



United Nations
Economic Commission for Africa

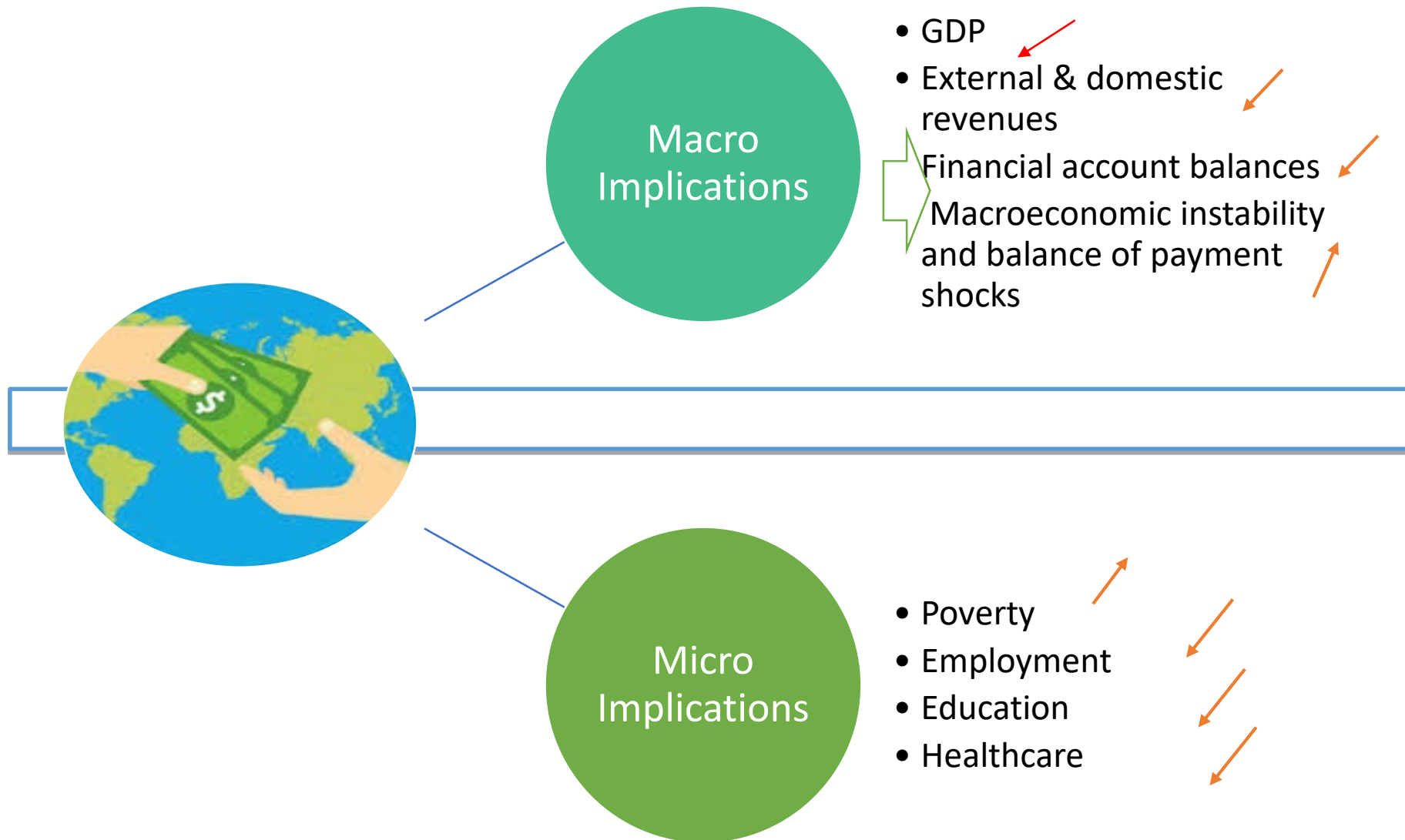
Socio-Economic Implications of COVID-19 in Africa and Policy Recommendations for Recovery

Bartholomew Armah
Macroeconomic and Governance Division (MGD)
UN Economic Commission for Africa



