AN ASSESSMENT OF ECONOMIC IMPACTS OF COVID-19

Background

The Coronavirus Disease (Covid-19) has been declared a pandemic by the World Health Organization (WHO) as it has exponentially spread across the world since it initially emerged late December 2019 in the city of Wuhan in China. As of 7th April 2020, there have been over 1.4 million confirmed cases across 183 countries, with the United States reporting twice as many confirmed cases than any other single country, with Italy and Spain worst affected in Europe. In Africa, confirmed cases are still relatively small, at around 10,427 as of April 7th, 2020. Meanwhile, Malawi has just confirmed 8 cases and 1 death as at 7th April 2020. The pandemic is likely to have severe economic and social implications globally and more so in African countries where the largest of its population lives in extreme poverty.

Statement of Intent

In view of the unprecedented crisis that has befallen the country, the Economics Association of Malawi (ECAMA), consistent with its objective of encouraging open proactive debate and policy dialogue on economic issues is duty bound to contribute to the assessment of the impacts of the COVID-19 on the Malawi economy and suggest the independent and objective economic policy interventions to cushion the economy and welfare of Malawians from the effects of the virus.

Covid-19 Global Impact

The global economy's most abrupt and consequential shock from the pandemic has been quicker than shocks from previous modern crises and resulted into an unanticipated and significant economic knockout that is likely to result into a recession whose magnitude will depend on the duration and severity of the pandemic. The pandemic has disrupted supply and demand of the global economy. Supply has been affected by mortality and morbidity as well as containment efforts that 19 restrict mobility and increased costs of doing business due to restricted supply chains and a tightening of credit. Demand has also significantly decreased due to high uncertainty, rational precautionary behavior, containment efforts, and rising financial costs that reduce the ability to spend. Globally, Covid-has resulted into:

- ✓ *Disruption in global markets with major stock exchanges falling significantly;*
- ✓ Increased f*oreign exchange rate volatilities with the major currencies such* as the British Pound, the United States Dollar, the Euro and South African rand experiencing sudden and large movements;
- ✓ *Lower demand in the Tourism and Travel Industry* due to international travel imposed by most governments, with estimated loss of US$300 – 450 billion in international tourism receipts(exports)–almost one third of the US$1.5trillion generated globally in the worst-case scenario.
- ✓ *Consumer Panic-spending*
- ✓ *Disruptions in industrial production*
- ✓ *Reduced Investments*
- ✓ *Reduced global growth prospects*: The Economic Cooperation and Development (OECD), projects a growth of just about 2.4 percent in 2020, down from 2.9 percent projected in November 2019. It also forecasts that if the duration and severity of the pandemic persists, the global growth could be halved to 1.5 percent in 2020 as factories suspend their production and workers stay at home to try to contain the virus.

Covid-19 Regional Impact

Compared to other regions, the number of confirmed cases in Africa is still relatively small, at about 10,427 as of April 7th, 2020. Despite the slower rate of transmission seen in Africa compared to that in Asia, Europe and North America, the pandemic could have significant consequences across Africa if stringent containment measures are not timely put in place. Moreover, the challenge of the pandemic is unique to African countries considering the fact that the health care systems are already stretched and fragile. In addition, acute shortages of skilled medical staff, medical supplies and vital equipment cannot be overlooked. Moreover, the prevalence of already life-threatening conditions like Malaria and HIV/AIDS imply that most Africans are vulnerable to the coronavirus. Therefore, against the background of this worrying public-health condition, African countries will have to come to terms with the following economic challenges due to the spread of the pandemic;

