

# **Impact of Russian Invasion of Ukraine on Malawi**

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Ministry of Finance and Economic Affairs

# Presentation Outline

- Introduction
- Importance of Russia and Ukraine in Global Economy
- Macroeconomic Indicators for Malawi
- Effect of the War on Global Economy
- Potential Effects on Malawi
- Opportunities Emanating from the War
- Conclusion

# **Introduction**

- Russia invaded Ukraine on 24<sup>th</sup> February 2022;
- Ukraine's joining of NATO was viewed a security threat to Russia;
- In the meantime the US and its allies had been training the Ukrainian army in order to build military power of Ukraine;
- This did not please Russia and warned Ukraine that joining of NATO was a bright red line for Russia;

- Invasion of Ukraine by Russia has attracted sanctions from the US and its allies;
- Russia continues to invade major cities but the Ukrainian army is also fighting hard to defend their country;
- The US and its allies are supporting Ukraine;
- The war is now protracted and it is likely to continue in the coming months and years

# **Russia and Ukraine Vs Global Economy**

- The two economies make a very small contribution to the global GDP;
- However, they play a very important role in the Global Value Chains for specific products;
- Thus, while Russia and Ukraine combined - accounts for less than 2.5 percent of global GDP, they play important role in trade for specific products:

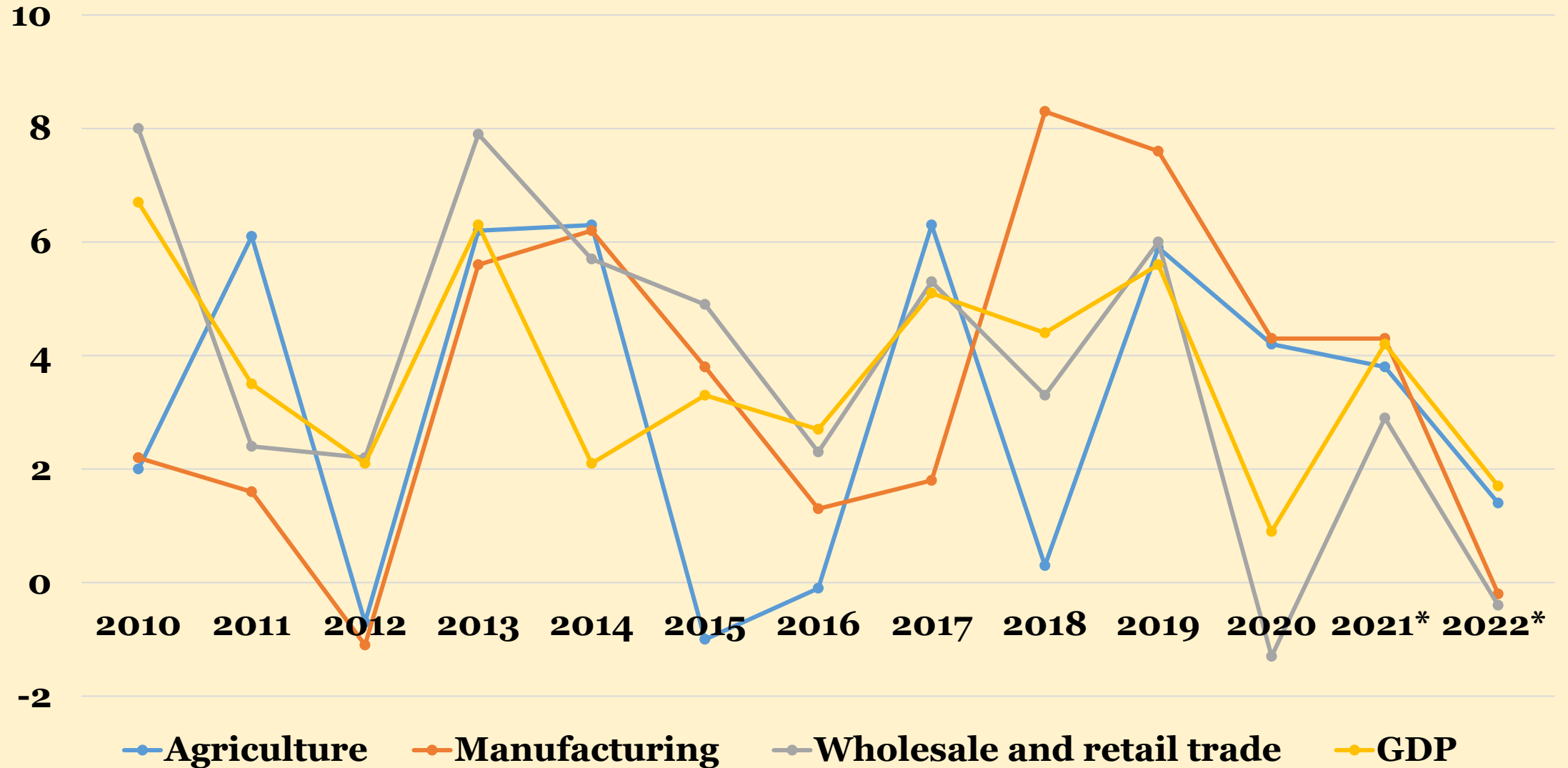
- Russia and Ukraine account for over 30 percent of global wheat export and 70 percent of sunflower oil export.
- Russia is also an important exporter of fertilisers (14 percent of global exports).
- Russia accounts for over 20 percent of global gas exports,
- 11 percent of global oil exports come from Russia (it is a third largest producer of petroleum after USA and Saudi Arabia).
- Over 20 percent of maize global supply come from the two economies,
- These two economies are major producers of metals including aluminium, copper, palladium, and zinc (prices of these metals has also increased).



