SUPPORTING ECONOMIC TRANSFORMATION

Economic impacts of and policy responses to the coronavirus pandemic: early evidence from Africa

Dirk Willem te Velde

23 March 2020

Key messages

- This note marks the beginning of the monitoring of economic impacts (trade, finance and other impacts), social impacts and impacts on government revenues in Africa and considers early economic policy responses in Africa.
- Previous analyses centred on vulnerability assessments and aggregate impacts. It suggested that Kenya, Zambia, Rwanda, Sudan and Ghana are the African countries most vulnerable to the pandemic. Previous analysis also suggested that Africa was likely to be hit by at least $100 billion in economic costs (or 5% of gross domestic product) this year as a result of the crisis. Beyond this headline number, several detailed impacts are now becoming clearer.
- Considerable effects (across trade, finance, employment, prices, government revenues, stock prices, exchange rates and bond yields) have already become visible; they differ markedly by country, but overall paint a bleak picture.
- Data availability is limited and assessments are partial, yet ongoing tracking is needed to inform policy responses. Over time, more systematic analysis will become available. Comments are welcome.

Introduction

African countries will be hit hard by the coronavirus pandemic. ODI's vulnerability assessment paper, published when the virus first emerged in China, suggested that Angola, Congo, Sierra Leone, Lesotho and Zambia were the countries most exposed. Taking into account ability to respond and resilience more widely (e.g. Ethiopia and Ghana have high debt), the most vulnerable countries included Kenya, Zambia, Rwanda, Sudan and Ghana.

Africa is likely to be hit by at least $100 billion in economic costs (or approximately 5% of gross domestic product (GDP)) this year as a result of the coronavirus crisis. Beyond this headline number, several detailed impacts are already becoming clearer. The G20 is hammering out its stimulus packages; African countries need to step up their economic response too, and the G20 could help them. The purpose of this note is to examine early evidence on actual economic impacts (trade, finance and other impacts), social impacts and impacts on government revenues and considers economic policy responses in Africa.

Economic impacts

Trade and production effects are large. Sub-Saharan Africa is a net oil exporter; the halving of oil prices so far this year will cut net export revenues by $30 billion in 2020 if prices remain at this level. Copper prices have fallen by 20% since January 2020, leading mines to review operations in Zambia. Coffee prices have fallen by more than 10% since the start of the year, reducing coffee revenues in Rwanda and Ethiopia. Although Uganda still experienced growth of exports of 43% in the year to February 2020, there is now evidence of decreases ahead.

Kenya's flower industry is cutting production by 80%, and 80% of staff have been sent home, leaving only 20,000 workers for now. The tea auction risks shutdown, jeopardising 600,000 small-scale farmers and employees that the sub-sector supports. The lobster industry in South Africa has collapsed because of an import ban in China. The car industry will also pause production in many countries, hitting Morocco.

The tourism and airline sector will be hit (much of the $35 billion of international receipts will be at risk). Hotel occupancy ratios have already fallen to 50% in Ethiopia, from 88% to 7% in Kenya and from 80% to 20% in Uganda. Ethiopian Airlines lost $190 million in the first two months of 2020 but there have been no job cuts yet. Some 37 ships have failed to dock in Mombasa, carrying mostly goods from China, and this has affected the transport industry and wider supply chains, leading to shortages and pushing up inflation. Informal and small-scale modes of transport such as *matatus* have been asked to continue with 60% capacity.

The financial effects of the crisis have also become much more visible over the past few weeks. There is a flight for safety, withdrawing assets from riskier markets to developed country bonds, which is affecting African emerging markets (putting the $14 billion portfolio inflows in 2018 at risk). Average yields on dollar debt of African Eurobonds rose 478 basis points in March, reaching a two-decade high of 11.7% last week. Zambia's average yields increased markedly to 44%, and Angola's to 23.5%. Yields on Nigeria's 2031 Eurobond doubled last week to 12.3%. Nigeria also cancelled a new $3.3 billion Eurobond issuance. South African stock prices have declined by a third over the past month (at the lowest level since 2012).

