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Assessing the Impact of COVID-19 on Africa's Economic Development

Abstract

What started as a single COVID-19 case late 2019 in China, sporadically spread across the whole world within the first quarter of 2020 presenting one of the most serious global health crises with high socio-economic costs. While its impact on the world's health systems including fatalities continue to rise, the economic toll is still unclear as the world faces an unprecedented global recession. This paper estimates that COVID-19 will drag African economies into a fall of about 1.4% in GDP, with smaller economies facing contraction of up to 7.8%. The contraction is mainly a result of export adjustments affecting primary commodity exporters, and the attendant losses to tax revenue which reduce the capacity of government to extend public services necessary to respond to the crisis. Overall, this paper estimates a regional average of about 5% in public revenue losses in Africa, with total merchandise exports contracting by about 17%. The immediate coordination of health specific responses and revamping expenditure on health systems by African governments remains key in thwarting the spread of the virus in the region. This should be augmented by debt moratoriums and increased inflows of other foreign assistance to ensure the availability of resources to fight COVID-19, especially in LDCs. Lastly, in the future, the implementation of the African Continental Free Trade Area (AfCFTA) will play a crucial role in diversifying African economies and helping to shield them from global commodity price volatilities that have continued to dictate the direction of the continents trade and economic progress.

Key words: COVID-19, Africa, LDCs



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Introduction

The 2019 novel coronavirus disease (COVID-19) was first reported in China as an infectious upper respiratory disease. The virus has since spread worldwide presenting one of the most serious global health crises in history, with high socio-economic costs. While the health impacts are directly through contagion, the economic impacts are largely a consequence of the preventive measures adopted by the respective governments to curtail its spread. Key measures adopted by most countries to curtail the spread include the closing of their frontiers and partial or complete lockdowns of economies which among other things, have seen the temporary closure of businesses, schools and social services.

However, these measures have generated significant setbacks for African economies mainly in terms of lost productivity and trade both within and among countries. Specifically, these measures have significantly strained almost all key growth enhancing sectors of many economies, and ultimately, on their overall income. Consequently, different institutions have put forward estimates of the anticipated economic losses that could follow the introduction of these measures. For example, the International Air Transport Association (IATA) projected revenue losses of up to US\$113 billion¹ and the United Nations Economic Commission for Africa (UNECA) estimated at least US\$65 billion in revenue losses among Africa's top 10 fuel exporting economies². Moreover, due to COVID-19 disruptions in global value chains among other things, the World Trade Organization (WTO) projected a decline in world trade of between 13% and 32% in 2020³. Overall, an unprecedented global recession is being envisaged with a world GDP slump ranging between 0.5% and 3.8 %.⁴

While the regional and country specific impacts could be similar in Europe and Asia depending on which sectors were severely hit, due to the continents lack of economic resilience and diversification, Africa faces greater risks of seriously negative impacts from COVID-19 for several reasons. First, being the last region to register COVID-19 cases, Africa was already experiencing the consequences mainly through its trade links with the European union (EU), United States of America (USA) and China, resulting in dwindling markets for African exports. Second, while the infection rates in these regions have started to flatten out with economic stimulus and investment recovery plans underway, the opposite holds for Africa. The number of new cases in Africa have yet to reach the inflection point while elsewhere including China and Europe, the reported cases are tapering off. Although the rest of the world is slowly reopening businesses to emerge from the global slowdown, the trend in African economies entails the possibility of a deeper recession as they are likely to face further production and trade related constraints if the rate of infection continues to rise.

This paper's macroeconometric model assessing the possible effects of COVID-19 on African economies generates conservative estimates based on global scenarios. Therefore, the estimates should not be taken as final projections because of its focus on the global shocks that affect trade between Africa and the rest of the world. All other direct impacts of COVID-19 on Africa's productivity and government expenditure are held constant. Moreover, the analysis does not consider domestic and multilateral measures being put in place to ease the impact of COVID-19 on the respective African countries.