# **Selected Malawi's Macroeconomic Indicators**

# **Real Sector**

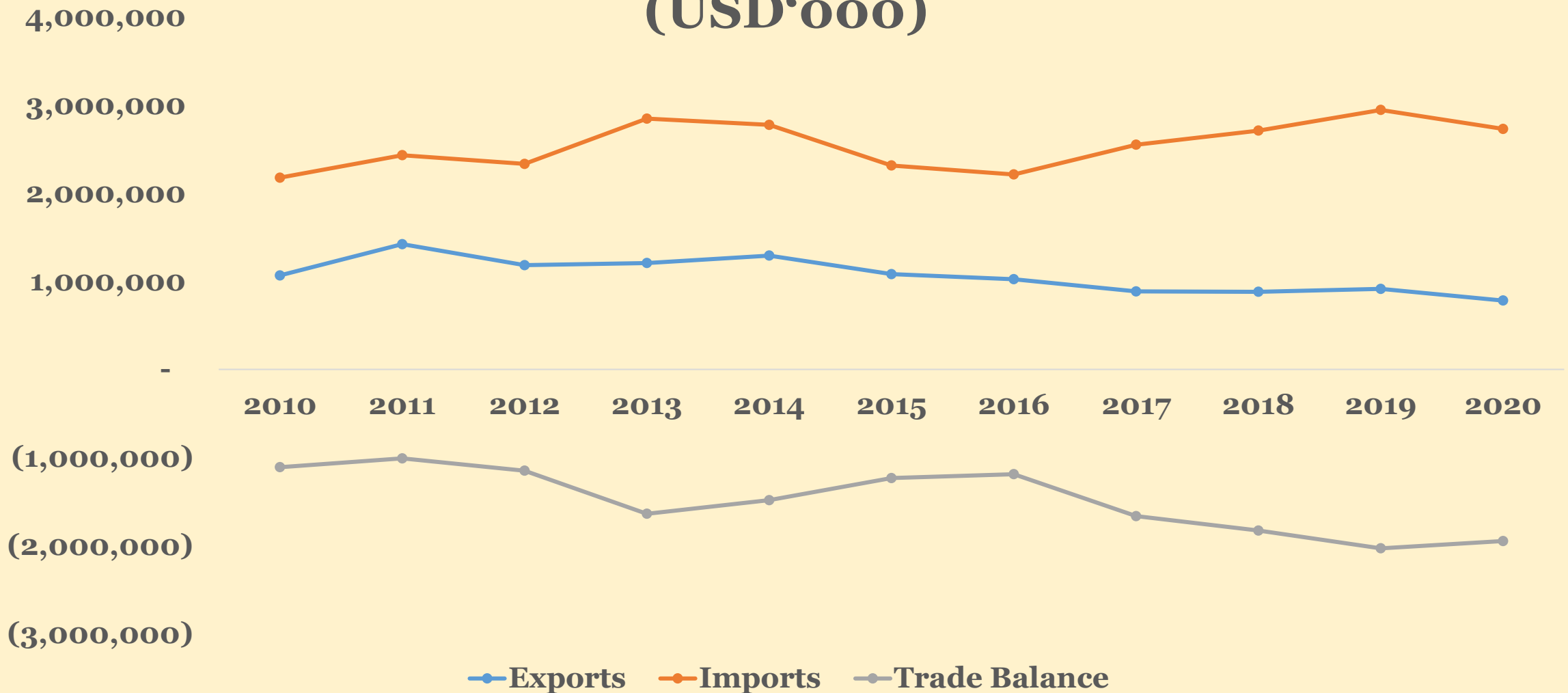
# GDP Growth (%) - 2010 to 2022



Source: Annual Economic Reports (2010-2021)

# **External Sector**

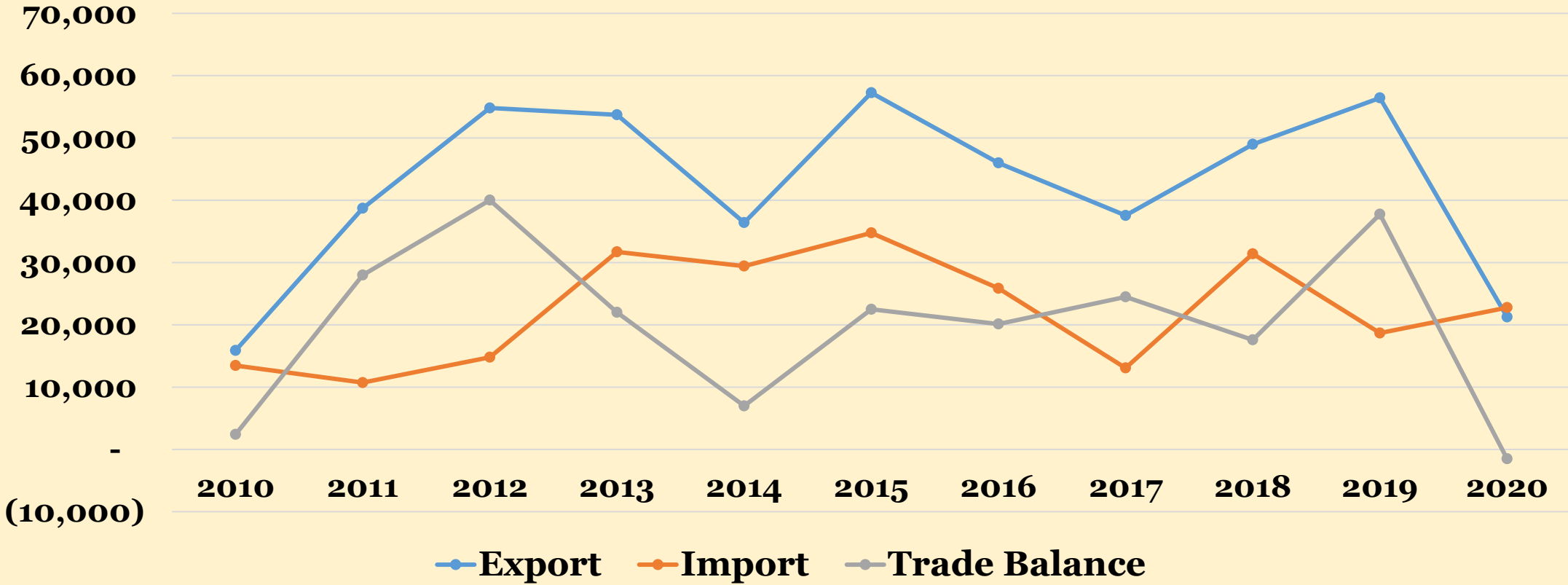
# Malawi's Total Trade, Imports and Exports (USD'000)



