



### Key Messages

- i. The spillover effects of the conflict have the potential to exacerbate already existing hunger, poverty, inequality, and youth unemployment, especially amongst the most vulnerable groups in Malawi including women and youth, people with disabilities, the elderly, and children.
- ii. The Russia-Ukraine conflict comes at a time when Malawi is already facing rising food prices and increase in the general price level on account of the effects of the COVID-19 pandemic coupled with a challenging development financing landscape and the recent Tropical Storm Ana and Cyclone Gombe.
- iii. The government of Malawi has projected the 2022 annual growth rate to increase to 4.1%. This projection is more optimistic compared to the recent projection of 2.7% made by the IMF. The spillover effects of the conflict have the potential to adversely impact the government's 2022 optimistic growth projection, which could prompt the need to adjust the growth projections for the year.

- The resultant slowdown in economic activities
- iv. because of the spillover effects of the conflict is likely to reduce the tax revenue of government and most likely Official Development Assistance to the country, which could further increase the fiscal deficit and the country's debt burden.

- The conflict has added to already rising fertilizer
- v. prices in Malawi, thus putting many at the risk of food insecurity and causing fuel pump, transport of goods and services, and food prices to increase. This has the potential to hurt the most vulnerable members of society including people with disabilities, the elderly, children, and women and youth.

### 1.0 Introduction

The ongoing Russia-Ukraine conflict has triggered uncertainty in the global economy and the Malawian economy has not been spared. The world was gradually emerging from the adverse impacts of the COVID-19 pandemic when it again got hit by this conflict. This has presented additional development challenges to the global community, with resulting impact on the Malawian economy. Its adverse impacts are being felt by economies around the world, especially developing countries and fragile states in the form of inflationary pressures from high oil and fuel prices, supply chain disruptions, and increased risk to food security. This geopolitical event has the potential to exacerbate hunger, poverty, inequality, and youth unemployment in Africa, leading to the continent drifting further away from recovery from the COVID-19 pandemic. If the conflict continues, so will the risk of pushing African citizens including Malawi's most vulnerable further into poverty.

This policy brief, therefore, reflects and analyzes the impact of the conflict on the Malawian economy and provides policy recommendations for consideration by the Government to mitigate the effects on the people of Malawi, especially the people most at risk including those being left behind in the development process.

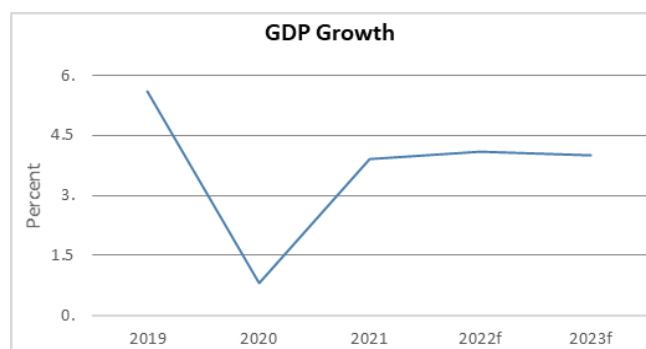
### 2.0 Potential Impact of Russia-Ukraine Conflict on the Economy

This geopolitical event comes at the time when Malawi is already facing several challenges occasioned, in part, by the knock-on effects of the COVID-19 pandemic. Food prices and the general price level have risen sharply in recent months and driven a rapid increase in the cost of living. The country has also been grappling with a difficult financing environment in the economy, which can be attributed to the COVID-19 pandemic and the adverse weather condition that has adversely affected crop harvest this year.

Tropical Storm Ana washed away more than 115,000 hectares of crops early this year. This is contributing to rising food prices and has increased the risk of food insecurity during the 2022/2023 lean season.

Further, while the government's estimates in its FY2022/2023 Financial statement<sup>ii</sup> predicts a strong rebound in economic growth to continue in 2022 and 2023, say 4.1% and 4.0%, respectively (see Figure 1), the damage to the agriculture sector caused by Tropical Storm Ana and Cyclone Gombe is expected to significantly weigh down these prospects. The Russia-Ukraine conflict now presents an added risk, and this has the potential to significantly worsen the country's growth prospects and bring forth adverse socioeconomic impacts on various groups in the society.