1 IATA: <https://airlines.iata.org/news/potential-for-revenue-losses-of-113bn-due-to-COVID-19-%E2%80%9Ccrisis%E2%80%9D>

2 ECA (March 2013)

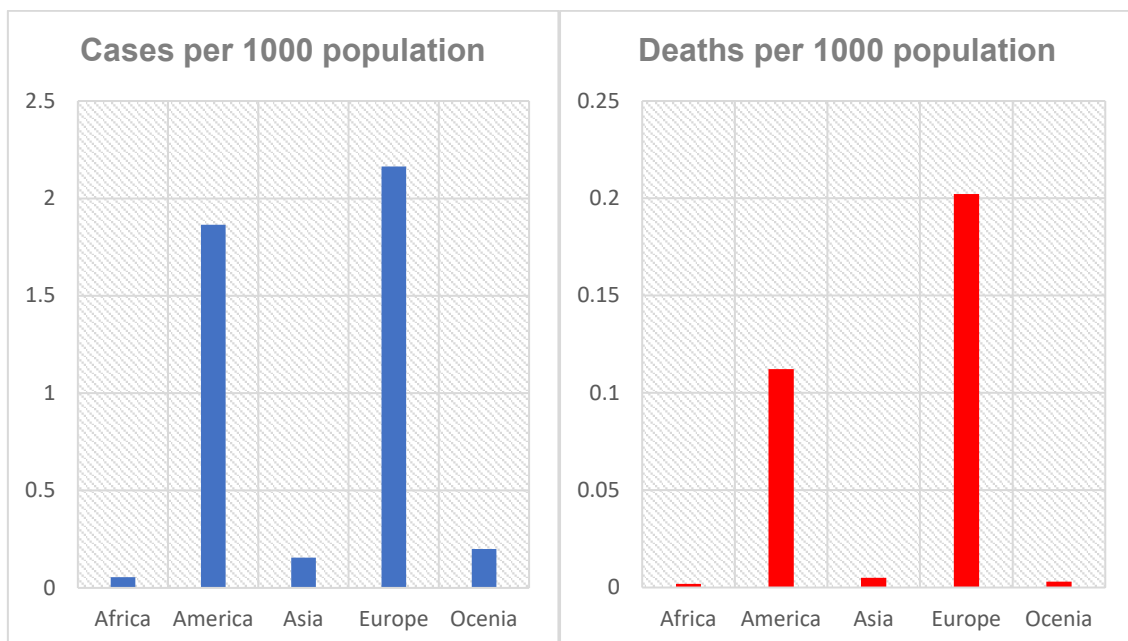
3 https://www.wto.org/english/news_e/pres20_e/pr855_e.htm

4 IMF, 2020; OECD (2020:2); WB, 2020

1. COVID-19 Statistics and immediate measures for containing its spread

Daily statistics from the European Center for Disease Control (ECDC) show that Africa remains the region with the least number of both COVID-19 infection cases and deaths. As of 15 May 2020, a total of 4,308,809 cases including 298,680 deaths have been reported worldwide. Figure 1 shows that Europe has both the highest number of infections and deaths with 2 persons per thousand population having the infection. This is followed by the USA which has one person per thousand population with the virus.

