



MALAWI

Economic Impacts of COVID-19 on Growth, Poverty and Food Systems in Malawi: Initial Results

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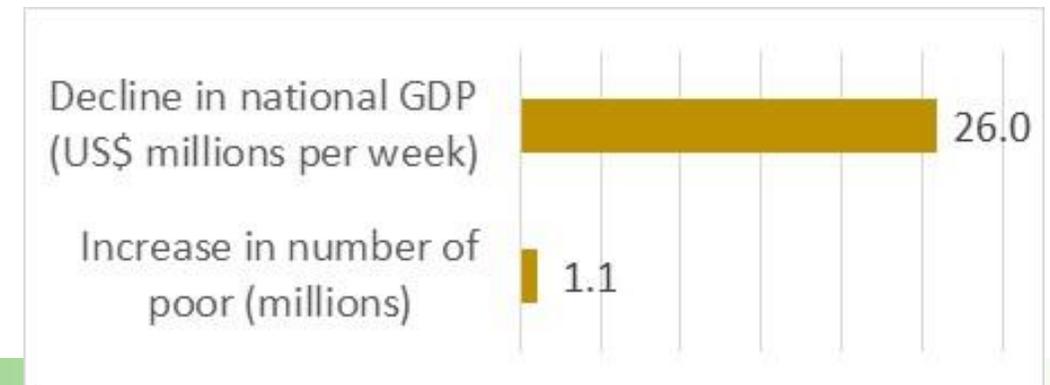
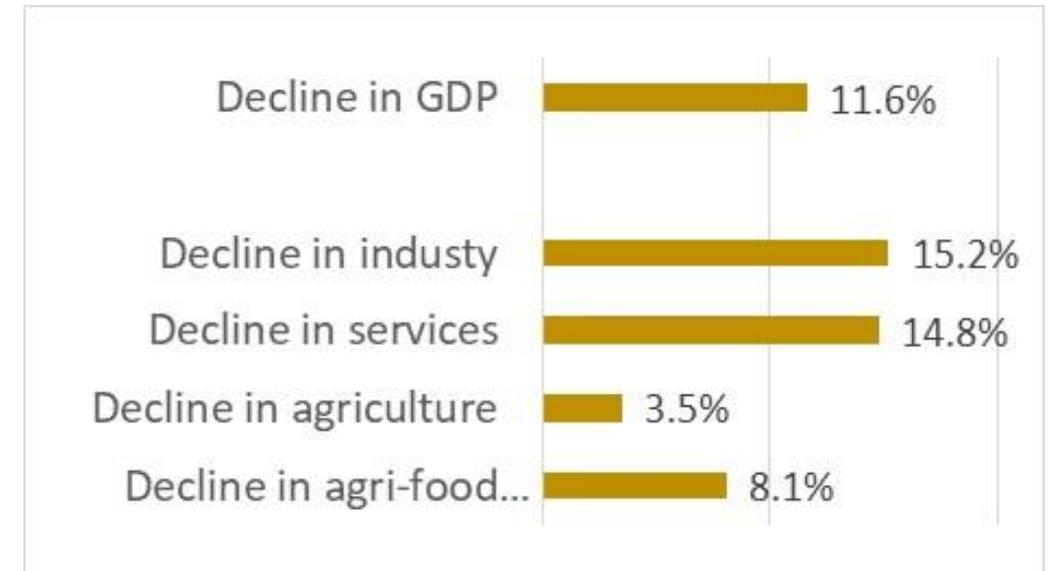
Introduction

- Initial analysis to measure the short and medium term economic impacts of COVID-19 on the Malawi economy
- Objective: broad assessment of the economy-wide impacts of social distancing and proposed lockdown measures during 2020
- Focus on 2 scenarios:
 - a) social distancing: 2 months of full enforcement (April –May);
 - b) urban lockdown: 21 days of lockdown (late-April/early May)each followed by rapid or gradual lifting of restrictions in 2020
- Method: Social Accounting Matrix (SAM) multiplier model to measure the direct and indirect impacts of COVID-19 restrictions on production, incomes and poverty
- Caveats: results are highly dependent on demand shocks assumed;
fixed-price model

Headline Results: Social Distancing Imposes Heavy Losses

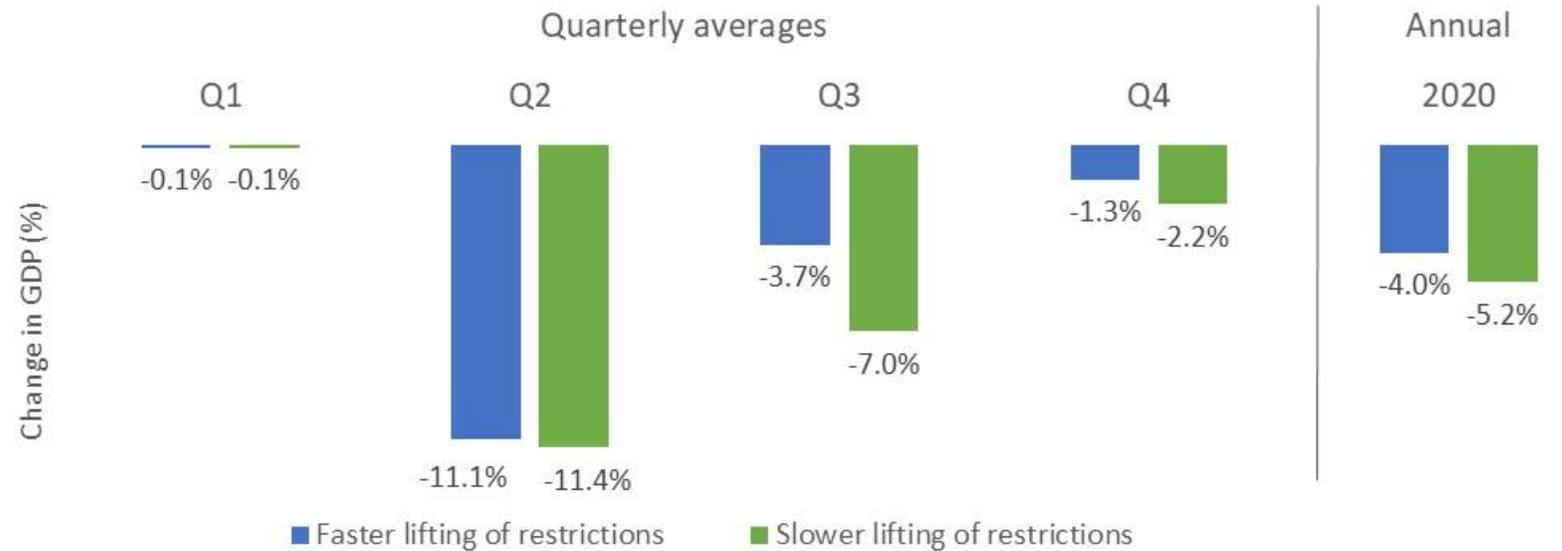
- National GDP falls by 11.6% during April/May (approx. \$26 m per week), relative to projected GDP
- Largest impacts on services and industry but agri-food system (AFS) contracts by 8.1%
- 1.1 million additional poor people under social distancing
- Economy recovers as restrictions are lifted but GDP declines by 4.0% to 5.2% during 2020

