COVID-19: Counting the costs of the Pandemic on African Economies

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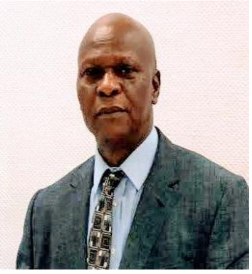

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Since the outbreak of the coronavirus (known as COVID-19) pandemic, the global community has witnessed robust responses to limit the spread and simultaneously control the economic and social effects of the disease as the global trade contracts. As the deadly virus ravaged the globe it has plunged the global economy and disrupted both domestic and international supply chain logistics operations of goods and services with severe consequences on the global economy. Although still too early to draw clear conclusions on the social and economic impact of COVID19 pandemic on economies in Africa, early predictions are alarming.

Despite recording lower infection rates and fatalities, the extent of the economic consequences of coronavirus pandemic for many countries in Africa will be felt on three fronts: the domestic social front, the trade logistics and economic development front, and the foreign direct investment front.

The domestic social front:

In the West and East sub regions as in other regions in the continent, the day-to-day activities of people were being brought to a halt due to the lockdowns, travel restrictions, curfews and social distancing rules imposed in urban centres and cities in region. The short-term effect has been the immediate hardship for many citizens as major commercial activities stopped without adequate alternatives for them. The populations in quarantine faced the uncomfortable choice between the possibility of death by starvation or the risks of being killed by Covid-19 and with no hope for any immediate humanitarian relief distribution of food and other essentials to cater to the needs of people in their homes.

In Lagos, Abuja and Accra, social and economic activities were grounded as factories shut down and employees laid off. Majority of employees in both public and private organisations could not work from home for lack of availability of electricity and absence of the enabling technologies to make it possible.

Disruption to businesses due to decline in consumption and overall economic uncertainty, have forced many businesses to close or reduce operation. Small business owners who depend on daily trade have equally affected as they were cash trapped. SMEs did not have enough revenue to cover their costs and other expenses and those in manufacturing could not get raw materials from their suppliers from other African countries like Cameroon, Kenya, Zimbabwe, therefore causing a significant slowdown in production. This has implications for inflation and capacity utilization, employment generation and retention as well as adequacy of products supply to the domestic market.

Not only has coronavirus pandemic caused deaths and social shocks in Africa, its propensity to unleash huge economic devastation is also concerning. Projections by World bank estimates by the continent will contract by -3%, affecting over 23 million people who are likely to be pushed to extreme poverty.

Trade logistics and economic development front:

The devastation the virus has brought to the global business has caused outright closures to many factories and disruption to trade and economic activities in many African metropolis. Global value chains and commodity trading in oil, cocoa, coffee, among many others have plunged to an unprecedented level because of disruptions caused in global supply chains. Trading partners in Asia, Europe and America have been hit just as the same therefore making it more difficult for those African countries that are majorly dependent on foreign aid.

The devastation varies from country to country, with countries like Kenya, Ethiopia, Uganda that are exposed to International Trade, tourism and services industry, commodity rich countries like Ghana, Nigeria, Angola and South Africa have also been dealt a severe blow

The predominantly mono-economic oil-rich Nigeria has been hit by the plunge in the demand for energy occasioned by the global lockdown against COVID-19. The prices of oil fell far below what they needed to be to enable the Nigerian governments to budget properly. The Director-General of Lagos Chamber of Commerce and Industry, Dr Muda Yusuf, viewed that the sharp drop in crude oil prices from the projected $57 per barrel could cause significant dislocations in the Nigeria's 2020 budget and ultimately in the economy, especially for a country already grappling with challenges of weak revenue performance and complete erosion of fiscal buffers. He viewed that 'with the current scenario of tumbling oil price, a drastic reduction in government's revenue has become inevitable in the near time. This has implications for the level of fiscal deficit; budget implementation will be constrained; infrastructure financing will be affected; borrowing may increase, and the capacity to fund capit project will be severely constricted'.

The crash in oil prices and the economic fallout from the coronavirus, together pose what could be an existential threat for Africa's largest economy and biggest crude producer. This downward trend in oil prices prompted the International Monetary Fund (IMF) to downgrade growth forecasts for Nigeria and urged the country to diversify its oil-dependent economy. As a major purchaser of natural resources from the continent, the impact of China's economic engine sloping downward due to the coronavirus could have a deep impact on many African economies. Data from the MIT's Observatory of Economic Complexity reported that while China takes just over 1 per cent of Nigeria's crude oil, whilst they account for 95 per cent of South Sudan's exports and 61 per cent of Angola's in 2017. According to Renaissance Capital reports, exports to China account for 23 per cent of Angola's GDP, but the country has reportedly started to divert some cargoes destined for China because of lack of demand. That has meant that the global supply chains have been deeply disrupted by the pandemic as China, which is the second-largest economy in the world, is a major supplier of inputs for manufacturing companies around the world.

