United Nations
Economic Commission for Africa

Africa's quarterly **economic performance** and **outlook**

April–June 2020

Summary

The present quarterly report provides an analysis of recent economic performance and the envisaged outlook of African economies based on their growth, fiscal, monetary and exchange rate policy and performance in the second quarter of 2020. The report focuses on assessing the extent to which African economies have been affected by the COVID-19 pandemic since January 2020. The report also proposes some policy recommendations to assist African countries in achieving macroeconomic stability and economic growth as they recover from the crisis.

Key highlights from the second quarter of 2020

Under the negative impact of the coronavirus disease (COVID-19) pandemic, economies in all subregions of the continent contracted in the second quarter, with the largest contractions in Southern Africa and Central Africa, followed by the North and West Africa subregions, while East Africa registered the smallest contraction in its gross domestic product (GDP).

Growth in Africa is expected to contract by 5.4 per cent in 2020 (twice the magnitude of the estimates made in the first quarter), with a mild recovery in 2021. This contraction in growth is mainly underpinned by a decline in economic activities, remittances, oil prices and global demand. Real GDP is estimated to remain below its pre-COVID-19 levels in 2021 and 2022, without strong and effective recovery and adaptive policies in the medium-to-long term.

COVID-19 continues to widen the fiscal deficits and debt profiles of most African countries, owing to increased public spending to address the effect of the pandemic, combined with reduced revenues resulting from low internal and external demand for domestic production. Oil-exporting countries and tourism-dependent economies are the worst affected, owing to lower oil prices and to reduced demand as a result of COVID-19 travel restrictions, respectively.

In the second quarter, the financial system and domestic currencies of African countries have been brought under acute pressure, with relatively large exchange rate depreciations, by comparison with the same period in the previous year. These are indicative of financial vulnerabilities which may compromise the countries' economic recovery.

Monetary authorities in Africa have enacted a broad range of monetary, prudential and exchange-rate policy measures to support the provision of credit to their economies, to ensure that the various sectors benefit from the supportive financing conditions aimed at safeguarding the economies from the COVID-19 shock and to underpin their financial stability.

Recent market data show initial signs of confidence in the African financial system as interest rate spreads, treasury bill rates and the ratio of non-performing loans have slightly dropped, by comparison with their levels at the beginning of the crisis. The magnitude of the impact in each individual country depends, however, on its initial macroeconomic conditions and the scale of its monetary policy response.

I. Introduction

COVID-19 is the second infectious disease to strike the world since the beginning of the twenty-first century, and by far the deadlier of the two, surpassing the severe acute respiratory syndrome (SARS) outbreak of the early 2000s, with significant negative ramifications for the global economy. It continues to cause disruptions to global supply chains and volatility in global financial markets and has changed both the communication and business landscape in the global economy. At a macro level, it is having a severe impact on employment, investment, health spending and revenue collection, causing losses that may lead to unsustainable debts, inflationary pressures due to supply-side shortages, and demand-side shocks resulting from declining oil prices, tourism receipts and remittances.

By the end of June 2020, Africa had recorded nearly half a million COVID-19 cases, even under limited testing conditions, and some 10,000 fatalities. It took about 100 days for the continent to reach the 100,000 registered cases mark, and then a mere 20 days to register the same number of additional cases (figure 1). This trend is worrying, even if the epidemiological curve is not entirely exponential (as observed in other regions), as the numbers of registered cases, combined with the easing of restrictions, suggest that the caseload will continue to increase before it plateaus.

The pandemic has disrupted economic activities through its impacts on health and the containment measures adopted on the continent and across the globe. It has led to global and local supply chain disruptions that have affected commodity prices, production activities and external demand for African goods. It has also reduced labour supply as a consequence of layoffs and illness and has spread uncertainty among both consumers and businesses, which in turn has led to a reduction in consumer spending and business investment and to knock-on effects on government revenues.