Economic impact of social distancing over 2 months

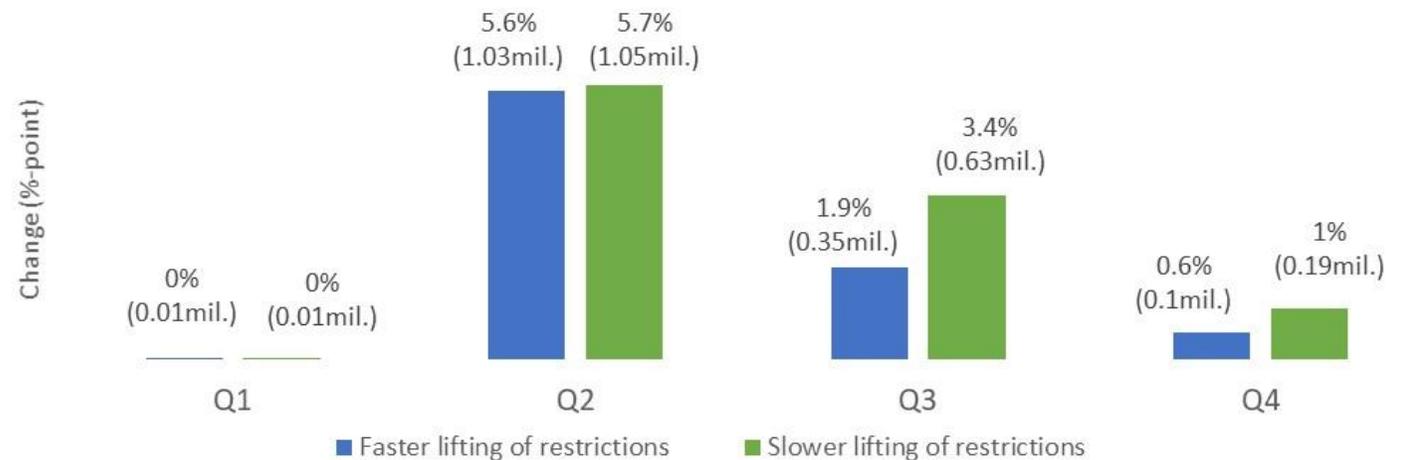


Economic Costs will Persist Through 2020

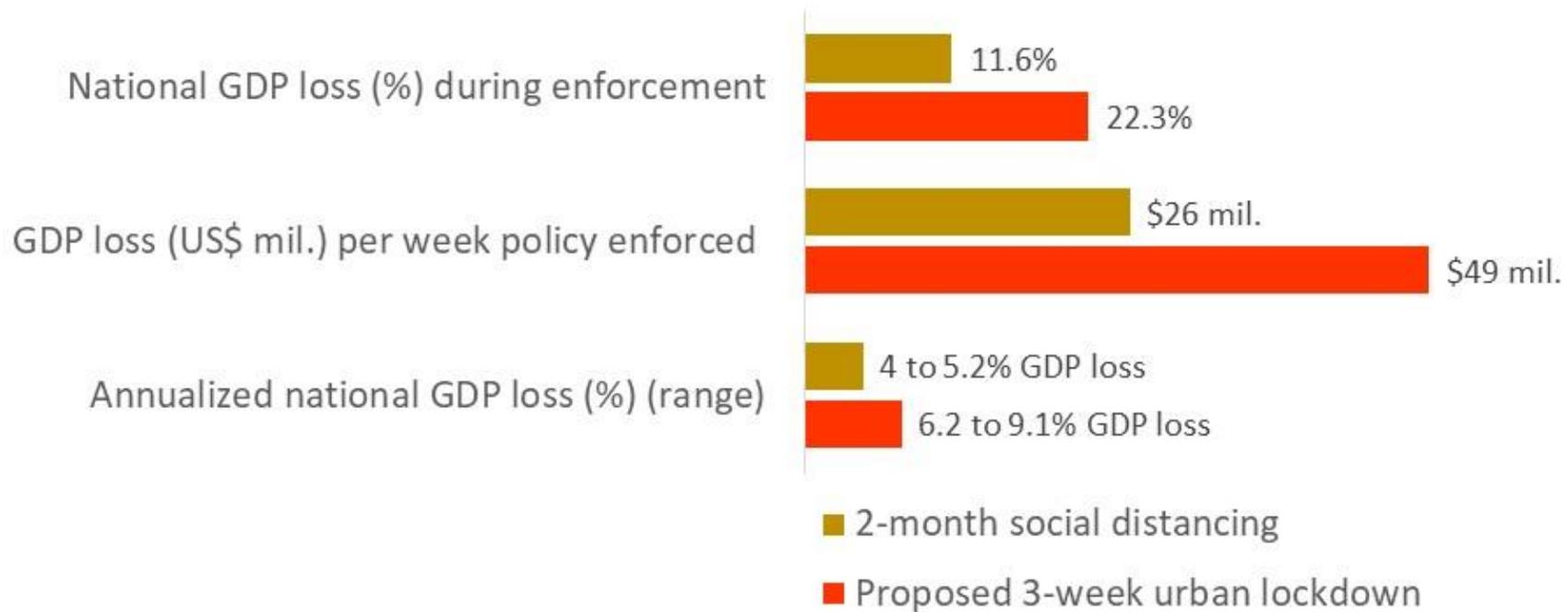
- Social distancing has largest GDP impacts of 11.1% to 11.4% in Q2, and then recedes
- Overall annualized GDP impact is 4 to 5.2%