27 October, 2020

Implications of the COVID-19 pandemic for livelihoods in Africa



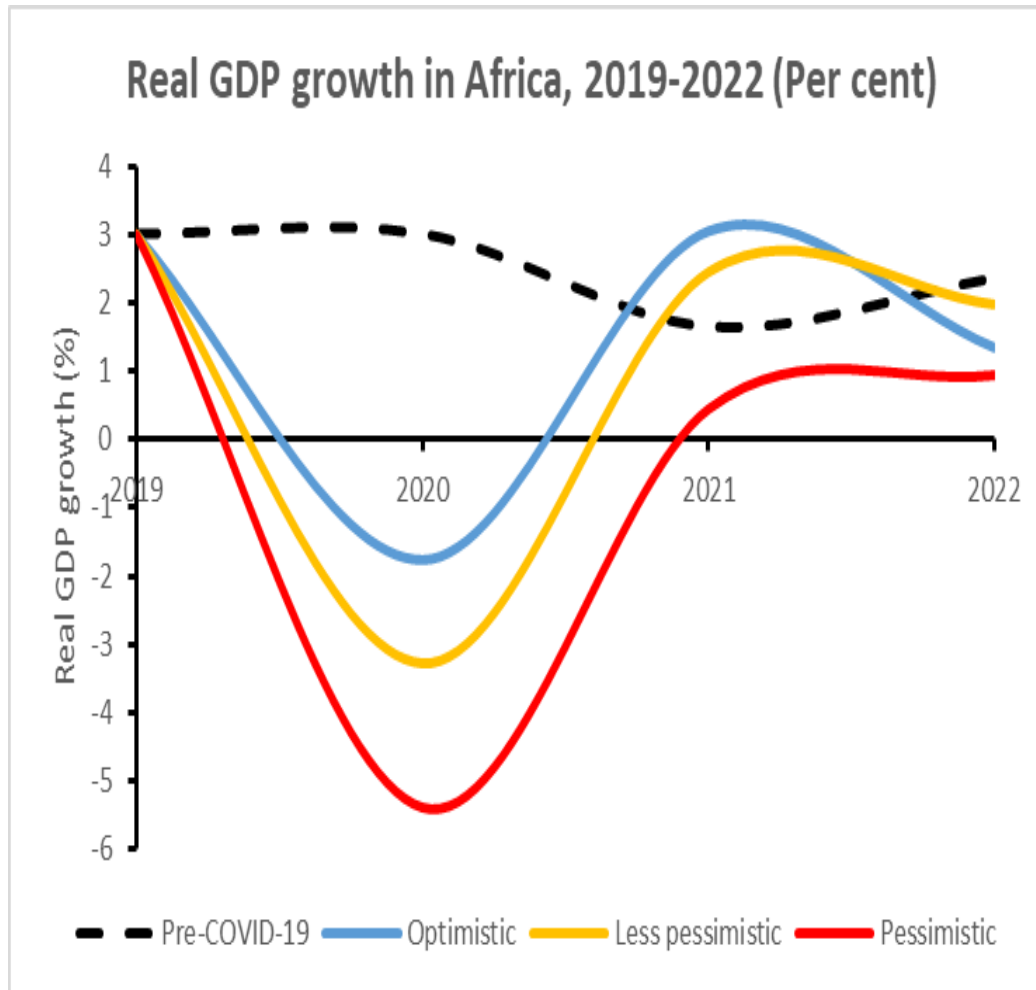
Economic Impacts

African Countries had strong growth trajectories pre-COVID

Country	2020	2020 - Pre-COVID Projections
Italy	-12.8	0.5
France	-12.5	1.3
UK	-10.2	1.4
Germany	-7.8	1.1
US	-8.0	2.0
Mexico	-10.5	1.0
Japan	-5.8	0.7
Indonesia	-0.3	5.1
South Africa	-8.0	0.8
Nigeria	-5.4	2.5
Tunisia*	-4.3	2.4
Kenya*	1.0	6.0
Egypt*	2.0	5.9
Ethiopia*	3.2	7.2
Senegal*	3.0	6.7
Ivory Coast*	2.7	7.3

Source: ECA, IMF

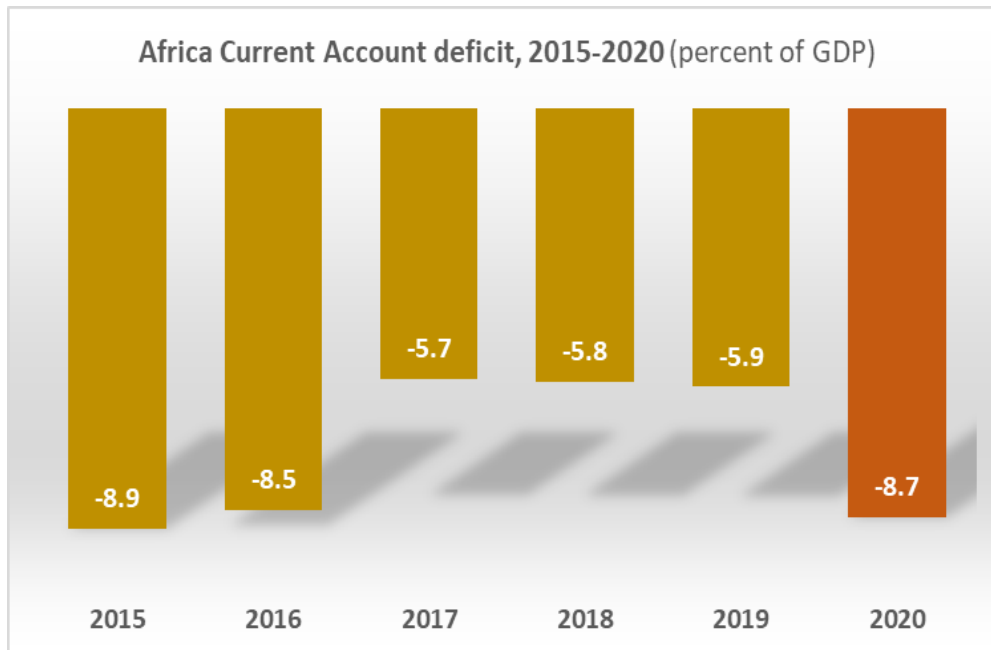
Decline in economic growth followed by a slow recovery



- Africa's growth is expected to contract by 5.4 per cent in 2020 (*July 2020 estimates*).
- Mild recovery in 2021 and 2022 with estimated Real GDP below its pre-COVID-19 levels, without strong effective recovery policies in the medium- to long-term.
- Oil exporting countries and tourism-dependent economies are the most affected.



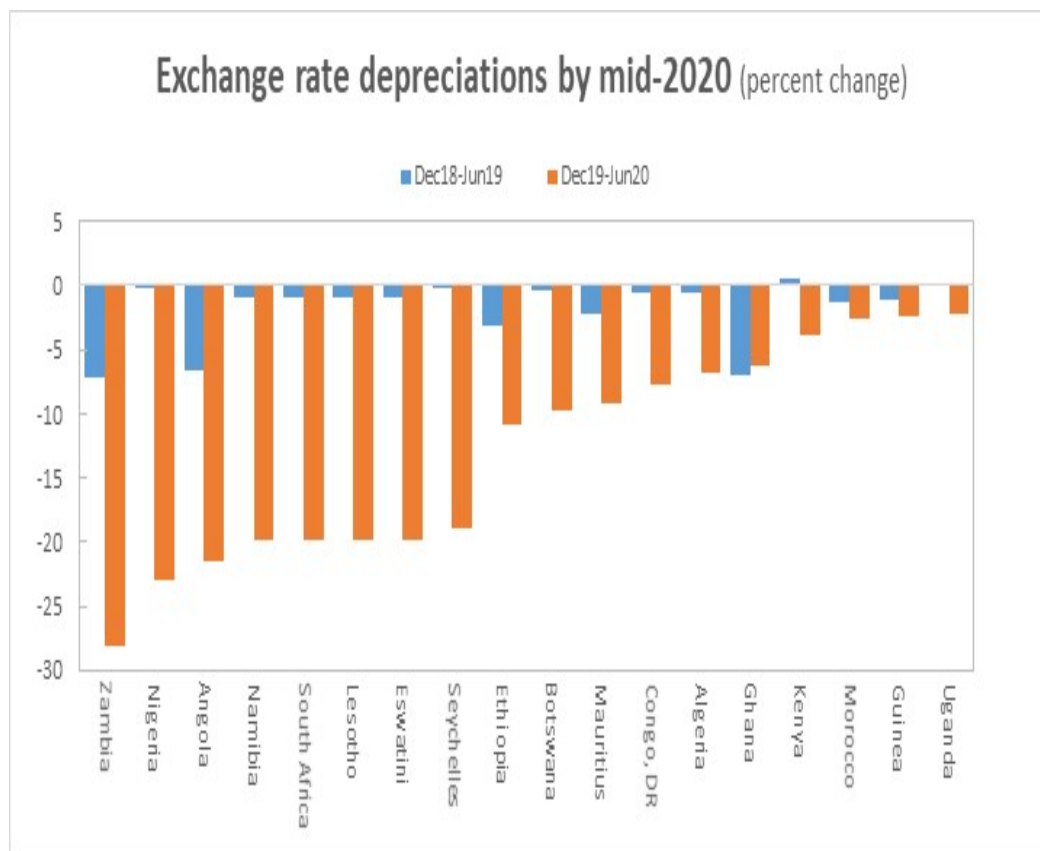
Current Account deficit is expected to worsen as a result of global trade disruptions



