SUPPORTING ECONOMIC TRANSFORMATION

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

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Key messages

- Ethiopia declared a state of emergency on 8 March 2020 after closing its borders, schools and sports events, freeing many prisoners, disinfecting streets and installing public hand-washing points, and discouraging large gatherings.
- Ethiopia's location and role as a transport hub make it very vulnerable to COVID-19. It also means it will be a base for response operations. WHO has placed it on the key country list for first response, providing $82 million in funding.
- Travel bans will have severe impacts, as two thirds of government revenue comes from Ethiopian Airlines. Prices of exports – coffee, pulses, oilseeds, flowers and vegetables – are volatile and likely to fall given the global economic situation.
- Stimulus policies are aimed mainly at the banking sector, making it easier for customers to access money.

Introduction

As of 14 April, Ethiopia had 74 confirmed cases of COVID-19 (37 active, 10 recoveries and 3 deaths). On 8 March, the Office of the Prime Minister declared a state of emergency and general elections have been indefinitely postponed. Flights are suspended and there is a mandatory 15-day quarantine period on arrival at the international airport. On 21 March, schools were closed, sports events cancelled and large gatherings banned, including religious services. Social distancing measures are being enforced.

The Ethiopian economy is heavily reliant on agriculture, which accounted for 31% of GDP ($84.6 billion) in 2018, one of the highest in Africa, and nearly 85% of the workforce. Most agriculture is subsistence, and 75% of farmers are smallholders, but food security is an issue. With 80% of the population in rural areas, a quick COVID-19 response is needed to protect areas with poor access to health facilities.

Government and external health expenditure per capita amount to PPP $29.85 combined, among the lowest in sub-Saharan Africa. This is despite poor health indicators, which pose further risks from COVID-19, both directly and indirectly. However, Ethiopia also has one of the oldest and most established National Public Health Institutes in Africa, as well as the Africa Centre for Disease Control and Prevention giving it its current role as a response hub.

Economic and social impacts

GDP forecasts: In January 2020, the National Bank of Ethiopia (NBE) forecast GDP growth of 10.8% for 2019/20. It has yet to revise this formally but contraction is inevitable due to current account deterioration (see below) and damage to agricultural production from recent droughts and locust plagues.

Trade: Ethiopia has a current account deficit in both goods and services, which the negative impact on demand from major trading partners, particularly for horticulture products and travel/tourism, will affect.

Ethiopia exported $2.8 billion in goods in 2018, against $15.5 billion in imports. Agriculture made up 70% of exports. Coffee accounts for 32%; its price has declined 11.5% since January; oily seeds (16%) and cut flowers (9.4%) have also seen falls. Flower exports have decreased by 20%, losing $11 million (~0.01% of GDP), putting at risk 150,000 jobs. To counter this, the NBE will remove the minimum value for flower exports.

Ethiopia's top five export partners are China (11%), Sudan (10%), Switzerland (8%), Somalia (8%) and the Netherlands (7%). The IMF has already predicted Chinese growth of 1.2% in GDP, down from 5.5% in 2019, and Somalia and Sudan's weak positions make it likely their demand will fall significantly. Although Ethiopia is a net importer of oil, the fall in price of oily seeds, impacts on coffee and horticulture, and declining demand will likely outweigh any benefit.

In addition, the current account balance in services will worsen. Over 85% of service exports are in travel and transport, driven by Ethiopian Airlines, the state-owned company, which accounts for 3% of national output and is a major source of foreign currency. Overall, IATA predicts that Ethiopian Airlines could lose 1.6 million passengers, resulting in a $0.3 billion revenue loss, risking 327,062 jobs and $1.2 billion (1.28% of GDP) in contribution to Ethiopia's economy.

In Addis Ababa, the hotel room occupancy rate bas decreased to almost nil. Hotel owners and tour operators have sought government assistance in response to drastically dwindling revenues.

Employment: Most employment in Ethiopia is in subsistence agriculture, but productivity may decline dramatically owing to illness and reduced resources to fight locusts and environmental factors. Households thus may suffer extreme food insecurity. Informal work, at 31.7% (2012) of urban employment, mostly in service work, will be lost or see large cuts in income.