- Poverty increases by 5.6 to 5.7 percentage points in Q2, with lingering effects in Q3 and Q4



Social Distancing v. Urban Lockdown Scenarios



- In comparison with social distancing, the proposed 21 day lockdown in urban areas increases GDP losses approx. \$23 m week
- Overall GDP loss per year from urban lockdown is 2.2 to 3.9% higher, and depends on speed at which restrictions are subsequently relaxed

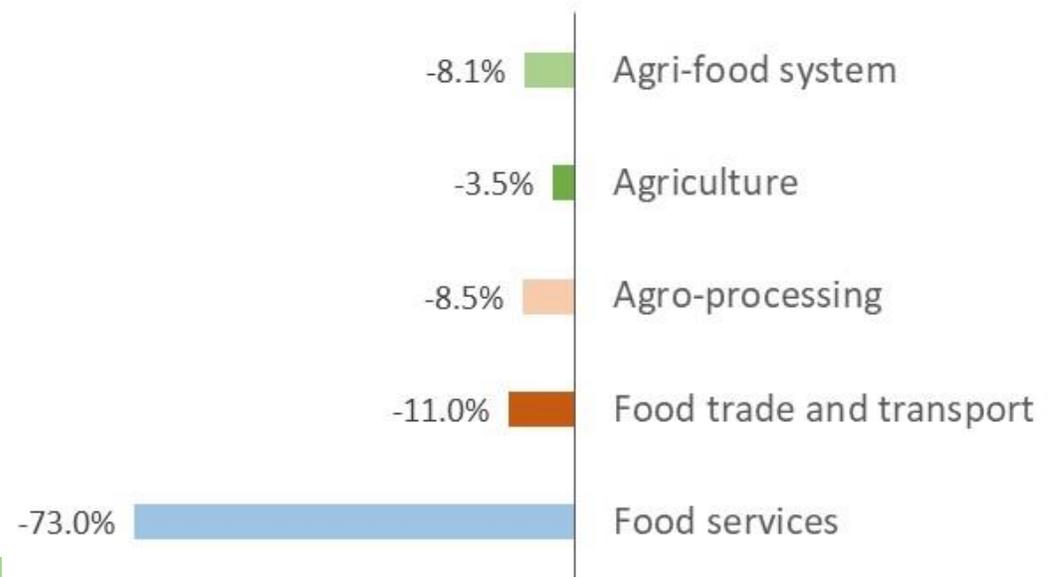
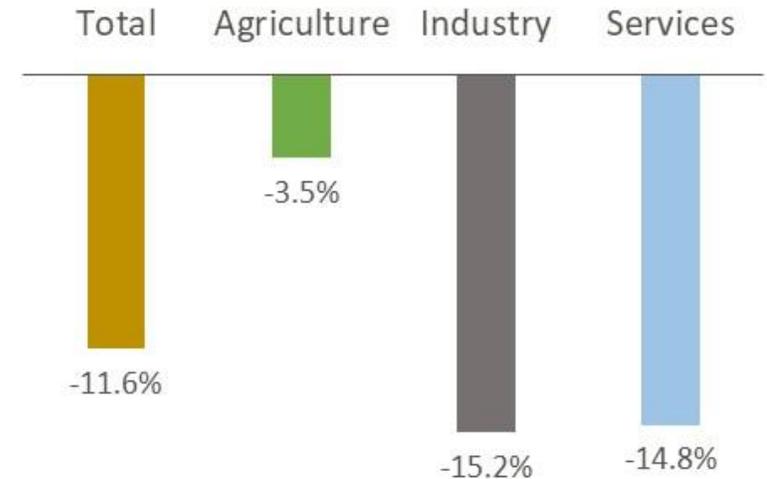
Details of the Social Distancing & Urban Lockdown Scenarios

Period		Social distancing	Urban lockdown	External shocks
Q1	Jan-Mar	Virtually no impact, although some measures (e.g., school closures) introduced March 30th		
Q2	Apr	Social distancing fully enforced for 2 months	Social distancing measures	Declines in foreign remittances, tobacco exports & foreign direct investments
	May		Hypothetical 21-day urban lockdown	
	Jun	Initial easing up after full enforcement: shocks at 70-90% (fast) or 95%-100% (slow) of full enforcement period		
Q3	Jul-Sep	Further easing up: shocks at 50-70% (slow) or 10-30% (fast) of full enforcement period		Initial recovery phase: shocks at 50% of Q2 levels (except tobacco exports at 100%)
Q4	Oct-Dec	Final recovery phase: shocks at 10-20% (slow, not yet full recovery) or 1-5% (fast, near full recovery) of full enforcement period		Further recovery phase: shocks at 25% of Q2 levels (except tobacco exports at 50%)

Impact channels	Initial shocks during Q2		
	Social distancing (2 months)	Urban lockdown (21 days)	External shocks (Q2)
Restricting non-food manufacturing operations		-30%	
Restricting non-essential wholesale/retail trade	-15%	-50%	
Transport and passenger travel restrictions	-25%	-80%	
Limiting hotel and restaurant operations	-80%	-80%	
Non-essential business services restricted		-30%	
Restrictions on other business services		-50%	
Government work-from-home orders	-30%	-30%	
Closing all schools in the country	-20%	-20%	
Banning sports & other entertainment		-50%	
Reduced tobacco exports			-10%
Falling foreign private remittances			-50%
Falling foreign direct investments			-30%

Sectoral Effects of Social Distancing

- Overall GDP losses of 11.6% (-\$223 m) during 2 months of full enforcement of social distancing
- Services the most affected (-\$155m) followed by industry (-\$48 m) and then agriculture (-\$20 m)
- Note: agriculture GDP declines by 3.5%, but agri-food system (AFS) contracts by 8.2%, due to indirect effect of social distancing