Figure 1: World Distribution of COVID-19 cases and deaths as of 15 May 2020

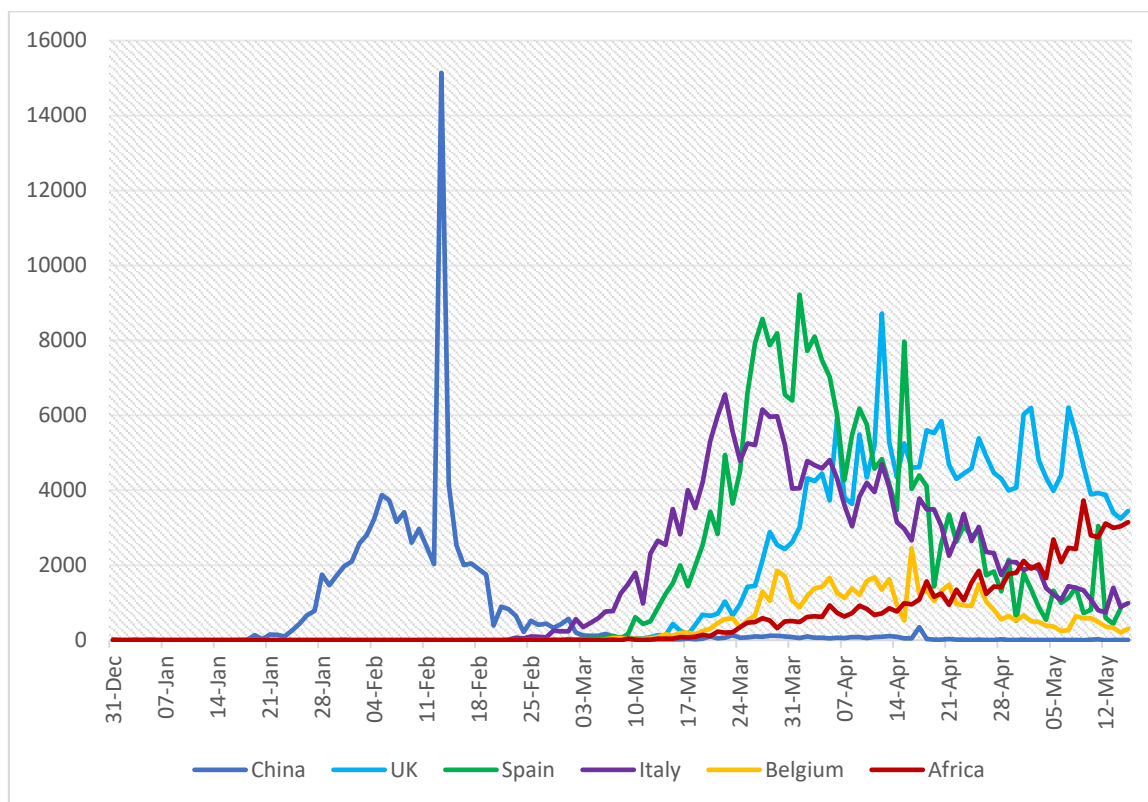


Source: ECDC COVID-19 Data and UNCTAD STATS.

Note: the scales on the embedded charts are different.

Overall, the number of fatalities due to the virus per thousand population is relatively small across all continents. However, interpreting Figure 1 in millions shows that out of 2,164 persons infected per million, Europe is losing 202 persons to the virus. For America, the figure shows that out of 1,864 infected persons per million, the region is losing 112 persons. Figure 1 also shows that Africa has the least number of infections (55 persons per million population) with only 2 persons per million population being lost to the virus.

Figure 2: COVID-19 cases per day in Africa, China and selected countries in Europe as of 15 May 2020



Source: ECDC COVID-19 Data.

Note: UK, Spain, Italy and Belgium are the top four countries in Europe with the greatest number of cases per 1000 population (Appendix 1).

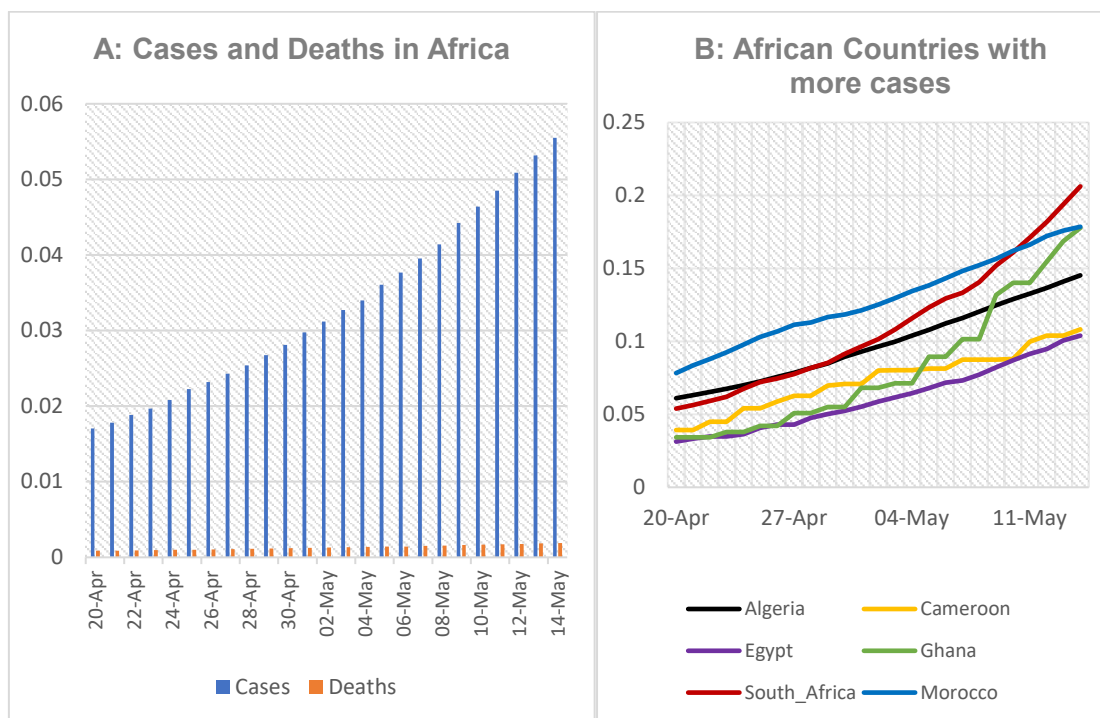
While in China and Europe the infection rates have been significantly flattened out, the infection rates in Africa continue to steadily rise (Figures 2 and 3 (A)). These trends imply that Africa is still grappling with containing the spread of the virus as China and most countries in Europe are rolling out recovery plans and ease lockdown arrangements.