Figure 1: GDP growth projections



Source: Government of Malawi 2022/2023 Budget Statement

\*Data for 2022 and 2023 are forecasts

Therefore, the impacts of the Russia-Ukraine conflict on Malawi are expected to be manifested through several channels and influences, which are presented in the next section.

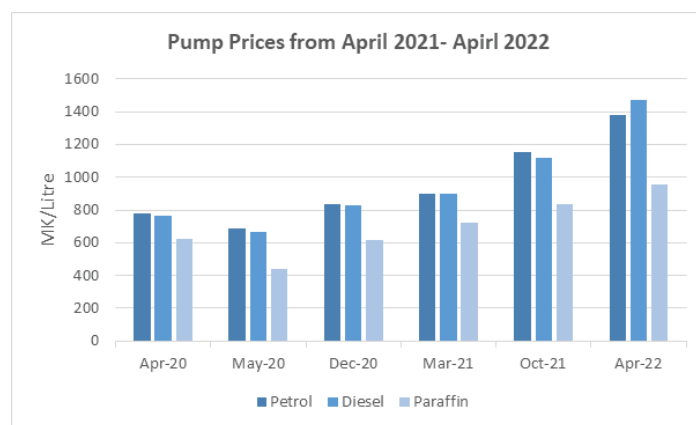
### 2.1 Supply Chain disruptions and impact on commodity prices

The geopolitical event has posed major disruptions on global supply chain and caused a rapid rise in commodity prices, with global impacts. To put this into perspective, Russia accounts for 12% of the world's oil and has a similar share of global oil export.<sup>iii</sup> Russia is also the second largest global producer of natural gas being 17% of the global total and it is the world's third largest wheat producer. Together with Ukraine, these two countries account for 27% of global wheat production and 53% of the world sunflower oil and seed exports.<sup>iv</sup>

Any significant disruption in the production and supply of oil, wheat, and sunflower oil, whether on account of sanctions imposed as a result of the conflict or conflict-hampered production, will certainly cause soaring global prices of these commodities. Consequently, since the conflict commenced, prices of these commodities on the world market have surged, thus causing havoc on the global community.<sup>v</sup>

The global supply chain disruptions caused by the conflict have already been transmitted to local markets in the country. Despite the two countries not being Malawi's major trading partners, the impact of the conflict is still being felt due to the interconnectedness of global markets and is pushing up commodity prices and worsening existing inflationary pressures.

Figure 2: Pump prices from April 2021- April 2022



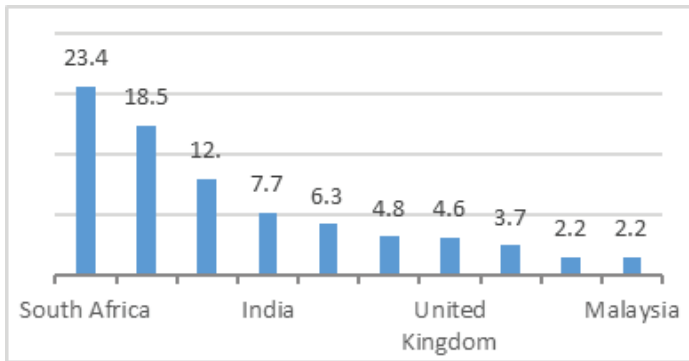
Source: Malawi Energy Regulatory Authority

Global energy prices are skyrocketing because of the prospects of reductions in global oil supply owing to sanctions on Russian oil and gas. The price of Brent crude peaked to a 14-year high reaching \$139/barrel in March 2022.<sup>vi</sup> Despite a considerable price fall since March, the price of oil is still expected to remain elevated in the coming months. The impact of rising global oil has trickled down to Malawi causing an increase in fuel pump prices. The Malawi Energy Regulatory Authority announced the increase in fuel pump prices on April 20, 2022 (see Figure 2). The prices of petrol and diesel were increased by 20% and 31.5%, respectively.<sup>vii</sup> This has triggered an increase in the prices of essential food and non-food items due to the increase in transportation costs.