Exchange rate: The local currency devalued by about 2% against the US$ in March. Before this, it was falling by approximately 0.5% every month following a 5.6% fall against the US$ in November 2019. The foreign currency shortage has worsened as a result of lost foreign income through Ethiopian Airlines, making it more difficult to source medical supplies from abroad.

Capital flows: Ethiopia's largest capital inflow is aid, at 5.8%, greater than the sub-Saharan African average of 2.9%. It also attracts more FDI than the regional average, at 4% against 1.9%. This is likely to fall as funding is diverted to fighting the virus, and as donor countries' economies contract. Global FDI is anticipated to see cuts of between 5% and 15% in 2020. Remittances make up only 0.52% of GDP.

Prices: Inflation has been increasing steadily, partly because of exchange rate depreciation. It was estimated to ease from 14.6% in 2019 to 12.7% in 2020. However, food shortages are likely to lead to food price hikes, and there have been reports of price gouging, with sudden increases in price and imitation products for various items being sold at inflated prices.

Social impact: Food security is already a critical concern, and UNICEF has predicted an increased rate of illness, with service saturation and severe access and affordability problems for poorer households. Desert locusts and secondary impacts of COVID-19 are predicted to increase the wasting caseload by 15%. School closures will also affect food intake.

Fiscal impact: In 2018 the IMF and World Bank assessed Ethiopia as at high external debt risk, being overly reliant on air transportation and exports affected by price volatility. In 2018/19, the debt-to-GDP ratio decreased to 57% and, despite revenues being below target, cuts in expenditure contained the fiscal deficit to 2.5% of GDP, below budget.

The majority of expenditure (84%) is financed through taxes; 41% comes from taxes on goods and services with the remainder split between taxes on international trade and taxes on income, profits and capital gains. A fall in taxes and an increase in health expenditure will increase Ethiopia's deficits. An important driver of reduced tax revenues will be declines in the services sector, including tourism and travel.

The extent of the damage to government finances will depend in part on Ethiopia's policy response, including the use of lockdowns, the size of the global recession and the health impacts on Ethiopians.

Monetary and financial policy

The NBE will inject 15 billion birr ($450 million) into commercial banks to support manufacturing, horticulture and services. It has also issued a directive licensing digitised payment instruments as a health response to limit exchange of cash. The Commercial Bank of Ethiopia will increase the amount of money individuals can transfer through mobile banking.

Fiscal policy

The government has initially availed 5 billion birr ($150 million, or 1.29% of the 2019/20 budget) to undertake COVID-19 preparedness tasks. Allocations are yet to be announced. In addition, the Ministry of Revenue announced that it would expedite VAT refunds to address the strain on liquidity faced by firms.

Moreover, measures have been introduced to support importers of COVID-19-related goods, including exemptions and foreign currency through banks. The Prime Minister's Office has set up a donation bank on Twitter to source funding through commercial banks within Ethiopia; data are currently unavailable.

Donor support

The World Bank has donated $82.6 million. Meanwhile, over 50 million birr has been donated to the government for COVID-19 prevention measures by:

- Abay Bank: 3 million birr; waiving fees on loan rescheduling and early settlement charges; increased one-time cash withdrawals from ATMs to 10,000 birr.
- Dashen Bank: 10 million birr; commission on ATM transactions waived; commission fees removed for extending validity of letters of credit and purchase orders, to reduce burdens on importers.
- Oromia Bank: 5 million birr.
- Awash, Nib, Addis International and Enat banks, and Ethiopian Insurance Company: 30 million birr.

Information & Communication Technology Association Ethiopia has mobilised volunteers, including over 100 companies, to form a COVID-19 Response Team to collate information on 3D printers, government guidelines and tracking COVID-19 cases. The Information Network Security Agency has spent 1.5 million birrr spent developing an integrated Novel COVID-19 monitoring platform to provide information on incidence, symptoms, prevention and transmission. BlueMoon plans to invest 8,000 birr to produce 1,000 face masks a day. Jack Ma and Jumia have donated a large supply of testing equipment.

Information in this note is correct as of 14 April 2020. The authors are ODI Fellows in Ethiopia; this note is written in a personal capacity. Comments welcome to e.keeble.fs@odi.org.uk and s.vadlamani.fs@odi.org.uk