



COVID-19 Crisis in North Africa:

The Impact and Mitigation Responses



United Nations
Economic Commission for Africa
Subregional Office for North Africa

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Executive summary

North African economies are hardly hit by COVID-19, induced by the lockdown measures which had negative impact on the supply and demand sides, and the drastic reduction of world demand, fueling a drop in North Africa exports. Spurred by the 50% drop in oil prices and the lockdown, Algeria's GDP could fall between -4.5% to -5.8% in 2020. Morocco and Tunisia, whose economies have been severely hit by the drop in tourism and demand from the EU, may experience a GDP growth respectively of -3.7% and -5%. Overall, North Africa will see its growth decline to -1.8% for 2020, while its full-time equivalent employment loss may reach 5 million in 2020.

Economic recovery of the sub region is expected to start in 2021, assuming there is no relapse of the pandemic. The recovery, expected for 2021, is conditioned on the success mitigation measures currently being implemented by governments. Some countries of the sub region, with marked dependency on tourism-related activities (transports, catering, hotels, etc.), will see their recovery path delayed as the containment measures will last for longer periods.

With strong and probably long-lasting impact on employment and health, the pandemic could compromise the results achieved by the sub-region in the recent years in the area of Sustainable Development Goals (SDGs), leading to higher levels of poverty and inequality.

Fighting the health pandemic while reducing the impact on the economy requires a set of strong and coherent policies to: (i) support firms (tax measures, financing unemployed part-time employees, guaranteed loans and special lines of credit etc.) to remain in operation and avoid closures, (ii) support workers and vulnerable populations through targeted policies and wide social protection measures (cash transfers programs, food aid, unemployment benefits and paid sick leave plans, food access, etc.).

Section 1: Introduction

The crisis caused by the COVID-19 pandemic is plunging the world economy to its lowest level ever since the Second World War, adding to the woes of an economy already grappling with the pre- 2008 crisis. Indeed, UNDESA's latest forecasts expect the world economy to shrink by -3.2% in 2020 followed only by a timid recovery is expected for the upcoming year. Beyond its impact on human health (materialized by morbidity and mortality), COVID-19 is severely hitting the global economy through a direct reduction of economic activity owing to lockdowns and movement restrictions, and indirectly through disruption of global value chains (accounting for nearly half of global trade) in a global highly interconnected economy. This led to abrupt falls in commodity prices, adversely impacting commodity-exporting countries, a drop in fiscal revenues, foreign exchange receipts, and foreign financial flows. Travel restrictions have highly impacted industries such as air line, tourism and hotels. The consequence will be the significant increase in underemployment and unemployment. According to ILO (2020), as of April 2020, partial lockdown measures have affected almost 2.7 billion workers, representing circa 81 per cent of the world's workforce. ILO's April 1st global estimates indicate that working hours will decline by 6.7 per cent in Q2 2020, which is equivalent to 195 million full-time workers. The loss of full-time equivalent employments in North Africa could reach 5 million in 2020.

The purpose of this report is to outline the potential socio-economic impacts of COVID-19 in the North Africa region. It includes a set of policy options to reduce the negative effects of the crisis and ensure that the needs of vulnerable populations are being accounted for.

This report is structured as follows. Section 2 outlines the socio-economic impacts and critical sectors of the economies likely to be impacted by COVID-19. Section 3 focuses on mitigation responses taken by North African countries. Section 4, concludes with policy options to help in boosting economic recovery and reducing vulnerability.

Section 2: Socio- economic impacts

Negative macroeconomic impacts

Key message: COVID-19 will induce an economic recession in North Africa mainly through the impact of the lockdown measures taken by members States, falling external demand, and the drop in world commodity prices (oil and gas). The sub region’s growth rate is expected to decline to -1.8% in 2020.