II. Africa's growth performance

Using the Africa-wide macro model and assuming that the pandemic affects economic activities through its impacts on labour supply, commodities prices, investment and government revenue, ECA has estimated the impact of COVID-19 on African economies. In the present report, the assumptions made in early April have mostly been revised downwards, given the increased global spread of COVID-19 cases and fatalities (see table 1 below).

Table 1: Assumptions (June 2020 revisions)

No.	Shocks due to COVID-19	Scenario 1	Scenario 2	Scenario 3
		Optimistic	Less pessimistic	Pessimistic
1.	Labour supply	-20.0%	-30.0%	-40.0%
2.	External demand	-10.0%	-12.5%	-17.5%
3.	Oil price	$40.0	$35.0	$30.0
4.	Global non-oil price	-5.0%	-10.0%	-15.0%
5.	Non-oil export price index	-5.0%	-7.5%	-10.0%
6.	Non-oil import price index	-1.5%	-2.5%	-3.5%
7.	Investment (for FDI, remittances, etc.)	-25.0%	-30.0%	-40.0%
8.	Government revenue	-15.0%	-20.0%	-25.0%

Source: Estimates based on ECA calculations, July 2020.

The report considers three scenarios: optimistic, less pessimistic and pessimistic. Scenario 1, the optimistic scenario, assumes limited outbreak, possible containment in 2020 and immediate recovery in 2021. Under this scenario, a limited decline in employment is assumed, of about 20 per cent; a contraction of external demand by 10 per cent; a decline in government revenue of about 15 per cent; a less than 5 per cent reduction in commodity prices; and an oil price level of $40 per barrel. Scenario 2 is less pessimistic, assuming mild effects of the pandemic in 2020 continuing into 2021 and moderate recovery in 2021; while scenario 3 is pessimistic, assuming adverse effects of the pandemic in 2020 continuing into 2021 and slow recovery in 2021 (an annual fall in employment in 2020 of some 40 per cent; a decline in external demand of 17.5 per cent; a significant fall in commodity prices; and a drop in the oil price to $30 per barrel).

A. African growth expected to contract by 5.4 per cent in 2020

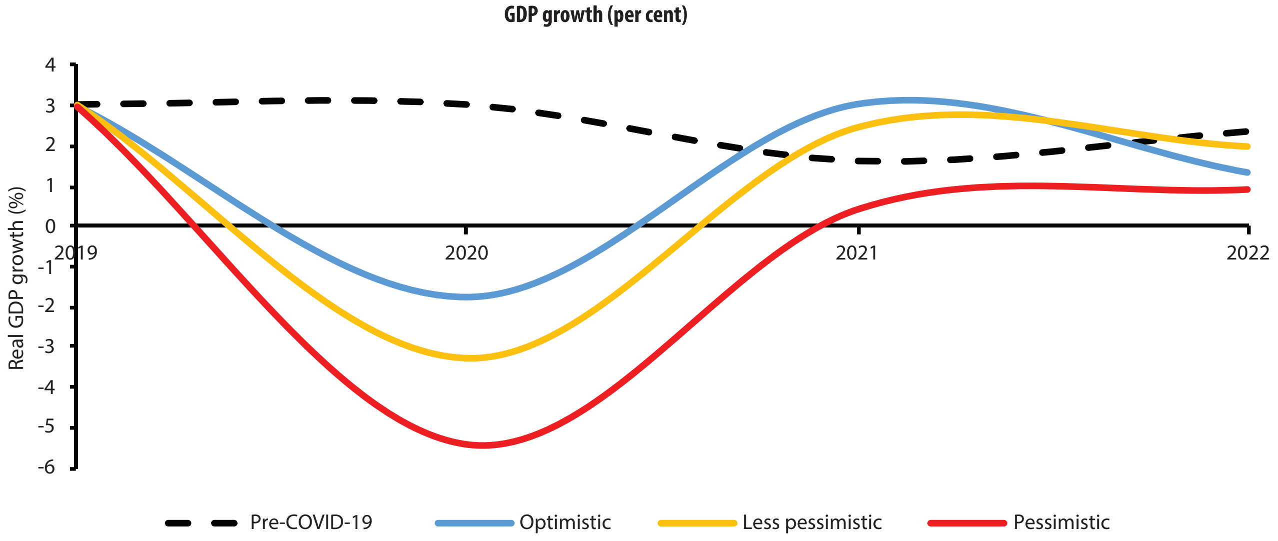
The revised estimates for June show that growth in Africa will contract by at least 5.4 per cent in 2020 in the worst case as a result of the effects of COVID-19.[1] Unfortunately, the impact is expected to persist over the medium term, unless effective policy measures are taken swiftly and robustly across the continent and the world at large (figure 2). The revised estimates show a substantial contraction in GDP growth, with an expected decline of about 2 percentage points by comparison with levels in the first quarter of 2020 (April 2020). The ECA revised forecast estimates a decline of at least $220 billion in real GDP compared to the December 2019 projection for 2020 of the continent's real GDP of $2.63 trillion. The current projection marks the first ever recession on the continent over the past four decades, as the economic impact of the pandemic touches almost every country in Africa.