As in the crude oil sector, copper prices have been on a downward slope for nearly a decade and, coronavirus has pushed them further down the slope in the months of March/April 2020, making it less attractive for exporters such as Zambia. Similarly, until recently, palladium and platinum were the cash cows of the mining industries in South Africa and Zimbabwe, because of their use in catalytic converters in vehicles. But when coronavirus fears closed car plants across the world, the prices of the metals halved within a few days. The MIT's Observatory of Economic Complexity also reported that China took 58 per cent of Eritrea's zinc and copper ore and 45% of the Democratic Republic of Congo's cobalt.

In the airline industry, businesses have halted in Nigeria and Ghana, as the sub-Saharan West African counties cut down international flights by 90% percent, leading to about 60 to 70% of their staff laid off. Ethiopia airlines, Africa's most successful carrier recorded a loss of $550 million as reported by the airline's CEO, the airline is only operating at 10% but has not laid any of its staff. The story is worse for Kenya Airways which was at the blink of collapse even before the pandemic, has asked for government bailout as all passenger operations are grounded.

East Africa's flower export market to Europe has also succumbed to the pandemic and has been forced to reduce operations cutting thousands of jobs. Trade in the region has reduced by 60%. The social and economic impact of this reduction will be felt many months, years to come.

Foreign direct investment front:

Foreign direct investment (FDI) has slowed to a trickle. In 2018, according to the UN's trade and development body, UNTAD, FDI into African continent was on the rise,the outlook is now uncertain as UNCTAD has noted and could fall by as much as 15%. The Director General of the Lagos Chamber of Commerce and Industry (LCCI) Dr Muda Yusuf, viewed that this situation will have profound implications for the Nigeria's economy posing a major threat to the nation's macro-economic fundamentals

Africa Investors like anywhere else remain jittery many are reviewing their portfolios.

Policy Intervention

Africa's response to the pandemic despite its meagre resources and weak public health infrastructure was fast and decisive. Policy makers moved quickly, enforcing curfews, shutting schools and gatherings and introducing economic and safety stimulus, a move that has probably saved many lives. The continent has recorded low infections and fatalities compared to Asia, Europe and the USA whose initial response was shrouded with confusion.

Noted regional co-ordination from the African Union and the Africa centre for disease control disseminating information to national governments and sharing best practice is perhaps the most positive outcome from the pandemic.

Kenya, Ghana, Ethiopia, Uganda, Nigeria all have introduced interest rate cuts to provide liquidity for commercial banks. Others (Kenya and Uganda) have reduced their VAT and incorporation tax to support businesses.

Ethiopia

The authorities moved to support firms and employment. The measures taken include tax debt forgiveness, a tax amnesty on interest penalties and exemption from personal income tax withholding for businesses that keep employees on.

- A broader set of measures including further support to enterprises and job protection in urban areas and industrial parks is under discussion with the donor community but has not been formalized. The expansion of the Urban Productive Safety Net Programme to 16 additional cities over the next two months is under active consideration, in collaboration with the World Bank, at an estimated cost of $134 million).
- The World Bank approved $82.6 million which is $41.3 million grant and $41.3 credit. Ethiopian authorities have formally requested IMF support in the form of an RFI at 100 percent of quota (given maxed out use of PRGT resources under the ongoing ECF/EFF program).

Kenya

Kenya like many other economies is highly exposed by COVID 19, the economy is largely dependent on international trade and services (transport, retail trade, tourism, events, leisure, etc.), industry (manufacturing and construction), and agriculture. Most of this are currently shut or operating at the lowest capacity.

Policy Intervention

The priority for the Government has been to protect lives and contain the spread of COVID -19, the government therefore took action to slow down the rate of infection by closing borders, home confinement, travel restrictions, the closure of schools and entertainment spots, the suspension of public gatherings and conference. The Government introduced nightly curfew.

FISCAL

- The government has earmarked Ksh40 billion (0.4 percent of GDP) in funds for additional health expenditure.
- A package of tax measures has been adopted, including full income tax relief for persons earning below the equivalent of $225 per month, reduction of the top pay-as you earn rate from 30 to 25 percent, reduction of the base corporate income tax rate from 30 to 25 percent, reduction of the turnover tax rate on small businesses from 3 to 1 percent, and a reduction of the standard VAT rate from 16 to 14 percent.

MONETARY AND MACRO-FINANCIAL

- Kenya's central bank (1) lowered its policy rate by 100 bps to 7.25 percent; (2) lowered banks' cash reserve ratio by 100 bps to 4.25 percent; (3) increased the maximum tenor of repurchase agreements from 28 to 91 days; and (4) announced flexibility to banks regarding loan classification and provisioning for loans that were performing but were restructured due to the pandemic.
- The central bank has also encouraged banks to extend flexibility to borrowers' loan terms based on pandemic-related circumstances and encouraged the waiving or reducing of charges on mobile money transactions to disincentivize the use of cash.
- The central bank suspended the listing of negative credit information for borrowers whose loans became non-performing after April 1 for six months. A new minimum threshold of $10 was set for negative credit information submitted to credit reference bureaus. On April 29, the central bank lowered its policy rate by 25 bps to 7.0 percent.