The conflict has similarly caused price volatility in food commodities, which include wheat.<sup>viii</sup> Malawi is particularly vulnerable because Russia is one of the countries where some of the food imports originate.

In 2018, the country sourced about 17%, mostly of wheat, from the Russian federation.<sup>ix</sup> Prices of bread and other products that use wheat have gone up since the conflict began.<sup>x</sup> The price of bread has increased by over 50% from an average of MK600 to MK900 since January.<sup>xi</sup>

Figure 3: Percentage of imports from Malawi's top ten trading partners between July 2020 – December 2020



Data Source: National Statistics Office Trade Statistics

The above, notwithstanding, Malawians, rely on wheat for only 2.3% of their energy intake and purchase of wheat or wheat products constitute 2.8% of their total food purchased food.<sup>xii</sup> It is mostly the affluent who on average spend 6.2% of their food purchases on wheat products, while this is only 0.7% of the poor. That said, discontinuation of imports from Russia may create a shortage, which could continue to spike the prices until an alternative source is secured. In view of the situation, those who consume wheat products are most likely to replace wheat products with substitute foods such as potatoes, cassava, and other maize products. Consequently, as reported through the Minimum Expenditure Basket Monitoring in Malawi between 7th -11th March 2022 and 18th and 22nd March 2022, there has been a significant increase in the price for cassava by 6.5% in urban areas as people who used to consume wheat products have now shifted to casava.<sup>xiii</sup>

The conflict has also caused some countries to impose export restrictions on food commodities. which has affected over 17% total calories in the world.<sup>xiiii</sup> The introduction of export restrictions will affect net importing countries like Malawi, which highly depends on imports. As figure 3 shows, between July and December 2020, imports from South Africa accounted for 23.4% of total imports.<sup>xv</sup>

Therefore, the combined effects of the increase in fuel prices and transportation costs will increase the cost of imports from South Africa, thereby increasing the cost of imported commodities and subsequently increase in the general price level.

## 2.2 Potential impacts on agriculture sector and food security

The conflict has added further inflationary pressures on already rising fertilizer prices putting many at the risk of food insecurity. Russia and Belarus account for 38% of potassic fertilizer, 17% of compound fertilizer, and 15% of nitrogenous fertilizer.<sup>xvi</sup> Before the conflict, fertilizer prices in Malawi were already on the rise.<sup>xvii</sup> The conflict led to a 21% increase in the prices of fertilizer.<sup>xviii</sup> Fertilizer prices in Malawi were near an all-time high, 130-160% higher than in August 2020,<sup>xix</sup> driven primarily by rises in global prices.

Further, Malawi was already experiencing the risk of food insecurity caused by the impact of the Tropical storm Ana, which hit the country in January 2022 and caused destruction of crops and other properties, especially in the southern parts of the country. As a result of the storm, the upcoming harvest in the southern region is expected to be 35% below average.<sup>xx</sup>

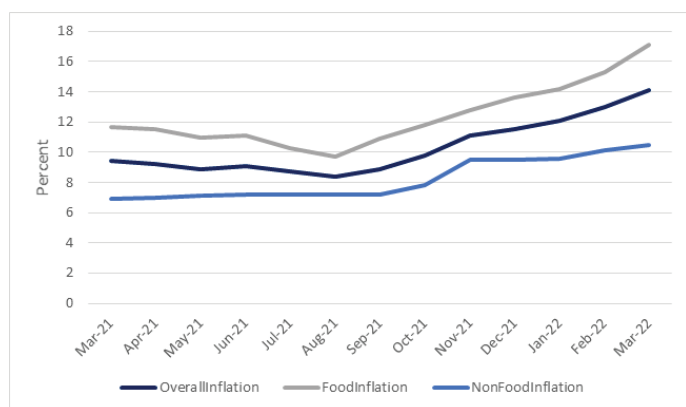
The food insecurity situation will likely be aggravated on account that 80% of Malawians are reliant on subsistence agriculture and one rain-fed agricultural season to make ends meet. If smallholder farmers are unable to access fertilizers, the country can expect a decline in overall production, which will decrease their overall expenditure, but equally exacerbate the food security position of the country.

