exist and makes it harder for those at the bottom of the economic scale to meet their basic needs (Mhone, 2022).

According to the study, despite certain government initiatives, many residents think that the policies in place are not enough to address the issues brought on by inflation. The public's perceptions of the government's effectiveness and its planned initiatives differ greatly. This is in line with past research showing that in many developing countries, economic policies often fail to reach or benefit the most vulnerable populations (Mthombeni, 2018). Because there is insufficient targeted assistance, especially for low-income groups, there is a general lack of satisfaction with current government interventions (UNDP, 2021).

Future research on how high inflation affects living standards, especially in places like Lilongwe's Area 25, could focus on a number of important topics. Examining how inflation affects economic mobility over the long run, particularly for low-income households, would be a key area of focus in order to comprehend how opportunities for upward mobility are impacted by persistent inflation. Future studies could also examine how financial literacy aids citizens in coping with inflationary pressures, specifically by examining how well financial education initiatives enhance resilience and financial decision-making. Future research could also examine how inflation specifically affects workers in the unorganized sector, like street vendors and small business owners, who are frequently more susceptible to unstable economic conditions. This study may shed light on how to better assist these workers during difficult financial times by examining their coping strategies and obstacles.

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