Nevertheless, most countries in the region still have a negligible number of infections with the exception of South Africa (12739), Egypt (10829), Morocco (6609), Algeria (6442), Ghana (5530) and Cameroon (2954) (Figure 3 (B)). These figures imply that for most countries in the region, the main channel for COVID-19 economic impacts have been the trade linkages with their key trading partners such as the EU, US and China.

The stay-at-home (complete lockdown) and frontier closure policies adopted by the highly affected regions including EU, US and China, entailed low productivity and disruptions to key value chains. Ultimately, these lockdowns resulted in reduced demand for African exports with the greatest impact on countries with substantial participation in global value chains. Furthermore, infection containment measures in these regions resulted in significant reductions in Africa's foreign direct investment (FDI) inflows, tourism and to some extent, overseas development assistance (ODA) inflows. Initially, with lower infection rates, the direct impact on health systems and related expenditure for most countries in the region has been modest, however as the health crisis continues, this is changing rapidly. Furthermore, initially most of the countries in the region have

only intensified on the routine hygiene adjustments, semi-frontier closures without complete lockdowns of their respective economies.

Figure 3: COVID-19 Trends per 1000 population in Africa as of 15 May 2020



Source: ECDC COVID-19 Data and UNCTAD Stats.

It should however be noted that opting not to intensify stay-at-home (complete lockdown) policies does not only reflect the continent's lower infection rates but to some extent, it also reflects the huge social and economic impact of possible lockdowns in most African countries. Notably, government social welfare systems in most African countries are too weak to effectively support the COVID-19 associated lockdowns. Given the significant weight of the informal sector⁵ in most African economies, there are many daily wage earners for whom complete shutdown essentially means no income, and no basic household necessities including food. Similar impacts will also be felt by small and informal businesses that sustain the livelihoods of most of the poor. As highlighted above, this further complicates the possibility of a complete lockdown in the face of weak (or non-existent) public social welfare and assistance systems. However, this approach has an increased risk of further spreading the virus within countries.

Cross country transmissions are seen to be significantly reduced by frontier closure policies which have been adopted by most African countries. Nevertheless, this approach further dampens tourism, FDI and most importantly Africa's inter-regional trade which is largely driven by cross border trade and international mobility. Moreover, the approach further undermines the livelihoods of low-income earners who largely benefit from the cross-border trade within the respective economic communities (RECs) in Africa. Overall, the net impact of COVID-19 will largely depend on how effective the current containment measures in the region will remain effective in containing the spread both

⁵ The International Labour Organization estimates that more than 66% of total employment in Sub-Saharan Africa is in the informal sector. See https://www.ilo.org/global/about-the-ilo/newsroom/news/WCMS_627189/lang-en/index.htm

within and across countries. Notably, if the increasing trend is widespread across the region, there will be more pressure on health systems and spending which depending on the fiscal policy space, has a potential to further increase the region's debt burden. As shown in this section, a significant slowdown is expected in trade, tourism and service sectors, investment and government spending. Depending on which sectors and trade components that are affected by the general slowdown in world economic activities, disproportionate impacts on key macro-economic variables will be observed across countries in Africa.

