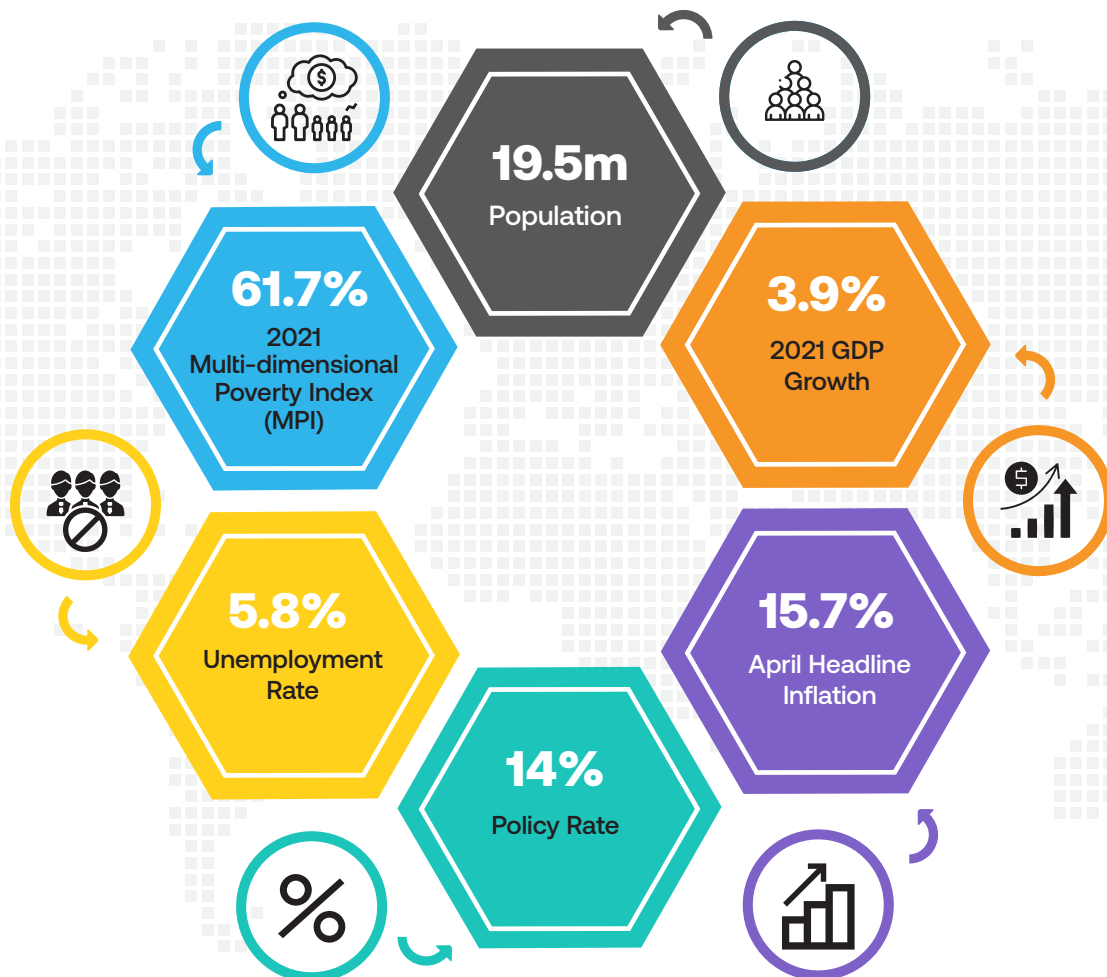


THE IMPACT OF THE RUSSIA-UKRAINE CONFLICT ON MALAWI'S ECONOMY

KEY ECONOMIC INDICATORS



SUMMARY

The Russia-Ukraine war has contributed to worsening macroeconomic conditions in Malawi. In its April World Economic Outlook, the International Monetary Fund has cut down Malawi's GDP projections for 2022 from 3.5% projected in January 2022 to 2.7 percent. The war has impacted Malawi's economy in several channels including: increased inflationary pressure; increased risk to debt distress; increased risk of food insecurity and increased commodity prices.

Channels of Impact:



1

Increase in inflation caused by increased in food and oil prices, also attributed to supply disruptions

The prices of fuel and most commodities have been on the increase since the beginning of the Russia-Ukraine war. The overall inflation for April 2022 peaked to 15.7%, the highest level since March 2017. In response to the skyrocketing prices of global energy prices, the Malawi Regulatory Authority increased the prices of petrol and diesel by 20% and 31.5%, respectively in April 2022. The Reserve Bank of Malawi also increased the policy rate by 200 basis points from 12% to 14% in May 2022 as it anticipates inflationary pressures to persist in the near term.



2

Increased debt stress and risk to fiscal consolidation plan by the government

The economic slowdown and current inflationary pressures are likely to impact government tax revenue thereby widening the fiscal deficit further. As of December 2021, the total public debt stock was reported at 57% of total rebased GDP. This represents a 2% point increase from June 2022. Malawi is among some of the countries in the region experiencing a risk to high debt distress.



3

Increase in prices of fertilizers and agriculture inputs

The war has caused increase in global prices of fertilizer. On 30 May 2022, Optichem Limited, one of the major suppliers of fertilizer in Malawi announced an increase in prices of fertilizer. The prices of a 50kg bag of Urea and CAN moved to K61,000 and K44,000 from K49,700 and K37,000 in April 2022 respectively. Increased fertilizer prices will impact overall crop production and exacerbate food security position of the country if small holder farmers are unable to access fertilizers. Therefore, the food insecurity situation will likely be aggravated on account that 80% of Malawians being reliant on subsistence agriculture and one rain-fed agricultural season to make ends meet.



4

Devaluation of the kwacha

Before the war, the country was experiencing liquidity challenges caused by structural imbalances between the country's limited capacity in generating foreign exchange against the high appetite for imports. The rising commodity prices caused by the war worsened the import bill resulting in low foreign exchange supply. In response, the Reserve Bank of Malawi devalued the Malawi kwacha by 25% effective May 27, 2022. Since the devaluation of the Kwacha, the prices of commodities have increased in market due to uncertainties and market speculation caused by the devaluation.

Policy Recommendations:

Undertake early replenishment of Malawi's Strategic Grain Reserve, which will be key to ensuring that Malawi has maize on-hand for the upcoming 2022/2023 lean season by replenishing when prices are low and people are primed to sell.

Improve local food productivity and value addition, especially on commodities that are typically imported but could be produced locally by expanding on improved market linkages between rural and urban areas beyond maize (vegetables, sweet potatoes, and cassava) to reduce dependency on imports.

Swiftly seek alternative or diversify import sources of wheat and other imported commodities impacted by the conflict to fill the gap created by restricted exports from the two countries involved in the geopolitical event.

Fast track the procurement and delivery of fertilizers and other agricultural inputs for the 2022/2023 agricultural season given the looming shortage on the global market.

In a context of increasing price pressures disproportionately affecting the ultra-poor segments of the population, enhance social support with a focus on the Malawi Social Cash Transfer Programme (e.g., indexing transfers to inflation).

Given the threat of unsustainable public debt, strategize to stay ahead of the curve to avoid economic collapse by enhanced resource mobilization, and prudent public resource management, recovery of stolen public funds, and development of a comprehensive integrated national financing framework that supports sustainable resource mobilization plan