Looking back over the first half of 2020, the revised projection closely matches the observed performances of the different subregions. According to preliminary estimates, growth in the second quarter contracted in all subregions, although actual data from countries are still forthcoming. The second quarter of 2020 saw huge contractions in Southern and Central Africa, followed by the North Africa subregion. Similarly, the West Africa and East Africa subregions also registered GDP contractions in the second quarter.

The substantial contraction in Southern Africa is largely driven by the weak performance of South Africa, which depressed the entire subregion's performance. Other countries, such as Eswatini, Mauritius and Namibia, have also been badly

1 This will mean a reduction of about 8 percentage points in per capita GDP, causing a considerable deterioration in the lives of the people of Africa.

Figure 2: Real GDP growth in Africa, 2019–2022



Source: ECA estimates, July 2020.

affected by the pandemic and the consequent collapse in tourism, while countries such as Angola, Mozambique and Zambia have suffered from both lower demand and lower global prices for their commodities. The South African economy contracted by 2.0 per cent in the first quarter of 2020, following a 1.4 per cent drop in the previous quarter ending December 2019. This decline in economic growth was driven by poor performance in the mining and manufacturing sectors. GDP growth is projected to fall by 7.2 per cent in 2020, primarily as a consequence of travel restrictions and lockdowns put in place to contain the spread of COVID-19, leading to the likelihood of downgrades by credit-rating agencies.

In Central Africa, the subregion's significant contraction is largely due to the pandemic-induced low commodity prices that have affected oil and mineral exporters, such as the Central African Republic, the Congo, Equatorial Guinea and Gabon, together with the collapse in tourism due to COVID-19, which has severely affected such tourism-dependent economies as Sao Tome and Principe.

Likewise, the fall in commodity prices, collapse in tourism and significant fall in remittances have adversely affected the GDP of most countries in the North Africa subregion. Preliminary statistics from the Egyptian Government, however, show positive GDP growth of 5.8 per cent in the second quarter, despite the impact of COVID-19.[2]

In West Africa, GDP has contracted following the emergence of COVID-19, which has resulted in rapid deterioration of the macroeconomic fundamentals in the countries of the subregion, further exacerbated by the crash in the commodities market. For instance, ECA projected real GDP growth of 2.9 per cent in 2020 for Nigeria. Quarterly data from that country's National Bureau of Statistics suggest that, however, in the first quarter of 2020, the country's real GDP grew by 1.9 per cent, compared to 2.6 per cent growth in the last quarter of 2019. That drop in performance reflects the global disruptions stemming from the COVID-19 pandemic, which resulted in significant decline in all the sectors of the economy. Real GDP is expected to contract further, by between 4.4 and 7.2 per cent, depending on the extent and duration of the pandemic.