2. Policy responses to ease the impact of COVID-19 in Africa

While the threat of potential recession in Africa is vivid mainly through the international trade links, very few countries have the capacity to implement stimulus packages to cushion their economies from such an impending COVID-19 global recession. Efforts in this regard are recorded in literature (see Ozili and Arun, 2020) and the press mainly for Africa's big economies but most importantly, these do cover all the countries that have been badly hit by the infections. Most of the adopted measures include cutting interest rates and the provision of liquidity assistance to cushion households and firms. For countries with better fiscal policy space, they have also increased their social protection expenditure to effectively cushion the poorest households during the lockdowns. For example, South Africa has set aside about US\$ 160 million to cushion vulnerable businesses, about US\$ 8.4 billion for the unemployment insurance fund, tax subsidies for at least 75,000 small and medium enterprises with a turnover of less than US\$2.7 million, among other relevant fiscal and monetary policies⁶ Senegal has established a Euro 2.1 million response and solidarity fund "Force COVID-19" as well as a Euro 97.6 million contingency plan to cushion herself from the impacts of COVID-19.⁷ Furthermore, Egypt, Tunisia and Morocco are set to inject US\$6.4 billion, US\$0.9 billion and US\$ 1 billion respectively into their economies as part of their economic stimulus packages for enhancing liquidity during COVID-19.⁸

In addition to the above stimulus packages, Table 1 below summarizes specific key monetary and fiscal stimulus packages that have been adopted by some African countries to ease the impact of COVID-19 on their economies.

⁶ <https://www.globalpolicywatch.com/2020/04/south-africas-economic-response-to-the-COVID-19-pandemic/>

⁷ <https://home.kpmg/xx/en/home/insights/2020/04/senegal-government-and-institution-measures-in-response-to-covid.html>

⁸ <https://aaco.org/media-center/news/aeropolitical/several-arab-governments-announce-stimulus-packages-to-ease-the-economic-impact-of-the-covid19-outbreak>

Table 1: Stimulus packages announced by African countries to ease the impact of COVID-19

Countries	Interest rate			Fiscal Policy	
	Jan 1	Current Rate	End of 2 nd quarter	Increase in government spending (%GDP)	Fiscal Support through loans and loan guarantees (% GDP)
Egypt	12.25	9.25	9.25	0.80	0.80
Ghana	16.00	14.50	14.50		
Kenya	8.50	7.20			
Nigeria	13.50	13.50		2.30	7.50
South Africa	6.50	5.25	4.75		

Source: Adopted from Ozili and Arun (2020).

In addition to the above fiscal and monetary policies, multilateral institutions have also put in place stimulus packages that can be easily accessed by all African countries. These covers both loans, emergency response and debt relief. Table 2 below summarizes these measures from the World Bank, EU, African Development Bank (AfDB) and IMF.

Table 2: COVID-19 multilateral Stimulus packages that benefits African Countries

Institution	Policy Response
World Bank	The World Bank (2020a) announced the availability of US\$160 billion which will be available to countries until late 2021. The package is set to enhance the ability of the beneficiary economies in easing the effects of COVID-19 on small businesses and the vulnerable populations. ⁹
African Development Bank (AfDB)	The AfDB has a US\$10 billion COVID-19 response package in the pipeline of which US\$5.5 billion is set for its sovereign operations in the AfDB countries and US\$3.1 billion is operations under the African Development Fund. The Bank also launched a US\$3 billion fight COVID-19 social bond which was allocated to central banks and official institutions (53%), Bank treasuries (27%) and asset managers (20%). Notably, 8% of this social bond is set aside for African countries. ¹⁰
IMF	The IMF approved US\$2.7 billion for COVID-19 related emergency responses in African countries
European Union (EU)	The EU announced Euro 3.25 billion COVID-19 toolkit for African countries. ¹¹
Afreximbank	The Afreximbank announced a US\$3 billion Pandemic Trade Impact Mitigation Facility

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