- **Current account deficit to reach about 8.7% of GDP** in 2020 (from 6 percent of GDP in 2019).
- Due to disruptions in global trade in goods & services, commodity dependence and limited economic diversification, sharp decline in FDI and remittances.



Financial vulnerabilities with increased domestic currency pressures



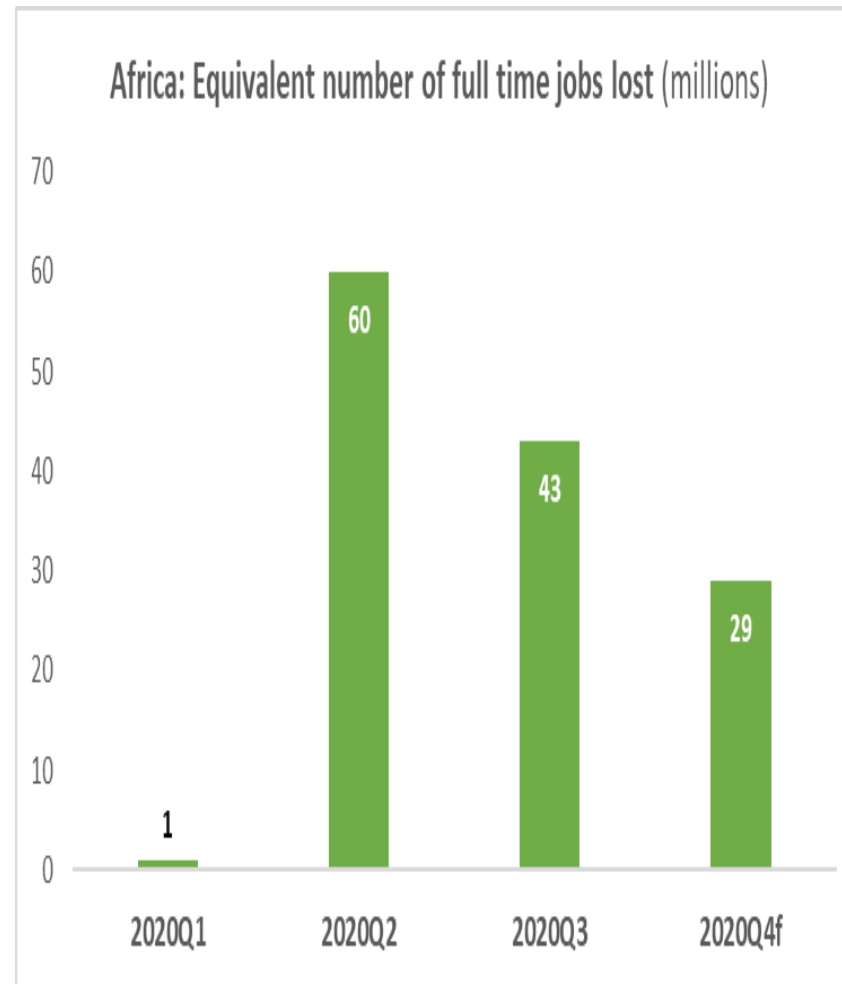
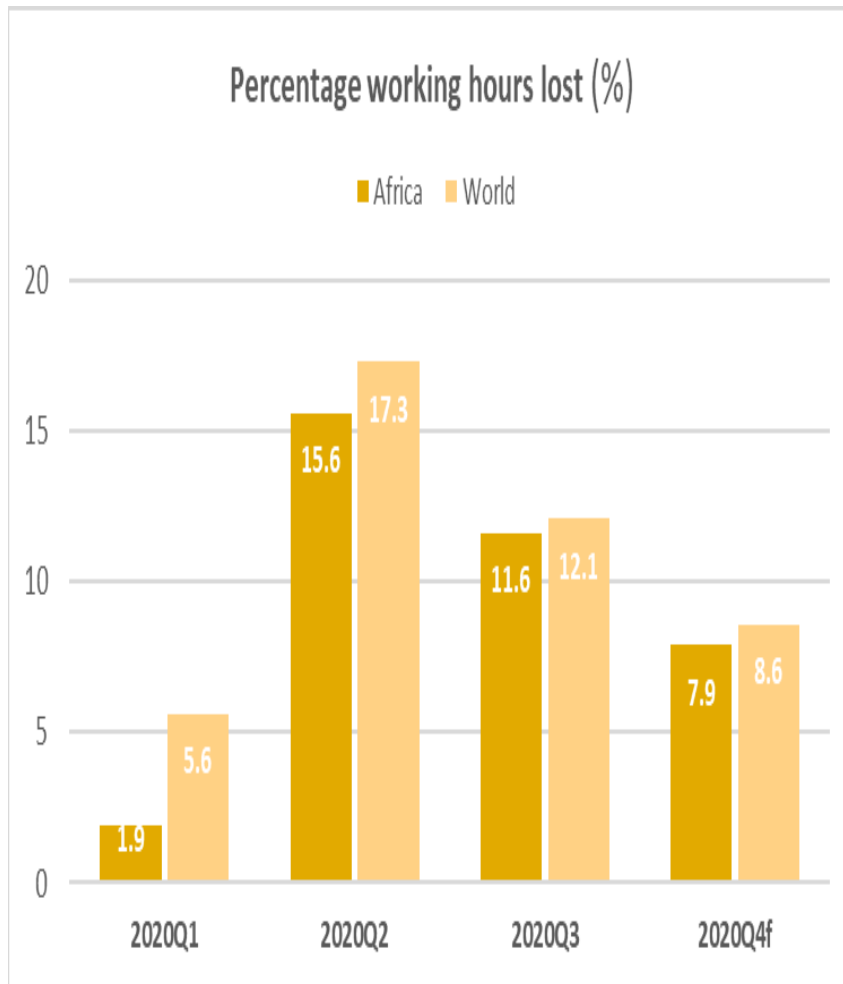
- Monetary stimuli, liquidity pressures and high level of the Non-Performing Loans are **unmasking financial vulnerabilities** which may compromise the countries' economic recovery .
- African currencies are under acute pressures, with **sharp exchange rate depreciations** in more than half of the countries.