Similarly, quarterly data from the Ghana Statistical Service suggests that the country grew by 4.9 per cent in the first quarter of 2020, compared to 6.7

2 Clemens Breisinger and others, "Impact of COVID-19 on the Egyptian economy: economic sectors, jobs, and households", MENA Policy Note 6 (Washington, D.C.: International Food Policy Research Institute, 2020). Available at https://doi.org/10.2499/p15738coll2.133764.

per cent growth over the same period in 2019. Moreover, compared to the first quarter of 2019, growth in all sectors of the economy declined in 2020, with the industrial sector recording a significant drop of almost 7 per cent, followed by the service sector.

Despite the diversified nature of some of its economies (such as Kenya[3] and Rwanda) and the large agricultural sector of other countries (such as Ethiopia, Uganda and the United Republic of Tanzania), East Africa also saw its GDP contract in the second quarter of 2020. For instance, preliminary estimates for Ethiopia prepared by the International Food Policy Research Institute (IFPRI) suggest that GDP contracted slightly, by 3 per cent, in the first quarter, while it dropped sharply in the second quarter, by some 13 per cent.[4] The contractions are largely due to a dip in the services sector (tourism, hospitality) and the industrial sector, principally manufacturing. In the United Republic of Tanzania, GDP contracted to 6.9 per cent in the first two quarters of 2020 following the outbreak of the COVID-19 pandemic. GDP growth is projected to decline further to 5.5 per cent in the remaining quarters of 2020, despite the Government's policy decision not to lock down economic activities because of the pandemic. Growth in the country has been driven by construction, mining, agriculture, transport and communication.

B. Real GDP below pre-COVID-19 levels in 2021 and 2022, despite any recovery

The economic outlook for the continent is highly uncertain. On the one hand, the worsening of the pandemic will further disrupt economic activities and derail the capacity of governments to revitalize their economies. On the other hand, the gradual easing of lockdown restrictions across the globe, the recovery of trading activities and rising oil and other commodity prices could improve the economic outlook in the medium term.

In all three scenarios, growth is forecast to recover slowly in 2021. The revised rate of growth is projected to reach 3 per cent in 2021, lower than the projections made in the first quarter of 2020. This is largely due to the revised assumption that the pandemic will remain intact in the second half of the 2020 and economic activities will not rebound to their pre-COVID-19 levels. The projected recovery is gradual, owing to the widespread nature of the pandemic across the world and the likelihood of its continuing to 2021. These factors will continue to disrupt economic activities, as the recovery packages announced thus far appear to be limited – not exceeding 3 per cent of GDP in most countries.

III. COVID-19 pandemic and Africa's fiscal performance

Over half of all African countries recorded fiscal deficits of above 3 per cent in 2019. Similarly, some 22 African countries had debt-to-GDP ratios above the African average of 61 per cent, breaching the 60 per cent threshold that has been defined by the International Monetary Fund (IMF) as being uncomfortable even for the more advanced economies with a larger debt-carrying capacity, such as South Africa.[5] The increase in spending in 2019 was occasioned by development financing needs, in particular, investment in infrastructure. Consequently, fiscal policy has come under pressure, with very little or no fiscal space to deal with crisis situations, even under normal circumstances.

3 Kenyan trade data show a fairly resilient export performance, despite the scale of the crisis. The landlocked countries of Eastern Africa have been more vulnerable to the trade shock, however. On this issue, see www.brookings.edu/research/the-impact-of-the-covid-19-crisis-on-trade-recent-evidence-from-east-africa/.

4 Kalle Hirvonen, "Economic impacts of COVID-19 pandemic in Ethiopia: a review of phone survey evidence", ESSP Working Paper 151 (Washington, D.C.: International Food Policy Research Institute, 2020). Available at https://doi.org/10.2499/p15738coll2.133947.