Source: UN Comtrade

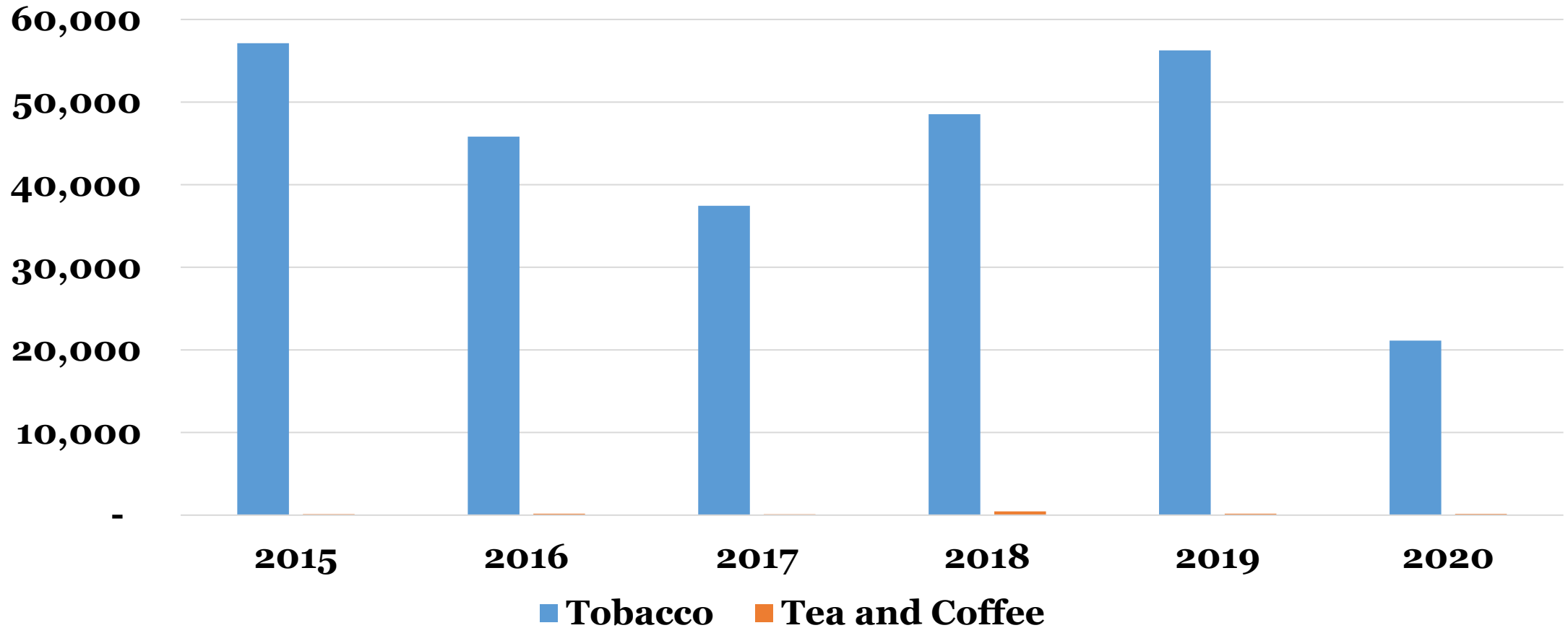
# Trade With Russia and Ukraine

Trade (US\$'000)