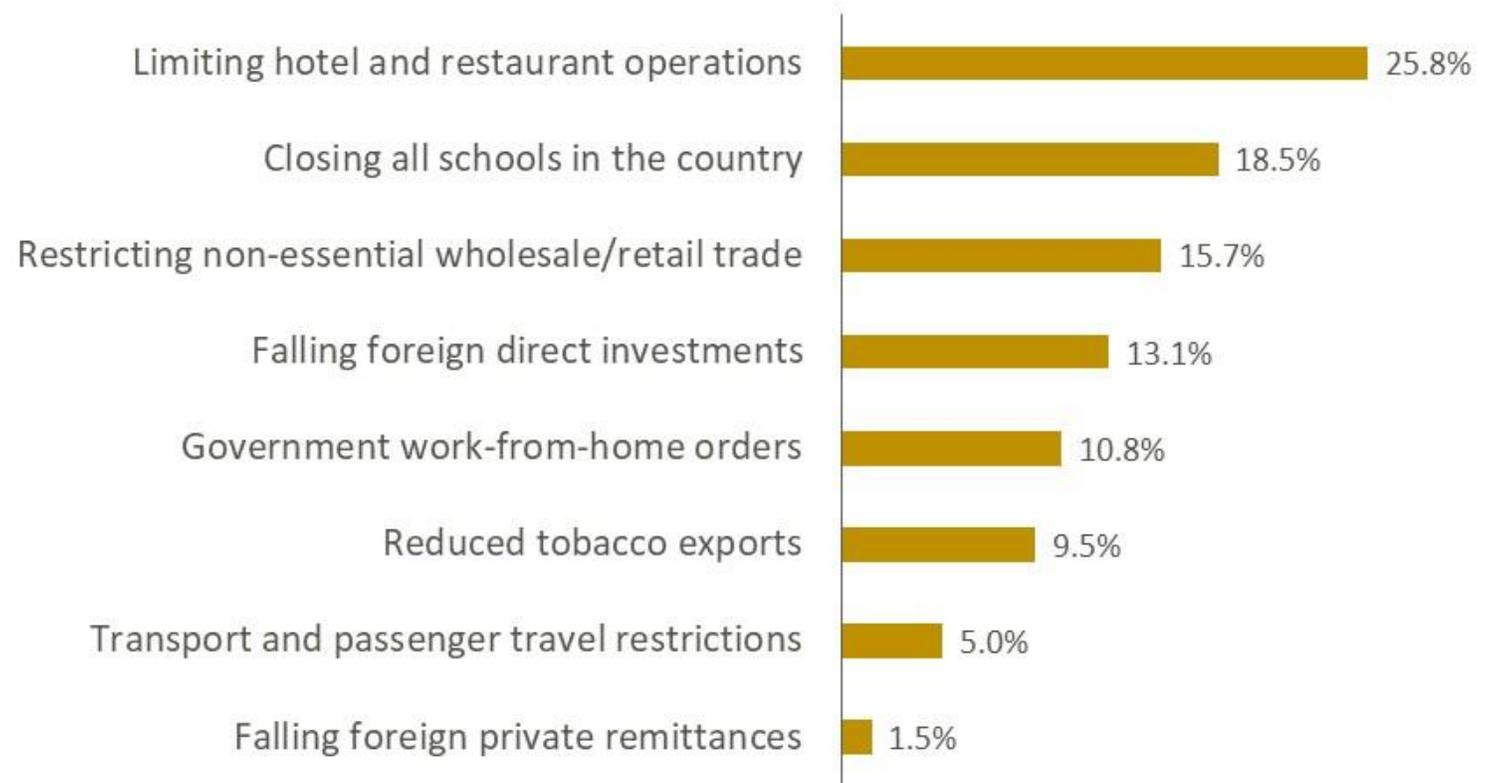


Sources of GDP losses during social distancing

Overall GDP losses of 11.6% over 2 months

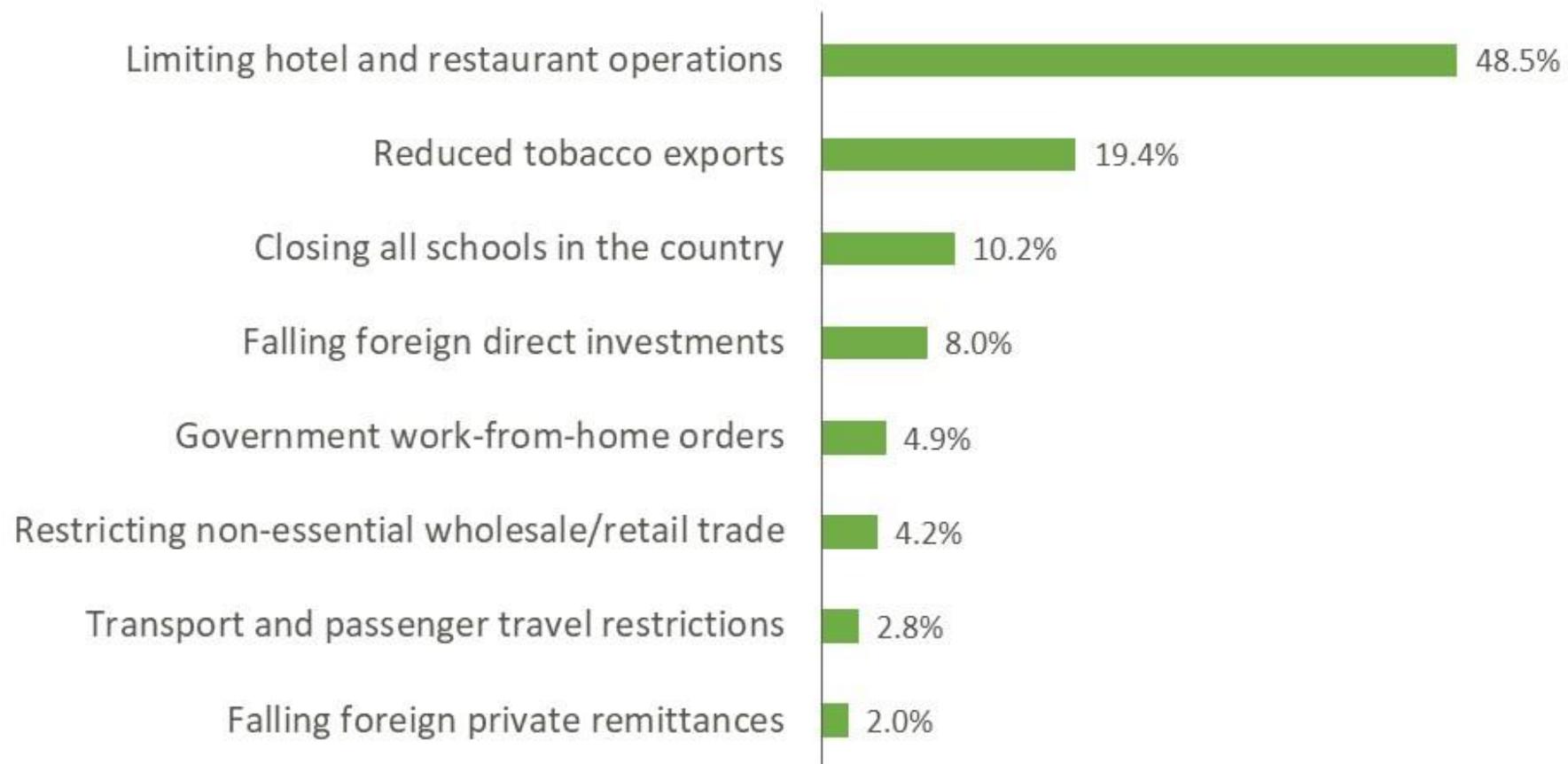
Over two months of social distancing:

