SUPPORTING ECONOMIC TRANSFORMATION

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

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Key messages

- There are 237 confirmed cases of COVID-19 in Senegal and 2 deaths have been reported, as of 8 April 2020.
- The government has declared a national state of emergency and adopted strict containment measures.
- Senegal is particularly vulnerable to the economic impacts of the COVID-19 pandemic, particularly via the impacts on its oil and gas industry since the oil price crash and a halt in tourism owing to international travel restrictions.
- Senegal has submitted a request to the IMF for a $221 million package of support in order to mitigate the economic impacts of COVID-19, and expects a decision from the IMF by mid-April.
- The BCEAO, the regional central bank, is deploying various measures to alleviate macroeconomic pressures, including increasing liquidity, refinancing for eligible businesses and support for companies with repayment difficulties.

Introduction

There are 237 confirmed COVID-19 cases in Senegal and 2 reported deaths as of 8 April 2020.

While there is yet to be a formal revision of Senegal's projected growth rate (6.8% for 2020), the IMF has forecast a global recession, which will undoubtedly affect global supply chains and have devastating impacts for an already vulnerable low-income country.

On 23 March, the government declared a national state of emergency and adopted strict containment measures, including suspension of international air travel, closure of borders except for goods vehicles from Mali and Guinea, limits on interregional travel, bans on public gatherings for 30 days as of 14 March, school closures and a curfew from 8pm to 6am.

These measures and the sudden stop of travel and tourism are already having a significant economic impact, exacerbated by declining export demand and lower remittances.

Senegal's health system is ill-equipped to deal with a crisis of this scale*.* Government health spending per capita is $49, lower than the sub-Saharan Africa average of $70 (2016). External health spending per capita is $9, below average external health spending in sub-Saharan Africa of $24.

Economic and social impacts

Trade and production impacts to far
Senegal's economy consists of its oil and gas industry, other mining activities including gold and cement, fishing, chemical products including phosphoric acid, and agriculture. The total value of exports and imports of goods and services to the economy is 58% of GDP.

22% of Senegal's GDP comes from exports; the top five exports and their respective share of total exports being oil (13%), gold (10%), phosphoric acid (10%), frozen fish (8%) and cement (6%).

The price of gold and oil has changed as follows since the beginning of January 2020

Gold: +2.8% (+10% since December 19)

Oil: -62.4%

The oil price crash will have a significant impact on Senegal's balance of payments, with oil being one of its primary exports. The price crash has also put in jeopardy the completion of existing oil infrastructure projects. The increase in the price of gold will stem this partially, but the depreciation of the oil price, as well as the damage to Senegal's fledgling oil and gas industry, far outweighs any benefits from the appreciation of the gold price, resulting from increased investor demand for traditionally more secure assets at a time of economic slowdown.

Senegal's tourism sector, which usually countries around 10% of GDP, and directly employs over

190,000 people, has come to a sudden halt owing to international travel restrictions.

Finance

Reduced FDI: One of the major players in Senegal's oil and gas industry, Cairn Energy, has revised its planned investment expenditure in the Sangomar oil project from $400 million to under $330 million in 2020. BP has also cancelled a planned exploration survey off the coast of Senegal. BP and Kosmos are planning to defer capital spending for a multi-billion dollar floating LNG project. There are no current data on the planned reduction in spend in Senegal specifically but BP is planning to reduce its capital expenditure by 25% across its global portfolio compared with previous projections.

Remittances: The IMF press release regarding Senegal's request for $221 million in support noted that Senegal is already feeling the impact of reduced remittances.

Exchange rates: CFA exchange rates have seen some increased volatility in the last month, but no more than 0.9% in the last 30 days.

Social impact

Although there are no data available, there are reports from the region of increasing food prices putting further pressure on the population, many of whom are already living in poverty.

There is also a lack of data on job losses, although it is to be expected that these will occur. Total employment linked to the tourism industry alone is 452,000 people (around 3% of the population).

Fiscal impacts

The pandemic has weakened Senegal's macroeconomic outlook. Containment measures to avoid the spread of the virus, lower external demand for trade, reduced remittances and the sudden stop of travel and tourism are having a significant impact on growth and generating an urgent balance of payments need.

Monetary and financial policy

On 21 March, the BCEAO (the regional central bank) announced the following monetary and macro-financial measures to mitigate the negative economic impact of COVID-19:

- Providing weekly injections to improve liquidity made available to banks. For the week of 7 April, the amount was FCFA 587 billion, equivalent to 4% GDP;
- Extending the collateral framework to access the BCEAO's refinancing to include FCFA 1,050 billion of bank debt of 1,700 prequalified private companies that could benefit from better financing conditions;
- Setting up a framework with the banking system to support firms with repayment difficulties.

Other policy announcements have included allocating FCFA 25 billion to increase the amount of concessional loans to eligible countries to finance urgent investment and equipment expenses; communicating on the special programme for refinancing bank credits granted to SMEs; initiating negotiations with firms issuing electronic money to encourage its usage; and ensuring adequate provision of banknotes for satisfactory ATM operation.

Fiscal policy

To date, the government has announced the following measures in response to Covid-19:

An emergency fund of up to FCFA 1000 billion (7% of GDP) will be set up, financed by a mix of donor contributions, voluntary donations from the private sector and the budget. The fund will be used to support vulnerable households and firms.

FCFA 69 billion (0.5% of GDP) will be allocated for urgent food aid. The government intends to adopt tax measures, providing some general tax relief and targeted support to the most affected sectors (hotels, restaurants, transport and culture).

A strategic plan to fight against COVID-19 is being implemented to i) enhance testing and treatment capacity, ii) strengthen preventive measures and iii) intensify communication. Its implementation is expected to cost about FCFA 73 billion (0.5% of GDP).

Donor support

Senegal has formally requested $221 million of support from the IMF to mitigate the economic impacts of COVID-19 with a decision expected mid-April.

The Jack Ma Foundation has donated 20,000 testing kits, 100,000 masks and 1,000 protective suits to all African nations.

Information in this note is correct as of 8 April 2020.

With thanks to Dirk Willem te Velde for his useful comments. The author is an ODI Fellow with the Ministry of Economy & Finance in Djibouti; this note is written in a personal capacity. Comments welcome to d.standish.fs@odi.org.uk