5 International Monetary Fund, "Sustainable development, sustainable debt", conference paper (Dakar: IMF African Department, 2019). Available at http://www.imf.org/~/media/Files/Conferences/2019/dec-2019-devtdebt/conference-paper-sustainable-development-sustainable-debt.ashx.

IMF forecasts show that some 53 per cent of African countries will record fiscal deficits above 3 per cent of GDP in 2020, similar to the situation in 2019. In terms of their debt-to-GDP ratios, 23 countries are projected to exceed 61 per cent, which represents the African average. Evidently, the COVID-19 pandemic has elevated the debt situation of many countries, which was already high even before the pandemic. Specifically, the debt-to-GDP ratio of South Africa rose from 59.87 per cent in 2019 to 64.19 per cent in 2020. This level of debt could further increase, because – and for the first time – IMF has recently approved an amount of $4.3 billion in emergency support to the country to address the COVID-19 pandemic. By the time the present report went to press, countries that had benefited from significant IMF support in response to the pandemic included Cameroon, Côte d'Ivoire, Ethiopia, Ghana, Kenya, Nigeria, Senegal and Uganda. This may possibly increase the debt portfolio of these countries, leading to a high risk of debt distress for most of them.

Since March 2020, when COVID-19 began spreading on the Africa continent and cases were gradually being recorded in many countries, fiscal policy has come under immense pressure. This has seen the mounting of a range of efforts aimed at minimizing the economic impact of the pandemic, such as the introduction of stimulus packages and palliative measures in support of vulnerable businesses and households. Health expenditures have also been increased in an effort to combat the spread of the disease.

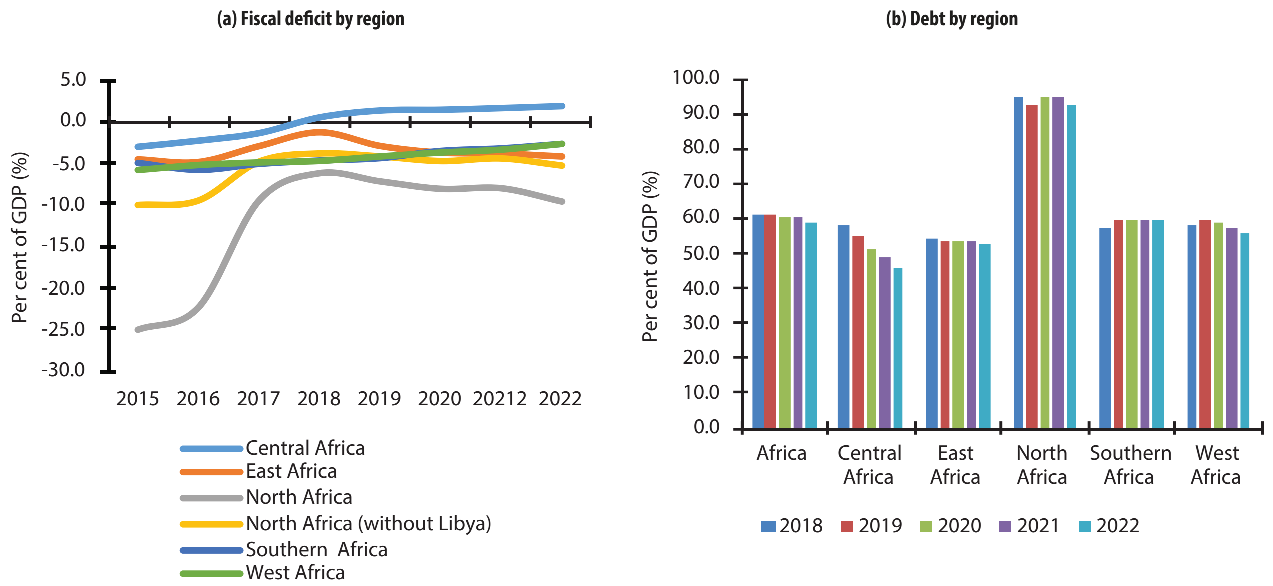
As the mobilization of domestic resources continues to fall under the effects of the pandemic, the size of fiscal packages announced by various countries continues to rise, entailing a growing need for financial resources, averaging about 3 per cent of GDP, some three fourths of which is channelled towards health spending.[6] During this period, a number of countries have had to limit or put on hold tax and loan payments, with a resulting impact on their revenues. For example, in some countries, such as Algeria, Cabo Verde, Egypt, Madagascar, Morocco, Nigeria, South Africa and Togo, tax exemptions or waivers have been granted to businesses to protect them and to safeguard employment during the COVID-19 pandemic. Countries which depend on tourism and travel as the bedrock of their economy, such as Algeria, Cabo Verde, Egypt, Kenya, Morocco, Seychelles, South Africa, Tunisia and Uganda, have been more severely affected, together with oil-exporting countries, which saw a sharp decline in oil prices. Undeniably, this has affected revenues in many countries, including Algeria, Angola, Egypt, Equatorial Guinea, Libya, Nigeria and South Africa. This drop in revenue, combined with increased expenditure, has continued to expand fiscal deficits for most countries on the continent.