- Limiting hotel and restaurant operations account for a quarter of short term losses
- Closure of schools and universities and restricting wholesale/retail trade also important
- Falling FDI and reduced tobacco export most important external shocks



Sources of AFS GDP Losses During Social Distancing

- Overall AFS GDP Loss of 8.2% over 2 months



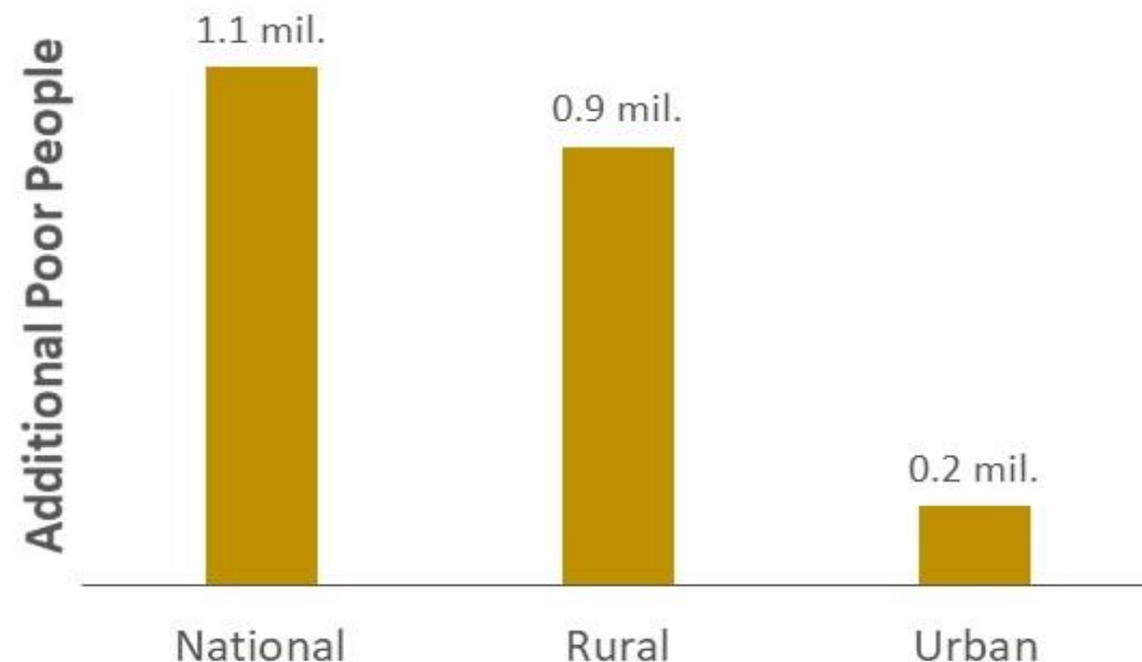
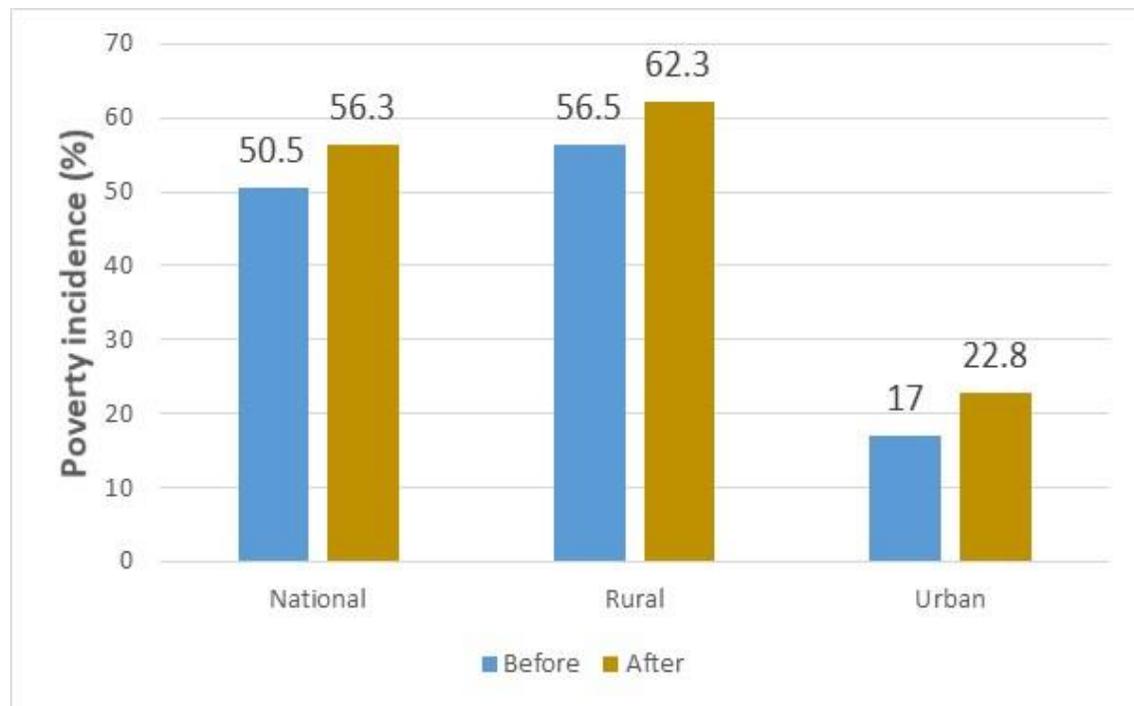
Change in Per Capita Income During Social Distancing over 2 months



- Urban (more educated) households' income affected most by social distancing measures
- Poorest rural households are the least affected ... but still lose 9% of incomes during the 2 months of social distancing
- Serious increase in poverty should be expected