Social Impacts

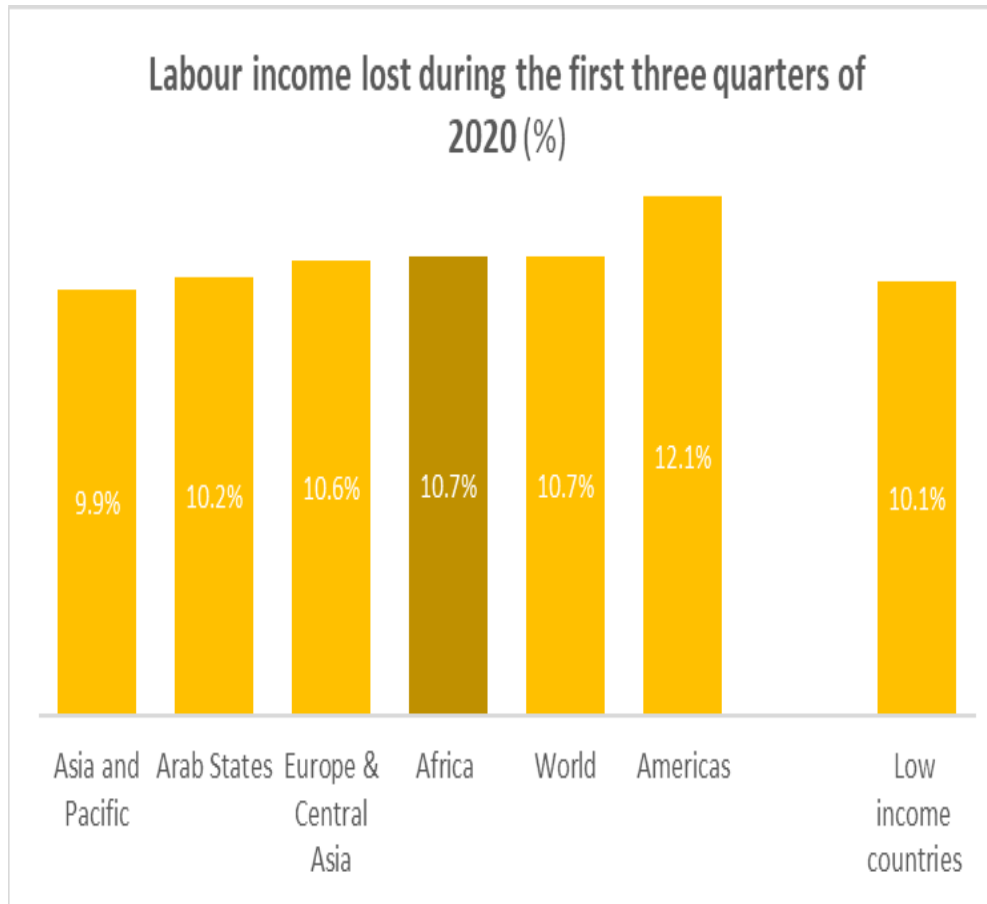
Increasing unemployment

- **Dramatic loss of employment and severe job crisis**



Income Loss

- **Significant decline in income faced by both workers and households, lowering consumption demand and exacerbating social inequalities**



Africa (first 3 quarters of 2020)

Labour income loss (billion US\$, 2019 value)	115
Labour income loss (% of labour income)	10.7%
Labour income loss (% of GDP)	5.2%

Achieving SDG 3 was constrained by existing health deficits and exacerbated by the new health costs incurred due to COVID-19 outbreak

The ECA estimated US\$44 billion additional health expenditure required. But Africa also faced health deficits prior to COVID-19 including:

1. A US\$66 billion health financing gap
2. Limited health capacity – an average of only 1.8 hospital beds per 1,000 people
3. Limited sanitation facilities – only 34 percent of Africans have access to household handwashing facilities
4. Africans average 36 percent in out-of-pocket expenditure on health which pushes many households into poverty
5. The uptick in non-communicable diseases such as diabetes and cancer raise the overall cost of health coverage for all.