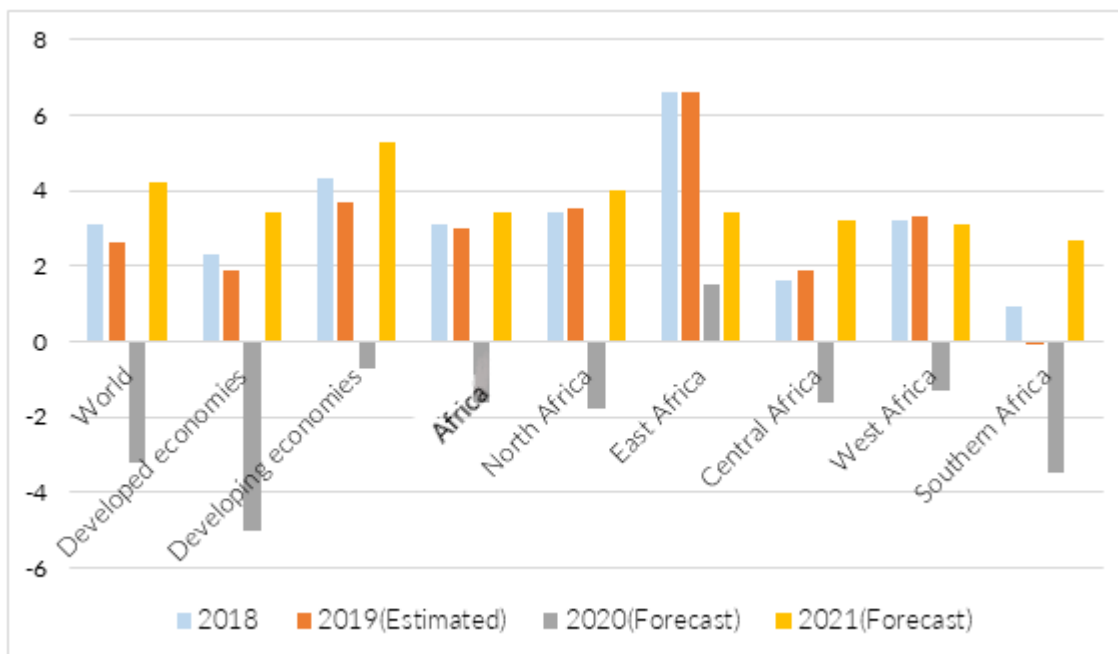
According to UN projections, North Africa sub region’s growth will drop to -1.8% in 2020 (Figure 1), posting a loss of more than 5.4 percentage points from the earlier forecasts published in January this year. This baseline scenario is based on two assumptions:

First: the ongoing lockdown measures will significantly slow the spread of the virus before the end of the second quarter.

Second: Most countries will start reopening their economies gradually after an initial period of four to eight weeks, with some form of social distancing.

In a worst-case scenario, North African economies will shrink by 5.4% in 2020, while in the best-case scenario, North Africa will barely grow by 0.3% (UNDESA, 2020).

Figure 1: Growth of world output, 2018–2021



Source: World Economic Situation and Prospects 2020, released in January 2020.

Given the structure of North African economies, the impact of COVID-19 can be understood through two main channels. The first channel is the reduction of economic activity as; (i) a direct consequence of country lockdowns, (ii) and indirect consequence through global lockdown effect on trade and movement of people. Indeed, the lockdown periods imposed by governments have forced the majority of firms either to cease or to significantly curtail their activities. In Morocco, for example, High Commission for Planning (HCP) reported that, in the beginning of April 2020, 57% of all businesses have either permanently or temporarily ceased their activities. In the area of employment, HCP has estimated a loss of 726,000 jobs, nearly 20% of overall jobs (excluding the finance and agriculture sectors).

Key message: Tourism and transportation- strategic sectors for a number of North Africa economies - are hardest-hit, and will most probably be the last to recover.

Given the nature of the crisis, some specific tertiary sectors - such as tourism, trade and the hotel and catering industry - are expected to be most affected, particularly in Egypt, Morocco and Tunisia (table 1), it being well known that for these countries these sectors are an important source of revenue. In 2018, tourism and travel revenues accounted for 11.8% of GDP in Egypt, 19% in Morocco, and 15.9% in Tunisia. North African economies will most likely be affected as well through disruption on the supply chains, and this in turn will affect manufacturing production, especially textile, electronics and mechanics.