Poverty Impacts of Social Distancing

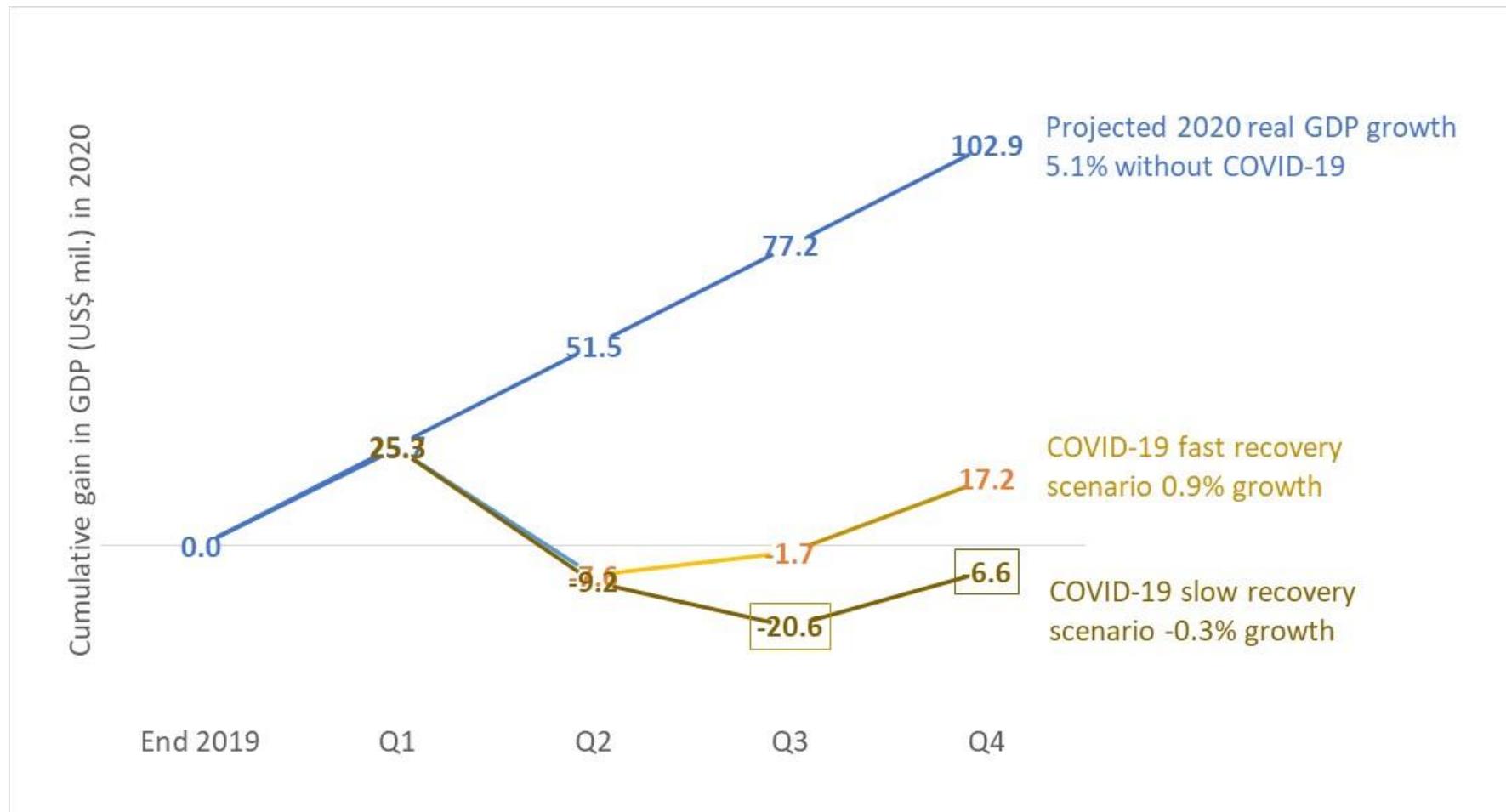
- National poverty rate increases by 5.8% after two-months of social distancing (1.1 million additional poor people) using national poverty line