- ✓ *Disruption in global supply and demand*
- ✓ *Reduced Official Development Assistance (ODA)and Foreign Direct Investment (FDI)*: As most development partners from other regions redirect capital locally towards efforts of containing the virus, less will be available for ODA.
- ✓ *Disruptions in Businesses*: Most governments in Africa are implementing tough measures such as travel bans and lockdowns in order to contain the spread of the virus within Africa.
- ✓ *Reduced household expenditure and consumption.*
- ✓ *The fall of oil prices*: In light of the pandemic there has been reduced demand for oil. For net oil-importing countries, this will result in potentially positive economic impacts while net oil-exporting countries experience increased liquidity issues, loss in tax revenue and currency pressure.
- ✓ *Reduced Tax Revenue*: The knock-off impacts on the pandemic on African public sector could be far-reaching, in terms of tax revenues. Majority of African countries have tax to GDP ratios between 11 and 21 percent and these ratios are considered too low to finance basic social services in particular health care with the probability of spread of COVID 19.
- ✓ *Reduced Economic Growth*: overall, Covid-19 is expected to result into Sub-Saharan Africa's growth rate downgraded to less than 3.5% forecasted by the IMF, and most of its countries have emerged to be more vulnerable to the disease even with few registered cases according to the Economic Vulnerabilities to Pandemics report by the Supporting Economic Transformation. Many businesses, especially SMEs, are under significant cost pressure and face potential closure and bankruptcy – that may likely lead to widespread job losses. Simultaneously, the pandemic will impact productivity across many sectors. In order to effectively respond to the crisis, the Economic Commission for Africa (ECA) estimates that Africa needs about US$100 billion.

Covid-19 l Impact on Malawi Economy

The intertwined shocks caused by the pandemic such as a drop in domestic and external demand, a reduction in trade, disruption in supply chains, a fall in consumer confidence, the decline in commodity prices, the contraction in tourism, and the sharp tightening of global financial conditions are more likely going to weigh negatively on the Malawi economy.

Prior to the COVID-19 outbreak, the Malawi economy was projected to grow by 5-6 percent in 2020 from 5.0 percent registered in 2019. However, the authorities have now revised downwards the growth projections for the domestic economy owing to the anticipated effects of the COVID-19. The magnitude of decrease in the growth prospects will depend on whether the COVID-19 is contained in the short or medium term. Experience in China and Europe shows that the Covid-19 takes about 4 months from emergence to containment. This means that in a moderate scenario Covid-19 can be contained by latest end June 2020. The longer it persists the more severe the impacts would be on the Malawi economy. The key impacts of the COVID-19 on the Malawi economy will be classified in two (2); impacts felt at the macro-economy level and those felt at the micro economy level i.e. household level:

Macro Economy Level Impacts

Slowdown in gross domestic product (GDP)

Our preliminary analysis reveals that COVID-19 will result in a slowdown in the key sectors of the economy. More specifically, the COVID-19 is expected to have a significant negative impact on the ***manufacturing, tourism and hospitality, wholesale and retail trade, financial services, real estate, construction*** and other sectors. It is expected that if the virus persists until December 2020, these aforementioned sectors are more likely going to enter into recession as the sectors are expected to register negative growth.

Increased pressure and disruption of financial system stability: The impact of the Covid-19 on the financial sector risks higher defaults on loans. Reports of increased non-performing loans are imminent as economic activity slows down. The 3 months' moratorium to Small and Medium Enterprises (SMEs) as directed by the President is likely to reduce profitability of banks. It is worth noting that not all SMEs may necessarily be affected by Covid-19 due to the area of their operations. However, most SMEs would want to benefit from the moratorium. Removing transaction fees on electronic transactions will also reduce non-interest income for banks that promote digital products solutions.

Increased inflationary pressures: As the supply of goods and services is disrupted. The disruption of the supply chain may result in the panic buying of goods and services and this may exert pressure for inflation to rise. The anticipated improvement in the availability of food items following the start of agricultural harvesting season may cushion headline inflation from going up.

Supply-chain import disruptions: Malawi is a net importer of goods and services. It imports a lot from China and South Africa, among the pandemic-hit countries. Therefore, recent lockdowns and travel restrictions implemented by such countries means sooner than later, Malawi may experience some shortages of certain commodities, including drugs. These measures will also impact manufacturing and infrastructure development.