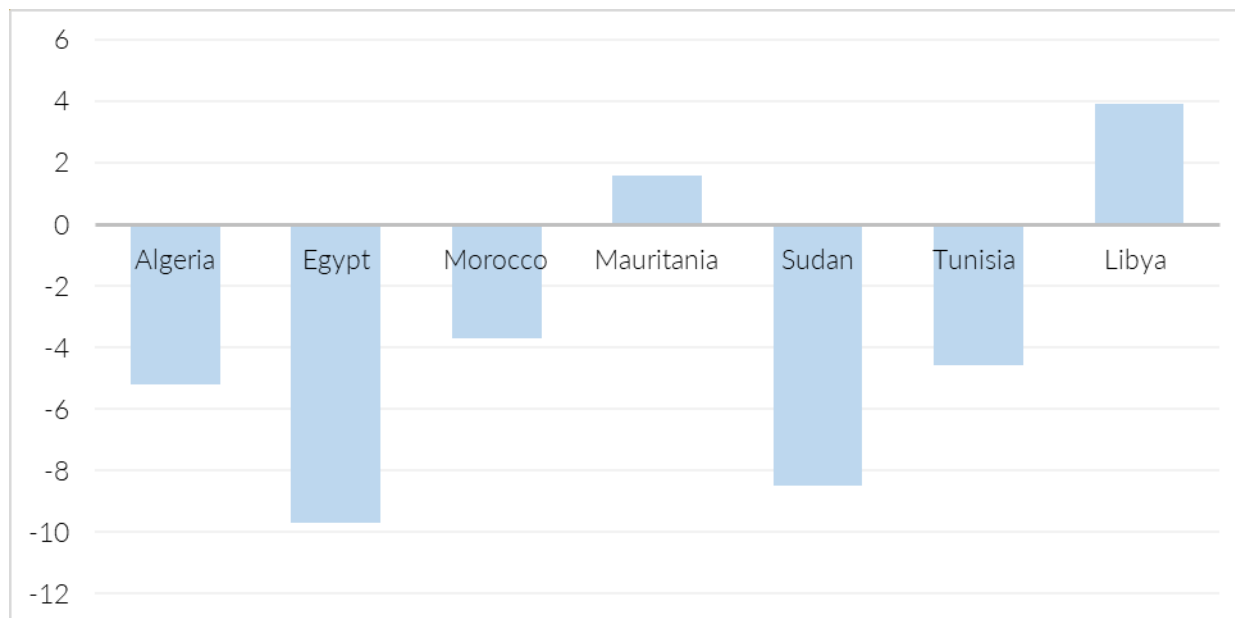
Table 1: Year-to-date arrivals results by region (March 2020)

Region	Latest available data	Change, relative (%)	Change, absolute (thousands)
Europe	March	-19	-22948
Asia and the Pacific	March	-35	-31939
Americas	March	-15	-8072
North Africa	March	-18	-866
Middle East	March	-11	-1811
World	March	-22	-66705

Source: World Tourism Organization (UNWTO), last update

The second channel looks at the drop of world commodity prices, mainly oil and gas, which have a huge impact on oil dependent countries, with severe consequences on their fiscal and external positions (Figure 2). In March 2020, fuels prices drop by almost 50%, resulting in a huge shock to both exports and government revenues in Algeria, Libya and Sudan. In Algeria, hydrocarbons represent 96% of total exports, and 37% of government revenue in recent years.

Figure 2: Budget deficit (% of the GDP, 2018)



Source: Central Banks of Egypt, Morocco, Algeria, Mauritania, Sudan, Tunisia and Libya, 2018 (Tradingeconomics.com).

Oil prices are likely to remain low for a long period of time, due to the global economic recession. In the short-run, thanks to the decision of OPEC to reduce production, the Brent will probably reach a 35 USD level in 2020. This low level threatens the stability of fiscal revenues and the ability of governments to support a recovery plan. Falling government revenues will be a challenge in the whole sub region, further fueling the deterioration of the fiscal deficit and an increase in public debt. Total Government debt reached 77% of GDP in the sub region in 2018. While Government debt represents 33.4% of GDP in Algeria, in 2018, in Sudan it reached 176% and 91.2% in Egypt. In Tunisia, it increased significantly from 54.8% of GDP in 2015 to 73% in 2018. Government debt has decreased in Mauritania, from 98.5% in 2015 to 72.4% in 2018. The increase in debt has generated an increase in the debt service (ECA, 2019).

Another consequence of the COVID-19 crisis is the availability of food in the sub-region. North Africa may face food shortages if COVID-19 pandemic continues for several months. A protracted worldwide pandemic would negatively impact global supply chains, production, transportation and distribution of

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