Recovery Scenarios

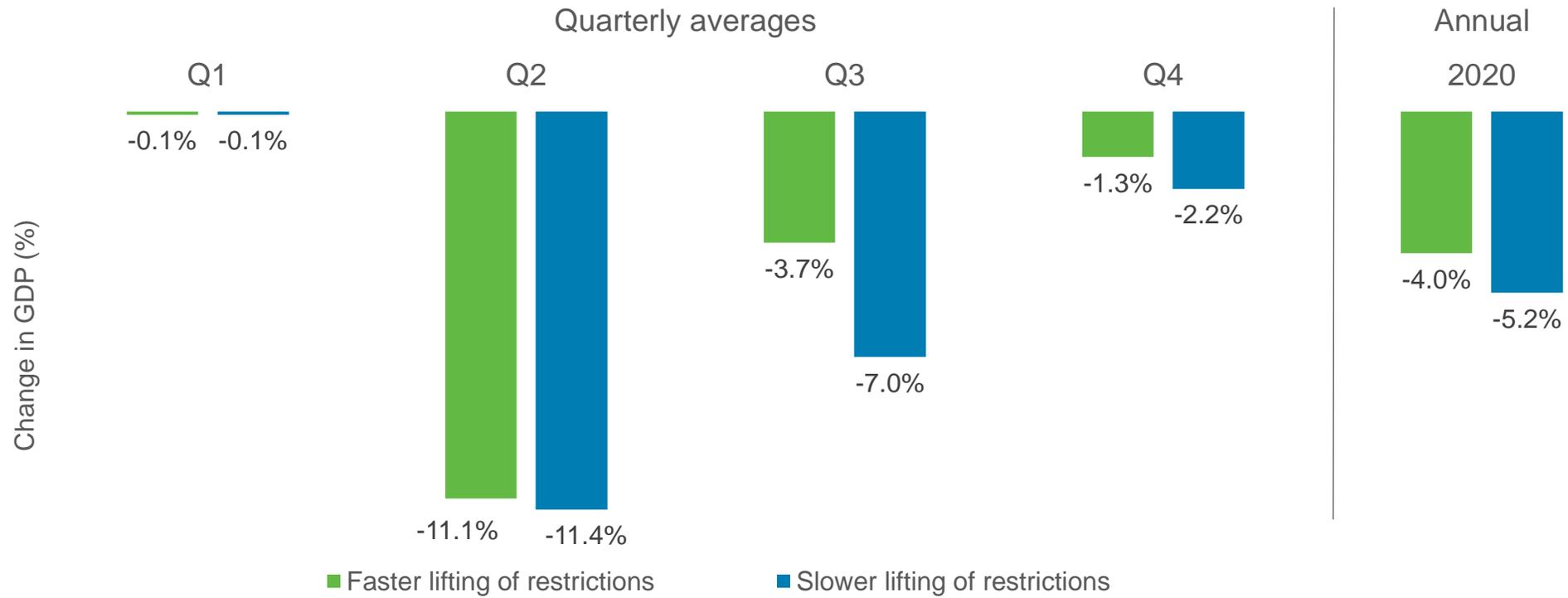
We consider 2 highly-stylized scenarios

- **Faster easing:** economy recovers strongly in Q3 and returns almost to normal by Q4
- **Slower easing;** modest economic recovery in Q3 with productivity still 10% lower in Q3



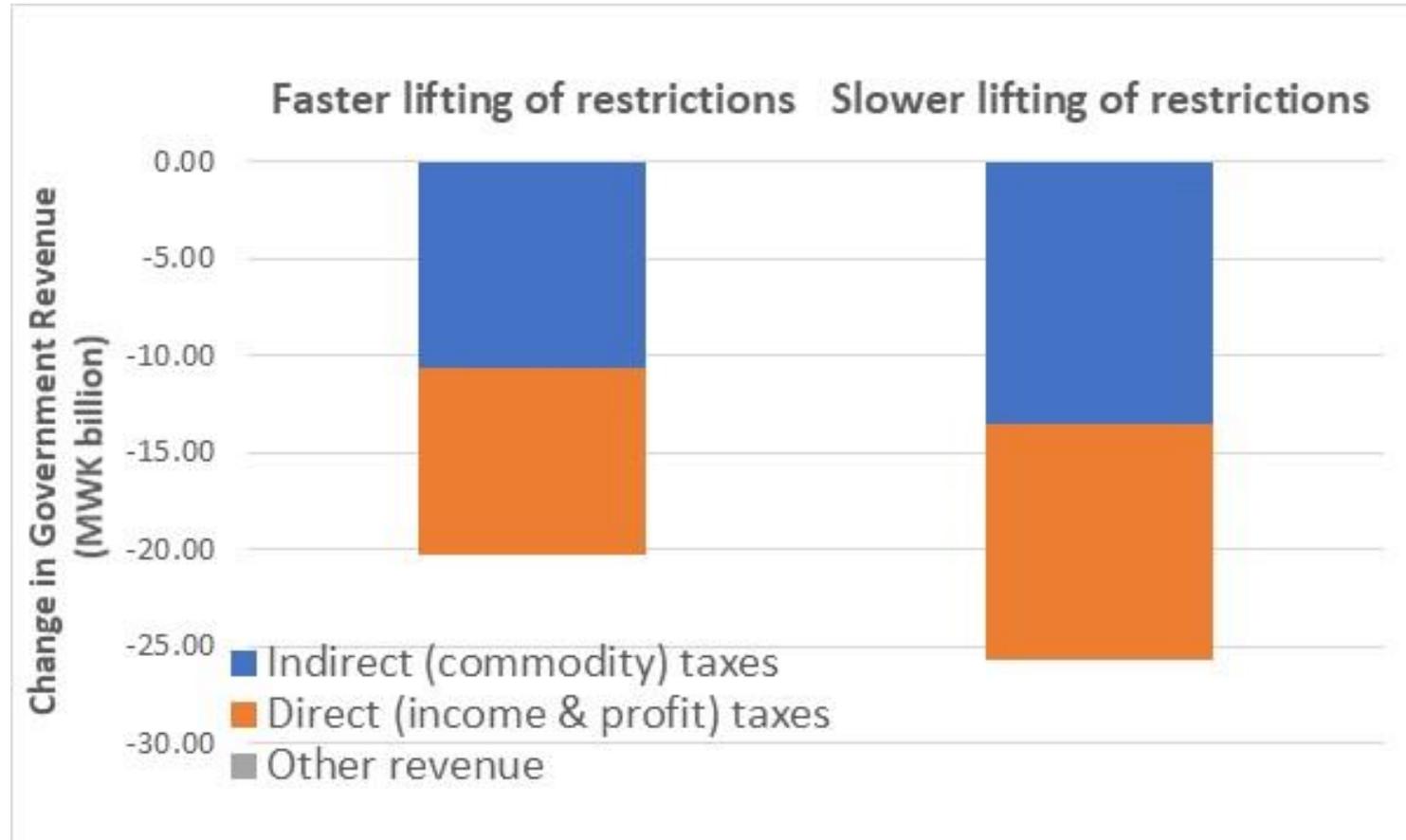
Recovery scenarios (2)

- National GDP in 2020 is 4.0 to 527% lower due to COVID-19
- Decline in GDP about twice as high under slower easing in Q3 and Q4
- Poverty returns to 0.6 to 1% percentage points above pre-crisis level by end of Q4
-



Impact on Government Revenues

- Over 2020, government revenues decline by 3.5% to 4.5% due to COVID-19
- Slightly more is lost from direct than from indirect taxes under both faster and slower lifting of restrictions