African currencies are weakening substantially. Last week, the South African rand was at its weakest-ever rate against the US dollar, and the Kenyan shilling was at a five-year low due to 'poor earnings from tourism, export and remittances'. Remittance inflows in Kenya were $2.7 billion in 2019; 50% of these comes from the US and 17% from Europe, and this will be under pressure.

Social impacts

The social effects are even more difficult to track using headline data, but these will also become clear soon in terms of inflation and employment effects. Prices of some food products in Rwanda increased by two thirds in a week as a result of customers panic buying and stocking up. Flower farms in Kenya have reduced production and employment, while 500,000 people depend on the flower directly and indirectly. South Africa saw a decline of 14% in job postings in the travel industry over the first two weeks of March. Informal modes of transport will become constrained when countries go into lock-down, putting many jobs at risk. Small-scale traders will not be able to sell. Official data tend to be poor at tracking impacts on the poor, but big data and mobile apps may provide a solution this time.

Government revenues

Government revenues are falling. In Nigeria, oil exports are responsible for half of the government revenues. The recently announced reduction in the budget benchmark from $57 per barrel of oil to $30 would cut export revenues by $5 billion over three months and $8.6 billion over six months. Government revenues will be down by 45%. Government has cut the capital investment budget by 20%, the recurrent budget by 25% and privatisation proceeds by 50% and stopped recruiting. Custom revenues will decline as imports decline. In sub Saharan Africa as a whole, tax revenues amount to 18.7% of GDP in 2016; of this, international trade tax was responsible for 10.2%. Tax revenues from the tourism sector will decline.

Government debt is likely to increase in many African countries, and regular monitoring of fiscal affairs is essential. There may only be partial relief for some countries as fertiliser and fuel subsidies are lower. Deb servicing has already become expensive. Payments on interest payments on external debt were $36 billion in 2018 in sub-Saharan Africa (high for countries such as Angola, Ghana, Nigeria and South Africa). Several bond repayments are due in 2020 and 2021.

Economic policy responses

Economic policy responses are still timid but growing in importance. African countries have begun to respond. Schools are closed in several countries, and many flights have been grounded. We have yet to see economic measures on a scale similar to those seen in the G20. There has been monetary easing in Ghana and South Africa, with others, such as Kenya and Nigeria, to follow this week. Kenya's central bank has waived charges on mobile money transactions to curb the use of cash, for hygiene reasons. African countries have little capacity for stimulus. However, Kenya is preparing a $1.3 billion stimulus worth 1.5% of GDP. Nigeria is preparing a $2.8 billion stimulus worth 0.7% of GDP. Rwanda has imposed price ceilings on some foodstuffs. South African supermarkets have rationed food purchases. Over time we may see government interventions to support firms, workers and the poor, although this may well be different from G20 responses.

Country spotlights

We need to be particularly concerned about the economic effects in **Kenya**. Kenya's industries face impacts on many fronts. Tourism receipts have dropped sharply (travel agency revenue has fallen by 85% and 90% of forward bookings have been cancelled), the flower industry has been decimated, the tea sector will see major problems and the transport sector has been affected. In a survey by Kenya Private Sector Alliance, 61% of businesses surveyed reported that the coronavirus had had a direct negative impact on their business. All of this has direct or indirect impacts on the poorest. Kenya has accumulated much debt recently, though it may engineer a stimulus.

There are also concerns about **Nigeria**. Its oil exports are falling dramatically, leading to immediate cuts in government revenue. Its financial markets are feeling the effects, foreign reserves are falling and the naira is under pressure. Stock markets are down. One alleviating factor is that the debt to GDP is relatively low, at 25%. However, Nigeria has a very large population, who are about to become poorer.

This analysis is evolving and has been informed and inspired by conversations with many colleagues at ODI (including Tom Hart and Sherillyn Raga) and elsewhere. We should emphasise that many impacts are anecdotal and based on partial data. Official and more comprehensive data will become available over time. Africa refers to sub-Saharan Africa. Comments welcome: d.tevelde@odi.org.uk