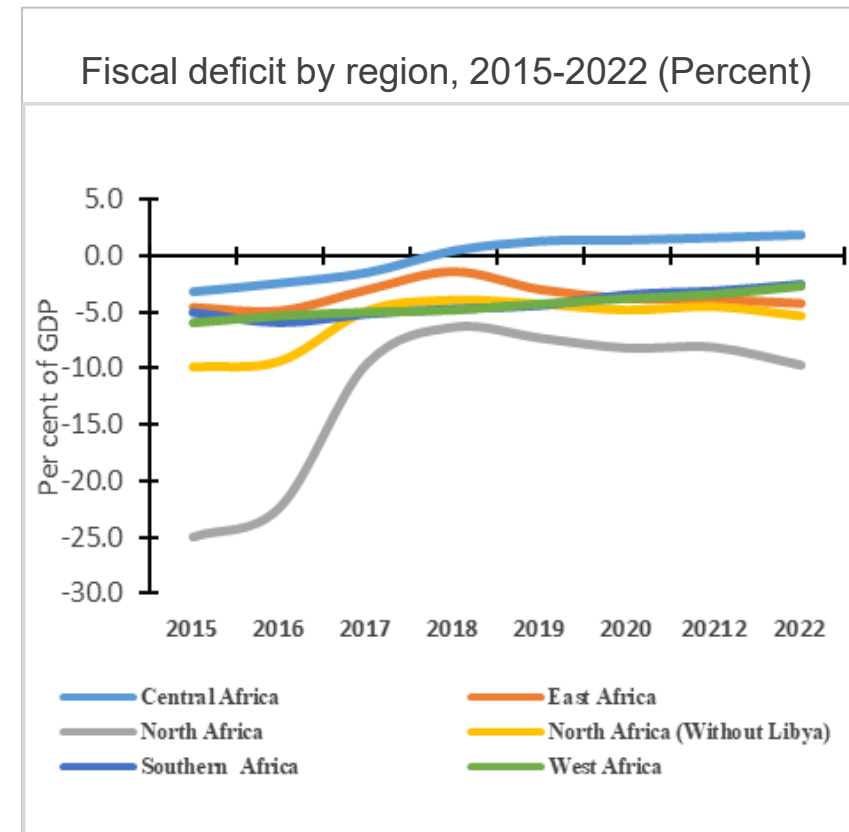
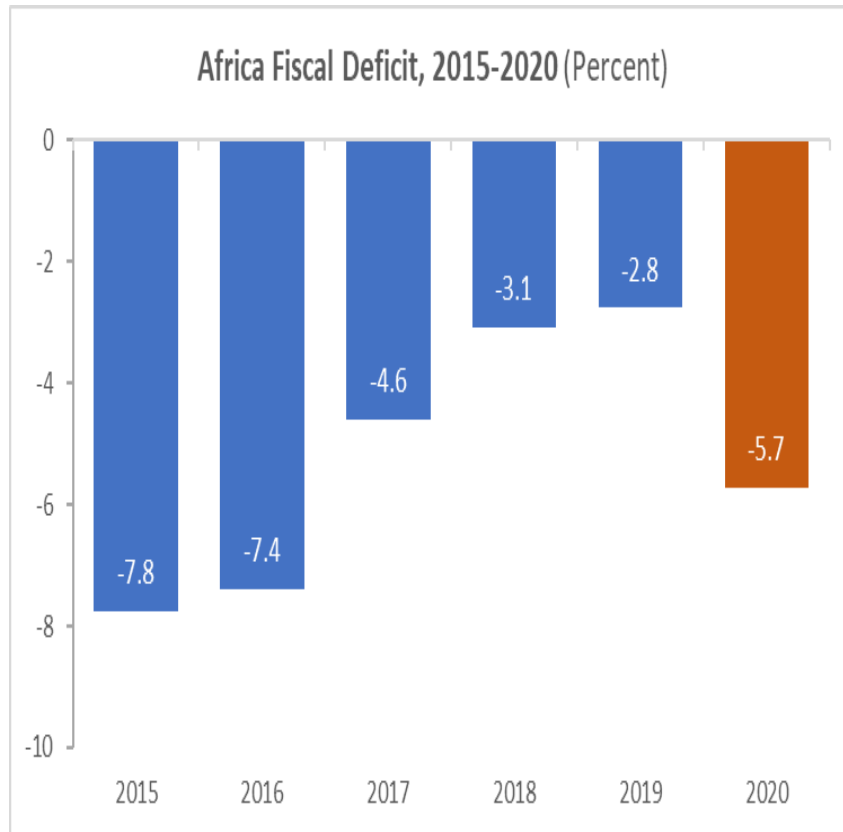
Financing the Covid-19 Response

The fiscal capacity of African countries to respond was low even before the pandemic

Africa COVID Financing Gap

- IMF - Sub-Saharan Africa faces additional financing needs of **\$890 billion** through 2023.
- Private financial flows are expected to fill less than half of that need, while current commitments from international financial institutions and bilateral donors will cover only one-quarter of the need.
- Under that scenario, the region still faces a projected financing gap of **\$290 billion** through 2023.

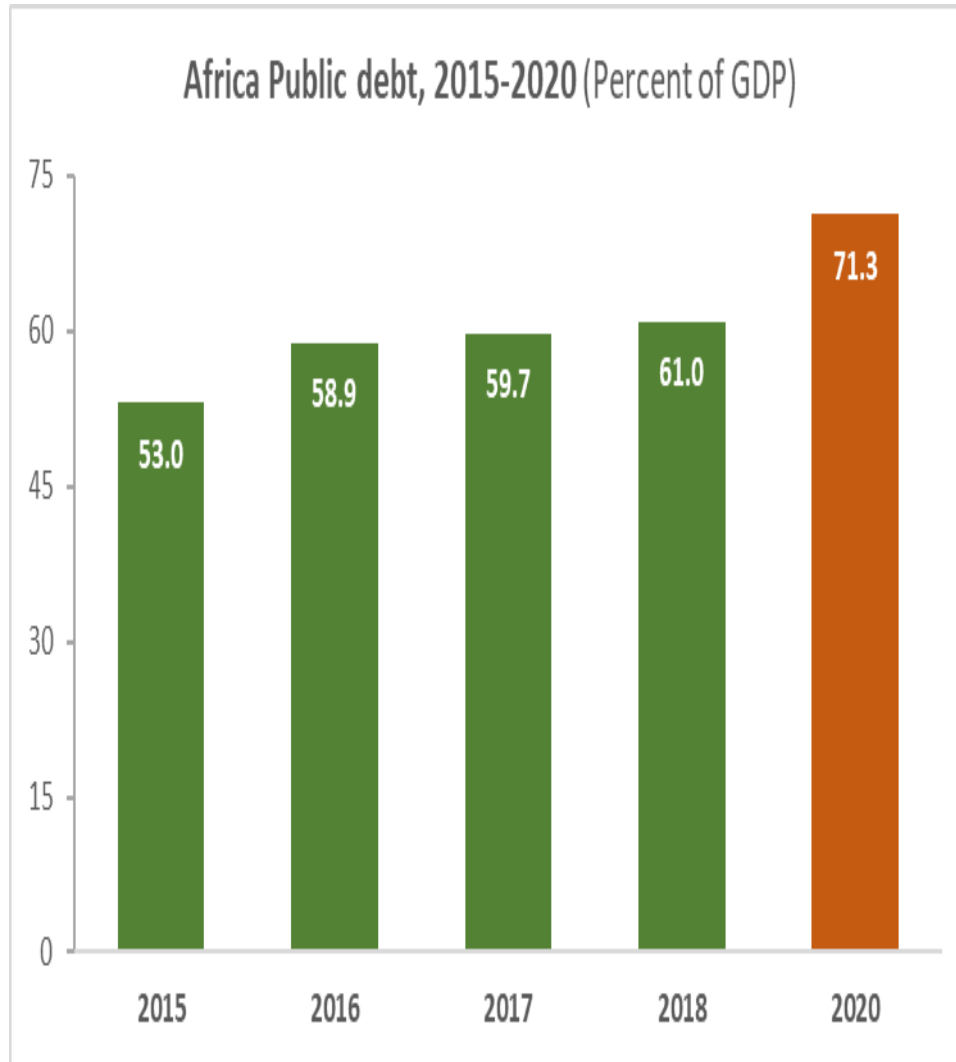
Low Fiscal Capacity to Respond: widening fiscal deficits in 2020