At the subregional level, some variation may be observed. As may be seen in figure 3 (a), North Africa (without Libya) will record the highest average level of fiscal deficit (-8.2 per cent and -3.8 per cent), while the lowest level (1.5 per cent) will be observed in the Central Africa subregion. In North Africa, geopolitical upheavals of the last decade, such as the Arab Spring, terrorist attacks and conflicts and other events, coupled with the reduction in fiscal revenues, have put pressure on the budgetary balance of governments across the subregion, with spillover effects to the rest of their respective economies. Likewise, figure 3 (b) shows that North Africa will record the highest level of debt (94.7 per cent), followed by the Southern Africa (59.7 per cent), West Africa (57.4 per cent), East Africa (53.2 per cent) and Central Africa (48.9 per cent) subregions. Factors explaining the relatively high debt situation of the North Africa subregion include its possibly weak debt management and greater exposure to the effects of trade shocks and inflation. If left unchecked, this situation could expose the subregion to a high risk of debt distress.[7]

6 International Monetary Fund, Policy Responses to COVID-19: Policy Tracker. Available at www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19.

7 See African Development Bank, North Africa Economic Outlook 2018: Macroeconomic Developments and Poverty, Inequality, and Employment; Agricultural Production and Food Security (Abidjan, African Development Bank, 2018). Available at http://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/2018AEO/ African-Economic-Outlook-2018-North-Africa.pdfnd

Figure 3: Fiscal deficit and debt levels by region, 2015–2022



Source: IMF, World Economic Outlook, 2020.

IV. Monetary policy and exchange rate performance

The COVID-19 pandemic is posing significant challenges that could compromise the financial stability of African economies, as the continent is not only facing a contraction in trade and economic activity, but also revealing financial vulnerabilities driven in part by limited liquidity and weak monetary stimuli. Given the fewer options at their disposal, African countries need to identify pockets of efficiency which enable them to boost their economic growth. Monetary authorities, among others, are expected to balance the liquidity in the market, while at the same time ensuring trust and confidence in the financial system and preserving the countries' financial stability.

economies, a broad set of monetary, prudential and exchange rate policy measures have been implemented to maintain liquidity and shore up the financing conditions of banks, businesses and households, support domestic demand, cushion the external vulnerabilities and facilitate global and intra-African trade, thereby supporting growth (see table 2 below).

Monetary policy stances were loosened through the use of a range of tools, such as the reduction in policy rates, provision of liquidity to financial and non-financial sectors, easing of loan repayments for affected borrowers, intervention in the exchange markets, and others. These measures have helped to preserve the provision of credit to African economies and also to enable the various sectors of the economy to benefit from the supportive