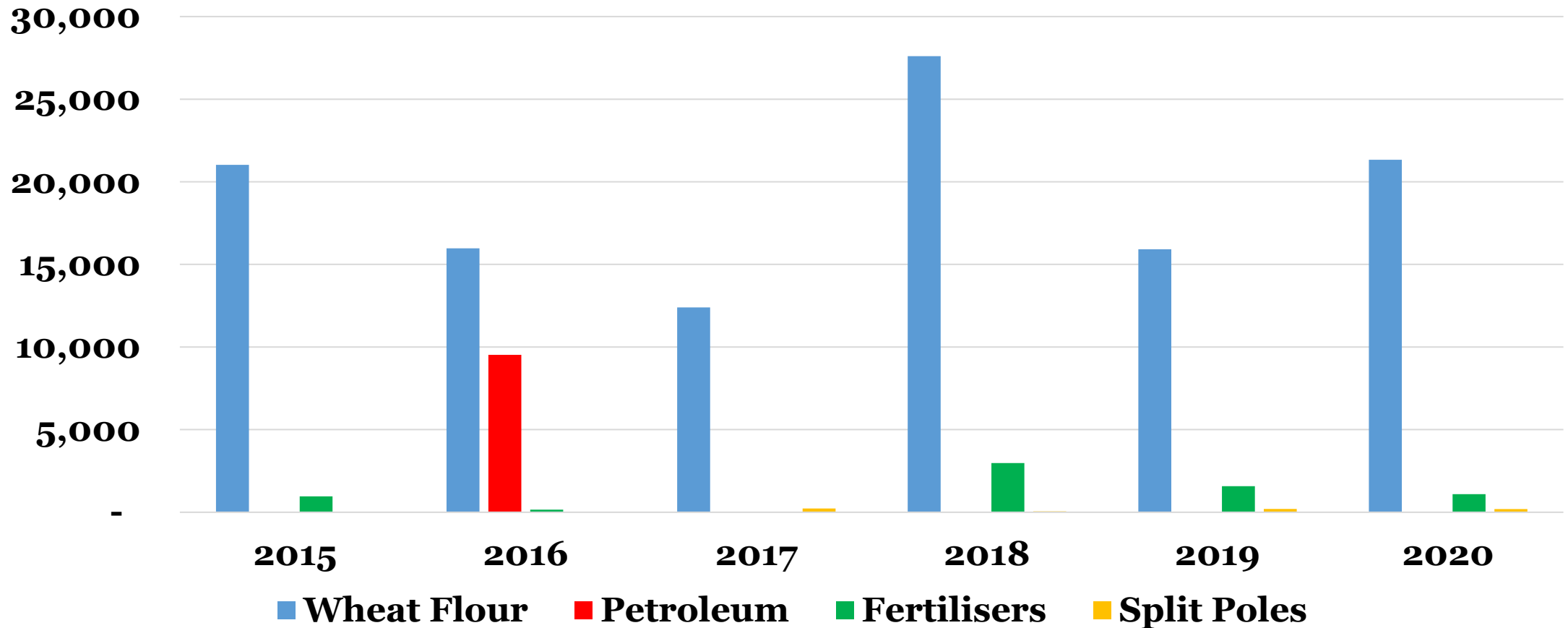
Source: UN Comtrade

# Major Exports to Russia and Ukraine – 2015 to 2020 (US\$'000)



Source: UN Comtrade

# Major Imports from Russia and Ukraine – 2015 to 2020 (US\$'000)

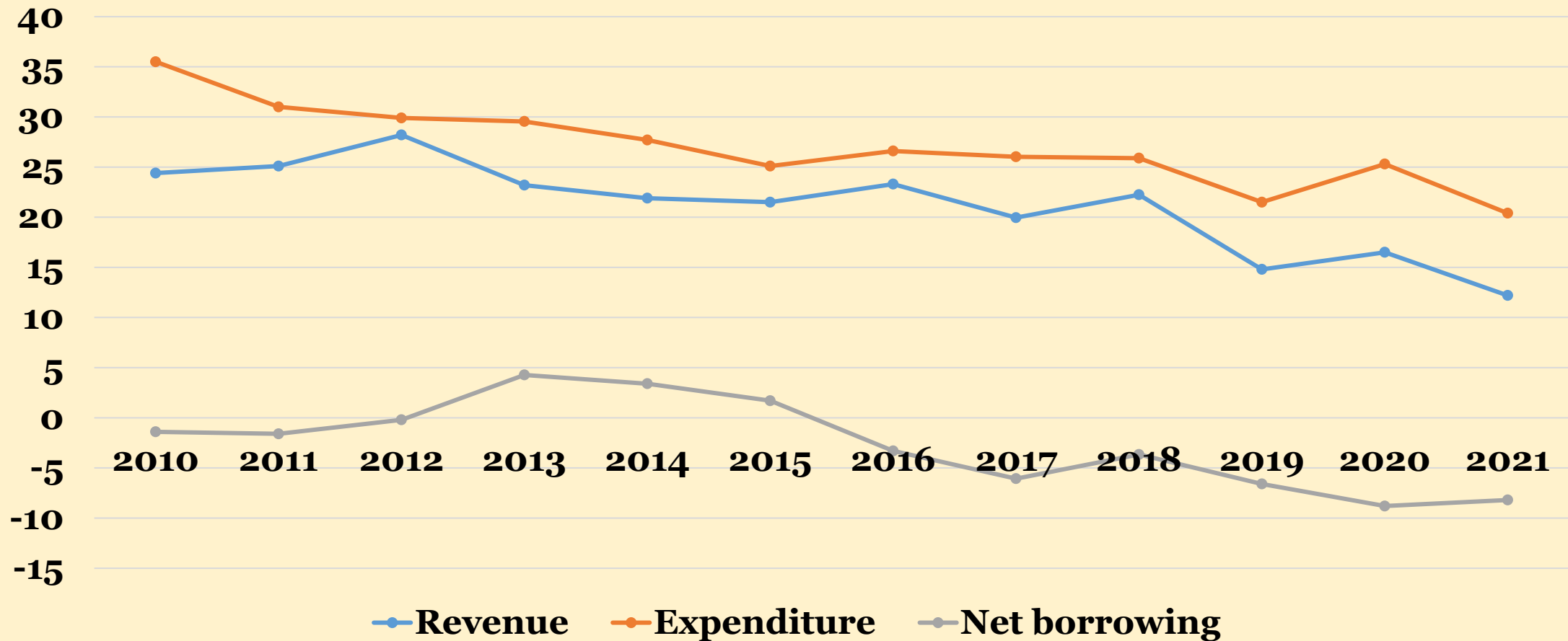


Source: UN Comtrade



# **Fiscal Sector**

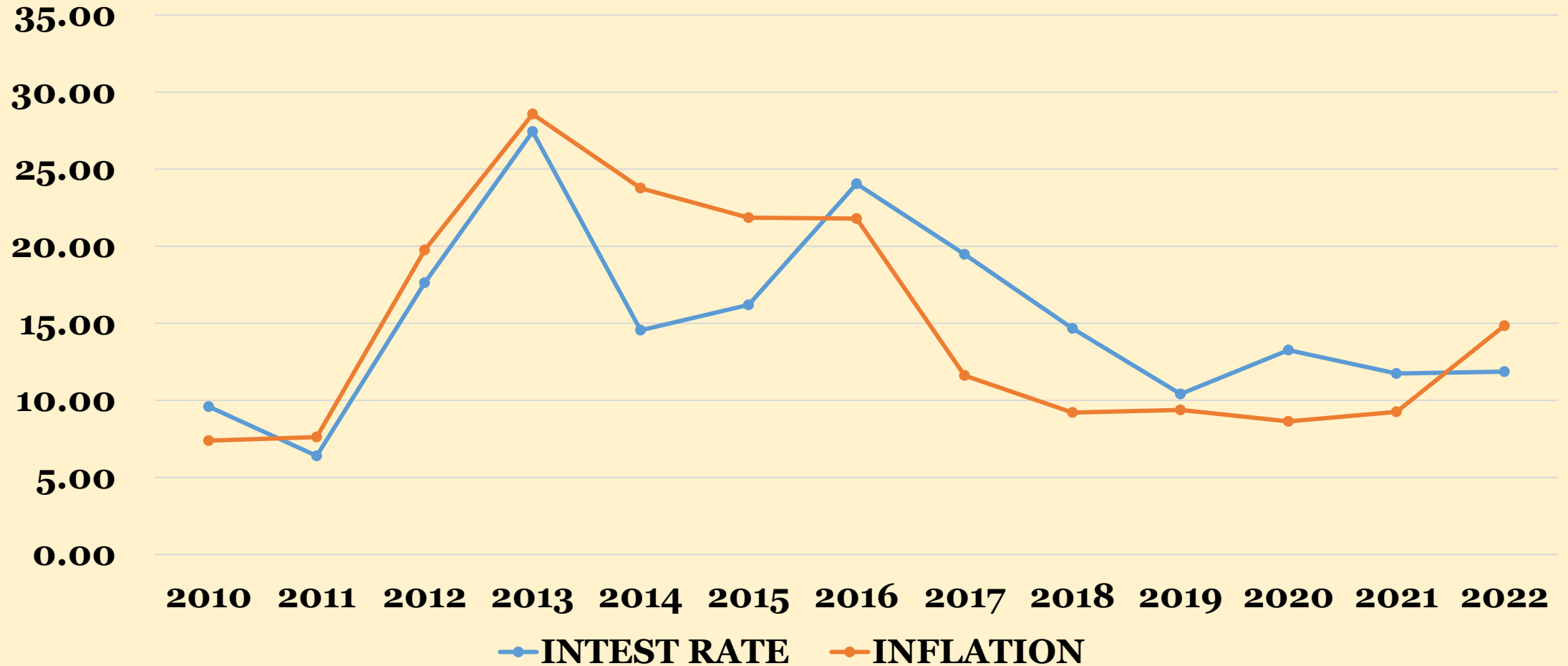
## Percentage of GDP (2010-2021)



Source: Annual Economic Reports (2010-2021)