Comparison of Results with those in Other African Countries

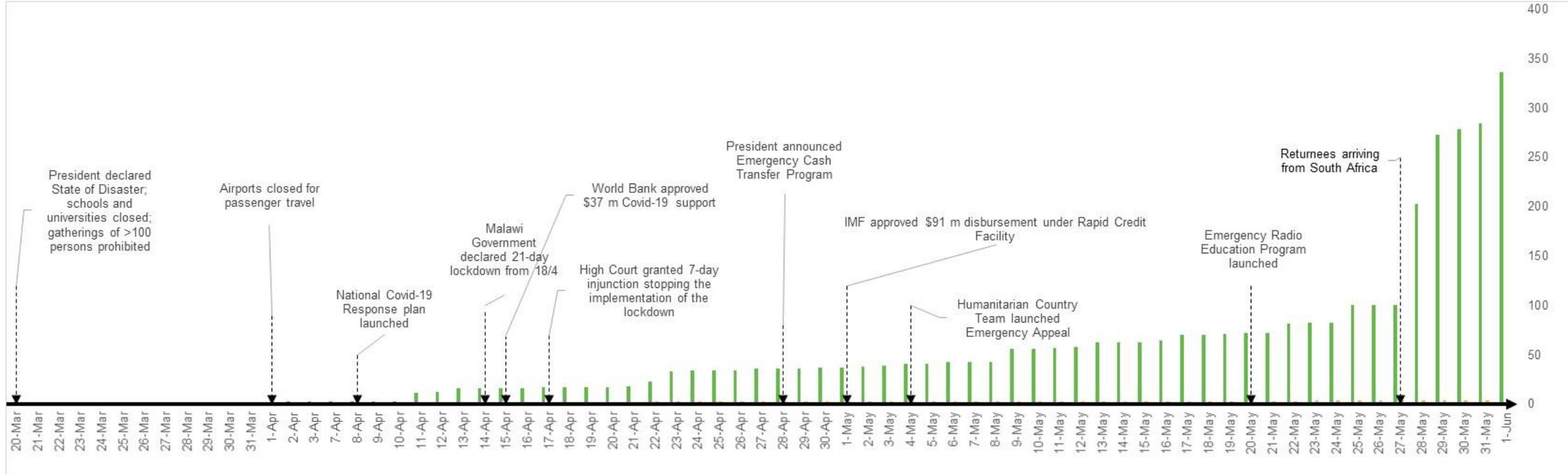
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Summary and Policy Implications

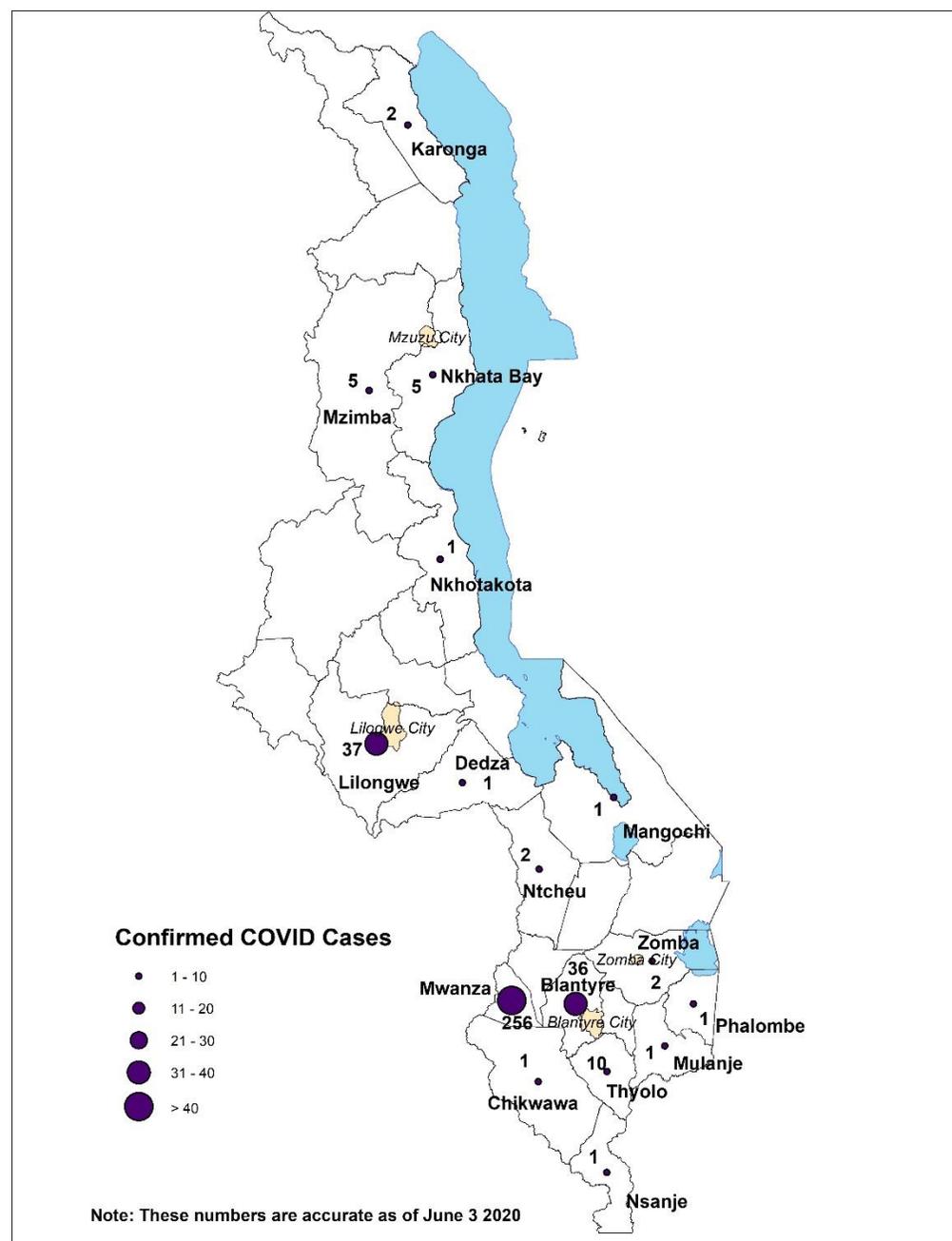
- While the short-term impact of COVID-19 on the Malawi economy are not as heavy as in other African countries, they are still serious:
 - GDP falls by 11.6% during April/May, and by 4 to 5.2% over 2020
 - Industry and services are most affected, by the agri-food system also contracts by 8.2%.
 - Around 1.1 million additional people temporarily fall into poverty, mostly in rural areas. However, urban households suffer higher income losses.
 - Economy recovers as restrictions are lifted but GDP declines by 4.0% to 5.2% during 2020
- Minimizing the economic impacts of COVID requires:
 - Maintaining open markets and borders (with appropriate hygiene/social distancing measures)
 - Social protection measures to protect the most vulnerable (especially informal services/small retailers in urban areas)
 - Re-opening schools as soon as it is safe to do so
 - Facilitating rapid resumption of tourism and remittances will also be important
- Caveat: our results are sensitive to the shocks assumed and can be updated as the extent as these becomes clearer

Additional Slides

COVID Cases and Policy Timeline



Map of Confirmed COVID-19 Cases by District (as of 3 June 2020)



Set-up of the SAM Multiplier Model

- Rosy/Karl?