## 2.3 Impact on the population especially the most vulnerable groups

Oil is a universal intermediary good that influences the cost of commodities and services as well as transport cost in multiple ways. The rising fuel prices in Malawi, as a direct consequence of this geopolitical event, is causing ripple effects on other sectors of the economy. These inflationary pressures (see Figure 4) were already eating into consumer's disposable incomes and negatively impacting on people's livelihoods and purchasing power.<sup>1</sup>

<sup>1</sup> Inflation figures reported up to March 2022 which are the latest inflation figures reported by the NSO. Given the recent increase in fuel prices in April 2022, the knock-on effects on commodity prices due to the fuel and the Russia/Ukraine conflict will likely to be captured from April onwards.

**Figure 4: Inflationary trends from January to March 2022**



Source: National Statistical Office, March 2022

Most serious is that the soaring prices of fuel and basic commodities will have the most immediate effect on the most vulnerable including women, unemployed youth, children, the elderly, and people with disabilities, resulting in hunger and hardships for households that spend the highest share of their incomes on food. These vulnerable people are those who constitute 23.6 % of the population in rural areas and are those in ultra-poverty who make up 23.6% compared to 3.3% in urban areas<sup>xx</sup> and 56.8% of people in female-headed households. Female-headed households also make up the highest proportion of individuals who are multidimensionally poor at 15.6%.<sup>xxi</sup> The geopolitical event will likely compound the effects and impact of the major shocks the country experienced by Cyclone Idai in 2018, and most recent times the Tropical Storm Ana and Cyclone Gombe.

#### 2.4 Fiscal space and public debt management

Financing effective public service delivery in inflationary era, slowdown in economic activities, and likelihood of reduction in Development Assistance being one of the major impacts of the war apart from price hike of oil and gas is likely going to be very challenging for the Government. Mainly, this is due to among others lack of fiscal space as evidenced by the fiscal deficits that have persisted over the years and currently stand at 8.0% of GDP<sup>xxii</sup> and the high overall risk of public debt distress with Debt/GDP ratio for Malawi at 78.2 % in 2021.<sup>xxiii</sup>

According to Ministry of Finance and Economic Affairs, annual revenue has declined by 2.3 percentage points from FY2019/2020 to FY 2021/2022.<sup>xxiv</sup>

Although marginal decline in revenues, the situation will be worsened by the geopolitical event posing a risk to budget implementation and could lead to a higher deficit due to increased domestic borrowing to meet public service delivery arising among other things to increase in fuel prices. The current inflationary dynamics exacerbated by the conflict and its repercussion on the price of energy and agriculture products are likely to adversely impact the country, which is already in near debt stress over the edge, making it unable to timely meet debt obligations.<sup>xxv</sup> Further, the depreciation of the MWK against USD and other currencies on Public Debt management may likely worsen the situation.

The resultant slowdown in economic activities because of the conflict will likely reduce government tax revenue leading to increased fiscal deficit as the Government resorts to domestic borrowing, thereby increasing the likelihood of a debt distress, making the country more likely to face serious challenges in meeting its debt obligations.

#### 2.4 Impact on social and basic services

Given that the Government will need more money to service its debts, this will have a knock-on effect on other needs, including further limiting national resources going to social sectors and increasing the cost for social and basic service delivery due to fuel increase costs. The conflict could widen inequality because high food and fuel prices typically hit the most vulnerable households the hardest.<sup>xxvi</sup> Further, for the most vulnerable, accessing social and basic services will be most challenging unless, policy measures such as the social safety nets are put in place and timely action taken to target those affected the most by shocks arising from the conflict.<sup>xxvii</sup> During the COVID-19 pandemic lockdown, the urban poor suffered disproportionately. That same group will likely feel the impact of rising maize prices as a consequence of potential fertilizer price increases given that they are totally dependent on food purchases, which make up a large portion of their purchases. By extension, they will have challenges to pay even for social and basic services. The social cash transfer programme may need to be complemented by other innovative programmes, which came forth during the COVID-19 pandemic for them to make ends meet and cope with the consequence of the geopolitical event reasonably.