# **Monetary Sector**

# Interest Rate and Inflation

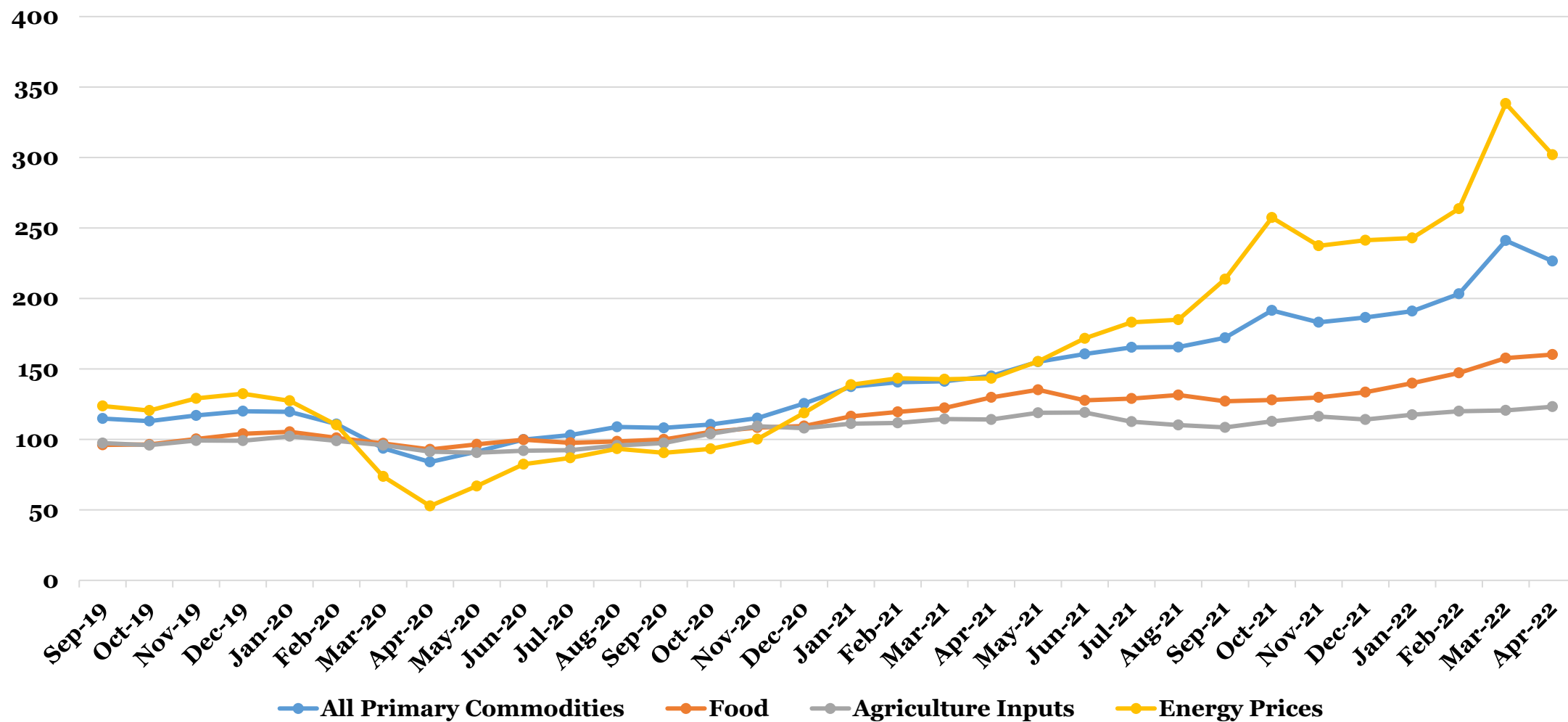


Source: RBM

# **How the War is Affecting Economies**

# Indices of Primary Commodities (2019-2022)

*2016=100 in terms of U.S. dollars*



Source: IMF, <https://www.imf.org/en/Research/commodity-prices>

- Global energy, food, agricultural inputs, as well as chemicals prices have significantly increased since the invasion:
  - Brent oil prices have increased by over 60 percent since last year – the highest since 2014;
  - Natural gas prices have increased 8 times from last year's levels;
  - Fertilizer prices have more than doubled;
  - Wheat prices have increased by more than 40 percent;
  - Sunflower oil prices is now more than 30 percent higher than the previous year;
- Cost of borrowing is increasing – worsening debt levels – debt crisis is looming;

# For Russia and Ukraine

- Businesses are reducing production or exiting Russian economy:
  - automobile (Ford, GM, Volkswagen),
  - aviation (Boeing and Airbus),
  - energy (BP and Exxon),
  - entertainment (Disney, WarnerMedia),
  - shipping (Maersk and MSC), and
  - technology (Apple).
- Russia has closed the ports in the Black Sea.



- *Sanctions are affecting both Russia and those imposing the sanctions.*
- *The war is further exacerbating already-strained global supply chains and diminishing or cutting off shipments from Russia and Ukraine.*

# **Channels of Effect of the War on Malawi**

- Higher food, energy and fuel prices will increase inflation in Malawi, which in turn, will erode disposable income and dampen consumer demand.
- Disruptions to trade and the effects of sanctions will weigh on Malawi's exports and imports.
- Re-direction of international development support as the west focuses on the war.
  - As of 13<sup>th</sup> July 2022, the House of Commons reported that the G7 members pledged to collectively mobilise US\$29.5 billion in budget support to Ukraine and US\$2.8 billion in humanitarian aid.
  - The World Bank has mobilised US\$4 billion for Ukrainian public sector salaries and pensions while the IMF approved US\$1.4 billion in emergency financing.
  - These are resources that could, otherwise, have gone to support the development of poor countries like Malawi.
- An increase in investor uncertainty will weigh on asset prices and depreciation of the Kwacha, which in turn could potentially spur capital outflows from Malawi.