GOVERNMENT BORROWING

The World bank approved $50 Million to support Kenya's response to COVID 19 including acquisition of personal protective equipment for health personnel and testing kits. According to Kenya's central Bank, the Government is seeking a further $1 billion from multilateral lenders to deal with potential surge in cases as well as to support the economy.

IMF has approved $739 million emergency loan for Kenya.

UGANDA

FISCAL

- The government has increased health spending and announced a package of measures to mitigate the social and economic impact of the pandemic. This includes a food distribution campaign; expedited repayment of domestic government arrears to the private sector suppliers; boosting the lending capacity of the state-owned Uganda Development Bank (UDB) to provide affordable credit to support private sector companies to reorient their production towards covid-19 response related items; the deferment of tax payment obligations for the most affected sectors; the introduction of tax exemptions for items used for medical use; the support with water and electricity utilities and the expansion of labor-intensive public works programs.

- Close collaboration and support measures in cash and kind are ongoing with the private sector, intergovernmental agencies and other stakeholders.

  Discussions are underway between the Ministry of Finance and the umbrella Private Sector Organisation, PSFU, on measures that could stimulate the economy following the Covid-19 pandemic. Some of the proposed measures include: government committing to paying all domestic arrears owed to the private sector; temporary suspension of some tax obligations such as payroll taxes & payment of outstanding VAT refunds; special financing support to the tourism sector; restructuring of the Agricultural Credit Facility that is managed by the central bank; recapitalizing the Uganda Air Cargo service and enhancement of the Buy Uganda Build Uganda policy (BUBU) to promote local production.

MONETARY AND MACRO-FINANCIAL

- Bank of Uganda (BoU) issued a statement on March 20th listing the following measures: (i) BoU's commitment to provide exceptional liquidity assistance for a period of up to one year to financial institutions that might need it; (ii) ensuring that the contingency plans of the supervised financial institutions guarantee the safety of customers and staff; (iii) putting in place a mechanism to minimise the likelihood of sound business going into insolvency due to lack of credit; (iv) waiving limitations on restructuring of credit facilities at financial institutions that may be at risk of going into distress. BoU has also worked with mobile money providers and commercial banks to ensure they reduce charges on mobile money transactions and other digital payment charges.

- BoU reduced its Central Bank Rate (CBR) to 8 percent to counter the deteriorating economy, ensure adequate access to credit and smooth functioning of the financial markets.

Recommendations and Conclusions

The economic fallout of the virus is making clear just how interdependent the global economy really is. What is not yet clear is whether the ultimate fallout of the virus will be to accelerate the breakdown of globalisation, making Africa to bring production of finished products to Africa for the products Africa needs in order to avoid major future disruptions of the supply chain system. A good example was the decision of Nigeria to close its borders to imports of rice a few months before the outbreak of the virus to encourage local production. The benefit of that decision was realised when Nigeria had enough rice locally and did not need to depend on imported bags of rice during the coronavirus crisis. The Nigerian example of self-sufficiency in rice has meant that African countries must move away from monocentric economies and diversify into not only production and manufacturing, but also agriculture. Africa is a land that flows with milk and honey with diverse natural resources and land for agriculture. The post-coronavirus Africa must move away from the old normal of crude oil and other mineral resources dependent economy and diversify into multi-facetted economy to include agriculture, production and manufacturing as well as service economy wherever it is possible.

The International Monetary Fund (IMF) and the World Bank have put about $64bn of global aid on the table to fight coronavirus. Ethiopia says that is not enough and that at least $150bn is needed in Africa alone. In the real sense, the view of this paper is that Africa needs trade but not aid.

African central banks have been cutting interest rates, but the fact is that fewer people have mortgages and bank loans compared to those who have in more developed economies. While rich countries have the luxury of low interest rates to finance huge stimulus programmes to help weather the coronavirus economic storm, that option is not available to most African countries. South Africa has said that it will put $66m aside to help small-scale farmers, so that food production could be supported. In the like manner, the Nigerian apex bank has promised to roll out a credit facility of N50 billion to cushion the effect of the pandemic on small households and smaller businesses. Other African governments must need to follow these examples.

Nigerian citizens are looking forward to their government for steady and uninterrupted supply of electricity to power the economy. Without electricity no civilisation can thrive. Where there are electricity supplies people will be empowered to innovate and develop mentally and physically to drive the economy of the nation. African governments must light up the continent to encourage creativity in business and innovation.

African governments should make efforts to be transparent and accountable. This will bring confidence and trust to governance in a post-coronavirus pandemic Africa.

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