### 3.0 Short- Medium-, to Long-Term Policy Recommendations

While Malawi is being impacted by these developments, the country can also turn them into opportunities in the short-medium, and long-term to further accelerate the achievement of socio-economic transformation articulated in Malawi 2063 and the First 10-Year Implementation Plan, as well as the Malawi COVID-19 Socio-Economic Recovery Plan. Some of the efforts Malawi can consider enhancing in line with the country's priorities, include:

#	Policy Recommendations	Implementation Period
1	From a policy perspective, early replenishment of Malawi's Strategic Grain Reserve (SGR) will be key to ensuring that Malawi has maize on-hand for the upcoming 2022/2023 lean season. The Government needs to replenish when prices are low and people are primed to sell.	Short-term
2	Improving agricultural productivity and investing in increased productivity of commodities, which 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 of imports.	Short-term
3	Increasing investment in economic diversification and the export capacity of the country and building competitiveness of the private sector to generate wealth and jobs from within Malawi, tapping into opportunities offered by the African Continental Free Trade Area.	Medium- to long-term
4	The Malawi 7 <sup>th</sup> National Human Development Report, " <b>Delivering Sustainable Human Development and Accountability at the Local Level – The Experience of Decentralization in Malawi</b> ", advances a district-focused approach to sustainable human development through policy measures that strengthen local governance structures in development and accelerate development at all levels of the society.	Medium- to long-term
5	Fast track the local economic development as articulated in the report necessitates the Government to expedite the approval (and operationalization) of the Decentralization policy and deepen fiscal decentralization.	Medium- to long-term
6	Investing in digital transformation, green growth, and innovation to help the country and its people, especially youths and women, take advantage of economic opportunities in Africa and globally; improve service delivery, transparency, and accountability; and create fiscal space for inclusive and sustainable development.	Medium- to long-term
7	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.	Short- to medium-term
8	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.	Short-term

9	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).	Short-term
10	Invest in a combination of health facility based and door to door provision of user-friendly health care information and services to women and girls including contraception for both married couples and young people.	Short to long term
11	Strengthen multistakeholder community-based protection committees with clear referral mechanisms to address gender-based violence.	Short-term

## 4.0 Endnotes

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<sup>iv</sup> “Ukraine war’s impact on trade and development”. Available at: <https://unctad.org/news/ukraine-wars-impact-trade-and-development>

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<sup>vi</sup> “Ukraine conflict: Petrol at fresh record as oil and gas prices soar”. Available at: <https://www.bbc.com/news/business-60642786#:~:text=Petrol%20prices%20have%20hit%20another,day%20delivery%20more%20than%20doubled>

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<sup>x</sup> “How Russia’s invasion of Ukraine will affect the food security situation in Malawi: Implications of Malawi policy response”. Available at: [https://www.mwapata.mw/files/ugd/dd6c2f\\_a93e1dba50ef4e7280ee0998d77af9b0.pdf?index=true](https://www.mwapata.mw/files/ugd/dd6c2f_a93e1dba50ef4e7280ee0998d77af9b0.pdf?index=true)

<sup>xi</sup> “Impacts of the war in Ukraine on Malawi”. Available at: <https://www.ifpri.org/publication/impacts-war-ukraine-malawi>

<sup>xii</sup> “Minimum Expenditure Basket in Malawi, A look at Food and Non-Food Prices and Availability in Times of COVID-19 Round 51 : 18 –22 March 2022, World Food Programme.” Available at: <https://reliefweb.int/report/malawi/minimum-expenditure-basket-malawi-round-51-18-22-march-2022-look-food-prices-and>

<sup>xiii</sup> “From bad to worse: How Russia-Ukraine war-related export restrictions exacerbate global food insecurity”. Available at: <https://www.ifpri.org/blog/bad-worse-how-export-restrictions-exacerbate-global-food-security>

<sup>xiv</sup> “Trade Statistics Brief” Available: [http://www.nsomalawi.mw/images/Brief\\_Release\\_July\\_Dec\\_2020.pdf](http://www.nsomalawi.mw/images/Brief_Release_July_Dec_2020.pdf)

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