Increased pressure on the Malawi kwacha: Due to limitations on trade affecting exports of Malawi as well as a drop in tourism by both social and commercial tourists, streams of foreign currency may be narrowing. This may be exacerbated by possible decrease in FDI to Malawi as most development partner countries focus on their local needs. This could potentially put pressure on the kwacha to depreciate. However, inability to import by businesses due to disruptions on the global scene, combined with the directive by the President that the Tobacco Market selling season opens will help forex liquidity in the country.

Mounting fiscal pressure: The government of Malawi is likely to face fiscal pressure as it has to cater for preventive interventions of the pandemic as well as providing a stimulus plan to mitigate impacts of the COVID-19 on the economy.

Reduced domestic revenue: Furthermore, revenue targets are likely to be lower than projected as businesses slow down due to multiple restrictions as a result of COVID-19. Reduction in trade taxes as a result of a major cut back in cross border trade. The Malawi Revenue Authority (MRA) may need to revise revenue targets for the last quarter of the financial year. This is going to result in widened budget deficits.

Reduced domestic pump prices: Malawi is an oil importer and hence lower global oil prices will have a positive economic impact on the economy as this will help in dampening general prices increases.

Micro Level Impacts

Reduced households' income: Some preventive measures that have been introduced are crucial to contain the virus but have a direct negative impact on household income. Majority of the population in the informal sector will have their earning ability affected and the welfare for a majority of the population (which includes vendors, hawkers, artisans and cross borders among others) will be negatively affected.

Restrictions on mobility (i.e. reduction of carrying capacity up to 60 percent in passenger transport services in rail, water and road transport) in order to adhere to social distance measures have led to fare hikes. The bus fare hikes have potential to wipe-out household incomes since these are not accompanied by any income cushioning measures. A slowdown in business activities will also affect casual workers in the informal sector.

Interventions to Minimize COVID-19 Impacts

To contain and minimize the COVID-19 effects, a number of interventions need to be put in place. We commend the Government of Malawi for putting in place measures that will help contain the transmissions as well as safeguard the people's welfare. It is important that the government keeps the economy running while containing the spread of the pandemic. In this issue, ECAMA would like to weigh in on the interventions to mitigate economic impacts at national and household level. The following are some possible measures and interventions for further consideration by Government and other stakeholders:

1. Partial or block lockdowns in areas with confirmed cases to minimize local transmissions. Full scale transmissions must be avoided at all costs. Government needs to ensure that such interventions are enforced to ascertain optimal results.
2. Government needs to focus on measures that stimulate production at sector or industry level and expenditure at household level.
3. Suspend non-essential expenditures which entails suspension of some projects in order to provide for interventions to minimize COVID-19 impacts.
4. Promote utilization of developed irrigation schemes to produce more food crops for local consumption and exports to countries within the region.
5. Facilitate tea, sugar and tobacco exports. The exports are crucial for forex generation. Enforce COVID-19 preventive measures at the Auction floors.
6. Implement tax measures to increase disposable incomes and incentivize

companies not to retrench staff. Reduce PAYE and VAT to ease the cost of living
7. Make a provision for cash transfers to vulnerable populations in order to minimize impacts.
8. Need for three-six months' moratorium on interest and principal repayments for loans contracted in Malawi on a case by case basis. This may be subject to the period the Covid-19 is contained.
9. As there is a high probability of inflation to trend upwards, the Reserve Bank of Malawi (RBM) needs to desist from being tempted to raise the policy rate as this may stifle the economy further.
10. There is a strong need for the Reserve Bank of Malawi to closely monitor developments in the banking system and provide support to banks on a case by case basis to deal with their liquidity, capital and asset quality issues.
11. High growth sectors such as the tourism sector should support workers and not business growth in the meantime.
12. Government should identify strategic enterprises (industries that produce products that are critical and are more needed now than ever) and come up with enterprise specific interventions. One possible way of achieving this is by the government becoming a temporary shareholder in such companies and agree terms for mass production.
13. Government should assist businesses that depend on imported raw materials but are key industries to the economy such as in terms of employment, to obtain raw materials through trade facilitation with suppliers.