# **Potential Effect of the War on Malawi**

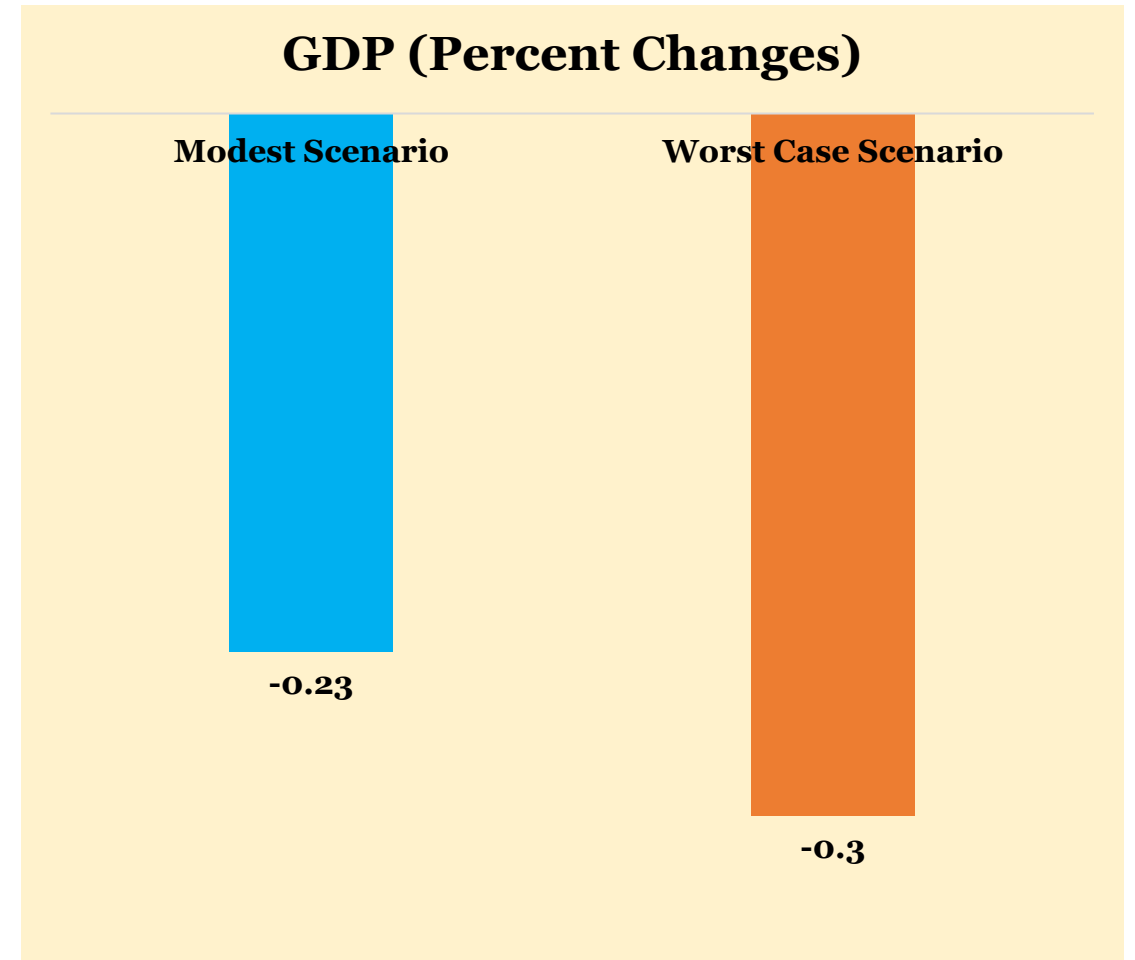
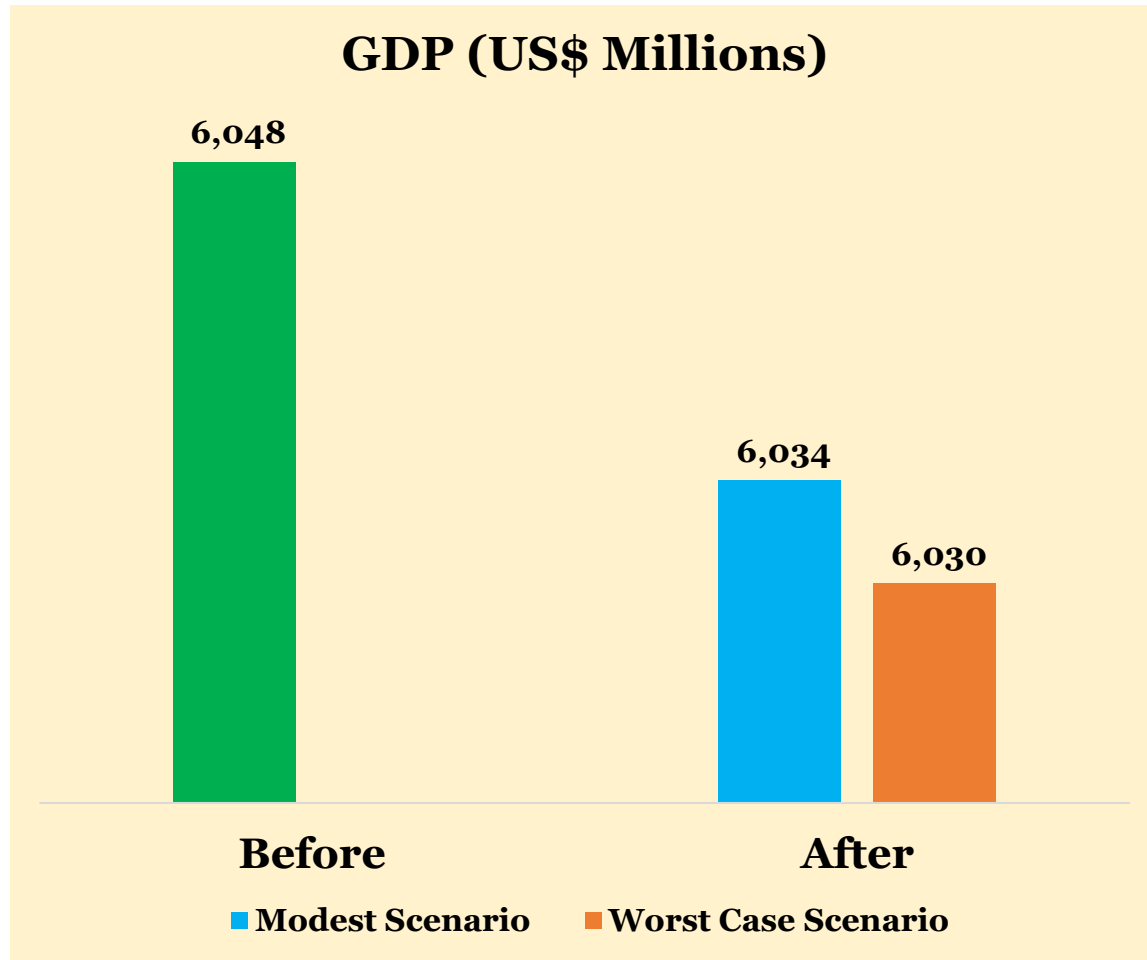
- To assess potential effects of the war on Malawi, the study employed the Global Trade Analysis Project (GTAP) model (Hertel, 1997).
- This model was chosen on account of its ability to capture economy-wide effects of policy changes (Qi & Zhang, 2018).
- GTAP 10 database, and MRA 2014 tariff data was used for analysis.
- For **convenience**, the database was aggregated into six sectors namely (i) agriculture, (ii) mining (extraction), (iii) processed foods, (iv) light manufacturing, (v) heavy manufacturing, and (vi) services.