- **Fiscal deficit is expected to widen to 6% of GDP in 2020** (from 3% in 2019) - About 53% of African countries will record fiscal deficits above 3% of GDP in 2020
- **Fall in revenue combined with increased expenditures** to mitigate the impact of the pandemic continue to lead to an increase in fiscal deficits.



Low fiscal capacity to respond: rising public debt, a concern for debt sustainability



- Africa Public debt is expected to rise to 71.3% in 2020 (*11 percentage points above the 60% sustainability threshold*)
- According to latest debt statistics:
 - 7 countries are already in debt distress;
 - 13 countries are in high risk of debt distress;
 - while the rest are in moderate to low risk of distress.



7 out of the 8 Countries in debt distress are from Africa at April 30, 2020

Low	Moderate	High	In debt Distress
Madagascar	Benin	Burundi	<i>Congo</i>
Rwanda	<i>Burkina Faso</i>	<i>Cameroon</i>	Mozambique
Tanzania	<i>Comoros</i>	<i>Cabo Verde</i>	<i>Sao Tome & Principe</i>
Uganda	<i>D. R. Congo</i>	Central Africa Republic	Somalia
Botswana	<i>Cote d'Ivoire</i>	<i>Chad</i>	South Sudan
Eswatini	<i>Guinea</i>	<i>Djibouti</i>	Sudan
Guinea	Guinea-Bissau	<i>Ethiopia</i>	Zimbabwe
Namibia	Kenya	Gambia	
Seychelles	<i>Lesotho</i>	Ghana	
	Liberia	<i>Mauritania</i>	
	Malawi	<i>Sierra Leone</i>	
	<i>Mali</i>	<i>Zambia</i>	
	<i>Niger</i>	<i>Angola</i>	
	<i>Senegal</i>		
	<i>Togo</i>		
	Algeria		
	Egypt		
	Equatorial Guinea		
	Gabon		
	Mauritius		
	Nigeria		
	South Africa		
	Tunisia		

Source: IMF PRGT countries, ECA

Note: Eritrea has not done a DSA, Libya has no debt projections

Low Fiscal Capacity to respond: Specific countries

Weak macro-fiscal position will compromise response to COVID-19 crisis

	Fiscal Deficit (% of GDP, 2020 projections)	Debt (% of GDP, 2020 projections)
Nigeria	-7.3	36.5
South Africa	-14.8	79.9
Egypt	-7.7	83.8
Tunisia	-4.3	78.7
Angola	-6.0	89.9
Ethiopia	-3.0	54.4
Kenya	-7.7	61.3
Cote d'Ivoire	-5.3	51.5
Ghana	-10.0	63.5
Zambia	-5.7	95.5
Mozambique	-7.7	106.8
Morocco	-7.1	64.5
Cameroon	-4.5	40.5

Source: ECA, IMF

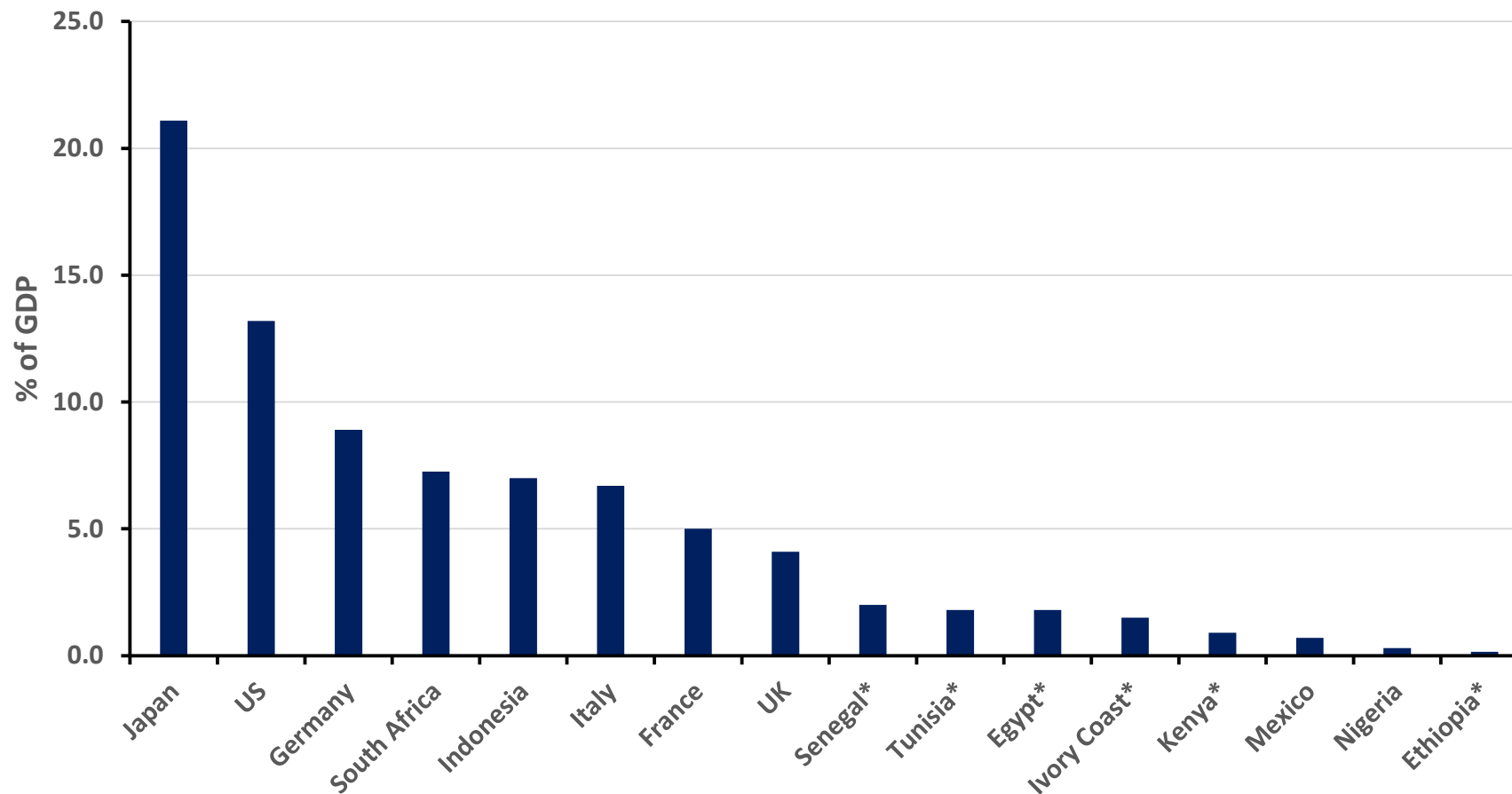
Fiscal Risks: Chinese Loans to African Governments, 2000-2017 (millions of US\$, unadjusted)