- The study employed counter-factual approach to CGE modelling;
- The study assessed short-run effects of the war as the model used is a GTAP Static model
- Simulation scenarios employed assume productivity loss for Russia and Ukraine and the global economy.
- Two scenarios are, therefore, modelled (moderate effect and worst-case scenario)

## Findings of the Study

- In general, the study show that the Russia-Ukraine conflict is negatively affecting the economy but presents opportunities in a number of sectors.

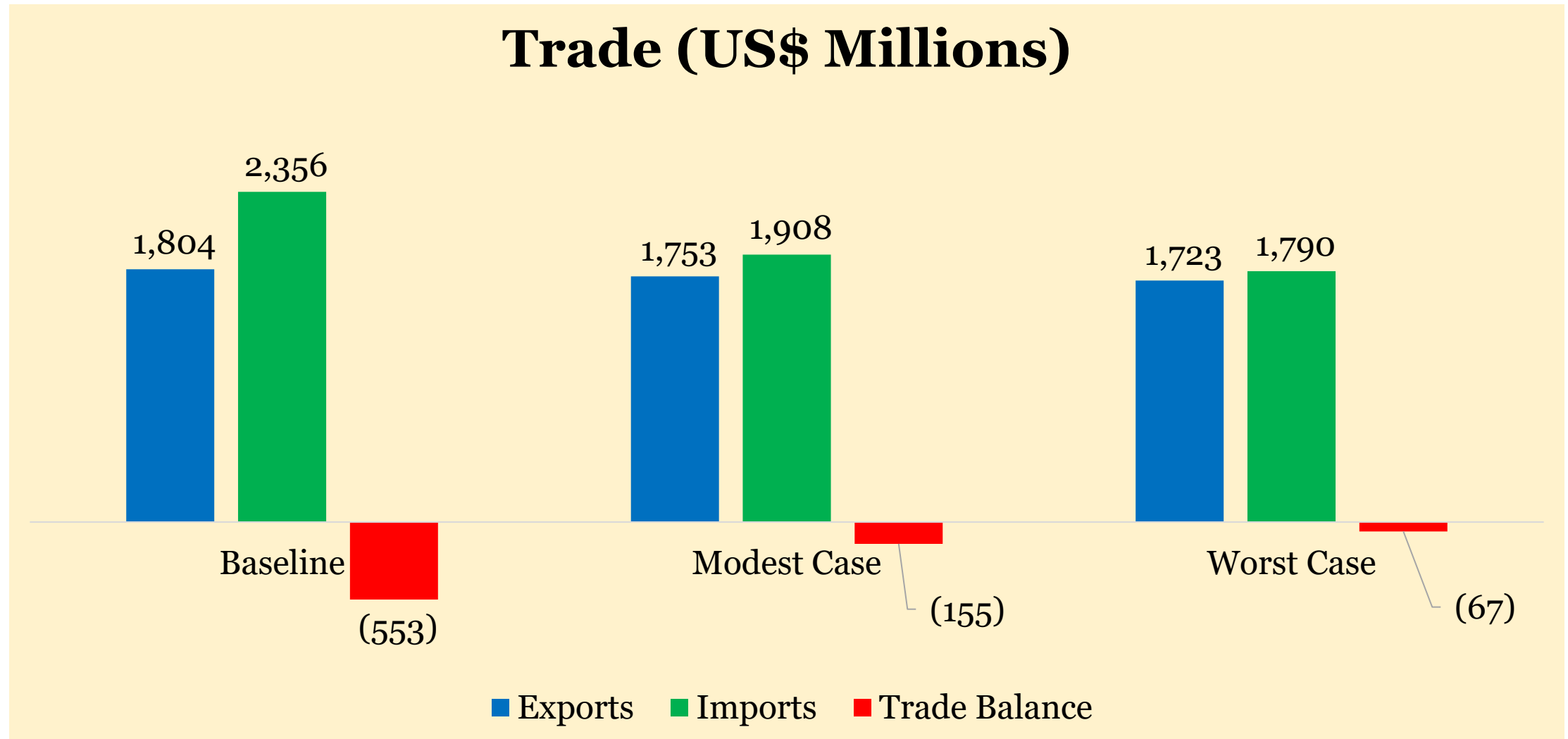
# Change in Real GDP



**Source:** Author's Computation from simulations

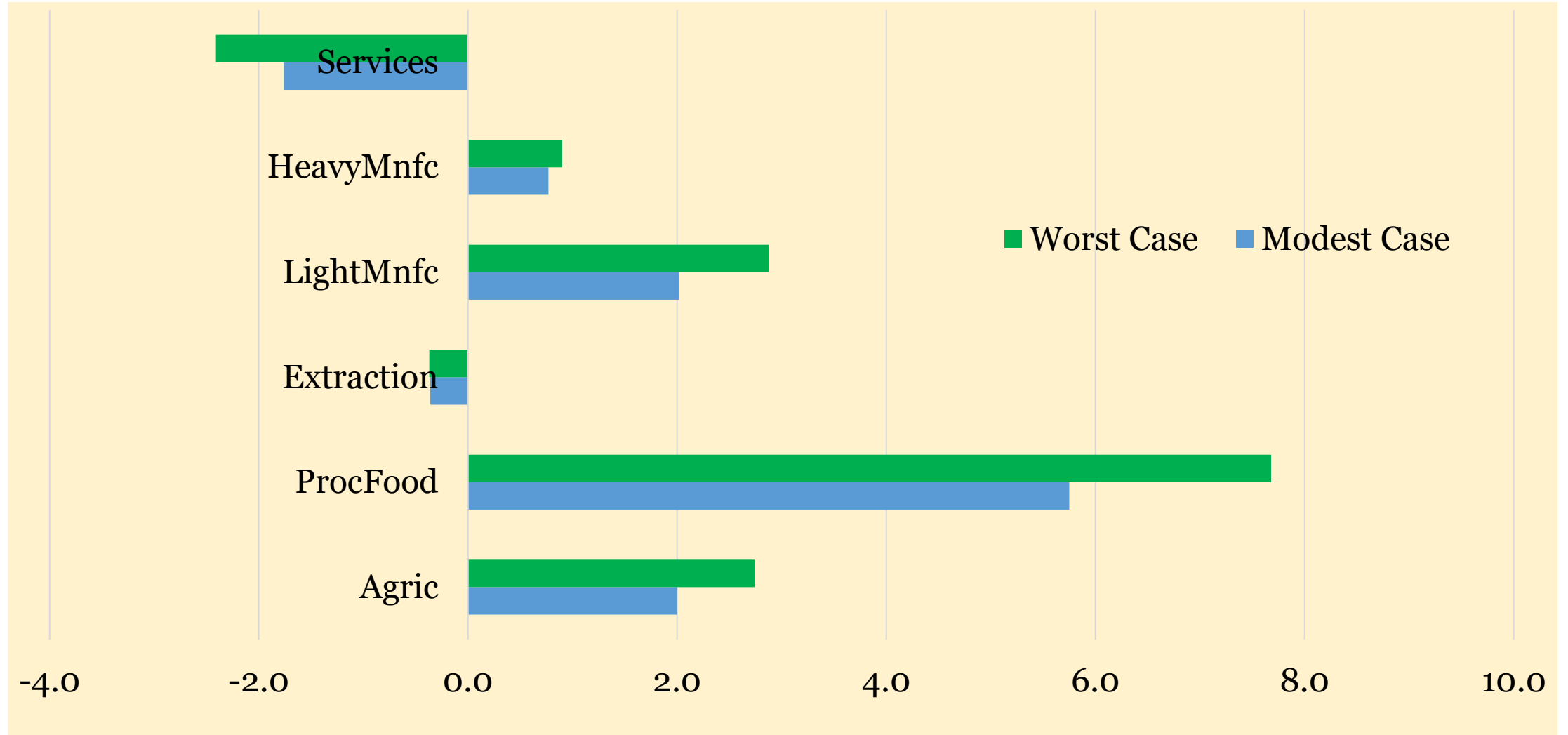


# Changes in Trade (Imports and Exports)



**Source:** Author's Computation from simulations

# Changes in Industry Output (%)



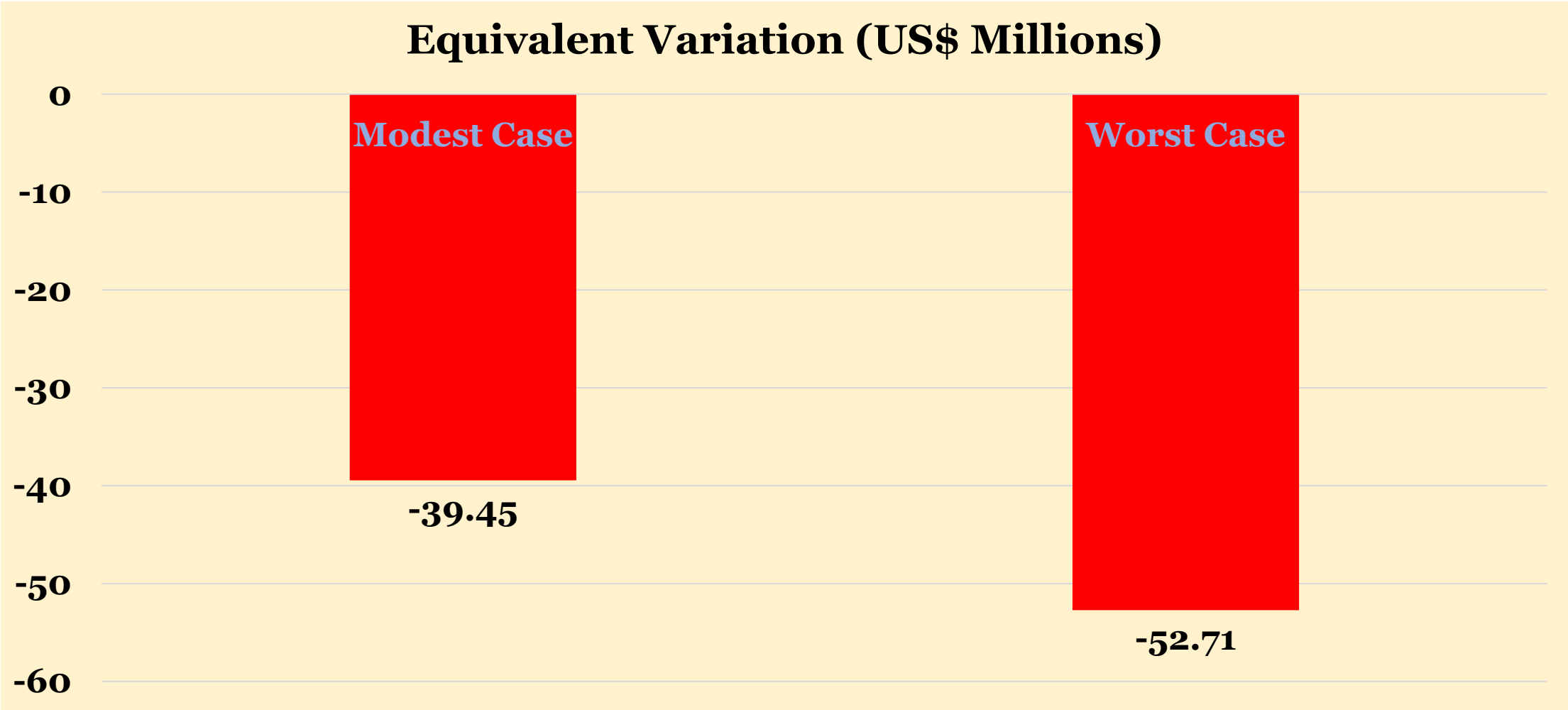
**Source:** Author's Computation from simulations

# Changes in Demand for Labour (%)



**Source:** Author's Computation from simulations

# Welfare Impact on Malawi - US\$ Millions



**Source:** Author's Computation from simulations

# Breakdown of Worsening Welfare

	Allocative Efficiency	Endowment Effect	Technology Effect	Terms of Trade Effect	Investment - Savings Effect	Total Effect
Modest Case	-13.84	0	0	-17.89	-7.72	-39.45
Worst Case	-18.28	0	0	-25.1	-9.32	-52.71

**Source:** Author's Computation from simulations

# **Opportunities Emanating from the Russia-Ukraine War**

- The war has created a gap in global supply for many agriculture products including wheat, sunflower, maize.
- Malawi should take advantage of these gaps and intensify production of oil seed products as prices of these products are likely to remain high in the short to medium term.
- Malawian farmers already produce most of these crops and may only require support so that production is at commercial scale.

# Russia's Top Ten Partners of wheat and maize Exports based on total value of Exports, 2016-2020 (US\$ Millions)



**Source:** UN Comtrade



# Conclusion

- The invasion of Ukraine by Russia has disturbed the global supply chains;
- This has resulted in a general price increase;
- In Malawi, we are seeing increasing inflation which is posing a threat to disposable income especially that of the poor;
- There is a risk that many Malawians will move into deep poverty as a result of the war;
- The war is also presenting opportunities to Malawi including in agriculture and manufacturing;
- Since the conflict is likely to be prolonged, Malawi needs to come up with proposed policies to lessen the suffering of Malawians.

**Thank You**