Country	Eximbank	CDB	Supplier's Credits	Other	TOTAL	% of GDP
Djibouti	1261	0	150	56	1467	72.5
Angola	8272	26589	22	8262	43145	31.3
Zambia	3760	1002	673	3199	8634	24.9
Zimbabwe	2692	40	290	266	3288	20.0
Ethiopia	8069	655	4165	907	13796	15.2
Eritrea	589	0	0	16	605	14.8
Benin	1686	0	0	223	1909	14.5
Togo	773	0	0	80	853	14.5
Cameroon	5034	2	2	523	5561	13.2
Kenya	7878	867	0	155	8900	11.4
Equatorial Guinea	1198	0	478	23	1699	11.1
Mozambique	2018	179	0	93	2290	10.4
Sudan	5027	0	598	870	6495	10.2
Uganda	3110	0	0	71	3181	8.7
DRC	3325	0	0	20	3345	7.5

Source: China Africa Research Institute, John Hopkins University

As the crisis unfolds, African countries have struggled to access liquidity

Stimulus Packages



Source: ECA, IMF

While markets have penalized emerging market economies

Africa's borrowing costs much higher (10-year government bond yields)

	As of Sep 15, 2020	As of Apr 6, 2020	As of Jan 1, 2020
Germany	-0.48%	-0.35%	-0.25%
UK	0.21%	0.36%	0.79%
USA	0.67%	0.73%	1.83%
China	3.13%	2.54%	3.17%
Vietnam	2.78%	3.15%	3.06%
India	6.03%	6.41%	6.56%
Indonesia	7.02%	8.23%	7.12%
South Africa	9.27%	11.03%	8.24%
Namibia	10.74%	12.18%	10.13%
Nigeria	9.00%	12.31%	11.23%
Kenya	11.87%	12.61%	12.58%
Egypt	15.14%	14.85%	14.14%
Uganda	14.75%	16.67%	16.41%

Source: www.worldgovernmentbonds.com

Country specific impacts

- **Zambia:**

- Suspended interest payments on commercial debt for 6months
- GDP to contract 4.2% in 2020 vs. 3.2 % pre-Covid
- Copper exports at 57% of current account receipts vs. 62% average
- Central bank debt total debt service is 87% of revenue in 2020 resulting in debt arrears
- Revenue/GDP to fall from 23% to 18%

- **Kenya:**

- Reports increased remittances to USD274m (August 2020) vs. US214.3m in August 2019
- Agricultural exports of tea and horticulture increased –Flower exports 141% of last year Sept 2019
- But services trade declined – specifically transport and tourism



Country specific impacts

- **Algeria**
- Algeria is set to be one of the hardest-hit countries on the African continent this year.
- Overall, real GDP is forecast to contract by 11.9% this year, bouncing back by 6.8% in 2021.
- Real GDP declined by 3.9% y-o-y in Q1 2020, compared with an increase of 1.3% y-o-y in Q1 2019, largely driven by a contraction in the crude petroleum & natural gas sector.



Ethiopia

- exports of non-factor services plunged by nearly 70% y-o-y over the final quarter of the 2019/20 FY as the national carrier suspended flights to 80 destinations in adherence to global and domestic lockdown and travel restrictions.
- However, repurposing of a portion of the fleet to accommodate cargo (notably personal protective equipment) and charter services (including the repatriation of foreign citizens to destinations across the globe) limited the erosion of the corporate income statement.
- The airline maintained half of its income during this time due to the swift pivot to cargo transport despite 90% of its fleet being grounded.
- The capital Addis Ababa boasts the African continent's largest cargo hub, which enabled the Ethiopian national carrier to utilise its home base as transit of PPE donations to African nations.

Namibia

- Domestic economic activity contracted during the first eight months of 2020
- Inflation as well as private sector credit extension growth have also declined during the same period.
- Nevertheless, the stock of international reserves remained sufficient to support the currency peg and meet the country's financial obligations.
 - The stock of international reserves stood at N\$32.7bn at the end of September 2020, which is estimated to provide cover for 4.9 months of imports of goods and service.

Policy Responses

While DSSI commendable response, potential for only US\$ 12 Billion against requirement of US\$ 100 billion

Country	DSSI Savings US\$ Millions
Angola	2,645.60
Burkina Faso	23.30
Cabo Verde	14.90
Cameroon	276.10
Chad	61.00
Comoros	2.30
Congo, Democratic Republic of.	104.40
Congo, Republic of	146.20
Côte d'Ivoire	232.10
Djibouti	59.20
Ethiopia	511.30
Guinea	129.70
Lesotho	9.50
Mali	52.30
Mauritania	90.00
Mozambique	230.00
Niger	25.80
Sao Tome and Principe	2.10
Senegal	131.70
Sierra Leone	7.00
Togo	25.80
Zambia	139.20
TOTAL	4,919.50

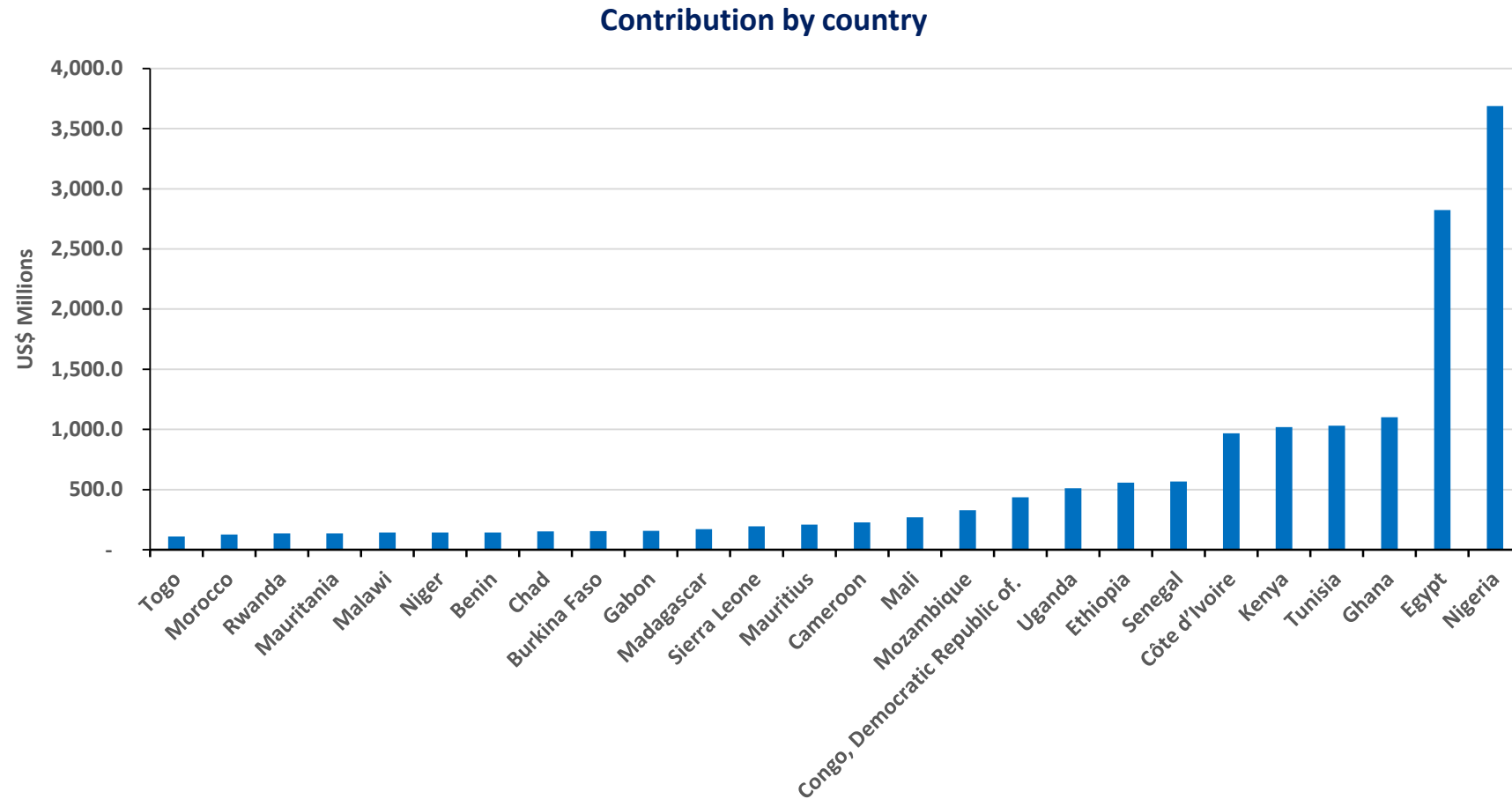
Source: LCA, 2020 – last updated on 5 October, 2020, Estimations from World Bank

Approximately US\$ 63 Bn in fiscal stimulus available

Institution	Full Allocation (US\$ Mns)	Allocation at 15% (US\$ Mns)
Country Own Budget	44,676.15	6,701.42
IMF	13,742.06	2,061.31
World Bank	667.05	100.06
GAVI	31.34	4.70
AFREXIM Bank	3,190.00	478.50
AfDB	1070.02	160.50
IsDB	287.90	43.19
AMF	127.00	19.05
European Union	118.16	17.72
Total	63,909.68	9,586.45

Source: ECA, 2020

Nigeria, Egypt, Ghana and Tunisia received the highest contributions



Source: ECA, 2020

Towards a durable recovery

Key Emerging Policy Options

Multilateral Dev Banks

- Recapitalize MDB
- US\$63 billion in Multilateral Commitments of which US\$34 billion disbursed.
- But about US\$200 billion needed in financing.
- Need for additional, subsidized, long-term financing.

Debt Service Suspension Initiative

- Expand the coverage and duration of the DSSI to 2yrs
- G20 DSSI to provide US\$5.2 billion in savings to African LDCs and IDA-countries.
- But DSSI is limited in coverage and duration – end December 2020.
- Credit rating downgrade concerns.
- Private sector debt not covered.

Liquidity and Sustainability Facility [LSF]

- Lower cost of commercial debt
- The LSF aims to provide cheaper long-term financing to countries.
- The facility will :
 - Seek subsidized financing and credit guarantees from OECD Central Banks
 - Increase liquidity and hence demand for sovereign bonds;
 - Consequently reduce cost of new borrowing and rates on existing bonds
 - Target vulnerable countries with market access.

Key Emerging Policy Options/Next Steps

Special Drawing Rights

- Reallocation of unused SDR to countries in need
- Issuance of new SDR

Health systems Strengthening and Vaccines

- Financing the strengthening of health systems
- Advocacy for equal access to vaccines
- Resources for logistical distribution of vaccines



THANK YOU!